

VAT NEWS



keeping vendors informed

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LAW AMENDMENTS

Amendments to the VAT Act in terms of the Revenue Laws Amendment Act (Act 45 of 2003) were published in Government Gazette No. 25864 on 22 December 2003, from which date the new laws apply (unless otherwise stated). For more information on the amendments, visit the SARS website www.sars.gov.za/legislation/.

Some of the most important amendments and those of general interest are featured in this issue.

TAX INVOICES

In VATNEWS 21, a proposed amendment was mentioned requiring the VAT registration number of the recipient to be reflected on a tax invoice, debit or credit note with effect from 1 April 2004. **This requirement will now only come into operation on 1 March 2005** to allow vendors adequate time to effect the necessary system changes. Vendors are however encouraged to obtain their customers' VAT numbers and implement this requirement as soon as possible.

ADJUSTMENTS

A new definition "adjusted cost" is introduced to replace the undefined word "cost" which is used in sections 16(3)(h), 18(2), (4) and (5) of the VAT Act for the purposes of calculating certain input and output tax adjustments required by or allowed to a vendor on any change of use of assets. The effect is that any costs incurred in acquiring the assets which are not VAT inclusive (or deemed to include VAT) are excluded from symbol "B" in the formulae used to calculate the adjustments, e.g. finance charges (exempt) or labour charges by a non-vendor (no VAT chargeable).

PUBLIC ENTITIES

Various legislative changes with regard to the VAT treatment of public ("Government") entities are to come into operation with effect from a date to be determined by the President, as a result of which, a number of Government entities may have to deregister for VAT.

Further details of the proposed changes will be made available on the SARS website.

MAIN BUSINESS OR BRANCH OUTSIDE RSA

The wording of sections 11(1)(i) and 8(9) now make it clear that where **goods** are supplied by a vendor to a branch or main business outside the RSA, the mere transfer of legal ownership in the goods without the physical export thereof will not qualify for zero-rating.

Section 11(2)(o) has been amended so as to clarify the conditions under which a supply of **services** to a non-resident branch or main business may be zero-rated.

DONOR FUNDS/INTERNATIONAL AGREEMENTS

Section 11(1)(o) allows a vendor to zero rate the supply of goods where payment for the goods is made from donor funds made available under an international agreement to which the RSA Government is a party. A similar amendment to section 11(2)(q) applies in respect of services.

SALE OF GOODS IN BOND

Where goods are held in a licensed Customs and Excise warehouse, but are not intended for domestic consumption (i.e. exclusively held for re-export), the supply of those goods was previously disregarded for VAT purposes. Proviso (ii) to section 13(1) now provides that such supplies will be zero-rated with effect from 1 January 2002. Vendors who trade in goods in transit may therefore claim any input tax incurred from the said date in respect of overheads such as warehouse storage costs.

INDUSTRIAL DEVELOPMENT ZONES ("IDZ's") AND CUSTOMS CONTROLLED AREAS ("CCA's")

An IDZ is a specific geographical area designated by the Minister of Trade and Industry. IDZ's are meant to attract foreign and local investment to a particular area where economic development is required. Within each IDZ, are other designated areas known as Customs Controlled

Areas (CCA's), where approved enterprises and business activities will be carried on. These areas will be identified and controlled by Customs.

Section 21A of the Customs and Excise Act contains the definition of certain terms used in relation to IDZ's and CCA's and several provisions contained in the VAT Act have had to be amended to put this arrangement into effect.

A vendor in a CCA is therefore treated similar to a vendor operating a bonded warehouse. The following applies in this regard:-

- VAT on the importation of goods directly into a CCA is suspended as the goods are not yet treated as being entered for home consumption;
- Goods removed from a CCA into the Republic are deemed to have been imported into the Republic (i.e. VAT will be payable);
- Where goods have their origin in a CCA and are subsequently imported into the Republic, the normal 10% upliftment on the value of the goods for VAT purposes does not apply ;and
- Goods supplied by a registered vendor situated outside a CCA to another vendor situated in a CCA will qualify for zero-rating if the goods are consigned or delivered to the recipient in that area. The zero-rating also applies in respect of services physically rendered to the vendor in a CCA.

These amendments apply with effect from a date to be announced by the President.

COMMERCIAL ACCOMMODATION

The monetary threshold in the definition of "commercial accommodation" was increased from R 48 000 to R 60 000 p/a with effect from 31 May 2003. (See section 47 of the Amendment of Taxation Laws Act, 2003.).

DEBIT ORDER PAYMENTS

Vendors who pay their VAT by debit order must ensure that they **notify SARS in writing to cancel their debit order authorisation, prior to adopting any other method of payment**. If you have changed your preferred payment method but still receive a VAT 201 with a "Y" printed in the box next to "Part 1", it must be crossed out. This will prevent a double payment of VAT for the tax period concerned. Remember that banking regulations only allow a debit order payment facility up to a limit of R 500 000.

SUBMISSION / FAXING OF RETURNS

Returns may be sent by fax to SARS provided that the information on the return is clear and is an exact replica of

the original. If however the return is received on more than one page, or if it is unclear, not signed or incomplete, it will not be considered as being correctly filed/submitted. Where there is any doubt or dispute as to the veracity or authenticity of the document, the original will be requested.

In VATNEWS 20, certain common errors on returns were highlighted. However, a large number of returns are still being returned each month as these errors persist.

Vendors and their representatives are therefore urged to ensure that before submitting a VAT 201 return:-

- all the mandatory fields have been completed and correctly calculated ;
- the correct tax period and method of payment is indicated;
- any alterations thereon have been signed (including alterations where correction fluid has been used); and
- the return has been signed.

e-FILING PAYMENTS

Vendors are encouraged to make use of the e-Filing payment facilities, as other methods of payment all have their own discomforts and risks to both SARS and taxpayers alike. Some of the advantages of this method of payment are:-

- The due date for payment is extended to the last business day of the month.
- All payments are automatically reconciled and linked to the return to ensure the accurate allocation of payments to the vendor's account, thus eliminating the occurrence of missing or unallocated payments.
- It is a convenient method of payment which ensures a secure interface directly with the bank of your choice.

For more details go to www.sars.gov.za and click on the e-filing icon on the SARS homepage, or www.efiling.gov.za.

INTEREST RATE CHANGE

With effect from 1 October 2003 the rate of interest applicable for both outstanding VAT payable as well as delayed VAT refunds has been reduced from 14% to 13% p/a.

The rate was further reduced with effect from 1 December 2003 from 13% to 11.5% p/a.

CONTACTING SARS: Where vendors have queries relating to VAT, including where to fax their returns, they should contact their local SARS branch office. Additional information can be obtained on the SARS website at: www.sars.gov.za