

VAT NEWS

keeping vendors informed

JULY 2005 No. 26

LAW AMENDMENTS

Further changes to the VAT law have been proposed in terms of the Taxation Laws Amendment Bill (No. 19 of 2005) and the Taxation Laws Second Amendment Bill (No. 20 of 2005) which are presently before Parliament.

For more information on the amendments, visit the SARS website www.sars.gov.za/legislation/.

ISSUING OF LEGAL RULINGS

Vendors and their representatives must not submit legal ruling applications to Law Administration at Head Office. Such applications must be addressed and forwarded to the Legal Manager in charge of the area in which the vendor is registered. Ruling applications received by Law Administration will be forwarded to the relevant office.

E-FILING

SARS currently receives a significant number of incorrectly referenced payments each month as a result of internet banking. This results in additional, unnecessary costs and inconvenience for SARS and vendors alike:-

- follow-ups for non-payment, phone calls, issuing of final demands, summonses, incorrect payment allocations and VAT account balances;
- the levying of penalties and interest, plus the additional administrative issues and complaints arising in this regard; and
- general customer dissatisfaction.

SARS therefore offers e-filing as the preferred method of making payment and submitting returns. Vendors are encouraged to make use of this **free service** by logging on to www.sarsefiling.co.za, or you can contact the SARS e-filing call centre on **0860 709 709** for more information.

The benefits of filing your return and making payment via e-filing are as follows:-

- real time payment;
- validation prior to payment;
- same day processing; and
- extended period for VAT returns and payments (last business day instead of the 25th of the month).

PUBLIC AUTHORITIES

In VATNEWS 25 we focused on recent amendments regarding the VAT treatment of grants, public authorities

and public entities. Those amendments came into effect on 1 April 2005. A draft interpretation note has also been published on this topic on the SARS website. You can access the document on www.sars.gov.za/VAT/draft_documents_for_comment.

Remember that if you represent a public authority or public entity which is required to deregister in terms of the amended law, you must submit your final VAT adjustments (including any payment if applicable) by 30 September 2005 in respect of any transactions not accounted for, **which relate to the period before 1 April 2005**. The value of the assets of the organisation upon deregistration must not be shown as part of the adjustments, as this amount will not be subject to VAT (section 8(2) proviso (iv)).

The adjustments should be sent on a letterhead of the organisation to the SARS branch office where the entity is on register. The letter itself (or attachment) must detail the adjusted items as follows:-

- the date of the original supply and the reason for the adjustment;
- the total adjustment amount for each item (plus a separate column showing the VAT included in each item);
- separate totals for the input tax and output tax adjustments; and
- the net VAT adjustment (i.e. total output tax less total input tax).

SECTORAL EDUCATION TRAINING AUTHORITIES (SETA's) AND SKILLS DEVELOPMENT LEVY (SDL)

Vendors are no longer entitled to claim input tax on any SDL payments made to SARS. The last SDL payment which is regarded as VAT inclusive at 14% is the payment in respect of March 2005 which was due on 7 April 2005. Vendors may claim input tax on arrear SDL payments only if they were paid on or before 7 April 2005.

On the other hand, where a SETA pays an employer a grant on or after 1 April 2005 in order to train the employees of that employer, the payment is subject to the zero rate of VAT.

SMALL RETAILERS VAT PACKAGE (SRVP)

The SRVP is a simplified way of accounting for VAT for small retailers who make standard-rated and zero-rated supplies. It was introduced with effect from

1 April 2005 to assist small businesses to meet their VAT obligations, and to reduce the costs of compliance. It is used to calculate the split in standard-rated and zero-rated supplies from the total taxable supplies, where the point-of-sale equipment which records the sales is not capable of making this distinction.

If you are a registered VAT vendor, you can apply for the SRVP if you meet all of the following conditions:-

- your turnover of taxable supplies is less than R1 million a year;
- you sell both standard rated goods and **zero-rated foodstuffs**; and
- you do not use point-of-sale equipment (such as a modern cash register) which is capable of adequately separating the zero-rated and standard rated supplies.

For more information, you can visit the SARS website or your nearest SARS branch office.

CATEGORY F - TAX PERIOD

With effect from 1 August 2005, another initiative to assist small businesses will be introduced in the form of a new 4-monthly tax period (Category F - tax periods ending on the last day of June, October and February of each year). Category F - tax periods will only be available to small businesses (including companies) which have an annual taxable turnover of less than R1 million, or which is not expected to exceed that amount. Vendors who conduct their business under different VAT registered branches will not qualify for the Category F - tax period, even if the combined taxable turnover of those branches is less than R1 million per year.

Qualifying vendors will be notified by SARS in the near future if they may elect Category F - tax periods.

AGENTS AND TAX INVOICES

From 1 March 2005, suppliers must include the VAT number of the recipient on any tax invoice issued where the consideration is R3 000 or more. Where purchases are made by an agent on behalf of a principal, the agent must ensure that the tax invoice received indicate either the principal's, or the agent's VAT number.

Where the principal may not be disclosed to the supplier for commercial reasons, the agent's VAT number must appear on the tax invoice. If the agent for the undisclosed principal is not a vendor, the word "agent" must appear on the tax invoice.

Agents are required under the VAT law to provide the principal with a monthly statement of all supplies

received on behalf of the principal. The statement must be issued within 21 days after the end of the calendar month, and must include at least the following information regarding the goods or services supplied:-

- a full and proper description of the supplies;
- the quantity or volume involved; and
- the consideration and rate of VAT charged or where the rate of VAT is not shown, the amount of VAT included in the consideration must be indicated.

The agent's statement serves the purpose of a tax invoice, and it is required so that input tax may be claimed by the principal on the supplies acquired through the agent.

HOME-OWNERS ASSOCIATIONS

Section 12(f) of the VAT Act provides an exemption to body corporates, share block companies and housing development schemes for the aged, for the levies charged to cover the costs of providing services to their members. Home-owners associations do not qualify for this exemption and they are therefore required to register and charge VAT at the standard rate on the services provided to members, if the levy income exceeds the R300 000 threshold.

The reason why home-owners associations do not qualify for the exemption under section 12(f) of the VAT Act is that owners of individual residences pay their rates (exempt supply) individually to the local authority, but in residential share-block and sectional title developments, the body which represents the co-owners is liable for the rates. The exemption is therefore aimed at the equal treatment of property owners by ensuring that VAT is not levied indirectly on property rates, which is often the largest single cost item to be covered by the levies. It follows that an inequity would be created if the services of home-owners associations were included in the exemption.

Home-owners associations which have exceeded the registration threshold, but have not registered for VAT, should approach their local SARS office for assistance in this regard.

IMPORTED SERVICES

Businesses which import services (e.g. banks and long terms insurance companies), are reminded that they must declare VAT on the services if they are not used exclusively for making taxable supplies.

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