ENDUNAMOO
SCHOOL OF ACCOUNTING
EXPERT LEARNING WITH A PERSONAL TOUCH

Endunamoo BCTA Support Course (BCTA2018)

TAX3701: Taxation of Businesses

Semester 1

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ENDUNAMOO
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Value-added tax





Objectives

VAT imposition and definitions (Output VAT)

Taxable and non-taxable supplies

Input VAT

Special rules

Adjustments

VAT administration



Testing possibilities

- Journals
  - Correcting journals
  - Prepare journals
- Calculation
- Discussion
- Integration into other topics



Studying Vat

- Time consuming
- Sooner you start the better
- Scattered



Kill the VAT

Kill the income tax

Kill the CGT



How to calculate VAT?

Multiplying by the tax fraction

- Amount inclusive of VAT (14/114)
- Amount exclusive of VAT (14/100)

- Consideration?
- Open market value?
- Value?



How to calculate VAT?

Goods/services sold - levy output tax

Goods/services purchased - claim input tax



VAT Act background

Administration

- VAT return to be submitted, according to VAT period for that vendor
  - Transactions must be supported:
    - valid tax invoices and debit/credit notes

Link with normal tax

- VAT doesn’t differentiate between Capital and Income, a vendor may claim VAT if allowed by the VAT Act
- s23C of the ITA links VAT and normal tax
  - Input VAT allowed = normal tax must exclude VAT
  - VAT not claimed = cost for normal tax include VAT



VAT

- Indirect tax levied at 14%

- Section 7 provides that VAT is imposed on:
  - the ***supply*** by any ***vendor*** of ***goods or services*** in the course or furtherance of an ***enterprise*** carried on by him;
  - the importation of goods in the Republic by any person; and
  - the supply of any imported services into the Republic by any person

- **Supply** includes performance in terms of a sale, rental agreement, instalment credit agreement and all other form of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is effected



Vendor

- **Vendor** means any person who is or is required to be registered under the VAT Act

- **Person** includes a public authority, any municipality, any company, any body of persons (corporate or unincorporated), the estate of a deceased or insolvent person, any trust fund and any foreign donor funded project

- A person **is required** to register as vendor if (s23(1)):
  - The taxable supplies for the preceding 12 months exceed R1m; OR
  - Anticipated taxable supplies for the following 12 months exceed R1m.

- Exclusions from taxable supplies in determining the R1m:
  - Supplies from cessation, or substantial reduction in size of the business
  - Replacement of capital assets used in the enterprise
  - Abnormal circumstances of a temporary nature

Vendor…

- A person **<u>may apply</u>** to register as vendor if (s23(3)):
  - The taxable supplies for the preceding 12 months exceed R50k; OR
  - Anticipated taxable supplies for the following 12 months exceed R50k

- A municipality, qualifying welfare organisation, share block company and a foreign donor funded project may register without meeting the minimum taxable supplies requirement



Goods or services

- **Goods** means corporeal movable things, fixed property, any real right in any such thing or fixed property, and electricity;
- Excluding:
  - Money (excludes coins from precious medal, i.e. Kruger Rands)
  - Right under a mortgage bond/pledge of any such thing/fixed property
  - Revenue stamps (excludes postage stamps)

- **Services** means anything done or to be done, including the granting, assignment, cession or surrender of any right or the making available of any facility or advantage,
- Excluding supply of:
  - Goods
  - Money (excludes coins from precious medal, i.e. Kruger Rands)
  - Revenue stamps (excludes postage stamps)



In the course or furtherance of an enterprise

An **enterprise** is:

- Any enterprise or activity
- Which is carried on continuously or regularly
- By any person in the Republic or partly in the Republic
- In the course or furtherance of which
- Goods or services are supplied for a consideration
- Whether or not for profit

Including:

- Any enterprise or activity carried on in the form of a commercial, financial, industrial, mining, farming, fishing, municipal or professional concern or any other concern of a continuing nature or in the form of association or club



Enterprise…

The definition of an enterprise excludes the following:

- The rendering of services by an employee to his employer
- Private or recreational pursuit or hobby
- Exempt supplies
- Supply of commercial accommodation of <R60k in 12 months



How will VAT be accounted for?

Accounting basis

- ❖ Invoice basis
- ✓ earlier invoice or amount received

- ❖ Payment basis
- ✓ when payment made or received, invoice date irrelevant



Two types of supplies

The VAT Act provides for two types of supplies, namely

1. Taxable supplies
   - supplies at the standard rate (14%) or
   - supplies at the zero-rate (0%)
2. Exempt supplies (no VAT is levied).

IMPORTANT:

KNOW THE DIFFERENCE BETWEEN ZERO RATED AND EXEMPT **SPECIFIC ITEMS**

ANSWERING: "NO VAT" = NO MARKS



Example

Sales R45 600 (including VAT)

You are required to calculate output tax in respect of supplies

SOLUTION

Scenario 1: Standard rated

Tax fraction × taxable supplies

R5 600 output VAT must be paid over to SARS.

Scenario 2: Zero rated

Rnil output tax has been levied,

and Rnil is payable to SARS



General rule

Time of supply

Earlier of

1. Invoicing, or
2. Receipt of payment

Value of supply?

Consideration such as money or the open-market value

Less VAT

= VALUE of supply

Importation of goods

- In the case of the importation of goods into the Republic (even in the case of non-vendors), VAT is levied on the importation.

- Level the field of competition for local and overseas suppliers

- VAT on imported goods is calculated as follows:
  - In the case of goods imported from customs union member countries (BLNS countries), VAT is 14% of the customs duty value.
  - In the case of goods imported from other countries, VAT is 14% of the sum of the following amounts:
    - Customs duty value
    - ***Plus***: 10% of customs duty value
    - ***Plus***: Non-rebated customs duty payable and any import surcharges



Example - Importation of goods

Tax (Pty) Ltd import goods at a cost of R100 and a customs duty value of R180. Tax paid non-refundable import duties of R20.

REQUIRED

1. Calculate VAT implications, assume goods imported from Botswana?
2. Calculate VAT implications, assume goods imported from New York?

SOLUTION

Botswana (BLNS Country): R180 + R20 = R200 * 14% = R28

New York (Not BLNS): R180 + R18 + R20 = R218 * 14% = R30.52



Importation of services

VAT is payable only when:

1. Imported by non-registered vendor OR not used to make taxable supplies AND
2. Services used within the republic

VALUE OF SUPPLY

14/114 x greater of:

- Consideration or
- Open market value

TIME OF SUPPLY

Earlier of:

- Issue of invoice OR
- Payment for services rendered



Zero-rated supplies

The vendor shall obtain and retain documentary proof of substantiating his entitlement to apply 0% in the following instances (s11(1)):

- Supply of movable goods in terms of a sale or instalment credit agreement where the vendor is **exporting** the goods as follows:
  - Direct exports: goods consigned or delivered to an export country;
  - Indirect exports: Vat charged at 14% and is then reclaimed when goods leave the country
  - Goods delivered and consumed in a foreign-going ship;
  - Goods delivered and consumed in foreign-going air;
  - Goods supplied to a lessee under a rental agreement if the goods are used exclusively in an export country.



Zero-rated supplies

The vendor shall obtain and retain documentary proof of substantiating his entitlement to apply 0% in the following instances:

- Supply of a going concern enterprise, provided (s11(1)(*e*)):
  - Both parties are vendors
  - Agree in writing that the enterprise is disposed of as a going concern
  - Agree that the enterprise will be an income-earning activity on transfer
  - ✓ Must the business generate a profit?
  - Assets necessary for carrying on such enterprise are part of the disposal
  - Agree that the consideration for that supply is inclusive of VAT at the rate of zero percent



Transfer of assets

Transfer of assets necessary to continue with the business

- All assets?

- Examples

➢ Bakery is sold. The buyer decide to buy the ovens and other equipment and does not buy it from the seller?
➢ Sport shop is sold. The buyer does not take over the tent stock from seller, since the buyer will not be selling camping equipment?



Adjustment: Sale of going concern S18A

Look at what has been sold

- 100% or at least 95% taxable supplies = zero-rated
- Mainly taxable supplies (>50%)
- Mainly non-taxable supplies (<50%)



Contrasting example

A vendor sells fixed property for R1140000. the property consist of flats and offices that are fully rented out. Assume that all the requirements for the sale to be of a going concern, have been met

40% flats and 60% offices?

60% flats and 40% offices?



Going-concern sales

(A) 100% taxable usage

- If all (or at least 95%) of the assets were used for making taxable supplies, the seller levies output VAT at 0% on the full transaction
  - Rnil output VAT for the seller
  - Rnil input VAT for the buyer



Going-concern sales

(B) More than 50% taxable usage(mainly taxable)

- If the assets were used mainly (>50%) for making taxable supplies, all the assets will be deemed to form part of the going concern sale and the seller levies output VAT at 0% on the full transaction
  - Rnil output VAT for the seller
  - S16(3)(*h*) input VAT adjustment on the portion that was previously not claimed which is calculated as follows:
    - A x B x C
    - A → the tax fraction
    - B → the lesser of:
      - Adjusted cost (incl. VAT) or market value in case of CPs
      - Open market value on the date of previous change in use
      - Open market value on the date of current change in use
  - Rnil input VAT for the buyer
  - Buyers use partially to make taxable supplies- S18A adjustment

S18A adjustment

Full cost of going concern	aaaa
Less:	
Cost of goods for which input was not claimed (denied)	(bb)
	cc
Less:	
% expected taxable supplies (cc x %)	(%cc)
	dd
VAT output payable (dd X 14%)	**ee**



Example

Bank-with-us ltd is a bank with clients all over South Africa. Based on the turnover-based method, they make 80% taxable supplies and 20% exempt supplies. Bank-with-us decided to sell the whole business to a buyer that will continue with the activities in a similar manner. The sale will comply with the requirements of a going concern.

The price determined as follows:

Motor cars	R500 000
Land and buildings	R10 000 000
Equipment and furniture	R1 000 000
TOTAL	R11 500 000

REQUIRED

1. Calculate VAT implications for both buyer and seller
2. Will your answer(1) differ if the buyer decide to use the business only for making taxable supplies?



Solution

Seller
Output VAT - 0%
Input – S16(3) input adjustment

Buyer
Input VAT – 0%
Output VAT adjustment - S18A

Full selling price	11 500 000
Less: assets which input not claim	(500 000)
Subtotal	11 000 000
Less: taxable supplies (11 000 000*80%)	(8 800 000)
Subtotal	2 200 000
Output VAT(2 200 000*14%)	308 000

Going-concern sales

(C) Less than 50% taxable usage

- If the assets were used partially but not mainly (<50%) for making taxable supplies:
  - Seller must charge VAT at 14% on the non-taxable portion; and
  - Seller must charge VAT at 0% on the going concern sale that was used for making taxable supplies
  - S16(3)(*h*) input VAT adjustment on the portion that was previously not claimed(non-taxable portion)
  - Purchaser may claim input VAT paid on the 14% to the extent that they will be applied for making taxable supplies
  - Purchaser will be required to make a s18A output VAT adjustment on the taxable portion if it is not going to be used solely for making taxable supplies



Example

Lease-with-us lease residential and commercial accommodation to the public. Based on the turnover method of apportioning input VAT, they make 30% taxable supplies and 70% non-taxable supplies.

Lease-with-us decided to sell their whole business for R10 000 000 to buyer who will continue with the activities in a similar manner. The sale will comply with the requirements of a going concern

REQUIRED

Calculate VAT implications for both buyer and seller?



Solution

Seller

Taxable portion – 10 000 000*30%

- Output vat = zero rated

Non- taxable portion

Output vat = 10 000 000 * 70%* 14% = 980 000

Input vat(s16(3)h) = 14/114 *70% * lesser of:

1. adjusted cost
2. open-market value

Buyer

Taxable portion= zero rated

Non-taxable portion- no input can be claimed

What if the buyer use the taxable portion for non-taxable?



Zero-rated supplies

The vendor shall obtain and retain documentary proof of substantiating his entitlement to apply 0% in the following instances:

- Supply of gold coins, e.g. Kruger Rands (s11(1)(*f*) and *(k*))
- --- (s11(1)(*g*))
- Supply of fuel levy goods (e.g. petrol & diesel) and certain crude oil products used in the production of such goods (s11(1)(*h*) and (*h*A)
- Supply of certain basic food stuff (e.g. brown bread, maize meal, milk, fruits and vegetables (s11(1)(*j*))
- Exported services

- Transport services of passengers or goods (other than ancillary transport services) where one leg is outside the Republic (s11(2)(*a*))



Zero-rated supplies

The vendor shall obtain and retain documentary proof of substantiating his entitlement to apply 0% in the following instances:

- Transport services of passengers within the Republic by aircraft and constitute international carriage (s11(2)(*b*))
- Services supplied directly in connection with land, or any improvement thereto, situated in an export country (s11(2)(*f*))
- Services comprising the carrying on of activities by a welfare organisation (s11(2)(*n*))
- Services supplied by the owner of a horse to the operator of a horse-racing event as consideration paid as a result of the successful participation of the horse in that event (s11(2)(*x*))



Exempt supplies

NO VAT is levied because no taxable supplies are being made, thus no INPUT VAT can be claimed

Note:

1. Do not confuse zero rated supplies with exempt supplies!
2. Zero rated supplies are taxable supplies,
3. Exempt supplies are non-taxable supplies



Exempt supplies

- Supply of financial services (s12(*a*)); excluding
  - Financial services that are zero-rated
  - Fees relating to the financial services attracting VAT at the 14%

- Supply by any association not for gain of any donated goods or services if at least 80% of the materials used in making such goods consist of donated goods (s12(*b*));

- Supply of a dwelling under a letting and hiring agreement OR supply of lodging and boarding by the employer to employees as a result of employment (not for profit making) (s12(*c*));

- Sale or letting of land situated outside the Republic (s12(*e*));



Exempt supplies

- Supply of transport of fare-paying passengers (in a bus or taxi but not a viewing vehicle) and their personal effects by road or railway, unless the service is zero-rated (s12(*g*));
- Supply of educational services by a school or public higher educational institution (s12(*h*));
- Membership contributions to employee organisations, such as trade unions (s12(*i*));
- Services of caring for children by a crèche or an after-school care centre (s12(*j*));
- Membership contributions to political parties (s12(*m*));



Deemed supplies

As a **registered vendor**, you may sometimes be required to pay output tax even though you have not actually supplied any good/ services – this is called deemed supplies…

Deemed supplies

Person ceasing to be a vendor

- Deemed supply
- Immediately before the cession
- Output VAT will become payable on that date
- Value is the lesser of:
  - Cost; or
  - Open market value on date of ceasing to be a vendor

Fringe benefits (s18(3))

- Except on exempt and zero rated supplies
- Deemed supply *to the extent of making taxable supplies*
- Time of supply – time when the benefit becomes subject to employee tax
- Value of supply- cash equivalent, except right of use of a motor car

What if employee is paying for FB?



Deemed supplies

Fringe benefits (s18(3))…

- Value of the supply is deemed to be the cash equivalent of the benefit used for income tax purposes multiplied by the tax fraction
- In the case of the right of use of a motor car, the tax fraction of:
  - 0.3%(monthly) of the determined value of the motor vehicle as defined
  - 0.6%(monthly) of the determined value of any other vehicle
- Determined value
  - Original cost (excluding VAT)(what if input was denied?)
  - Choose either 0.3% or 0.6%
  - Reduce the value by all amounts paid by the employee to the employer for maintenance if paid by the employee (excl. **finance charges, fuel** and cost portion if the input VAT was denied)
- Multiply by the percentage of taxable usage
- Apportion for taxable use
- 15% diminishing value???



Use of motor vehicle – fringe benefit

Employee bears FULL repairs and maintenance costs = R85 per month deduction

Employee pays a consideration for the right of use

- 2 separate transactions

✓Supply of FB - Output VAT

✓Receipt of consideration - Output VAT



Example - FB

Muthelo (Pty) Ltd is a registered VAT vendor. The CEO, Mr Rendani felt that he deserved to drive a luxury vehicle after successful launch of BCTA programme and his recent promotion as CEO. Therefore, the company decided to buy a BMW 325 for R285 000 and was given to Mr Rendani immediately.

Mr Rendani will be responsible for all costs relating to the maintenance and repair of the vehicle, Mr Rendani use the car for 2 months. The company input apportioning ratio is 60% taxable supplies.

REQUIRED: Calculate VAT implications?



Fringe benefits

- Cash allowances ?
- Long - services award-cash?
- Long - services award-assets?
- Holiday accommodation?
- Low interest rate loan?
- Share incentive scheme?
- Pension fund?
- Bursary scheme?
- Supply of a motor car at less than market value?
- Residential housing?
- Paying debt on behalf of employee?
- Release of employee from a debt?



Deemed supplies

Payments exceeding consideration

- When a vendor receives any payment for a taxable supply of goods or services at the rate of 14% that is in excess of the consideration charged, output VAT will be payable if the excess is not refunded within 4 months
- Time of the supply is at the last day of the VAT period during which the 4-month period ends

e.g. You have Edgars account and your spouse paid R400 on the account and you pay R400 without knowing, Edgars will have to levy output VAT if they don't refund within 4 months



Deemed supplies

Not applicable when

Total reinstatement of stolen goods or goods damaged beyond economic repair and an input tax deduction was denied or cannot claim input

Example:

A building generating 80% commercial rental income and 20% residential, is destroyed in a fire, he insurer pays an amount of R100 000 000

REQUIRED: VAT implications?



Deemed supplies

Indemnity payments

1. Amount is received for loss suffered in the normal course of business AND
2. Amount is received in terms of insurance contract AND
3. The amount not received for replacement of asset or reinstatement of an asset which input vat was denied

Output VAT will be charged

Time of supply: when the payment is received by the insured/ 3rd party



Example

Clever-student Ltd, which makes wholly taxable supplies, recently suffered a robbery

Their insurance company reimbursed them in cash, as follows:

For delivery vehicle stolen	R132 000
For passenger vehicle stolen	R100 000
For microwave oven in canteen stolen	R2 500

REQUIRED: Calculate the output tax in respect of the insurance payment received.



Special rules - connected person

Definition in terms of VAT act

- Natural person = it includes relatives (to third degree and spouses), it also includes trusts of which the natural person or his or her relative is a beneficiary

- Company = any person who holds 10% or more of the shares or voting rights (in working out the 10%, the holdings of the spouse, minor child, trust (of which the person is a beneficiary) must be combined

✓ any other company of which shareholders are substantially the same persons as in the fist company



Connected person

Time of supply
- Goods to be removed = date of removal
- Other goods = date when the goods are made available to the buyer
- Services = when the services are performed

Value of supply
- Connected person AND
- No consideration OR
- Consideration < open market value or consideration can not be determined at time of supply AND
- Buyer would NOT have been entitled to a full input tax deduction

The supply deemed to occur at market value

Only applicable to the sellers
What if the consideration > open market value?

Special rule - instalment credit agreement

Definition

- Divided into two parts= can take the form of sale or lease
- Time of supply

✓ Earlier of:

when goods are delivered
when any consideration is paid

- Value of supply = cash value

✓ Banker/financier = cost of goods
✓ Dealer = normal cash selling price

- What about finance cost?



Example - ICA

On 1 January 2018 EnduBank entered into a finance lease with Namoo production for the lease of a motor vehicle as defined. The vehicle was delivered and brought into use on that date. The agreement stipulates that 48 monthly instalments of R3000 per month are payable starting on 31 January 2018.

Cost price of the vehicle	R100 000
VAT	R14 000
Total	R114 000
Finance cost	R30 000
Total	R144 000

REQUIRED: Calculate VAT implications?



Rental agreement

- Any lease agreement other than an ICA
- Time of supply

✓Earlier of :

when payment due OR
when payment is received

- Value of supply = actual lease instalment



Input VAT

- VAT charged to a vendor by another vendor on the supply of goods/services (VAT the purchaser pays)
- VAT paid on the importation of goods
- To claim input VAT must have documentation relating to the transaction
- Three main types of documents are used in the VAT system, namely, invoices, tax debit notes and tax credit notes
- Other documents can be used in specific situations, e.g. Rental agreement
- Vendor must be in possession of valid tax invoice at time he makes the claim
- If vendor unable to obtain a tax invoice, alternative proof is acceptable on the discretion of the commissioner (effect on 01 April 2016)



Claiming input VAT

- Determine goods/services acquired
- Determine how goods/services applied
- Wholly making taxable supplies = deduct full amount of VAT incurred as input VAT
- Wholly for making exempt supplies = no input tax may be deducted
- Wholly for other non-taxable activities= no input tax may be deducted
- Partly for making taxable supplies and exempt supplies or other non-taxable activities
  - partly applied
  - deduct input VAT as per the apportionment rate



Apportionment

- Partly applied
- For making taxable supplies and exempt supplies
- Calculate the proportion of taxable use (apportionment ratio)
- Taxable use is greater or equal to 95% = deduct full amount of VAT as input (*de minimus rule*)
- Taxable use is less than 95% = deduct input VAT as per the apportionment ratio
- Calculated apportionment ratio will be used unless SARS approves another method of apportionment
- Formula = $\frac{\text{total value of taxable supplies}}{\text{total value of all supplies (taxable and exempt)}}$
- Do we include VAT on the above calculation/formula?
- How do we treat zero-rated?



Example

Bank-with-us buys computer software for R456 000 (including VAT). The bank's apportionment ratio is 60% based on the turnover-based apportionment method. The software is used to administer the supplies of all the taxable and exempt divisions of the bank.

REQUIRED

1. VAT implications?
2. VAT implications if the computer software is used only/wholly for taxable supplies?
3. VAT implications if the computer software is used only/wholly for exempt supplies?



Example

Income accrued to a VAT vendor as follows:

- R175 000 (excl. VAT) from residential letting activities
- R200 000 (excl. VAT) from manufacturing

Assets purchased:

- **A new computer**, costing R22 800 (including VAT), to be used for administering the letting and manufacturing
- **A new mixer**, costing R15 960 (including VAT), to be used solely for manufacturing

REQUIRED: Calculate the apportionment ratio using turnover-based method and determine the amount of input tax that can be claimed

Solution

Computer:

Both taxable and non-taxable supplies (apportion input)

Turnover-based method: A = B x C/D

B = total input tax (R22 800 × 14/114),

C = the value of taxable supplies (R200 000)

D = the value of all supplies (R375 000)

A = R2 800 × R200 000/R375 000 = R1 493 (deductible input tax on the computer)

Mixer:

Used wholly for the making of taxable supplies.

Therefore claim R1 960 (R15 960 × 14/114) as an input tax deduction

Second-hand goods

Requirements:

- Previously owned and used AND
- Used to generate taxable supplies AND
- Seller = resident of SA AND
- Goods located in SA AND
- No actual VAT levied on the transaction
- Acquired from non-vendor

- Value of supply

✓ Lesser of:

consideration
open market value

- Time of supply = to the extent of payment



Example

S (Pty) Ltd, a vendor for VAT purposes, acquired a second-hand delivery bicycle from a non-vendor (resident) for use in its business.

Purchase price R630
Market value R780

The purchase price was paid in full.

REQUIRED

1. Determine whether any input tax may be claimed in respect of the purchase.
2. What if purchase price was paid in 3 equal instalments, first instalment at the end of January?



Solution

Because the **vendor** has purchased a second-hand bicycle from a person **not registered** for VAT purposes, a deemed input tax credit can be claimed.

The deemed input tax credit is based on the lower of:

1. The consideration paid (R630) or
2. Open-market value (R780).

The deemed input tax is calculated as follows:

Tax fraction × consideration paid (14/114 × R630) = R77



Denial of input tax = entertainment

- VAT cannot be claimed for goods acquired by vendor for purposes of entertainment
- if goods are acquired 96% for business purposes and 4% for entertainment, only 96% of the VAT may be claimed

Exceptions:

- Vendors in the entertainment
- Meals, refreshments or accommodation to employees, office holders or self employed natural person who had to spend at least one night away from their usual place of residence
- Vendors who organise seminars
- Meals and refreshments in a medical care facility to employees and costs are not separately charged



Example

BCTA (Pty) Ltd pays rental of R54 000 per month (VAT incl.) for its offices. It uses 4% of the floor space as a kitchen for staff

REQUIRED: Calculate Vat implication?



Example

JZ (Pty) Ltd is based in KZN and employs all its staff in KZN. It arranges a 3-day seminar at a hotel in Limpopo and incurs the following costs (including VAT):

Hotel costs for staff	R20 000
Meals for staff	R23 000
Hotel cost for CR7 (independent lecturer)	R12 000
Meals for CR7	R5 000

The staff members were required to go to Limpopo to attend a seminar, and CR7 was brought in from Botswana to lecture staff.

REQUIRED: Calculate VAT implications?

Denial of input tax - club subscriptions

- No VAT input may be claimed in respect of any fees or subscriptions paid by the vendor
- This prohibition does not apply if subscriptions are in respect of membership of a professional association
- Sport, social and recreational clubs



Motor car

Definition

A motor car, station wagon, minibus, double cab light delivery vehicle and any other motor vehicle of a kind normally used on public roads, which has three or more wheels and is constructed or converted wholly or mainly for the carriage of passengers

- What about a TUK-TUK?
- Motorbike?



Motor car

- No vat input may be claimed in respect of motor car
- No VAT may be claimed by a vendor on motor cars which he rents or hires unless is a motor dealer

Specifically excluded from definition

✓Game-viewing vehicles

✓Hearses- exclusively used to transport deceased persons

Exceptions:

✓Motor car dealer

✓Motor cars given for prize

✓Suitable to carry > 16 persons



Accommodation

Letting of residential accommodation (exempt supply)

- Excluding *dwelling* used in the supply of **commercial accommodation** (taxable supply)
- Example: Letting of house or flat (normally not hotel, guest house

Letting of commercial accommodation (Taxable supply 14%)

- Lodging/board and lodging, with domestic goods and services
- Total annual receipts > R120 000 in 12 months (Excluding a dwelling supplied in terms of an agreement for the letting and hiring thereof)
- **28 days or less:** Output tax on full value
- **Unbroken period > 28 days:** 60% of the all-inclusive charge (From day 1)
- Input VAT still 100%
- **Domestic goods and services?**
- Cleaning, maintenance, electricity, gas, air conditioning or heating, a telephone, television set, meals, laundry, nursing services



Example

Mr. A earned the following amounts during the current tax period:

1. Letting of townhouses (residential) R42 000.
2. Short-term stay in bed and breakfast (including VAT) R15 000.
3. Boarding houses (excluding VAT) all longer than 28 days R30 000.

REQUIRED: Calculate the OUTPUT tax in respect of the income earned…



Solution

Letting of townhouses (exempt supply)	NIL
Bed and breakfast (including VAT) (R15 000 x 14/114)	R1 842.11
Boarding houses (R30 000 x 14% x 60%)	R2 520

NOTE:

Separate prices are charged for accommodation and other services, and the occupant stays for longer than 28 days?

1. VAT will be levied at 60% for room and
2. 100% for other services.

If the services is inclusive of the room it will be 60% VAT.



VAT period

VAT – vat period

Normal tax – year of assessment



VAT periods

Section 27 provides for the following VAT Periods:

- Category A – 2 months, JMMJSN
- Category B – 2 months, FAJAOD
- Category C – 1 month, >R30m taxable supplies or choose
- Category D – 6 months, FA, agricultural activities < R1.5m
- Category E – 12 months, end of YOA, letting business
- Category F – 4 monthly, JOF, <R1m



Food for thought

"The pessimist complains about the amount of work in BCTA; the optimist expects the workload to get less; the realist adjust to the environment and studies"



Thank you

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