

VAT ADJUSTMENTS

Key Notes

- Think of SAR's position due to the change in the entity's operations.
- Think of the **original** VAT treatment.
- When in doubt **section 18** is your friend.

Irrecoverable Debts

When output VAT was paid on taxable supplies which becomes irrecoverable:

- Input VAT = on full amount paid as output VAT
- Use VAT rate on date of output declared

Leasehold Improvements

1. Lessee:

- For a consideration - Apply normal rules
- For no consideration:
 - a. Output VAT = R0.
 - b. Input VAT on cost paid.

2. Lessor:

- Amount in Agreement / OMV x 15/115 x % non-taxable usage.
- Made when improvement is completed.

Sale of Going Concern - less than 50 % tax usage

1. Seller:

- Output VAT on % non-taxable.
- Input VAT on % non-taxable.

2. Purchaser:

- Claim input for % output paid.
- Output VAT adjustment for intended non-taxable usage.

Property Change in Use

Rented for a 12 month period or shorter thus on let date:

1. Output VAT on Cost of the property.
2. Input VAT on Cost of property.

Once sold / 12 month period exceeded (normal fixed property timing):

1. Output VAT on selling price.
2. Input VAT on Cost of property.

Increase in Taxable Usage

On capital goods > R40k (ex vat) and > 10% change:

1. Output (Decrease) + Input (Increase):
2. $A \times B \times C$:

- A = Tax Fraction (15/115)
- B = % Change
- C = Lessor of:
Adjusted cost / OMV on date of previous change
/OMV on date of change

Sale of Going Concern - 100% tax usage

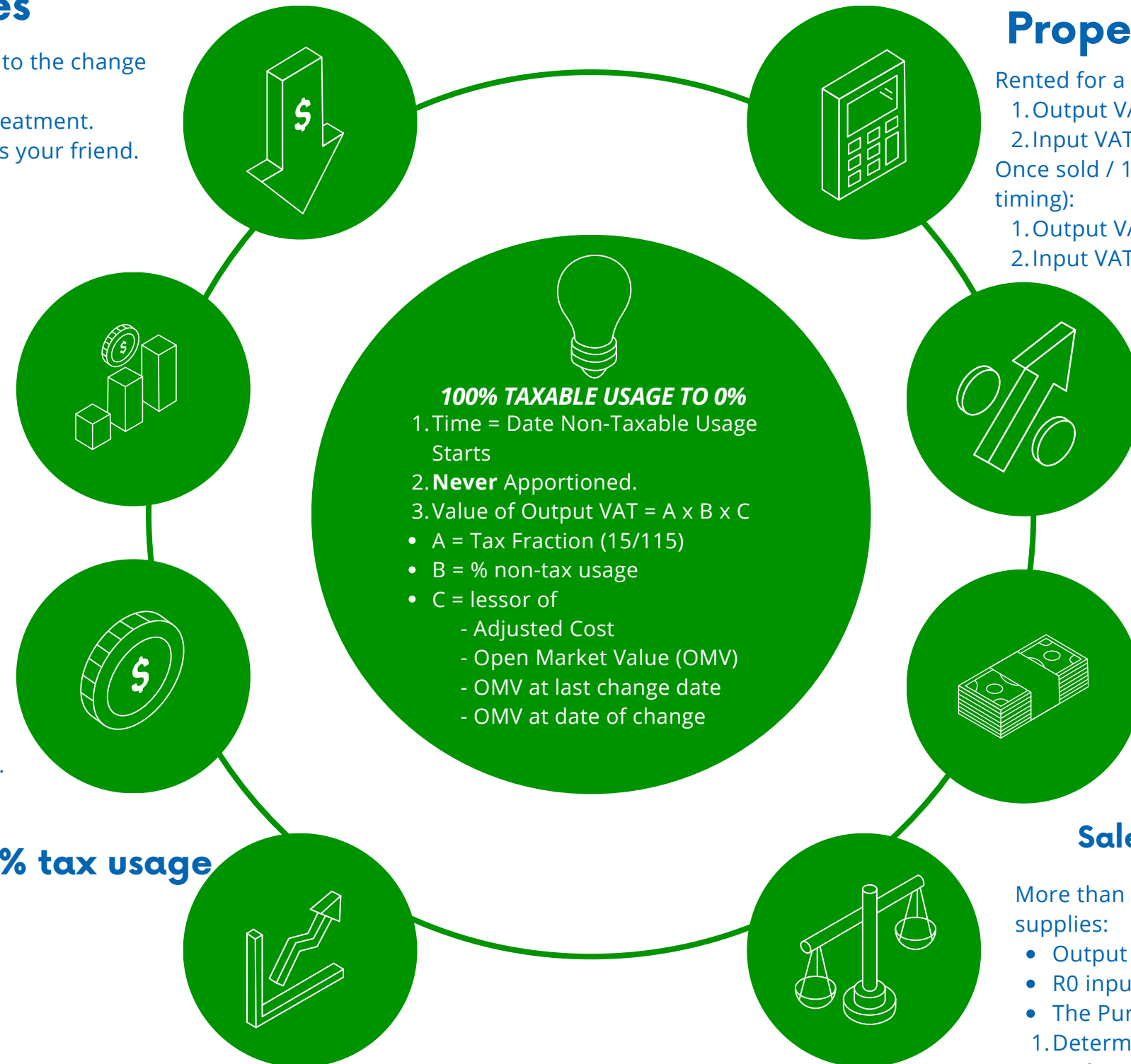
At least 95% of the assets should be used to make taxable supplies:

- Output VAT is levied at 0%.
- R0 input VAT can be claimed.

Sale of Going Concern - More than 50 % tax usage

More than 50% of the assets should be used to make taxable supplies:

- Output VAT is levied at 0% on sale.
- R0 input VAT can be claimed.
- The Purchaser should however:
 1. Determine the total value.
 2. Reduce the value by assets relating to 100% taxable supplies.
 3. Reduce the value by assets for which input tax would have been denied.
 4. Multiply the remainder by the purchasers % non-taxable use.
 5. Multiply the remainder by 15%.



OUTPUT VAT BASICS

Key Timing Rules

1. Connected person - Time of removal / time made available / time services are performed
2. Rental Agreements - Earlier of payment due / received.
3. Fixed Property - Earlier of date of registration / payment made

Connected Person value of supply

The OMV if supplied:

- For no consideration
- For consideration < OMV
- For consideration that cannot be determined
- and person cannot claim full input tax

Fringe Benefits - Motor Vehicle

1. Determine the value (EX VAT and Finance Cost)
2. Value in $1 \times 0.3\%$ (Input denied) else $\times 0.6\%$.
3. Deduct:
 - Input claimed - amounts paid by employee (excl finance charges and fuel)
 - Input denied - All amounts paid by employee (excl finance charges, fuel and portion of fixed cost)
 - R85 if employee bears full cost of repairs and maintenance.
4. Multiply by 15/15
5. Multiply by % taxable usage.

Fringe benefits - General

For all fringe benefits excluding the right of use of a motor vehicle:

- Cash and Cash Equivalents $\times 15/115$.

Output VAT Criteria

1. A supply: Refer to definition in section 1 of the VAT Act
2. Goods / Services: Refer to definition in section 1 of the VAT Act
3. Vendor: > R1 million in taxable supplies (comp reg) / voluntary
4. In the course of furtherance of an enterprise:
 - Continuous / Ongoing activity.
 - Supplied for a consideration.
 - For profit or not.

Importation of Goods

There is **always** output VAT charged on imported goods / services.

1. From Botswana, Lesotho, Namibia, Swaziland:
 - 15% of the customs duty value (CDV)
2. From other countries:
 - $15\% \times (\text{CDV} + 10\% \times \text{CDV} + \text{Custom duty payable} + \text{Import Surcharges})$

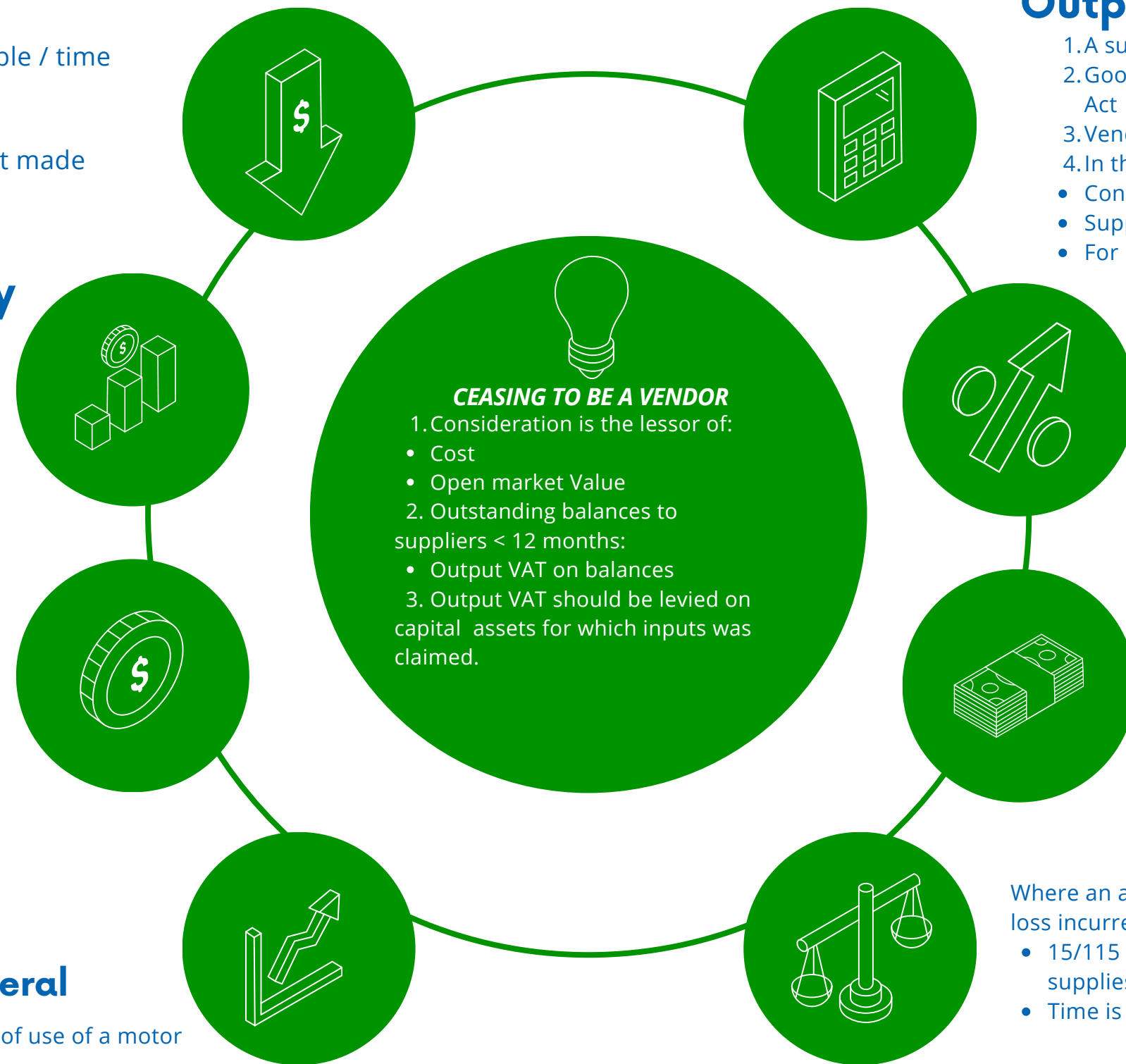
Commercial Accommodation

1. 28 days or less - Output VAT is levied on rent received.
2. 28 days or more - Output VAT is charged on 60% of the all-inclusive charge

Indemnity Payments

Where an amount is received as an indemnity payment for the loss incurred in the course of carrying on an enterprise:

- $15/115 \times \text{Consideration} \times \% \text{ loss in course of making taxable supplies.}$
- Time is date of receipt / payment to other person.



INPUT VAT BASICS

Key Timing Rules

1. Connected person - Time of removal / time made available / time services are performed
2. Rental Agreements - Earlier of payment due / received.
3. Fixed Property - Earlier of date of registration / payment made

Key Rules for Input

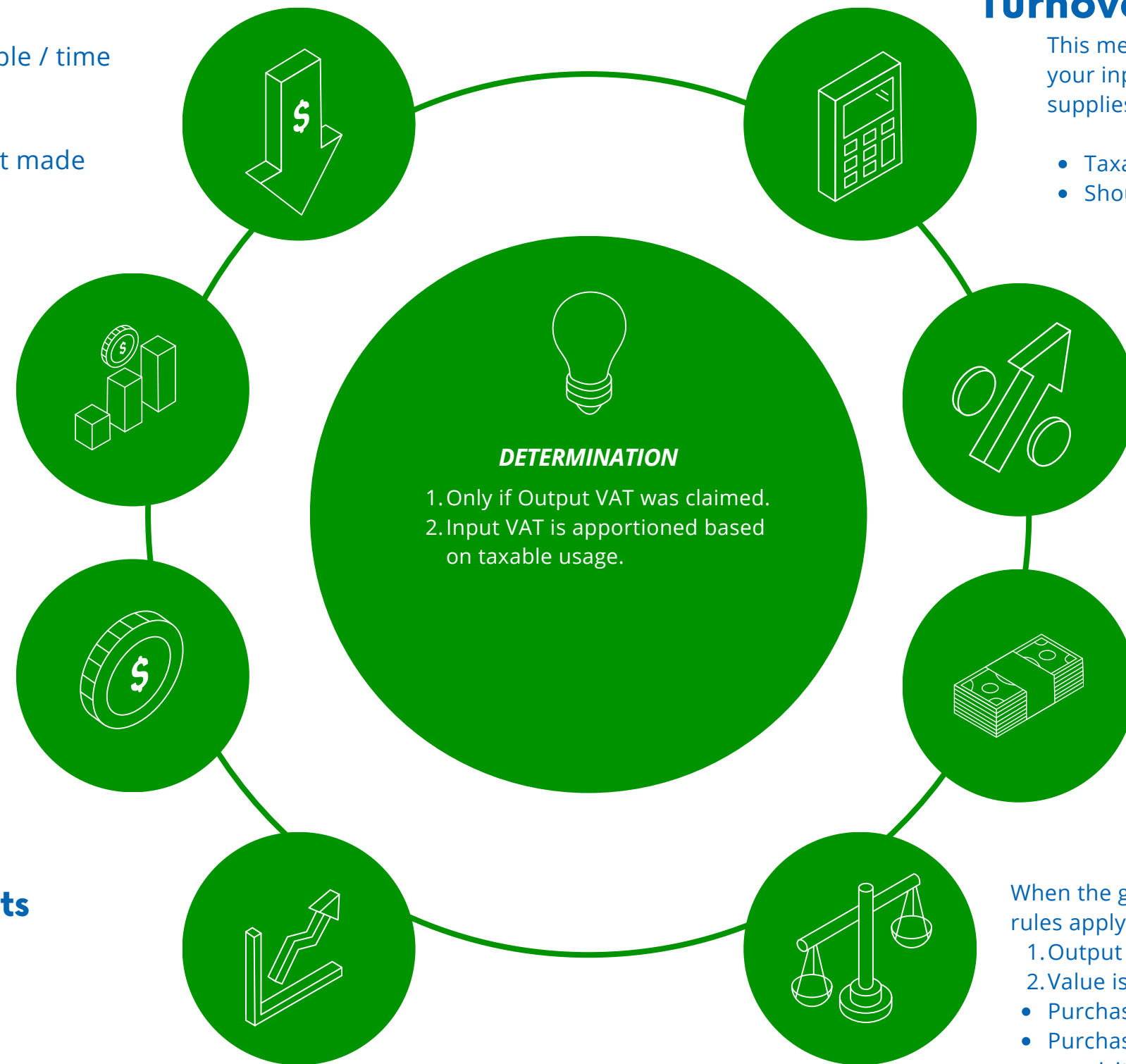
1. A valid Tax Invoice needs to be kept to substantiate the input VAT claim.
2. General rule - If its not for business no VAT can be claimed
3. You can only claim what you paid (except for the notinal 2nd hand input VAT)

Fixed Property

VAT is only levied if no transfer duty is levied on the sale. The value of the supply is subject to the normal tax rules.

Installment Credit Agreements

1. Always start with your definition discussion as per section 1.
2. Value = Cash Value is considered the consideration.
3. Time = Earlier of delivery / Payment received.
4. 15/115 is applied.



Turnover Based Method

This method is used to determine the apportionment ratio for your input VAT when you supply both taxable and non- taxable supplies:

- Taxable Supplies (VALUE) / Total Supplies (VALUE)
- Should be rounded to 2 decimals

Denial of Input VAT

1. Entertainment
2. Motor Cars
3. Personal club membership fees and subscriptions
4. Any expense not pertaining to business expenses.

Deemed input tax on 2nd hand goods

1. Calculated on the lesser of:
 - Purchase price (Consideration in Money)
 - Open market value
2. Can only be claimed to the extent payment has been made.
3. Should the sale be cancelled output VAT will be levied.
4. 15/115 is applied

2nd hand goods and connected persons.

When the goods are subsequently exported the following special rules apply:

1. Output VAT is levied on the sale and it's not zero rated.
2. Value is the greater of:
 - Purchase price paid to connected person.
 - Purchase price to that connected person at original acquisition.