HOW TO PREPARE A VAT201
Bottom Line Benefits

A growth in a business's earnings is critical for the financial performance of a business. Most businesses improve their earning by either increasing its revenue or improving its efficiency and thus decreasing cost.

The following topics will provide recommendations on how to increase revenue or efficiently decrease cost and thus increase earning:

1. Supporting documents

Purchases of good and / or services can only be claimed for input VAT if it meets the requirements of a valid tax invoice. Purchases that do not meet the requirements of a valid tax invoice cannot be claimed for input VAT, therefore the full amount of the purchase will be recorded against expense and decrease the profit.

Recommendation
Ensure that every purchase is supported with a valid tax invoice. Immediately after purchase, inspect the tax invoice and if it does not meet the requirements for a valid tax invoice, request from the supplier to issue a valid tax invoice (if the supplier is a VAT vendor)

Ensure that the tax invoices are filed for easy reference in the future (for example when there is a VAT audit). Implement a filing protocol such as filing per supplier, by date and whether the invoice will be filed as a hard copy or soft copy on a shared drive or storage.

Outcome
The purchase will be recorded as expenditure for an amount excluding VAT, therefore decreasing expense and increasing profit. The input VAT will be deducted from the output VAT and decrease the VAT liability payable to SARS.

2. Purchases from a VAT vendor

Purchases from a non -VAT vendor cannot be claimed for input VAT, therefore the full amount of the purchase will be recorded against the expense and decrease the profit.

Recommendation
Purchase of above fifty rand (R50) should be made from a VAT vendor so that input VAT can be claimed on the purchase.

Outcome
The purchase will be recorded as expenditure for an amount excluding VAT,

therefore decreasing expense and increasing profit. The input VAT will be deducted from the output VAT and decrease the VAT liability payable to SARS.

3. Accounting system

Majority of businesses are using accounting systems where transactions are recorded into the accounting system and a report is extracted with the information and values to complete the VAT201.

However, there are still businesses that do not use accounting system and instead manually calculate the output and input VAT. This could lead to risk in accuracy and completeness. output VAT and input VAT can be understated.

When output VAT is overstated, the VAT amount payable to SARS will increase and the revenue decrease. When the input VAT is understated, the VAT amount that can be deducted from output VAT will decrease, and the expenses will increase. Both situations will cause a decrease in profit.

Businesses with accounting systems already in place also have the risk of not correctly understanding the system and how to account for transactions and VAT on the transactions correctly.

Recommendation
It is recommended that a business should purchase and implement an accounting system that is able to calculate the VAT and extract the report used to complete the VAT201. Training on how to use the accounting system correctly and efficiently should be done. An accounting system is a value add to the business and it will reduce time as the system will perform the calculation, therefore enhancing efficiency within the business.

Outcome
An accounting system that is used and functioning correctly will decrease errors in the VAT calculation and therefore lessen the risk of overstating output VAT and understating input VAT. This will increase profit and decrease the liability payable to SARS for VAT.

4. Review of transactions

Whether a business is calculating the VAT manually or using an accounting system, there is still risk of transaction and VAT on the transactions being recorded and accounted for incorrectly. This could lead to risk in accuracy and completeness. Output VAT can be overstated and input VAT understated.

When output VAT is overstated, the VAT amount payable to SARS will increase and the revenue decrease. When the input VAT is understated, the VAT amount that can be deducted from output VAT will decrease, and the expenses will increase. Both situations will cause a decrease in profit.

Recommendation
Extract a detailed report for output and input VAT. Review the transactions to ensure that the VAT was correctly accounted for before submitting the VAT201. Review all transactions in the expense account to ensure completeness.
Outcome
Review of the transactions will ensure that output and input VAT are correctly accounted for. This will decrease errors in the VAT information being submitted and therefore lessen the risk of overstating output VAT and understating input VAT. This will increase profit and decrease the liability payable to SARS for VAT.

5. VAT201 submission and payment

The greatest risk in the submission and payment of the VAT201 is interest and penalties that are raised for late submission or payment.

The current interest rate on late submissions and / or payment is 9.5% while penalties are calculated at 10%.

Businesses that do not take into consideration the time different banks takes to process a payment will have a risk of making a payment before due date but the payment only reflecting on the SARS statement after due date. Interest and penalties will then be charged.

Recommendation
Business should submit and pay the VAT201 as early as possible giving enough time for the bank to process the payment. Businesses should avoid late submission and / or late payments.

Outcome
Ensuring early submission and payment of the VAT201 will remove the expense of penalties and interest payable to SARS. The expense will decrease and profit increase.

6. SARS audit

When SARS performs an audit and are able to identify transactions where VAT was not correctly accounted for, an adjustment will be made by SARS. This adjustment can lead to an increase in the VAT liability. When SARS makes an adjustment, the business will not be able to make any amendments or corrections to the VAT201 after the audit.

Recommendation
Ensure all reconciliations are performed before submitting theVAT201 and that all supporting documents are correct and valid. This will ensure that when SARS performs an audit, there will be no adjustments as the information completed on the VAT201 is correct and can be verified.

Outcome

Preparing reconciliations and the valid supporting documents before submitting the VAT201 will allow the business to identify any transactions not correctly recorded. Interest and penalties will also be avoided which will decrease the expense and increase the profit.

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