

# **Vat Act and Vat Administration**

Presenter: Seanego Phillemon Thupishi  
Business Accountant in Practice(SA), General Tax Practitioner  
(SA), Independent Review Practitioner (SA).

**Understanding Vat and it's administration**

# About SAAA

**Creating opportunities to connect our partners to succeed**

SAAA offers CPD training for accountants, auditors, bookkeepers and tax practitioners. We give you access to professional and technical content that ensures both your knowledge and skills are maintained so you remain professionally competent.

**The CPD policy is compliant with IFAC IES7**

All training offered by SAAA is recognised for CPD hours by the relevant professional bodies.

# **SAAA Rewards**

**CPD Subscribers gain access to various rewards**

These can be accessed from your profile by logging in and navigating to your “My Rewards” > “Find out more” to see the reward partner benefits and claim it.

These rewards include discounts, reduced premiums and free stuff.

# Reward Partners



Acts Online provides legislation, including amendments and regulations, in an intuitive, online format.



Draftworx provides automated drafting and working paper financial software.



EdNVest offers an exciting and unique product that leverages Section 10(1)(q) of the Income Tax Act



InfoDocs Company Secretarial Software.

# Reward Partners



Practice Ignition simplifies onboarding - from engagement letter creation to securing client signatures.



QuickBooks Cloud Accounting Platform: The one place to grow and manage your entire practice.



Join the largest accounting and tax franchise in Southern Africa.

# Ask Questions

To ask questions and interact during the webinar please use the chat sidebar to the right of the video / presentation on the screen.

Feel free to ask your questions during the webinar in the chat, these will be address in the formal Q & A at the end of the presentation.

# Presenter

**Seanego Phillemon Thupishi.**

BAP(SA), GTP(SA), and Independent Review Practitioner (SA).

Qualification: Bcom Accounting(UL), Post Graduate Certificate in Accounting(UNISA), Bcom Law(Stadio (formerly sbs)), Currently doing LLB.

Experience: 10 Years.

Currently practicing at Seanego Accountants, our branches, Secunda Branch, Rustenburg, Mokopane and Lephalale.



# Course Outline



# Topics

1. Vat Act and Vat administration
2. Compulsory and Voluntary Vat Registration
3. Important Vat terms
4. Important Vat rules
5. Vat and Business Cash Flow.

# Quote

*The secret to success is to be ready for your opportunity when it comes.*

- **Benjamin Disraeli**

# **Topic 1 Vat Act and Vat Administration in South Africa.**

# Topic 1:

## **Topic 1: Introduction**

Vat Act in South Africa, is an indirect system of taxation which came into effect on the 30<sup>th</sup> September 1991.

The indirect refers to the fact that tax is not assessed directly by SARS, but indirectly through the taxation of transactions

# Vat administration in South Africa

Vat is made up of two components:

- Output Tax.
- Input Tax.
- Vat is now levied at the standard rate of 15% on the supply of goods and services by registered vendors.

# Explanation

- Output VAT is Tax in relation to a vendor, it is defined as Tax charged in respect of supply of goods and services by a vendor.
- Input VAT is defined as VAT incurred on the supply of goods and services to the vendor.

# Scenario

Scenario based on real life situation:

Client A, registered for Vat, due to the fact that he had a trailer hire business, and his trailers where hired from R150 to R250 per day.

And the Client is buying or purchasing a trailer at the cost price ranging from R55000 and More.

**\*Challenge with SARS to be discussed\***

# Scenario

Now client A declared VAT 201, in this fashion, Vat Output R=0, Vat Input R55000, sars will then make refund to the client.

The scenario sound to be correct on the basis that client A, bought the trailer, then this was a continuous **behaviour**, remember SARS, during Audit, also look into the **behaviour** of the client.



# Scenario

This is how VAT Output and Vat input is calculated:

In case client A bought the trailer for R55000, his VAT Input will be  $R55000 * 15 / 115$ .

Then the Output VAT will be the Total revenue for that period, e,g for two months period, it may be Jan-Feb or otherwise depending the period that one is registered with SARS

# Scenario Calculation

The Scenario suggest that SARS is owing Client A.

$$\text{Output Tax} = R0 * 15 / 115 = R0$$

$$\text{Input Tax} = R55000 * 15 / 115 = R7173,91$$

$$\text{Difference} = R7173,91.$$

# Scenario Calculation

But now, if there is no revenue attached to the scenario, Client A is correct, suppose there is revenue that comes in on a monthly bases then client A must declare the revenue, e.g January Revenue is R80000, then feb R25000, then upon calculating the Output Tax, we then take the Total amount of  $R80000 * 15/115$  and  $R25000 * 15/115$

# Scenario Calculation

Then the Output Tax  $= (R80000 + R25000) * 15 / 115 = 13695,65$

Input tax will then be  $R55000 * 15 / 115 = R7173,91$

The Difference  $= R6521,73$  that is payable.

# Scenario

1. In the above scenario we can see workings in relation to Output and Input Tax.
2. We can see VAT vendor scenario (VAT Registered Individuals or Enterprises).
3. VAT responsibilities and implication

# Topic 2

Compulsory and Voluntary registration for VAT.

> *Section 23* deals with the registration requirement.

Compulsory registration.

> States that if a person carries on an enterprise in the Republic (or partly in the Republic) it has to register as a vendor if the value of its taxable supplies (Standard and zero-rated) at the end of the twelve-month period (for all enterprises carried on by it) has exceeded R1 Million.

# VAT Registration

Registration Necessary.

> It is also necessary if there are reasonable grounds for believing that turnover in the next 12 months will exceed R1 000 000.

Voluntary Registration, if the turnover in 12 months period has exceeded R50 000 or is likely to exceed R50 000.

In the case of Commercial Accommodation business the minimum turnover limit is higher(R60 000)

# Scenario

Now let us use the Scenario above to explain the following.

Assume: Client A makes less than a million in a year, then this suggest the following.

- He can register VAT on **Voluntary** bases because he make more than R50000 a month.
- Even if Client A can make **R25000** a month is **likely** to make R50000 in a **12 Month period**.



# Scenario

- According to the Scenario, he can make R80000 in two months, this suggest that Client A is **likely** to make a Million in 12 Months period, then this becomes **Necessary** to register.
- Should Client A exceed a Million then is also **compulsory**.

## Topic 3: Responsibilities resulting from VAT registration

I found it necessary to quote this to make this topic relevant and interesting. “In order to ensure effective and prompt collection of taxes, the payment of tax is not suspended pending an objection or an appeal, unless directed otherwise. This is also known as the “pay now, argue later” rule and for value added Tax Act purposes, is provided for in terms of section 36 of the value-added act 89 of 1991.

# Responsibilities of the Tax payer.

- Declare Vat returns on time to avoid penalties and interests.
- Declare Vat returns in accordance, never understate Output and overstate the Input Tax.
- Never make false or fictitious claims.
- Tax invoice must have the vat number of both the supplier and the client.

# Scenario

- The invoice must be well dated
- The invoiced must have the company name.
- Claim the VAT Input only from the vat vendor.
- Separate the Nature of the expense and the **REVENUE,**  
**topic of another day.**

# Scenario

Remember when I gave the emphases of behaviour of the client being vital to determine the penalty and the interest to be charged by sars.

Assume: Client A, continues with to use one invoice to claim the Input Tax, and suggest that, He is not making any revenue and plans to get more trailers when SARS pay out.

# Scenario

Assume, SARS continuously pay out the claim.

> When SARS shall audit Client A, he can never argue that SARS was negligent to make payments without checking, the humours and responsibility to make true declarations lies with Client A not SARS.

# Scenario

Assume: Client A purchases items with cash and his Vat number is not included in the receipt received from the supplier.

SARS has the right not to accept the receipt, remember client A also has the right to prove that the invoice indeed belongs to Him and the supplier.

# Scenario

The invoice must be well date:

Assume: The VAT audit is conducted, only Invoices and receipts that will be accepted must be within that particular period and where never claimed before, “this also has the provision that if the receipt was never claimed can be claimed in the future periods.



# Scenario

Assume: Client A purchased a trailer worth R150000 from Non-Vendor.

- Client A shall not claim vat on this **capital asset**, the transaction must be from Vendor to Vendor.

# Topic 4: Important VAT terms

Invoice basis and payment basis:

>The invoice basis requires VAT to be accounted for in the tax period in which an invoice was issued or received, whilst the payment basis required VAT to be accounted for to the extent that payment is made or received.

## Standard-rated supplies, Zero-rated supplies and exempt supplies.

- Standard-Rated supplies are supplies of goods and services on which output VAT is levied at a rate of 15%, the input VAT incurred on purchases of goods and services to generate standard-rated supplies can be deducted from Output VAT payable to SARS, the scenario above explain this better.

## Zero-Rated supplies.

- Are supplies of goods and services on which Output Vat is levied at a rate of 0%. The Input VAT incurred on the purchase of goods and services to generate zero-rated supplies can be claimed against output VAT payable to SARS.

# Examples of Zero rated supplies:

Brown bread, Maize meal, Samp, Mielie rice, Dried mielies, Dried beans, Lentils, Pilchards in tins, Milk powder, Dairy powder blend, Rice, Vegetables, Fruit, Vegetable oil, Milk, Cultured milk, Brown wheaten meal, Eggs.

## Exempt Supplies.

- Are not subject to VAT, Neither on the Output and the Input Tax.
- These are recorded as R Nil.

Goods and services **exempted** from VAT are: Non-fee related financial services Educational services provided by an approved educational institution Residential rental accommodation, and Public road and rail transport. Basic foodstuffs zero-rated in South **Africa** Brown bread. Maize meal. Samp. Mealie rice.

# Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.



**Thank you for your  
participation**