

Name \_\_\_\_\_

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## 1 Introducing Value-added Tax

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The Value-added Tax Act 89 of 1991 was promulgated in June 1991. This Act provides for value-added tax (VAT) as from 30 September 1991.

VAT is levied at each point in the production and distribution chain. VAT is based on a tax credit system which provides for each producer or distributor in the chain to recover the tax paid by him. The tax charged by each producer or distributor in the chain of services or goods before it reaches the end user, is in effect the tax on the value added by him.

The tax payable to the South African Revenue Service (SARS), is tax on the delivery of goods and services by a business (output tax) less the tax on the delivery of goods and services to the business (input tax).

Output tax is the tax levied on the delivery of goods and services.

Input tax is the tax levied on the delivery to the business or imports made by the business. No deductions for input tax can be claimed, unless a proper tax invoice is presented.

The basic calculation is:

Output tax less input tax = amount payable/refundable

## 2 Basic VAT concepts

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### 2.1 VAT rate

The law provides for two types of delivery:

- Taxable delivery at a standard rate (14% at present) or 0% (zero rate delivery)
- Exempted delivery

A business with zero rate delivery can claim all its input tax as a deduction in its VAT calculation.

### 2.2 Zero rate delivery includes the following:

- Fuel and oil
- Brown bread
- Graded maize meal for human consumption
- Goods used for agriculture
- Transport of passengers on international flights

A business that provides exempted deliveries may not claim its input tax as a deduction.

### 2.3 Exempted deliveries include the following:

- The delivery of financial services
- The delivery of housing in a house
- The transport of passengers by road or rail
- The delivery of educational services
- Trade union member contributions

## 2.4 VAT returns

VAT returns must be handed in every second month. VAT is entered into the different journals and posted to the following ledger accounts:

- VAT-input (purchases)
- VAT-output (sales)

At the end of the first month, above-mentioned accounts are only balanced. At the end of the second month, above-mentioned accounts are closed off to a VAT-control account to determine whether the amount is payable or refundable.

When the difference between the debit and credit balance of VAT-control:  
*is a credit, the difference is payable to SARS (current liability);*  
*is a debit, the difference is refundable by SARS (current asset).*

## 2.5 Accounting basis

Two accounting bases are allowed for the calculation of VAT liability, namely the:

- invoice basis; and
- payment basis.

According to the invoice basis, tax is accounted for at the:

- issuing of the invoice;
- receipt of the payment, whichever happens first.

According to the payments basis, tax is accounted for when payments are made (purchases) and payments received (sales).

## 2.6 VAT and bad debts

When goods are sold to debtors on credit, the selling price will include VAT. In the debtors' account the VAT will be included and the VAT amount should be paid over to SARS.

If a business is registered with SARS on a payments basis, VAT will be paid over to SARS when the money is received from the debtor. If a person's account is written off, neither the debt nor the VAT will be recovered from the debtor and no amount will be paid over to SARS.

If a business is registered with SARS on an invoice basis, VAT will be paid to SARS as soon as the invoice is issued. If a debtors' account is written off as irrecoverable, the amount previously paid over to SARS must be recovered from SARS in the following month.

### Activity 1

Mr Khumalo is a mathematics teacher who makes a lot of money in charging fees for extra maths lessons. He accepts only cash, not cheques, and he does not issue receipts. He brags that he does not pay taxes and SARS cannot catch him for tax evasion. He charges VAT on his fees, but he is not a registered vendor.

#### Questions

1.1 What is the difference between tax evasion and tax avoidance?

1.2 Mention any three types of taxes levied in South Africa.

1.3 Why are some goods zero-rated?

1.4 Why do you think Mr Khumalo is not registered as a VAT Vendor?

1.5	What is the standard rate for VAT in South Africa?
1.6	What does the abbreviation VAT stand for?