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VAT

This revision pack for **Accounting Grade 12** provides support for learners revising the most important concepts and principles covered in the CAPS curriculum. These include concepts relating to companies, the acquisition of Fixed assets, inventories, VAT, Manufacturing and cost accounts, and budgeting. Summaries of the GAAP principles, theory of Accounting, and the format of Debtors and Creditors control accounts are provided. Furthermore, a detailed table to summarise the interpretation of Financial Statements is provided.

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Revision 8
Value-added Tax (VAT)

Fundamental VAT concepts

- **Value-added tax (VAT):** An indirect tax that is charged whenever goods are sold or services are rendered by a registered VAT vendor

> Goods and services on which **VAT is not levied** include:
> - salaries and wages
> - hobbies or any private recreational pursuits (unless it becomes a business)
> - private sales of personal or domestic items
> - exempt supplies.

- **VAT registration:** A registered VAT vendor is a vendor (business) that is registered for VAT.

> There are two categories of registration:
> - **Compulsory registration:** Any business whose annual income exceeds R1 million is required to register as a VAT vendor.
> - **Voluntary registration:** Any business whose annual income is less than R1 million, but more than R50 000, may voluntarily register as a VAT vendor.

- **Standard rate:** The normal rate (currently 15%) at which VAT is charged when goods are sold or services are rendered by a registered VAT vendor
- **Zero-rated items:** Goods or services on which VAT is charged at a rate of 0%

> **Examples:** Brown bread, maize products, rice, milk, fruit, vegetables, lentils, vegetable oil, eggs, canned pilchards, petrol and diesel (which are subject to fuel levies), paraffin, property rates, the export of moveable goods and the international transport of passengers or goods

- **Exempt items:** Goods or services on which no VAT is charged, either at the standard rate or zero rate. In other words, these items are exempt from VAT altogether.

> **Examples:** Financial services, rental of a private residence, transportation of people in South Africa by road or rail, educational services supplied by the State and childcare services

- **Output tax:** The VAT charged by a vendor when it sells goods or renders services. The output tax is included in the price that the customer is charged for the goods or services.
- **Input tax:** The VAT charged to or paid by a vendor when buying goods or services from another VAT vendor. The input tax is included in the cost of the goods or services.

- **VAT 201 form:** The form that vendors are required to complete in order to submit their VAT records to SARS
- **Invoice basis:** The standard method used to account for VAT in South Africa. The invoice basis requires vendors to account for VAT in the tax period in which invoices are issued or received.
- **Payments basis:** This method requires vendors to account for VAT only when payments are actually received and payments actually made. It is intended to help small businesses and must be applied for in writing to SARS.
- **VAT tax periods:** VAT vendors are required to submit VAT returns and make VAT payments to SARS according to the VAT tax period category allocated to them during registration.

The standard tax period, which requires a VAT return to be submitted every two months, is split into two categories:

- Category A is a two-month period ending on the last day of January, March, May, July, September and November.
- Category B is a two-month period ending on the last day of February, April, June, August, October and December.

Vendors that meet certain specific requirements may be allocated to other tax period categories:

- Category C is a one-month period, generally allocated to vendors with an annual turnover in excess of R30 million.
- Category D is a six-month period ending on the last day of February and August, specifically for farmers and farming enterprises with an annual turnover of less than R1,5 million.
- Category E is a twelve-month period, only allocated to companies or trust funds that meet very specific requirements.
- Category F is a four-month period ending on the last day of June, October and February, solely allocated to small businesses with an annual turnover of less than R1,5 million.

VAT calculations

- **Calculating the price inclusive of VAT**
  Use this formula to calculate the price inclusive of VAT when you have the price exclusive of VAT:

$$\text{Price (incl. VAT)} = \text{Price (excl. VAT)} \times \frac{115}{100} \text{ (or } \times 1{,}15)$$

- **Calculating the amount of VAT included in the VAT-inclusive amount**
  Use this formula to calculate the amount of VAT included when you have the price inclusive of VAT:

$$\text{VAT} = \text{Price (incl. VAT)} \times \frac{15}{115}$$

  Note: The fraction $\frac{15}{115}$ used above is commonly known as the tax fraction.
- **Calculating the price exclusive of VAT**
  Use this formula to calculate the price exclusive of VAT when you have the price inclusive of VAT:

$$\text{Price (excl. VAT)} = \text{Price (incl. VAT)} \times \frac{100}{115} \text{ (or } \div 1{,}15)$$

Calculating the amount of VAT payable to or receivable from SARS

- **VAT payable to SARS:** Calculated by subtracting the total input tax from the total output tax for a particular period. The equation is:

  VAT payable to SARS = output tax – input tax

- **VAT receivable for SARS:** May occur if the total input tax exceeds the total output tax for any particular period. The vendor is then entitled to claim the difference as a **VAT refund** from SARS. The equation is:

  VAT receivable from SARS = input tax – output tax

- **Transactions that give rise to VAT:** Involve the **supply of goods or services** that are subject to VAT at the standard rate (15%). When these transactions occur, VAT is either **charged by the vendor** (output tax) or **charged to the vendor** (input tax).
  These transactions are summarised in the following table.

Transaction	VAT accounted for as:		Effect on VAT payable to SARS	
	Output tax	Input tax	Increases	Decreases
• Sales of goods • Services rendered • Other income items [1] • Sale of fixed assets • Bad debts recovered	✓		✓	
• Purchases of goods • Expense items [2] • Purchases of fixed assets • Purchases of consumable stores • Petty cash payments [3]		✓		✓

Notes

1. Other income items include rent income but exclude interest income (exempt).
2. Expense items exclude salaries and wages (not subject to VAT), fuel expense and property rates (both zero-rated), interest expense (exempt), etc.
3. Petty cash payments exclude payments for staff refreshments (vendor is the end user).

- **Transactions that give rise to VAT adjustments:** Transactions that **do not** involve the supply of goods and services, but which have an effect of either **increasing or decreasing VAT that was previously accounted for** by the vendor. When these transactions take place, the vendor needs to account for them by making an **adjustment** to either output tax or input tax.
These transactions are summarised in the following table.

Transaction	VAT adjustment	Effect on VAT payable to SARS	
		Increases	Decreases
• Bad debts • Discount allowed • Goods returned by a customer (debtors allowances)	VAT set off against output tax **OR** VAT included as input tax		✓
• Discount received • Goods returned to a supplier (creditors allowances) • Drawings of stock • Dishonoured cheques (reversal of discount allowed)	VAT set off against input tax **OR** VAT included as output tax	✓	

Recording VAT in the accounting records

- **Journals:** You are not required to draw up journal entries relating to VAT. However, you are expected to be able to post the VAT information from the journals to the General Ledger.
- **General Ledger:** VAT is recorded in the ***VAT Control*** **account** as follows:
  - **Output tax** is recorded on the **credit side** of the *VAT Control* account.
  - **Input tax** is recorded on the **debit side** of the *VAT Control* account.

Dr	VAT Control account	Cr
Input tax		Output tax

- **Balance of the** ***VAT Control*** **account:** Can be either a debit or a credit balance
  A **credit balance** in the *VAT Control* account:
  - will **normally occur**, since output tax is usually greater than input tax
  - reflects the amount of **VAT payable to SARS** by the vendor
  - will be recorded as a **current liability** in the books of the vendor.

  A **debit balance** in the *VAT Control* account:
  - may **occasionally occur**, if input tax is greater than output tax
  - reflects the amount of **VAT receivable from SARS** by the vendor
  - will be recorded as a **current asset** in the books of the vendor.