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## Value Added Tax (VAT) Policy

## Centlec (Soc) Ltd - Value Added Tax (Vat) Policy

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CENTLEC (SOC) LTD	
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## DEFINITIONS:

**Value-added tax (VAT):** A tax levied and paid on the supply of goods or services, calculated at a standard rate of 15% or zero rate (0%) on the value of the supply.

**Output tax:** means tax levied with regard to provision or rendering of taxable goods or services (VAT on sales).

**Input tax:** means tax that is levied with regard to goods and services purchased for providing taxable supplies (VAT on purchases).

**Consideration:** means an amount or money paid, including VAT charged, for goods or services supplied.

**Deemed Supply:** means goods or services that are deemed to have been made.

**Exempt supply:** means supplies that are not non-taxable supplies and therefore no input tax be claimed on any expenses incurred to make exempt supplies, nor may output tax be levied thereon.

**Grant** - means any appropriation, grant in aid, subsidy or contribution transferred, granted or paid to the entity (VAT vendor) by a public authority, municipality or constitutional institution.

**Public Authority or a Constitutional Institution:** means an institution listed in Schedule 1 to the PFMA, or a national or provincial public entity listed in Part A or C of Schedule 3 to the PFMA.

**SARS:** South African Revenue Services, an organ of state responsible for collection taxes and administration of all other tax related matters in the Republic of South Africa.

**Supply:** means a transactional performance under any sale, rental agreement, instalment credit agreement and all other forms of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is effected, and includes any derivative of the term.

**Motor Car:** as defined in the VAT Act, means a vehicle which has 3 or more wheels; is normally used on public roads; and is constructed or adapted mainly or wholly for carrying passengers.

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## SECTION 1: OBJECTIVES

- a) To ensure that the entity adheres to all applicable VAT related legislation, and administers its VAT related activities properly,
- b) To provide for correct accounting for VAT.
- c) To enable the entity to simplify its VAT administration processes.

## SECTION 2: LEGISLATIVE CONTEXT

In terms of Section 95(c) (i) of the Municipal Finance Management Act, 56 of 2003, as amended, the Accounting Officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Paragraph 2.6 of Chapter 2 for VAT 419 guide, stipulates that a municipal entity is an entity created by one or more municipality to carry on certain activities which would otherwise be conducted by the municipalities concerned, it will have to register separately for VAT if it makes taxable supplies in excess of the compulsory VAT registration threshold. As a general rule a municipal entity does not conduct activities on behalf of municipality, but rather for its own account. Refer to paragraph 7.5 of the Vat 419 guide for more details on municipal entities.

Furthermore paragraph 7.5 of VAT 419 guide for municipalities state that a municipal entity is not a municipality,

It follows that:

- A municipal entity is a separate juristic person to the municipality that created the entity and will have to register separately for VAT if it makes taxable supplies in excess of the compulsory VAT registration threshold. See the definition of “enterprise” in **2.3** for more in this regard.
- Generally, a municipal entity does not conduct activities on behalf of a municipality, but rather for its own account. A municipal entity is therefore usually the principal for the purposes of any supplies which it makes and must account for VAT accordingly (unless it is specifically appointed as the agent of the municipality, in which case the rules of agency apply – see **Chapter 3**).
- A municipal entity falls within the meaning of the term “designated entity” as defined in section 1(1). Therefore, any payment made to a municipal entity, either by a municipality or a public authority, will include VAT at the standard rate to the extent that the payment relates to taxable supplies made by the municipal entity.

Only certain municipal entities that supply electricity/power, gas, water or refuse removal are allowed to account for VAT on the payments basis.

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## **SECTION 3: POLICY PRINCIPLES**

- a) The VAT 201 form should be completed accurately and submitted on E-filing to SARS before the 25th day of the month. Where applicable, all prices charged, advertised or quoted by the entity must include VAT at the applicable rate. (Presently 15% for standard rated supplies).
- b) The entity, as a vendor collect VAT on behalf of the State, therefore VAT payable must be paid over on time, otherwise penalties and interest will be charged.
- c) VAT payable/refundable shall equal to the difference between VAT charged on supplies (output vat) less VAT paid to your suppliers (input vat).
- d) The entity needs a valid vat invoice with its VAT number indicated on it as proof of any input tax claims which the entity want to make. Records of all your tax invoices and other records of related transactions must be kept for at least 5 years.
- e) The entity shall not claim any input tax on goods or services acquired to make exempt supplies, also, input tax may not be claimed where the expense incurred is for the acquisition of a motor car or entertainment, even if utilised for making taxable supplies.
- f) The entity must advise SARS within 21 days of any changes in its registered particulars, including any change in its authorised representative, business address, banking details, trading name, or if the entity cease trading.

## **SECTION 4: TAX PERIODS AND ACCOUNTING BASIS**

- a) The entity shall submit its returns and account for VAT to SARS for each calendar month.
- b) The entity must account for VAT on a cash basis unless application has been made and permission has been received from SARS to use the payments basis or cash basis of accounting.
- c) Where the cash basis of accounting is used, the entity must account for the full amount of VAT included in the price of the goods or services supplied in the tax period in which the time of supply has occurred. This means that the entity must therefore account for the full amount of output vat on any supplies made in the tax period.

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## **SECTION 5: TAXABLE SUPPLIES**

The term “taxable supplies” shall include all supplies made by the entity in the ordinary course of carrying out its business, on which VAT at standard rate (i.e.15%) should be levied, and also includes supplies which are subject to VAT at the zero rate.

Exempt supplies are not taxable supplies, and therefore no input tax shall be claimed on any expenses incurred to make exempt supplies, nor may output tax be levied thereon.

### **5.1 Standard Rated Supplies**

- a) A standard rated supply is a supply of goods and/or services which is subject to VAT at the rate of 15%.
- b) The following are some examples of standard rated supplies (the list is not exhaustive) that are applicable to the entity:
  - (i) supply of electricity;
  - (ii) Sale of bid documents;
  - (iii) Sale of redundant material; etc.
  - (iv) Connection and reconnection of electricity (fees)
  - (v) Meter reading services

### **5.2 Zero-Rated Supplies**

- a) Zero-rated supplies are taxable supplies on which VAT is levied at a rate of 0%. The application of the zero-rated supply must at all times be supported by documentary proof acceptable to SARS.

## **SECTION 6: EXEMPT SUPPLIES**

- a) Exempt supplies are supplies of goods or services where VAT is not chargeable at either the standard rate or the zero-rate, and will not form part of taxable turnover. Consequently, VAT incurred on any expenses in order to make exempt supplies shall not be claimed as input tax.

## SECTION 7: DEEMED SUPPLIES

- a) As a registered vendor, the entity may sometimes be required to declare an amount of output tax even though the entity did not actually supply any goods or services. In line with the deeming provisions and provided for in the VAT Act, deemed supplies will generally attract VAT at the standard rate. However, in some instances the zero-rate will apply.
- b) The following are examples of deemed supplies on which the entity may have to account for output tax at the **standard rate**:
  - (i) certain fringe benefits provided to staff; (e.g. use of company vehicles by employees for personal purposes);
  - (ii) assets retained upon ceasing to carry on business;
  - (iii) short-term insurance claims that have been paid in connection with the carrying of business (e.g. insurance pay-out received for damaged or power distribution cables);
  - (iv) the receipt of payments from the government for the purposes of taxable supplies; and
  - (v) the receipt of any form of grant.

### 7.1 Grants Received

- a) If the entity receives a grant from a public authority, municipality or constitutional institution, such a grant shall be deemed supply for VAT purposes. The deemed supply shall be taxable at the standard rate (i.e. 15%), unless the payment is in respect of exempt supplies (e.g. financial services). For this purpose, the entity, upon receipt of payments from a public authority, municipality or constitutional institution, should ensure that it is informed quite clearly in terms of any contract or other payment advice, whether the amount received constitutes a “grant”. By having a clear understanding of the nature of the payment received, the correct tax treatment can be determined and applied.
- b) Payments received by the entity to cover the costs of providing free basic electricity to certain domestic consumers, shall also constitute a “grant” in the hands of the entity and shall be subject to VAT at standard rate (i.e. 15%).
- c) On the other hand, the entity shall be entitled to deduct input tax on all the qualifying transactions where such a grant has been utilized in the provision of taxable goods, services or facilities.

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- d) For grants received, the entity shall be required to issue a tax invoice to the grantee (i.e. a public authority, municipality or constitutional institution) for the purposes of deducting input tax thereon according to the normal VAT rules.
- e) However, where the entity receives a training grant from a Sectoral Education Training Authority (SETA) for training of employees, the deemed supply to which that payment relates shall be taxed at the zero rate. Therefore, no output tax shall be declared by the entity on any SETA training grants received.

### 7.2 Donations Received

- a) Donations received by the entity shall not be subject to VAT as such payments are given unconditionally and do not constitute payment for a supply of goods or services to the entity. However there must be a written contract between the entity and the donor which should clearly stipulates that the donor expects no services, mutual consideration, equal exchange, or something to be given in return for the donation made to the entity.

## SECTION 8: TIME OF SUPPLY

The time of supply shall be the earlier of the time an invoice is issued by the supplier in respect of that supply or the invoice issued by the entity for the services rendered, or the time any payment of consideration paid or received.

### 8.1 Connected persons

- a) Where the supply of goods or services between the entity and connected persons (e.g. Mangaung Metropolitan Municipality) takes place, a supply of goods or services shall be deemed to take place as follows:
  - (i) Where the supply is of goods to be removed, at the time of removal;
  - (ii) Where the supply is of goods not to be removed, at the time the goods are made available to the recipient;
  - (iii) Where the supply constitutes services, at the time the services are performed.
- b) Where an invoice is issued or payment is received on or before the date that a return was submitted (covering the tax period in which the goods or services are deemed to be supplied as stated above), or the last day for submitting a return for that tax period, the normal time of supply rule will apply

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## **8.2 Progressive, successive and periodic supplies**

- a) Where goods are supplied under a rental agreement or services are supplied where provision is made for periodic payments, they are deemed to be supplied successively. The time of supply is deemed to take place on the earlier of the date when payment is due or is received.
  
- b) Progressive, successive and periodic supplies may include amongst others the following:
  - (i) Office rentals;
  - (ii) maintenance contracts;
  - (iii) management contracts;
  - (iv) cleaning services, etc.
  
- c) Where goods are supplied periodically or progressively and the agreement provides for the consideration to be paid in instalments, or according to the progress made in relation to the supply, the time of supply is the earliest of the date when payment is due or is received, or any invoice relating to the payment is issued.

## **8.3 Fringe benefits**

- a) Where the cash equivalent of the benefit is required to be included in the remuneration of the employee who has received a benefit or advantage in terms of the 4th Schedule to the Income Tax Act, the time of supply is the end of the month in which such benefit is required to be included as remuneration.
  
- b) Where the cash equivalent is not required to be included monthly or weekly in the amount of remuneration, the time of supply is the last day of assessment of the employee in terms of the said Act.

## **8.4 Instalment Credit Agreement (I.C.A.)**

- a) Where goods are supplied under an instalment credit agreement, the supply shall be deemed to have taken place at the earlier of the time the goods are delivered or any payment of the consideration is paid to the supplier.

## **SECTION 9: INPUT TAX**

- a) Generally, the VAT charged by a VAT vendor to the entity on any goods or services acquired will qualify as input tax in the hands of the entity.
- b) Input tax will only be claimed in so far as the supplies are utilised for the purposes of making taxable supplies in the course or furtherance of the business of the entity.
- c) To qualify as input tax, a transaction must meet the following requirements:
  - a) the goods or services supplied must be acquired wholly or partly for use or supply in the course of making taxable supplies;
  - b) VAT at the standard rate must have been charged on the taxable; and
  - c) the appropriate documentation must be held by the entity. (e.g. valid tax invoices)

### **9.1 Disallowed Input Tax Deductions**

There are certain circumstances where VAT paid cannot be deducted by the entity as input tax. These include:

- a) Staff refreshments such as tea, coffee and other beverages and snacks;
- b) Food and other ingredients purchased in order to provide meals to staff, clients and business associates;
- c) Business lunches and dinners ;
- d) Catering services acquired for staff;
- e) Equipment and utensils used in kitchens;
- f) Christmas lunches and parties, including the hire of venues;
- g) Golf days for customers and clients;
- h) Beverages, meals and other hospitality and entertainment supplied to customers and clients at product launches and other promotional events;
- i) Entertainment of customers and clients in restaurants, theatres and night clubs ;
- j) Capital goods such as hospitality boxes, holiday houses, yachts and private aircraft used for entertainment; and
- k) Motor cars, even if it is utilised in the course of an enterprise for making taxable supplies, and regardless the mode of acquisition

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The term **“motor car”** includes the following vehicles (i.e. where input tax will generally not be claimed):

- a) double cab bakkies (LDV's);
- b) ordinary sedan type passenger vehicles;
- c) station wagons;
- d) minibuses; and
- e) sport utility vehicles (SUV's).

## 9.2 Adjustments to Input Tax

- a) In the course of carrying on its business, it may be necessary for the entity to make certain adjustments which may have effect on the computation of VAT.
- b) In cases where the entity accounts for VAT on an invoice or accrual basis, and bad debts are written off, or there is a change in the extent of taxable use of assets, these adjustments may affect the input tax or output tax and any such adjustment must be correctly and accurately accounted for in the appropriate tax period that such an adjustment occurred.

## 9.3 Tax invoices

- a) In line with the SARS guidelines, the threshold for a full vat invoice shall. This means that for any invoice received by the entity with an amount of R 3 000 and above, the VAT registration number of Centlec (SOC) Ltd must also be reflected on that tax invoice for that tax invoice to constitute a valid tax invoice for the purposes of claiming input tax.
- b) For an invoice to be regarded as full tax invoice, it must meet the following requirements:
  - (i) Consideration must be of R3 000 or more
  - (ii) The words “TAX INVOICE” in a prominent place;
  - (iii) Name, address and VAT registration number of the supplier;
  - (iv) Name, address and VAT registration number of recipient (i.e. Centlec (SOC) Ltd);
  - (v) Serial number and date of issue;
  - (vi) Full and proper description of the goods and/or services;
  - (vii) Quantity or volume of goods or services supplied; and
  - (viii) Price & VAT.
  - (ix) The name, address and the VAT registration number of the recipient.
  - (x) The quantity or volume of the goods or services supplied.

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- (xi) It is not required to issue a tax invoice where the amount inclusive of VAT does not exceed R50;  
and
- (xii) A full tax invoice is required in respect of zero-rated supplies, and not an abridged tax invoice.
- c) If a tax invoice in respect of a particular supply is lost, the entity may not request the supplier to issue another tax invoice as it is an offence to issue more than one tax invoice per taxable supply, instead, the entity may request the supplier to issue a copy tax invoice, which must be clearly marked "copy". A photocopy which has been clearly marked "COPY" **after** it has been photocopied can also be used in such instances. A facsimile of a tax invoice is not acceptable unless printed by a plain paper facsimile machine.
- d) Where the goods constitute second-hand goods (including fixed property) acquired under a non-taxable supply, the following special rules shall apply:
- (i) the input tax is limited to the payment made; and
  - (ii) where second-hand goods constitute fixed property, the input tax is limited to the transfer duty (or stamp duty) which was payable.

### SECTION 10: APPORTIONMENT

- a) Generally the full amount of VAT incurred on goods and services acquired or imported by the entity may be claimed as input tax, where those goods or services are for the purposes of making taxable supplies. However, where goods or services are imported or purchased locally for taxable and other non-taxable purposes (mixed purposes) only a portion of the input tax may be claimed.
- b) Therefore, when goods and services are not acquired exclusively for taxable supplies, the entity will be required to determine the part that relates only to taxable supplies.
- c) Where the expense cannot be directly attributed to either taxable supplies or to exempt supplies, the extent of input tax which may be claimed will be calculated according to the apportionment percentage obtained, using a turnover-based apportionment method as follows:

$$y = a / (a + b + c) \times 100/1$$

Where:

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“y” = the apportionment percentage;

“a” = the value (excluding the VAT component) of all taxable supplies (including deemed taxable supplies) made during the period;

“b” = the value (excluding the VAT component) of all exempt supplies made during the period; and

“c” = the sum of any other amounts not included in “a” or “b” in the formula, which were received or which accrued during the period (whether in respect of a supply or not).

- d) The apportionment method shall be applied using the turnover figures from the previous year’s financial statements, and to apply that percentage for claiming input tax in each individual tax period for the current year.
- e) The apportionment percentage shall be rounded off to 2 decimal places. Where the formula yields a result of 95% or more, the full amount of VAT incurred on mixed expenses may be claimed (referred to as the *de minimis* rule).
- f) An adjustment shall be made annually to account for any shortfall or overestimation in the percentage used for the calculation when the audited financial statements for the current financial year are available and when the correct percentage can be calculated. This adjustment should be done within a period of 3 months after the financial year end.
- g) If the audited financial statements have not been completed within a period of 3 months after the financial year end, an adjustment shall be made using the year-end trial balance figures. This would be followed by a final adjustment when the audited financial statements for that year are eventually finalised.
- h) Where the turnover-based method does not yield a fair approximation of the extent of taxable supplies, the entity shall approach the local SARS branch office to obtain consensus on an alternative method which yields a more accurate result.

### **SECTION 11: OUTPUT TAX**

When a standard rated supply is made, VAT (output tax) must be charged at the prescribed rate (presently 15%).

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### SECTION 12: PETTY CASH PAYMENTS

- a) According to the VAT Act, vendors are not obliged to obtain tax invoices for purchases not exceeding R 50 (VAT included). Such purchases are usually petty cash expenses. However, even though it is often the case that no tax invoice is required for petty cash purposes, the entity must at least keep the till slip, cash slip or sales slip with details of the purchase as part of petty cash records in order to claim the input tax and also for accounting purposes as outlined in the entity's Petty Cash Policy.
- b) For all petty cash payments, it is also a requirement that the receipt must indicate the amount of VAT charged, or alternatively, a statement that the amount charged includes VAT at the standard rate, before input VAT can be claimed.

### SECTION 13: SUBMISSION OF VAT RETURNS

- a) Once a VAT return has been completed, it must be carefully reviewed before submission as the entity may be held liable for penalties and interest if there are errors which lead to any shortfall in VAT paid.
- b) The VAT return must be signed and sent to any SARS office. Alternatively, the entity may make use of SARS e-filing service to file your VAT electronically.
- c) The return must be submitted on or before the 25th day of the following month after the end of your tax period and if the 25th of any month is on a Saturday, Sunday or public holiday, the return and payment must reach the SARS' office on the last working day before the 25<sup>th</sup>.
- d) The onus is on the Assistant Manager (Budget and Reporting) to ensure that payments are received in SARS' banking account on the due date. Therefore, to avoid penalties and interests from being levied, the timeframes as stipulated in the preceding paragraph shall be adhered to for the submission of VAT returns and making payments.

### SECTION 14: ERRORS ON VAT RETURNS

- a) Returns are legal and binding documents which constitute a declaration made to SARS by the entity. Certain errors are made regularly on returns. When amounts are incorrectly inserted in the VAT return, it must be crossed out, and the correct amount be filled in. **(NB: any alterations on a return must be initialled, including alterations where correction has been used).**

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- b) Where your VAT 201 return is submitted to SARS and the calculations are incorrect, and SARS send it back for correction, all the necessary corrections shall be done as soon as possible, and a correct return sent back to a SARS immediately after corrections.
- c) Failure to fill in all the appropriate fields of the return or correctly filling in the return may result in unnecessary penalties, SARS audits and delay any refunds.
- d) In completing the returns, care must be exercised to ensure that the following important points are noted:
  - (i) Mandatory fields must be completed;
  - (ii) Returns must be signed;
  - (iii) Only one return must be submitted for a specific tax period;
  - (iv) Contact details of the person completing the return must be clearly stated in case SARS needs to communicate with the person or clarify anything with regard to the completion of the return;
  - (v) Verify on the return regularly that if the payment is made via debit order, that the “Y” indicator is printed on the return;
  - (vi) Ensure that the return and/or payment are submitted on time according to the method of submission and/or payment.
  - (vii) If a nil return is to be submitted, it should not merely be signed and left uncompleted. The return must clearly indicate that it is a “NIL” return by completing the relevant fields accordingly; and
  - (viii) If you there is underpayment of VAT as a result of a mistake, this must be reported to SARS as soon as possible, rather than leaving it for the SARS auditors to detect.

<b>SECTION 15: ANNUAL FINANCIAL STATEMENTS DISCLOSURE REQUIREMENTS</b>
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- a) Any VAT due or receivable by the entity at financial year end will result in a VAT related creditor or debtor that needs to be disclosed in the AFS. The Chief Financial Officer should, therefore, ensure that on the face of the statement of financial position, the VAT creditor or debtor is disclosed and that a separate note to the Annual Financial Statements detailing the basis of VAT registration (invoice or cash) and the timing of payments to/ from SARS is presented.
- b) Along with these balances, information regarding the VAT registration basis of the entity should also be disclosed in the Annual Financial Statements.

### **SECTION 16: REVIEW PROCESS**

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.