

VATNEWS No. 5 - March 1996

*WITHDRAWAL OF VERBAL RULINGS*

When VAT was introduced in September 1991 it was necessary to give a large number of rulings to vendors at short notice. Many of these rulings were given via the telephone or in interviews. The problem with verbal rulings is that there is no record of exactly what was said and this creates problems for both Inland Revenue and vendors.

The Value-Added Tax Act was amended with effect from 13 July 1993 to provide that vendors can rely on verbal or written rulings given before that date, but only on written rulings given on or after 13 July 1993.

It has been decided to withdraw all verbal rulings with effect from 31 March 1996. Any vendor who requires confirmation of a verbal ruling should set out details of his or her request and post it to:

"VAT RULINGS"  
P.O. Box 402  
Pretoria  
0001  
Fax (012) 315-5128

in good time for a reply to be given by 1 April 1996.

*WITHDRAWAL OF RULINGS GIVEN IN THE TBVC STATES*

During 1995 the administration of taxes in the former TBVC states (Transkei, Bophuthatswana, Venda and Ciskei) was taken over by the South African Inland Revenue.

To ensure uniformity all rulings, both verbal and written, given by the tax authorities in the former TBVC states, are also withdrawn with effect from 31 March 1996. Vendors requiring confirmation are referred to the procedure referred to in the last paragraph of the previous article.

*WHEN WILL RULINGS BE NEEDED*

While most questions vendors may have are dealt with in the VAT 404 "Guide for Vendors" it may sometimes be necessary to obtain specific information – for example whether a slice of raw pumpkin can be sold at the zero rate which applies to raw vegetables. Inland Revenue will give a ruling on such a question and is bound by such a ruling until it is with-drawn or the Act is amended. (As a matter of interest, the zero rate does apply to a slice of raw pumpkin).

*SARS*

On 1 April 1996 the Inland Revenue and Customs and Excise divisions of the Department of Finance are due to become the South African Revenue Services, known as "SARS".

The main object, as the name implies, is to provide an improved service to the taxpaying public. The upgrading of the two divisions intends to ensure a more effective collection of taxes and a more equitable distribution of the tax load.

*PRICING*

A vendor is required to levy VAT on every taxable supply made by him at the prescribed rate. The vendor is entitled to an input tax credit where goods or services have been acquired by him for the purposes of making such taxable supplies.

Accordingly, it is important that any pricing policy takes into account the fact that VAT (input tax) is deductible.

The following illustrates the correct and incorrect methods of pricing:

	Correct	Incorrect
Cost of goods and services	114,00	114,00
Less input VAT recovered	14,00	-

Actual cost	100,00	114,00
Mark up (20%)	20,00	22,80
	<hr/>	<hr/>
	120,00	136,80
VAT (14%)	16,80	19,15
Selling price including VAT	<hr/>	<hr/>
	136,80	155,95

The incorrect method treats VAT paid by the vendor as a cost, despite the fact that it may be set off against any output tax collected by the vendor. When the input tax exceeds the output tax it is refundable by the Receiver of Revenue.

#### *ADJUSTMENTS TO INVOICES*

Value-Added Tax is an invoice based tax. Invoices are therefore of paramount importance to a vendor as his tax liability under the self-assessment system and his compliance with the VAT Act will be measured against retained proof of input tax paid. Invoices create an audit trail which is essential to Inland Revenue in curtailing tax evasion.

It follows that where a supplier has issued a tax invoice and the invoice reflects an incorrect amount of tax it may not be altered by the recipient claiming an input tax deduction. A debit or credit note must be issued by the supplier to rectify the matter. If a tax invoice shows more tax than the actual tax payable, only the correct amount of input tax may be claimed.

As a general rule the time of supply will be **the earlier of** the time an invoice is issued or any payment is received by the supplier. A supply is deemed to have been made on the day an invoice is generated, for a consideration **as reflected** on such invoice.

A vendor must be in possession of a tax invoice in order to claim an input tax deduction and may only do so to the extent of the actual amount of the tax charged. Any additional amount in input tax may be claimed only once a debit note in respect of the supply in question has been received.

#### *EXPORTS TO BLNS COUNTRIES*

In the previous two issues of VATNEWS sales to foreign tourists and the export of second-hand goods were addressed. With regard to sales to persons from Botswana, Lesotho, Namibia and Swaziland (BLNS countries) it must be borne in mind that only enterprises in those countries (and not private households) are eligible to purchase goods at the zero rate or have VAT refunded. The representative of the BLNS enterprise must furnish you with appropriate evidence in the form that the purchase is for that enterprise. This must be retained by you.

The RSA vendor, after having elected to register with his local Receiver of Revenue as a participant in the Export Incentive Scheme, can decide whether to supply the goods at the standard rate or at zero rate. It must, however, be remembered that if the zero rate is applied the RSA vendor must receive the necessary proof of export within two months from the date of the invoice. Proof of export can be in the form of either the original tax invoice or a CCA 1 form stamped at any side of the border by customs and excise or immigration officials.

Should the standard rate be applied a refund can be made by the RSA vendor upon obtaining the necessary proof of export. The VAT may then be claimed as an input tax credit in Block 18 of the VAT 201 return.

A copy of the Export Incentive Scheme may be obtained from this office, your local Receiver of Revenue or from the Government Printer (Government Gazette No. 13949 dated 27 April 1992).