

## **LET'S CHIZZLE THE TRAINING LEVY! Part 2 By Jonathan Hore**

Hi folks and welcome to this week's second and last instalment of the training levy. Well, we chizzled the first instalment last week and I hope those of you who read it managed to get a good grasp of this tax. Just in case you missed last week's instalment, let me give you a brief of what we chizzled last week. I stated that the training levy is a tax that is paid by VAT registrants who also happen to be employers on the value of their taxable supplies (taxable at 12% or 0%). The levy was introduced in 2008 through the Vocational Training Levy Order 2008. It is paid on the value of standard and zero-rated supplies at the rate of 0.2% for the first P2bn of one's annual turnover and at 0.05% on amounts above P2bn. The tax is linked to VAT but it actually is not a BURS tax. It in fact is passed over to the Minister responsible for Labour, specifically to the Human Resources Development Council (HRDC). But of course, yes, it is collected by BURS.

So, in today's instalment, I want to chizzle the rather technical aspects of the training tax. These include the effect of credit notes on the tax as well as how banks and petroleum entities pay the tax.

### **WHAT IS A CREDIT NOTE?**

A credit note is a document that is issued to reverse a sale previously made or part thereof. In terms of the VAT Act, credit notes can be issued for the following reasons:

- When a sale is cancelled
- When goods are returned
- When the value of the sale is reduced for some reason.

A credit note reduces the amount of one's sales, which should be reported for both VAT and financial reporting purposes. Since the training tax is based on turnover (sales taxable at 12% or 0%), the issuance of a credit note should certainly affect the training levy by pulling it down. If a VAT-registrant separates taxable supplies from credit notes on their VAT returns, then the credit notes should be considered in determining the training tax. But for those who debit sales with credit notes and do not distinguish sales from credit notes on VAT returns, the issuance of a credit note will automatically be catered for by the set-off. Note however, that the issuance of a credit note for early settlement does not necessarily affect one's turnover as it is usually considered as a cost to the supplier.

### **BANKS AND TRAINING LEVY**

Banks which supply goods under finance lease arrangements are required to charge VAT on the goods that are supplied. A finance lease is an arrangement where a client seeks financial assistance from a bank so they can acquire an asset and they pay for it over a number of years. Most people buy vehicles from banks under finance lease arrangements. The value of the finance leases constitutes taxable supplies for VAT (taxable at 12% and remember training tax is chargeable on taxable supplies!). However, in essence, the banks derive interest and loan arrangement income from such arrangements, i.e. the turnover is interest and the fees. As a result, the value of the asset sales should not affect their training levy, despite the fact that it constitutes taxable supplies chargeable to tax at 12%.

## **PETROLEUM ENTITIES**

A statutory instrument was issued which states that the taxable supplies of petroleum entities is subject to the training tax at 0.05%. That statutory instrument does not distinguish between income from the sale of petroleum products from that arising from other endeavours such as commercial rent or management fees. However, there are those who are of the view that the 0.05% only applies to income earned from petroleum sales whilst other income such as rent is subjected to the tax at 0.2%, which is in essence, a higher tax rate. Technically, the statutory instrument simply refers to the taxable supplies of petroleum entities and it is silent on other income. So, that aspect simply leads to an independent person concluding that all revenue of these petroleum entities should be subjected to the tax at 0.05% without any presumptions. The aspect of trying to distinguish between petroleum products and other income is not covered in the law and is not technically and legally correct.

I think I am tired of chizzling my friend. Honestly, I think I have done a lot of typing. Hoping that was insightful folks. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him..