

START-UPS STRUGGLE TO REGISTER FOR VAT: By Jonathan Hore

A start-up is any business which commences operations from scratch, whether it be a small or large enterprise. As you may know, starting a business can be a daunting task and it is full of risks ranging from limited financing, failure to secure customers, shortage of skilled labour and changes in legislation. Therefore, start-ups are naturally vulnerable and require a lot of support, including a favourable operating environment. I want to analyse how some start-ups get affected by the fairly new VAT registration rules. In this article, words importing the masculine shall be deemed to include the feminine.

WHAT CHANGED IN THE LAW?

Before 23 January 2015, anyone aspiring to start a business could approach BURS and register for VAT, even before commencing trading. Registering for VAT allows a business to claim VAT that it is charged in advancing its trade. For example, if someone starts a new hotel, registering for VAT allows them to get the VAT incurred when constructing the hotel, buying equipment and in the general running of the business. This means that if the total cost of starting the business was say P11.2m, the business will in fact only incur P10m as the VAT amount of P1.2m is claimable from BURS.

Before 23 January 2015, BURS had a number of start-ups who would register for VAT mainly to obtain tax clearance certificates for tender purposes. A number of them would not win the tenders and as such, they would not have any business. That being the case, it meant that there would not have resources with which to ensure compliance with VAT returns filings. This then resulted in the amendment of the VAT Act with effect from 23 January 2015, to allow BURS to only deal with 'quality investments,' per the Minister of Finance & Economic Development. The Act was then amended such that voluntary registration threshold was increased from P0.00 to P500 000. This means that currently, one needs to prove to BURS that they have reached P500 000 in sales, otherwise they won't be registered for VAT voluntarily. However, I understand that if one has a tender, contract or other such evidence which shows that they will exceed the P500 000 in a 12 month period, they may be registered for VAT.

WHAT'S THE PROBLEM NOW?

Well, if the business that a start-up is involved in does not require a lot of capital or operational expenditure before commencement, there is not much of a problem as not much VAT will be lost as a result of not being VAT-registered. Below are the major problems that start-ups face with the new VAT registration threshold:

- **Start-up costs increase:** If a business requires a lot of stock or capital expenditure in order for it to start trading, it is likely to be charged VAT on acquisition of the stock or capital assets. If it is not VAT-registered, then the VAT it is charged becomes its cost. Therefore, if the cost of setting-up a hotel was P11.2m as stated above, the business cannot get the P1.2m VAT back as it will not be VAT-registered. This therefore increases the start-up costs. This usually affects mines, exploration companies, farmers, property developers, among others, as they only earn income after some time from commencement of business.
- **P 500 000 is high for some start-ups:** If you run a big entity, P500 000 in sales may not be such an issue to you. But what about the small consultancy or manufacturing firm that may have just opened its doors for trading and is still trying to make a name for itself in the market? Reaching P500 000 in a 12months period may actually be a dream too far to achieve for some. This may negatively affect start-ups' success rates due to higher costs and eventually lead to complications in business continuity.

- Seasonal businesses affected: There are some businesses which only make money in a few months or part of a year but on commencement, they need time to set-up their systems in order to trade. These businesses suffer due to their seasonal nature as they won't be able to have any sales for some time and hence they can't register for VAT.

WHAT'S WAY FORWARD?

The way forward has to balance both BURS' problems with those faced by start-ups as well as the need to create employment and ease the doing of business. This may be done by allowing businesses to register for VAT on the basis that they have significant capital that will be injected. This solves the issue of those who may not have revenue at the time of commencement of business but will be engaged in 'quality investments.' Alternatively, all businesses could be allowed to register for VAT on the basis that they should reach P500 000 within 2 years of commencement of business or else face automatic deregistration. This may solve the problems start-ups and BURS face regarding this matter.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax Whatsapp group, send me a text on the cell number below.