

NO VAT CLAIMS ON PASSENGER VEHICLES: By Jonathan Hore

Almost every business needs a car for its operations. Some enterprises use vehicles to ferry goods and some use them to render services to clients. So, it may be argued that vehicles form an integral part of most businesses and without them, some companies would literally collapse. But one thing you need to know is that the taxman does not fancy vehicles that much, especially passenger vehicles. If you read the Income Tax Act and the VAT Act, you can clearly tell that vehicles and the tax collector are not 'friends.' I want to discuss the VAT treatment of vehicles and also give you some hints on how you can maximise VAT claims in respect of the vehicles. In this article, words importing the masculine shall be deemed to include the feminine.

THE CONCEPT OF VAT CLAIMS

Every person registered with BURS for VAT purposes is allowed to claim VAT that he pays in the acquisition of inputs for his business. This means that if such a person purchases laptops valued at P 100 000 on which he pays VAT of P 12 000, he does not consider the VAT paid as a cost. If he makes sales of P300 000 and collects VAT of P 36 000, then he nets off the VAT collected against the VAT suffered of P12 000, giving net VAT payable to BURS of P 24 000. Technically, the VAT-registrant got back the P12 000 he paid to suppliers by offsetting it against VAT collections. Even if he had not collected any VAT on sales, he would still not incur the VAT on laptops as he would be entitled to receive a refund of the P 12 000 from BURS. Just to emphasise so I don't lose you, the purpose of this article is to do a thorough analysis of VAT claims for vehicles. I must state from the beginning that the taxman does not allow VAT claims on passenger vehicles but on commercial vehicles and any other vehicle which is not a passenger vehicle.

WHAT IS A PASSENGER VEHICLE?

A passenger vehicle is defined in the VAT Act as, 'a vehicle designed or adapted for the transport of nine or fewer seated persons, including a double cab vehicle but does not include a safari vehicle.' One thing you should pay attention to is the use of the words, 'designed or adapted,' as they basically point to the fact that a passenger vehicle should have been designed as such or adapted to be one. Therefore, whether a vehicle is a passenger or commercial vehicle is not determined by the usage to which it is put but the design or adaptation made. In simple, station wagons, saloon cars and double cabs fall within the ambit of the term 'passenger vehicle,' and VAT claims cannot be made on such vehicles. It is also important to note that a passenger vehicle does not include a 'safari vehicle' which is used as such on a tourist operation. In other words, VAT claims can be made on safari vehicles by a tourist facility operator.

VEHICLE PURCHASES

I stated above that no such VAT claims can be made if that registrant purchases or imports a passenger vehicle. Following from the above, despite the fact that a tax consultancy firm, for example, may require a passenger vehicle to use to carry out clients' tasks, it still can't claim the VAT incurred. However, the only persons who are allowed to claim VAT on passenger vehicles are those who are in the business of dealing in or hiring out vehicles such as Avis, Budget, Naledi Motors etc. They can claim the VAT if they sell or hire out such passenger vehicles. Such person still can't claim VAT on passenger vehicles for use in their day to day tasks such as deliveries.

VEHICLES HIRE ALSO BARRED

VAT cannot be claimed by the rest of VAT-registrants on the hire of passenger vehicles regardless of the use to which they are put. Most companies hire vehicles when their staff travel outside town but very few know that the VAT thereon is prohibited. The prohibition is simply on the basis that they hired passenger vehicles. Therefore, where possible, companies may hire commercial vehicles instead of passenger vehicles if they want to claim the VAT. But sometimes commercial vehicles won't give one the comfort that they need; so, you will lose out the VAT claim in such cases. You see, the taxman doesn't fancy passenger vehicles at all.

ADAPTED VEHICLES

VAT on the acquisition of a passenger vehicle may however be claimed in instances where the VAT-registrant adapts such vehicle and makes it commercial. This may occur when a station wagon is converted into a hearse used by funeral parlors. In such cases, both the VAT on acquisition of the passenger vehicle as well as that incurred on the conversion would be claimable provided that the adaptation is done within 3 months of acquisition of the passenger vehicle. Vehicle adaptations are common among funeral parlors, miners and tourist facility operators.

MOTOR-CYCLES

Well, for one reason or the other, I never thought that a motorcycle could be classified as a passenger vehicle until one client asked me sometime when I was making a presentation. Going back to the issue of the intention of the designer, it can be easily concluded that motorcycles are designed as passenger vehicles. According to the VAT Act, these vehicles seat lesser than 9 passengers and therefore VAT claims are prohibited. Again, don't worry about the fact that the motorcycles are predominantly used for deliveries; they are still passenger vehicles due to their design.

WHAT ABOUT BUSES, COMBIS ETC?

You may know that buses are designed for the conveyance of passengers but they do not fit in the definition of passenger vehicles as many of them carry more than 9 seated passengers and as such, VAT claims on these vehicles are not prohibited. The same principle also applies to combis but the departure is usually the fact that most of them seat less than 9 passengers and therefore VAT on their purchase or acquisition is not claimable.

CONCLUSION

VAT registrants need to ensure that they carefully chose the type of vehicle to purchase if VAT is a significant cost to them. Instead of purchasing passenger vehicles, it may be better to mix them with commercial vehicles to minimise the cashflow implications of VAT claims prohibitions. In as much as the VAT claims on passenger vehicles are prohibited, the VAT incurred on repairs and insurance of such vehicles can however be claimed.

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.