

MOST COMMON VAT MISTAKES –Part 1

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Most businesses find themselves with tax exposures which basically arise from the wrong application of the VAT laws or merely because of ignorance of the same laws. What then happens is that the businesses either get penalised heavily by BURS or stay with significant tax exposures, most of which remain unearthed until a taxman or tax consultant audit. I must say that VAT is the tax-head under which most of the tax mistakes do happen. In this article, I want to share with you some of these mistakes so you can correct or avoid them and stay free of tax exposures. Let me state that BURS is allowed to charge VAT penalties of up to 200% if it detects that VAT was overclaimed or understated. This penalty is over and above 1.5% monthly interest, which is compounded monthly. Now, let me be frank and state that these penalty and interest charges can literally cripple your business, if not managed well. Throughout this article, words importing the masculine shall be deemed to include the feminine.

INVALID TAX INVOICES

A VAT-registrant is allowed to claim VAT from BURS on eligible purchases made during each tax period. The VAT can only be claimed based on what is known as a valid tax invoice, which should have full details of the purchase made, including the name, address and VAT number of the VAT-registrant. The most common exposure is the fact that the purchaser or VAT-registrant's VAT number and address are rarely indicated. At times, the addresses are just indicated as Gaborone or Francistown but certainly, those cannot be addresses. Once this happens, the full amount of VAT paid cannot be legally claimed. Secondly, the name of the purchaser may not be indicated correctly. For example, one may use an acronym instead of the full name such as WUC when the full name should be Water Utilities Corporation. Unless WUC is a registered trade name for the corporation, such a tax invoice will be invalid.

TAX INVOICES OLDER THAN 4 MONTHS

The VAT Act does not allow a VAT-registrant to claim VAT from BURS on purchases if the tax invoice is older than 4 months. What this means is that if a VAT-registrant is doing a bi-monthly VAT return for the period November – December 2018, they can only use tax invoices for September, October, November and December 2018. Tax invoices from August 2018 going backwards cannot be used to claim VAT for that period. If the VAT claim is done, then that business would have broken one of the fundamental principles set in the VAT Act. The same period restriction would apply for a monthly VAT-filer filing a December 2018 VAT return.

CLAIMING VAT ON ACCOMODATION

Most taxpayers are not allowed to claim VAT incurred on accommodation, whether in a hotel, lodge or inn. What this means is that even if a business sends its marketing team, for example, from Gaborone to Francistown on a marketing trip, the VAT on the hotel accommodation is not claimable. Well, I know you feel that's a bit harsh but that's the way the VAT Act is worded. In other words, mines, farms and manufacturing companies, among others, cannot claim VAT on the cost of putting up accommodation for their employees or clients. Further, a company cannot claim VAT on a house or property that it intends to use for residential accommodation. Taxpayers who are allowed to claim VAT on accommodation

include those in the hospitality industry who hire commercial accommodation which they let out as part of their business.

CLAIMING VAT ON FOOD

VAT incurred on entertainment cannot be claimed by most VAT-registrants. Entertainment includes the provision of food and accommodation as stated above. This means that VAT-registrants cannot claim VAT on office teas, kitchen-ware, stoves and fridges, among others. Further, VAT incurred on food consumed during business meetings, outings and similar functions cannot be claimed. It does not matter whether the amount would have been spent advancing the taxpayer's business; the simple fact that the VAT is directly attributable to food means that it cannot be claimed. This also means that taxpayers cannot claim VAT on the purchase or construction of canteens (usually at mines) as well as on the canteen equipment. Whilst the canteen and equipment are certainly not food, the VAT-registrant acquires them to provide food, hence VAT is not claimable. The group of taxpayers who can claim VAT on food includes those in the transportation and hospitality industry but only to the extent that the food is sold to clients. VAT on food provided to board members, staff or clients cannot be claimed.

WHAT'S NEXT?

Well, I know some of you have already noticed the various VAT errors that you have committed. The next thing you should do is to ensure that this exposure is closed and that you start doing the correct things. This minimises your tax exposures. But don't miss next week's edition as I will continue on these basic but yet critical VAT principles.

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.