

MOST COMMON VAT MISTAKES – Part 2 : By Jonathan Hore

Welcome folks to this week's article in which I wish to close the discussion I started three weeks ago. I advised in one of my articles that I had to switch to the budget review and had to shelve this for a while. For those who missed Part 1 of this issue, I mentioned that the most common VAT mistakes include claiming VAT on accommodation and food. These two are considered as entertainment by the VAT Act, except if the VAT registrant is in the business of providing entertainment such as a hotel or a restaurant. I also mentioned that VAT cannot be claimed by a VAT registrant using tax invoices issued more than 4 months from the end of each respective tax period. I further stated that VAT cannot be claimed without valid tax invoices and that a common omission on tax invoices is the recipient's VAT number and address. So, if you are ready, I might as well finish this discussion buddy and narrate the other common VAT mistakes. Throughout this article, words importing the masculine shall be deemed to include the feminine.

VAT ON INSURANCE PROCEEDS

Well, the issue I am going to analyse in this section is one which is rather special and not so known to most businesses. When a VAT registrant pays for short-term insurance, they get charged VAT, which they claim from BURS through the VAT return. By the way, short-term insurance includes, among others, insurance covering fire, theft, accident and professional indemnity. The VAT Act allows VAT registrants to claim the VAT when in fact they would have not suffered any loss. So, when a loss occurs to the VAT registrant and they receive an indemnity payment from their insurer, the VAT Act requires that the VAT registrant pays VAT to BURS by reflecting the proceeds as a deemed sale on the VAT return. To be honest, this issue is usually ignored by most VAT registrants, not because they want to but because they are not aware of it.

One of the most controversial issues is the fact that VAT registrants should also pay VAT on insurance indemnity received in respect of workmen's compensation. The main challenge with accounting for VAT in such cases is that the amounts are paid to compensate employees who usually would have suffered some form of injury at work. Trying to deduct tax results in less compensation being payable to the employees but that does not bend the VAT Act; tax has to be paid regardless.

VAT ON BAD DEBTS

When a VAT registrant makes taxable supplies on credit, they charge VAT and pay it to BURS. Notice that VAT is paid to BURS despite the fact that the VAT registrant would not have received his full amount. So, when the debtor defaults, the VAT registrant is in the negative as he would have paid BURS for a 'fake' sale. The VAT Act allows such VAT registrants to claim VAT from BURS but this can only be done after 12 months from the initial supply. For accounting purposes, one can write-off the bad debt even within 1 week of the sale but they have to wait for 12 months to claim VAT back. The VAT is usually not claimed back because VAT registrants do not issue credit notes, which allow for the VAT adjustment. Non-claiming of VAT on bad debts results in overpayment of tax to BURS.

INCORRECT CREDIT NOTES

Most VAT registrants issue credit notes in instances which are not covered by the VAT Act. One such instance where credit notes cannot be issued is when a VAT registrant's client notices that they did not claim VAT within the stipulated 4 month period. When that happens, most VAT registrants are requested to issue credit notes and reissue another tax invoice so that the client can claim VAT using a tax invoice with a new date. If the VAT registrant issues the credit note and another tax invoice, that will be an infringement of the

VAT Act as it does not allow credit notes to be issued in such cases. Further, the VAT Act does not allow the issuance of more than one tax invoice for the same supply.

FAILURE TO DEREGISTER

With effect from 23 January 2015, the VAT Act was amended so that any VAT registrant whose revenue is below P 500 000 should deregister for VAT voluntarily. BURS issued some public notices regarding this matter but some VAT registrants either ignored the notices or missed them. So, it may happen that in 2019, a VAT registrant notices that they are no longer required to stay on the VAT register but due to lack of information, they may continue to charge VAT on sales and claim VAT incurred. The Act allows BURS to automatically deregister such persons, if it notices a dip in their revenue. Notice however that if the VAT registrant is property-rich, he may have to part with a considerable amount as output tax as he is deemed to have sold the property he was using for business. The VAT is required to be paid on the greater between the cost and the market value of the property. In most cases, property-rich VAT registrants would have to use the market value as property appreciates in value over time. And I must close by saying that most VAT registrants do not go any further with the deregistration the moment they realise that they have to pay tax in such instances. Eeeish! What shall we do (todii?) as tax consultants in such cases? Absolutely nothing, save to advise. Reminds of you of Tuku? Thought so!

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.