

DON'T CLAIM VAT ON FOOD, HOUSING & SECURITY: By Jonathan Hore

I woke up on the wrong side of the bed today, so while I have good news, I will dilute it with bad news. The good news is that I managed to complete typing this article and the bad news is that you probably have been claiming prohibited VAT and may be at risk if the taxman walks through your door. Allow me to expand on the fact that most VAT registrants mustn't claim VAT they pay for food, housing and staff security in today's instalment of your tax dosage. The VAT Act regards the above-mentioned expenses as entertainment and prescribes that no VAT claims be made, save in special instances. In this article, words importing the masculine shall be deemed to include the feminine.

What are VAT claims?

VAT claims refer to scenarios where VAT-registrants incur VAT on inputs they consume in order to run their businesses and then offset that against VAT which they charge on sales they make. The VAT they claim, which is the subject matter of today's article, is called input tax.

Enter food

Almost all VAT-registrants cannot claim VAT incurred on food as I will elaborate further below. It is common for employers to provide employees with office teas, bottled water, lunch and meals when they are on duty or at times when they travel. Some businesses also buy items such as fridges, micro-waves, water dispensers and cutlery. Other employers, especially in the mining and manufacturing sectors usually build canteens and buy expensive canteen equipment, over and above building or buying houses for their employees. It also happens that when employees attend functions or embark on trips, they incur VAT on food. From a business perspective, the VAT paid by the employer technically advances their business. However, the VAT Act precludes the employer from claiming VAT incurred on all such expenses mentioned above. In other words, the VAT paid by the employer should constitute part of the actual cost of the consumables or capital assets acquired.

Without derogation to the above, providers of entertainment such as hotels etc may claim the VAT on food etc, but not to the extent to which it is incurred on employees. So, lodges located in the bush who give employees food can't claim the VAT as it is not directed towards their sales. Let me also hint that BURS religiously checks this aspect in VAT audits.

Now to accommodation

Mines and explorers usually provide accommodation through building and or hiring mobile housing and in the process, they incur VAT. Some employers incur VAT on hotels, lodges and inns when employees are out of town on business. On the other hand, some businesses chose to build houses for employees and in the process, they purchase empty plots. Even those who buy complete houses will not be treated differently for VAT purposes. Let me be the bearer of bad news today and let you know that VAT cannot be claimed by the rest of VAT registrants on the above-mentioned accommodation, except if their business is the of provision of entertainment.

Staff security

I warned you that I woke up on the wrong side of the bed and I am just going to show you that; trust me. Note that the VAT Act does not allow VAT-registrants to claim input tax on security that is attributable to employees or consultants' accommodation. For example, if a manufacturer has accommodation facilities at their premises, the VAT that is paid to security

companies to secure the housing is not deductible. The taxman calls it entertainment and for that reason, it cannot be claimed through VAT claims.

Conclusion

I suggest that you thoroughly have a relook at your VAT matters if this article left you unsettled as you may be accumulating huge VAT exposures. BURS is also allowed to levy penalties of up to 200% if they discover that you have been making VAT claims which are not permitted by the VAT Act. If this article scared you like I wanted it to, you know the cell number to call; yes, you do! If you don't, just read a few sentences below and you will join the squad.

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.