

## **14% VAT DUE EVEN WHEN QUOTES SHOW 12%: By Jonathan Hore**

The change in the VAT rate from 12% to 14% has some practical implementation challenges and one of such instances is what happens when raising a tax invoice for a quote issued reflecting 12% VAT. Those of you who follow my articles may have noted that I once wrote that whenever the VAT rate changes, there are clearly laid down transitional measures enshrined in the VAT Act. These measures basically state what must happen to various transactions following the switch in the VAT rate. Throughout this article, words importing the masculine shall be deemed to include the feminine.

### **Quotes at 12%**

As stated above, some clients may have received quotes for goods or services which indicate VAT at 12% before the VAT rate changed. That being the case, the clients would have budgeted for the total price indicated in the quotation, i.e. with VAT at 12%. The biggest issue then would be whether the supplier should go ahead with issuing invoices post the VAT rate change date at 12%, as per the quote. This is where we now need to analyse the transitional matters that apply to VAT changes.

### **This is it**

The VAT Act states that where an agreement was entered into before a VAT rate changed, such agreement is nullified by the VAT Act. In other words, even if a contract was signed which clearly states that the supplier shall charge VAT at 12%, if the supply is then made after 1 April 2021, the terms and conditions of such agreement are invalidated in as far as the VAT rate is concerned. To put things into perspective, VAT must be charged at 14% as long as goods or services are sold then, regardless of any quotes or agreements which may have been signed by the parties involved in the transaction. This stems from the fact that the VAT Act has what is called the time of supply rule, which basically determines when VAT on sales must be recorded by a supplier. That time of supply occurs at the earlier of issuance of an invoice or on receipt of payment. Therefore, there is need to expand on the correct VAT treatment of issuance of invoices after the tax rate changes where a quote indicated 12% VAT.

### **14% applies**

To start with, if a quotation was issued bearing VAT at 12% and goods or services are then supplied after 1 April 2021, this simply means that the real transaction is subject to 14% as it occurs after the tax rate shifts. The same principle applies to instances where a quotation was issued indicating the old VAT rate and payment is received after 1 April 2021 before an invoice is issued. The quotations or payments are invalidated by the change in the law.

### **The exceptions**

There are few instances where VAT will still be charged at 12% even if services or goods are actually sold post the change of the VAT rate. One such instance is when goods (i.e. tangible items) were sold and delivered before the VAT rate changes and an invoice is then issued after the change. VAT would still be charged at 12% in such cases. That also applies when a house or residential land is sold pursuant to the terms of a contract which is entered into on or before 31 March 2021 but which is transferred at the Registrar of Deeds after 1 April 2021. VAT will still apply at 12%. Other transactions where the old rate applies include instances where a contract for the provision of house construction services is entered into before the VAT rate changes but such services are indeed offered after 1 April 2021. VAT will in such cases still be levied at 12%, regardless of when the services are indeed provided.

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 or know about our 9 Tax e-books, send me a text on the cell number below.