

YOU PAY TO DEREGISTER FOR VAT: By Jonathan Hore

The Value Added Tax (VAT) Act is enshrined with provisions that allows a VAT registered person to deregister and also allows BURS to deregister a person upon meeting certain conditions. However, does deregistration actually put an end to VAT accountability? Actually, VAT deregistration ignites the last flame of VAT. Keep on reading and get an insight of why deregistration generates a VAT liability. Throughout this article, words importing the masculine shall be deemed to include the feminine

What is VAT deregistration?

In simple terms this is when a person ceases to be registered for VAT purposes. However, it is vital to understand that to achieve this status the VAT Act has put in place certain procedures and conditions that must be adhered to. In addition, BURS can only deregister a person whose annual taxable sales has fallen below P500,000.

VAT on deregistration

As much as deregistration means that a person no longer charges VAT or claim input tax, the deregistration process itself is deemed to be a sale of any goods or assets at hand immediately before deregistration. The Act goes on to state that the sale is deemed to be made *'for a value equal to the fair market value'*. In other words, deregistration is implied as a sale of all inventory and assets on hand at the market price. In principle, this actually means that VAT must be charged on those assets and inventory at market price, even if they are not actually sold. However, goods and assets that did not qualify for an input tax credit when they were acquired cannot be charged VAT on deregistration. For example, a passenger motor vehicle cannot be charged VAT on deregistration as it would not have qualified for input tax credit when it was acquired. Note however that assets such as farms or commercial buildings which were acquired before VAT commenced will also trigger VAT on deregistration.

Why Charge VAT?

Basically, the ultimate objective of the VAT system is to impose the tax on the final consumer. This is achieved through a system that allows VAT registered taxpayers to charge VAT on their sales and claim input tax on their purchases. This will allow the registered taxpayers to push the burden of paying VAT to persons who are not registered. Since a person who deregisters for VAT would have originally been allowed to claim input tax on purchases and asset acquisitions, VAT must be charged on deregistration. Consequently, such input tax must be recouped as the taxpayer effectively becomes the final consumer of those goods and assets.

The quandary

The quandary that many VAT registrants face is that they would have realised low business and yet the VAT Act demands that they pay VAT on deregistration. Technically, if a business is being deregistered for VAT, it will be making less than P500 000 in taxable turnover and that surely is not an indication of good business. Therefore, the imposition of VAT on such persons technically means that they have to find other sources of paying the VAT other than from their business, which will not be doing well anyway. This hits hard those VAT

registrants who have immovable property as the VAT is demanded at the market value of such property. Let us assume that a VAT registrant acquired a commercial office at P1.12m some 10 years ago and that property appreciated in value to say P7.98m, that person will be required to pay VAT of P980 000. Now, that deregistration may technically make the VAT registrant insolvent or broke. This is therefore a delicate decision and one may need to walk with their tax consultant to avoid falling into a tax pit.

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.