

CAPITALISE ON SECOND-HAND GOODS VAT CLAIMS: By Jonathan Hore

Due to liquidity crunch affecting global and local economies, some businesses at times find it cheaper to acquire second-hand property or equipment in a bid to try and maintain operations. One common benefit of buying second-hand goods instead of brand new ones is the obvious saving on the pocket. However, for VAT registered persons, these goods do not only save you money, but they may also actually help you and your business claim VAT where the seller would not have charged such VAT. Yes, you can claim VAT on second-hand goods even if the supplier doesn't charge the tax. Let us find out what the VAT law says about second-hand goods. Throughout this article, words importing the masculine shall be deemed to include the feminine

Enter second-hand goods

Second-hand goods are simply goods bought from Botswana which were previously owned by someone such as a plot, commercial office or equipment. However, the VAT Act further provides that second-hand good should be previously owned *'and used, including immovable property, but does not include livestock, domestic animals or wild animals.'* Technically, it is any goods which you acquire, and you are not the first-time user, save for the prescribed exclusions. Having established the parameters of second-hand goods according to the law, let us now turn to the tax effects.

VAT on second-hand goods

A VAT-registrant charges VAT whether he sells new or second-hand goods. Accordingly, when a VAT registered person sells second-hand assets or any other goods whether obsolete or not, the sale is subject to VAT. On the other hand, second-hand goods sold by a private individual or a company not registered for VAT will not be subject to VAT. However, if a VAT registered person acquires second-hand goods from a private individual or any other non-VAT registered person, he can claim input tax. True, he can, even though the seller doesn't charge VAT!

Let's illustrate

You are probably querying how input tax can be claimed when a supplier has not charged VAT. On the contrary, the VAT Act actually allows a VAT registered person to claim input tax credit on second had goods from a non-VAT registered supplier. Additionally, a valid input tax invoice is not required to claim the credit. In light of this rule, it is significantly cheaper in a company's VAT channel to buy second-hand goods from a non-VAT registrant.

The credit is calculated by applying the tax fraction to the amount paid, i.e. 14%/114%. This system has an effect of reducing the real cost to acquirer of the second-hand goods concerned. For instance, if Mr Tiro, an individual sells his lorry to a XYZ (Pty) Ltd, a VAT registered company, for P114,000 in July 2021, the company claims an input tax credit of P14,000. That tax is determined as follows: $14\%/114\% \times P114\ 000$. Consequently, this results in the cost of the lorry to be P100,000. Because the goods are second-hand, they become cheaper as opposed to buying similar goods which are new. Additionally, the cost is lower as the seller doesn't charge VAT and in addition, the buyer reduces the cost through the VAT claim.

The same principle applies to land and buildings. As highlighted above, second-hand goods include 'immovable property.' The input tax can also be claimed on such acquisitions from non-VAT registered tax entities or individuals but the tax must not exceed transfer duty payable on such goods.

To maximize on this credit claim, it is prudent to maintain traceable documentation or records that will help to substantiate such VAT claim such as name, address and identification details of the seller.

Let us sum it up!

Input tax credit on second-hand goods brought in Botswana can be claimed by any VAT registered person. It should be noted that, the input tax is only claimable if the goods are bought from an individual or entity that is not VAT registered. On the other hand, the input credit does not apply to animals. This means that farmers are not entitled to claim such tax even if they buy livestock from non-VAT registered persons.

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.