

## **Cross-border interest earners must register for VAT**

The Value Added Tax (VAT) Act generally prohibits registration of VAT for persons dealing or trading exclusively exempt supplies. Conversely, the same Act requires a person exclusively dealing or trading zero-rated supplies to register for VAT although such supplies do not yield any output tax. In light of the above, suppliers of exempt services or goods need to understand that at times exempt supplies may actually transmute to become zero-rated supplies. Consequently, such transmutation triggers VAT obligations. Predominantly, such peculiar transfiguration of transactions usually affects cross border traders. Today we wish to highlight some key technical issues surrounding cross border traders, particularly interest earners, and why they might be required to register for VAT. In this article, words importing the masculine shall be deemed to include the feminine.

## **Zero rated vs Exempt supplies**

Firstly, it is imperative that we highlight a few basic VAT principles before we dive into the gist of the topic. As alluded to above, you can see that there is a very thin line between exempt supplies and zero-rated supplies. Technically, both supplies result in nil output tax i.e., VAT charged on sales. However, by contrast, persons trading in zero rated supplies are eligible for VAT registration once their annual turnover exceeds or is expected to exceed the statutory threshold of P1m. Further, such suppliers are permitted to claim input tax credit i.e., VAT incurred on purchases or capital acquisitions regardless of the fact that zero supplies yield zero output tax. On the other hand, an exempt supplier is basically prohibited from charging VAT on supplies, even at 0% and neither is the person allowed to claim any input tax credit. Simply put, an exempt supplier is not permitted to register for VAT. Looking at it differently, zero-rated supplies are technically taxable supplies that trigger VAT registration if the statutory threshold is exceeded or expected to be exceeded, whereas exempt supplies are apparently a non-event for VAT purposes, that is to say, they do not summon any VAT obligations. Having clearly outlined the technical difference between exempt and zero-rated supplies, this brings us down to the mind-boggling question, at what point then would an exempt supply become a zero-rated supply? Let us now turn to the law.

## **Enter the transition**

The VAT Act states that, *'A supply of goods or services is not an exempt supply if, in the absence of exempting provision, the supply would be charged with tax at the rate of zero percent.'* Simply put, the provision of the Act basically means that where a supply that is ordinary exempt is made to be both exempt and zero rated, then the zero rating takes precedence. Now, looking at cross-border interest earners, it is unquestionable that domestic supply of interest is technically a financial service, thus exempt from VAT. However, interest earned from a non-resident technically triggers a complex situation. On one hand, interest is classified as an exempt financial service. On the other hand, such interest qualifies for zero rating as the VAT Act generally prescribes a zero percent VAT rate on exports. Technically, such interest changes character to zero rated supply by virtue of the absence of an exempting provision of foreign earned interest. Consequently, offshore interest earned in excess of P1m or anticipated to exceed P1m triggers VAT registration.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to Caesar what belongs to him. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send us a text on the cell number below. You can read more tax articles on our website, [www.aupracontax.co.bw](http://www.aupracontax.co.bw) under the 'Tax articles' tab.