

## **NO VAT CLAIMS ON HOTEL EXPENSES**

In some cases, employees are required to travel and conduct services outside their workstations or to other towns or cities. In such cases, the employer might provide the employees with hotel accommodation for them to stay and execute the required task or job. However, some Value Added Tax (VAT) registered business operators tend to claim such expenses incurred on hotel accommodations on the basis that it was incurred for the purposes of trade. However, such expenditure is regarded as a prohibited claim for VAT purposes. Allow us to enlighten you on this aspect and avoid unnecessary VAT penalties. In this article, words importing the masculine shall be deemed to include the feminine.

### **Input tax**

Firstly, it is vital that we lay down a few basic VAT principles before we get to the gist of the matter. Generally, any VAT registered person is permitted to claim VAT incurred on purchases related to the production of his Vatable income. Technically, this is the primary and basic concept on which VAT suffered on purchases i.e., input tax, is claimed. However, it is of vital importance to note that the VAT laws do not permit all VAT bearing purchases to be claimed as input tax.

In that regard, it is imperative that VAT registered business operators understand that VAT cannot be claimed on any hotel or accommodation-related expenditure. To be explicit, the VAT Act specifically prohibits a deduction of input tax paid in respect of 'goods or services acquired for the purposes of entertainment or providing entertainment.' Let us have a look at this provision in relation to hotel expenditure.

### **The law**

As alluded to above, the VAT related to entertainment expenditure does not qualify for input tax credit. In the same vein, it is vital that we pay particular attention to the statute's definition of words than the general day to day meaning. In this case, the definition of the word entertainment provided by the VAT Act is wide and basically extends to any gesture or act of sympathy. In verbatim, the Act states that entertainment means, 'the provision of food, beverages, tobacco, accommodation, amusement, recreation, or hospitality of any kind by a registered person whether directly or indirectly to any person in connection with a taxable activity carried on by the registered person.'

### **Hotel expenditures**

Based on the statutory definition above, it is apparent why input tax on hotel expenditure is regarded as a prohibited or invalid input tax claim. Put differently, hotel expenditure incurred by the employer is construed to be entertainment regardless of whether the expense was incurred for the purposes of trade.

Conversely, the VAT Act permits input tax credit incurred in the ordinary course of a business that continuously or regularly supplies such entertainment to clients or customers for a consideration at least equal to the cost. Technically, restaurants, lodges, motels and hotels

are allowed to claim VAT on entertainment of their clients (but not employees or consultants) as that is their business.

### **Conclusion**

Input tax incurred on any expenditure related to entertainment is technically a prohibited claim. We are aware that this provision of the VAT Act causes some discomfort to businesses as such VAT is incurred in the ordinary course of one's business and must therefore be claimed. However, we are likely to see this changed when we have a new VAT Act which may greet us in 2022 or 2023.

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 join our free Tax WhatsApp group, send us a text on the cell number below.