

## **Proforma invoices or fee notes trigger VAT in Botswana**

Some businesses tend to issue proforma invoices to a customer after a confirmed deal or sale as a way of requesting part or full payment of the purchase price. This practice is, in some cases, adopted to manage VAT obligations as the seller would then account for VAT when the payment is received. In this regard, it is imperative that VAT registered persons understand that a request for payment through a proforma invoice or fee notes trigger VAT. Keep on reading and allow us to help you understand the intriguing technicalities surrounding such invoices. In this article, words importing the masculine shall be deemed to include the feminine.

### **Enter proforma invoice**

As alluded to above, proforma invoices are generally issued by business enterprises to provide a client with a preview of what to expect to pay on a contemplated transaction. Technically, a proforma resembles a quotation when it is issued before a deal is concluded or on enquiry. However, a proforma invoice is generally handy in streamlining the process of raising a quotation up to the point of payment. Looking at a scenario where a proforma invoice is issued after a deal has been concluded, some operators are generally inclined to request for a payment through issuing the same as a substitute for the actual invoice. Basing on the fact that a proforma invoice is generally not an actual invoice, some businesses are of the view that it does not have any VAT implications. Let us briefly have a look at what the VAT law says regarding such practices.

### **Enter VAT**

Basically, the general statutory rule is that VAT is triggered at the earlier of issuing an invoice or receipt of payment. Technically, this implies that a registered operator is required to account for VAT in the period an invoice is issued even if the payment is not yet received. Conversely, the rule also requires that VAT should equally be accounted for if a payment is received before an invoice is issued. Usually, to guard against liquidity challenges, it is much preferable to account for VAT in the period the cash is received as a business will not need to fund the VAT obligation from other sources. Consequently, such liquidity crisis compels business to craft a mechanism that would enable clients to pay for goods and services first and thereafter issue an invoice.

In this regard, it is therefore imperative that we carefully and critically understand the general principle which triggers VAT i.e., the earlier of issuing an invoice or receipt of payment. Accordingly, it is key that we first elaborate the statutory meaning of the word invoice. The VAT Act defines an invoice as 'a document notifying an obligation to make a payment.' Now, to put the pieces together, it is apparent that any document that notifies a customer of an obligation to pay for goods or services technically fits in the ambit of an invoice. Consequently, such document is regarded as an invoice for VAT purposes. Therefore, a notification of payment through a proforma invoice or fee note legally compels a business operator to account for VAT in the period it is issued prior to receipt of payment.

### **Conclusion**

In a nutshell, proforma invoices or fee notes issued to clients notifying or requesting a payment are equally regarded as invoices for VAT purposes. However, requests for deposits without asking for payment is a better option, to avoid the VAT squeeze.

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.