TOPIC VAT

VAT – It's a tax on spending which is collected by business and passed on to the government

VAT REGISTRATION

COMPULSORY REGISTRATION

1. The 6th schedule to the VAT Act requires that any person shall be registered compulsory for VAT if:
2. In the course of business has manufactured and supplied or expect to manufacture and supply taxable goods or has supplied or expect to supply taxable services or both the value of which is Ksh. 5000,000 or in a period of twelve months.
3. Designated person who deals in designated goods such as jewelry, pre- recorded music, timber and saw millers.
4. Persons who sell four or more motor vehicles in any one year.
5. Persons who deals in household or domestic electric or electronic appliances and apparatus.
6. Provide accountancy services supplied by auctioneers, estate agents and values.
7. Provides services supplied by auctioneers, estate agents and values.
8. Provide legal and arbitration services.
9. Offers services of surveyors and assessors.
10. Provide security and investigation services
11. Provide clearing and forwarding services.
12. Offers services supplied by contractors.
13. Offers consulting, engineering services.
14. Provide advertising services.

Voluntary Registration – A person who doesn't meet the registration criteria or condition may apply for voluntary registration, however voluntary registration is granted at the discretion of the commissioner.

DEREGISTRATION: It applies when:

- A registered person ceases to make taxable supplies.
- The value of taxable goods or services being supplied in any period of twelve months falls below sh.5million. And is not expected to increase.
- Incapacitation.
- Insolvency.
- Death.
- Change in business name.

VAT RECORDS.

Copies of all invoices issued is serial number order

Copies of all credit and debit notes issued in chronological order

All purchases invoices, copies of customs entries, receipts for payment customs duty or tax and credit and debit notes received.

Details of all amounts of tax charged on each supply made or received

Totals of all output tax and input tax in each period and a net total of the tax payable or the excess carried forward as the case may be at the end of each month.

Details of goods manufactured and delivered from the factory of the taxable person.

Details of each supply of goods and services from the business premises unless such details are available at the time of supply on invoices issued at or before that time.

<u>RIGHTS OF A REGISTERED PERSON</u>

1) To deduct VAT on inputs for taxable supplies.
2) To get refunds if your input tax always exceeds your output tax.
3) To get relief for stock in trade as the time of registration.
4) To get refund on VAT on bad debts.
5) To get relief or refund on capital goods including buildings acquired or put up within twelve months prior to the date of registration.
6) Free access to the commissioner or any other senior officer or manager if you have a genuine complaint on VAT.
7) To defer payment of tax due to a date not later than 20th day of the month succeeding that in which tax is charged.
8) To appeal to a VAT tribunal on any matter concerning tax.

<u>OBLIGATIONS OF A REGISTERED PERSON</u>

1) To apply for registration as taxable person.
2) To display the certificate of registration in a clearly visible place in the business premises.
3) To charge VAT on all supplies of taxable goods and services.
4) To issue a VAT tax invoice immediately after each supply but in any case within 14 days of each supply.
5) To keep proper records and books.
6) To file VAT returns on due dates.
7) To pay monthly tax due to the department according to the calculation in the monthly return.
8) To provide the VAT department officer with any information pertaining to business and allow the officer access business premises whenever required.

<u>Tax point</u> - This refers to the time when a supply is deemed to have taken place and VAT becomes due and payable then. VAT becomes due and payable at the earlier of the following:

1) The goods or services are supplied to the purchaser.
2) An invoice is issued in respect of the supply
3) Payment is received for or part of the supply.
4) Certificate is issued by the architect, surveyor or any person in a supervisory capacity in respect of the service.

Tax invoice: Whenever a taxable person supplies taxable goods or services he must furnish the purchaser with a tax invoice within 14 days of the completion of the supply.

Information contained in the VAT tax invoice.

1. Name, address and VAT registration number of the person making the supply.
2. The serial number and date.
3. The date of supply if different from (b) above.
4. The name, address and the VAT registration number of the person to whom the supply is made.
5. Description, quantity price of goods or services supplied.
6. Taxable value of goods/services if different from the price charged.
7. Details of cash and other discounts.
8. Details of whether the supply is for cash or credit.
9. Total value of supplies and total amount of VAT charges.
10. The rate and amount of tax charged on each of those goods and services provided.

Classification of VAT

Supplies may be categorized as taxable supplies or exempt supplies. Taxable supplies include: standard rated, zero rated supplies.

STANDARD RATED SUPPLIES

Are supplies on which VAT is charged at the rate of 16% however the rate on fuel is 8%. The input tax suffered on standard rated supplies is claimable against the output tax.

Zero rated supplies

Are supplies for which no tax is charged. However, in all respect are treated as taxable supplies. The value of zero rated supplies is taken into consideration in computation of the turnover required for a person to be registered for VAT. Taxable person supplying only zero rated goods or services is entitled to a refund on the input tax suffered. Zero rating refers to the following:

1. Goods or taxable services that are exported.
2. Supplies to designated foreign aided funded capital investment bodies.
3. Goods imported or purchased by public bodies, privileged persons and institution.
4. Supply of water, drainage/ drilling services.
5. Electronic tax register.
6. Natural water by local authorities.
7. Supply to EPZ enterprises.

EXEMPT SUPPLIES

Supplies of goods and services which are not subject to tax. A person who makes only exempt supplies will not be regarded as making a taxable supply and the value of the exempt supplies will not be included in the calculation of the turnover required for registration. A supplier of exempt goods or services cannot obtain registration for VAT. Tax suffered by a person cannot be claimed as input tax. Exempt supplies refer to:

1) Mosquito nets.
2) Materials used to prepare the cleaning dairy apparatus
3) Seeds for sowing e.g. cotton seeds, sunflower seeds etc.
4) Floriculture, agriculture and horticulture inputs.
5) Specialized solar accessories and equipment.
6) Educational materials and articles
7) Speed governors
8) Medical, dental, veterinary and nursing services
9) Burial and cremation services.
10) Stock exchange brokerage as well as tea and coffee brokerage services.
11) Car park services rendered by national Government, county government.
12) Conference services conducted for educational institutions etc.

Deductible input tax

Where a taxable person makes both taxable and exempt supplies the only part of the input tax attributable to taxable supplies qualifies to be offset against the output tax.

However, where the input tax relating or attributable to the exempt supplies doesn’t exceed 5% of the total input tax the the whole of the input tax will be offset against the output tax.

Where the VAT in respect of exempt supplies exceeds 5% the registered person Is required to apportion input tax using the following

1. Proportional method.
   Deductible input tax = $\frac{\text{Value of taxable supplies}}{\text{Value of total supplies}}$ X input tax
2. Allocative method.
   Under this method the input tax attributable to taxable goods purchased and sold at the standard rate is deducted whereas the input tax directly attributable to exempt supplies is not deducted. The remainder of input tax is apportioned using the proportional method.

Accounting for VAT

The VAT paid on expenditure should be accounted for as input tax while VAT charged on supply of goods and services should be accounted for as output tax.

How and when to account for VAT

The amount of VAT payable to the commissioner of VAT is equal to output tax – input tax.

The VAT is payable on or by 20th day of the month after the month of transaction. If the 20th day falls on weekend or public holiday, VAT is payable on the last working or business day of the week before 20th.

VAT is charged on each transaction in the production and distribution chain.

Illustration

A manufacturer purchased Raw materials worth sh. 1million on which VAT was levied at the rate of 16% at each stage in the production and distribution chain. Conversion cost was incurred at 25% and 30% markup included to determine the selling price.

Required: Calculate the total VAT collected by the Government.

		Value "000"	VAT
(a)	Supplier		
	Supply of raw materials	1000	
	VAT @ 16%	160	160
		1160	
(b)	Manufacturer		
	Cost of Raw materials	1000	
	Conversion cost @ 25%	250	
		1250	
	Mark up @ 30%	375	
	Selling price	1625	
	VAT @ 16%	260	260
		1885	
	Less: Input tax		(160)
			100
C	Wholesaler		
	Purchase of the product	1625	
	Add: Additional cost at 25%	406.25	
		2031.25	
	Mark up @ 30%	609.375	
		2640.625	
		422.5	422.5
		3063.125	
	Less input tax		260
			162.5
	Retailers		
	Purchase of the product	2640.625	
	Additional cost @ 25%	660.156	
		2300.781	
	Mark up @ 30%	990.224	
		4291.015	
	VAT @ 16%	686.562	686.562
		4977.577	
	Less input tax		422.5
			264.062

Total VAT collected by the government:

Supplier	160
Manufacturer	100
Wholesaler	162.5

Retailer	<u>264.062</u>
	<u>686.562</u>

The above shows that it's the consumer who bears the tax. The participants/traders in the production and distribution chain are simply the collecting agents of the government.

<u>THE VAT ACCOUNT</u>

The VAT account is posted with totals, the total input tax is debited in the account and the total output tax is credited. If the credit side is greater than the debit side the balance is the VAT payable to the commissioner

VAT ACCOUNT

INPUT TAX		OUTPUT TAX	
VAT refund Bal b/f	xx		
Creditors – VAT on credit purchases	xxx	Debtors – VAT on credit sales	xxx
Cash book – VAT on cash purchases and imports	xxx	Cash book – VAT on cash sales	xxx
Purchases Returns	xxx	Sales Returns	xxx
VAT payable Bal c/d	xxx	VAT refund	xxx

<u>NON DEDUCTABLE INPUT TAX</u>

VAT order specifies items for which tax paid may not be deducted, except where such goods are stock in trade. The items covered include:

1) Bodies parts services for the repair of passenger vehicles and minibuses expect where these are used in the supply of repair and maintenance services or other taxable goods or services.
2) The leasing or hiring of passenger vehicles and minibuses
3) Liqueurs and other alcoholic beverages, nonalcoholic beverages and soft drinks.
4) Entertainment services
5) Restaurant services
6) Returnable containers, crates, bottles and similar goods for packing beverages.
7) Passenger vehicles and minibuses except where such vehicles and minibuses are used for leasing or hiring services.
8) Household or domestic electrical appliances.

9) Furniture, fittings and ornaments of decorative nature, except where such items are permanently attached to buildings or for use in hotels restaurants subject to the approval of the commissioner

BAD DEBTS RELIEF

- ✓ A claim of bad debt must be accompanied by the following:
- ✓ A document issued by the person which whom he proves the solvency of the debtor, specifying the total amount proved.
- ✓ A copy of tax invoice in respect of each supply upon which the claim is based.
- ✓ Evidence that every effort has been made to recover the amount owned.
- ✓ A declaration that the seller and the buyer are independent of each other.
- ✓ Evidence that the applicant is up date in submitting all VAT returns.

VAT can be refunded under the following circumstances:

1) Where input tax exceeds output tax and this is a common feature.
2) When VAT has been paid in error
3) When a debt of taxable person has remained unpaid for 3years.

VAT Refund Audit

Regulation 13A dealing with refunds of VAT makes it mandatory for VAT registered persons to obtain an audit certificate from the entity's auditor for refunds. VAT refund claim was introduced to:

1. A void delay in remittance and processing of the claim
2. Reduce the workload of the VAT department.
3. Avoid the tying up of funds that could be used by the registered persons and commissioner.
4. The need for the assurance that the amount refundable has been accurately computed.

The following procedures can be followed for vat refund.

- Review and document the adequacy of the system of recording and accounting for VAT.
- Ensure that all the VAT returns corresponds with the records of the books of a/c.
- Establish why the trader in a refund position e.g. due to bad debts or consistently making zero rated supplies.
- Select a sample of invoices and perform the following test where applicable:
  1. Input tax has been claimed within 6 months.
  2. Invoices meet all the requests of the act – details, pin, value, time, date of supplies
  3. Check whether the invoices are original documents.

4. Ensure that the input tax in respect of import is properly supported by import documents.
5. Ensure that input tax relates to deductible items.
6. Ensure that there's no input taxes claimed in advance.
7. Trace the invoices to the relevant ledger a/cs.
8. Confirm that the expenditure is business related and not private.

- Obtain working of the output tax, select a sample and perform the following test where applicable:

1. Check that the correct rate of VAT was applied.
2. Ensure that the sales were accounted for in the correct tax period.
3. Trace the invoices to the relevant ledger a/cs.
4. Check whether sales within a group of companies has been properly accounted for.
5. Ensure that the VAT return was submitted on time and if not, compute the penalty and interest.