MODULE 12

VAT

> **PRIOR LEARNING**
>
> Basic VAT concepts
> The various forms of tax such as indirect and direct taxes, and tax rates.

After studying this Module you should be able to:

- Perform VAT calculations:
    - Using the current standard VAT rate
    - Add VAT to cost price plus mark-up amount.
    - Calculate VAT from VAT inclusive amount.
    - Using the invoice base.
- Understand the difference between the invoice and receipts basis,
- Understand the effect on VAT on bad debts, discounts and goods returned.
- Integrate ethics relating to VAT – VAT fraud, etc.
- Integrate internal audit and internal control processes over collection of VAT from customers and payment of VAT to SARS.

The principles of VAT are introduced and discussed in Grade 10. Before proceeding with this Module you need to assess your prior knowledge to ensure that you have the basic skills and knowledge to continue with Grade 11 work.

TASK 12.1 ⌘💧   SARS and VAT: Baseline assessment

This Task is suitable for working in pairs or groups.

Role play

You are currently employed with SARS (South African Revenue Services) in their Public Relations department in which you offer information to prospective clients concerning VAT. A young entrepreneur has come to you for advice and you are required to answer the following questions.

1. Why does the South African Government levy taxes on the citizens of the country?
2. What types of tax are levied on the citizens? Name at least 5 different taxes.
3. How does VAT work?
4. Are all products and services subject to VAT? Give details.
5. Who must register for VAT?

Required:

12.1.1   Your Teacher will put you into pairs with fellow learners and you are to conduct the interview – one person acts as the SARS employee and the other the prospective entrepreneur and then you are to swop roles.

12.1.2   Use the following peer assessment form to assess your peer's knowledge.

Peer Assessment Form
Each learner must assess his/her partner based on whether they understand the explanations given to them.

CRITERIA	YES – shows understanding	NO – lacks knowledge
Reasons why the South African government levies taxes.		
Name and briefly discuss at least 5 different forms of tax levied in South Africa.		
Understands that VAT is levied on goods and services in this country.		
Understands that VAT is recorded against most sales.		
Understands that VAT is recorded against most purchases.		
Understands that the amount due to SARS or reclaimed is a difference between VAT on collected from customers (such as sales) and VAT paid to suppliers for goods and services purchased (claimed back).		
Can distinguish between standard, zero-rated and exempted items.		
Understands which vendors have to register as a VAT vendor.		
Understands that some vendors might voluntary register for VAT.		

12.1.3   Afterwards use your own assessment form to determine where the gaps are in your knowledge and ensure that you catch up on this missing work – ask your teachers for assistance.
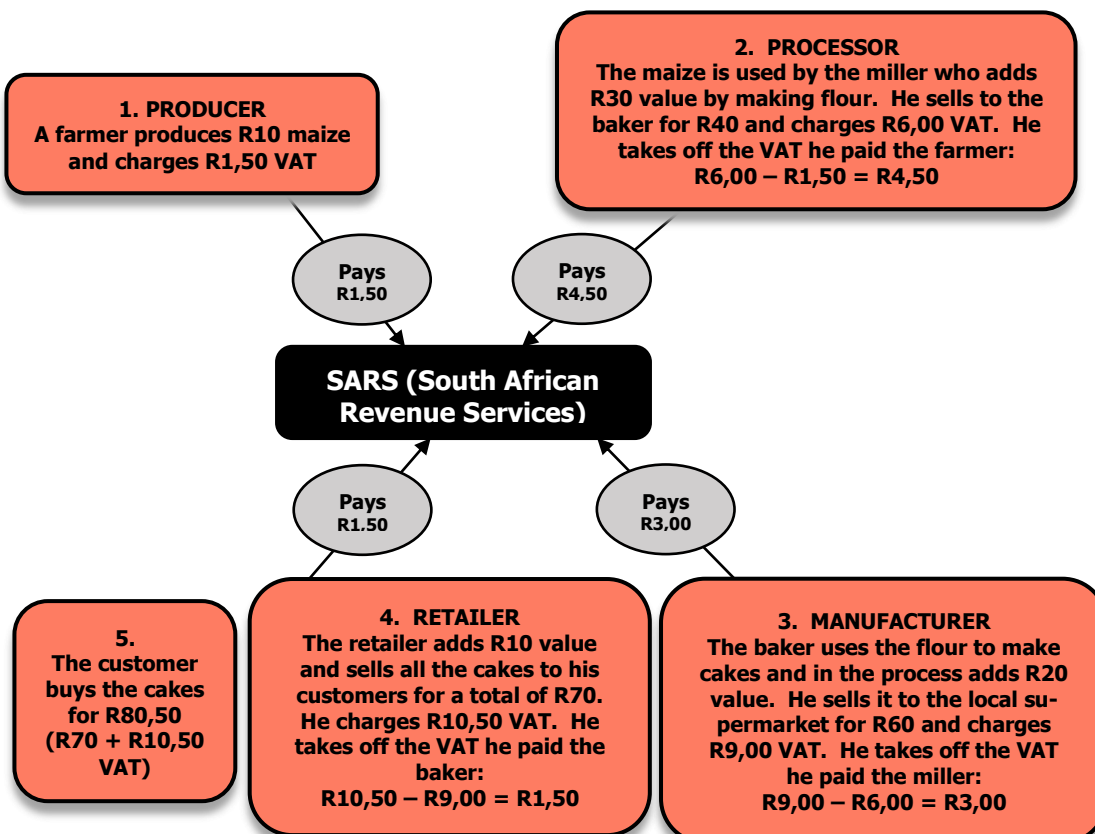
THE GENERAL PRINCIPLES OF VALUE-ADDED TAX

VAT is considered to be the most pervasive of all the taxes levied in South Africa as it applies equally to all persons. No person, irrespective of how little they earn, is exempted from paying VAT. Many people may argue that VAT is the fairest system of taxation.

VAT is charged on the supply of goods or services by a vendor (i.e. a supplier). The general rule is that a vendor charges the consumer a standard rate of VAT (presently 15%) on the price of articles or services offered by him. This percentage is controlled by the government and can be adjusted by the Minister of Finance at any time. The vendor deducts the amount of VAT paid by him to his suppliers, when goods and services are acquired. The vendor is required to pay over the difference to SARS, usually bi-monthly. This represents tax on the 'value added' by his business. As we shall appreciate below, the system is not so simple but it is effective in the manner in which SARS is able to collect all the tax revenues due.

Currently, vendors whose **turnover** is more than **R1 million** in a year have to register as a VAT vendor. As mentioned earlier, the Minister of Finance can change this threshold as the circumstances of the country changes. The VAT rate used to be 14%. It was changed to 15% effective 1 April 2018.

How does VAT affect the consumer?

1. PRODUCER
A farmer produces R10 maize and charges R1,50 VAT

2. PROCESSOR
The maize is used by the miller who adds R30 value by making flour. He sells to the baker for R40 and charges R6,00 VAT. He takes off the VAT he paid the farmer:
R6,00 − R1,50 = R4,50

Pays R1,50

Pays R4,50

SARS (South African Revenue Services)

Pays R1.50

Pays R3,00

5.
The customer buys the cakes for R80,50
(R70 + R10,50 VAT)

4. RETAILER
The retailer adds R10 value and sells all the cakes to his customers for a total of R70. He charges R10,50 VAT. He takes off the VAT he paid the baker:
R10,50 − R9,00 = R1,50

3. MANUFACTURER
The baker uses the flour to make cakes and in the process adds R20 value. He sells it to the local supermarket for R60 and charges R9,00 VAT. He takes off the VAT he paid the miller:
R9,00 − R6,00 = R3,00

VAT is charged on goods as well as services. For example, the fees charged by an advertising business or an accountant are subject to VAT. VAT is charged on any activity carried out regularly or continuously by businesses, traders, manufacturers, professional persons or clubs.

Supplies on which VAT is not levied include:
- private sales of personal or domestic items.
- hobbies or any private recreational pursuit (unless this becomes a business).
- salaries and wages.
- supplies that are exempted from VAT, or those that are zero-rated (This list may change regularly at the discretion of the government, based on feedback from the public).

VAT CALCULATIONS:

It is necessary to determine at the outset whether the figures quoted for sales and purchases are VAT inclusive or exclusive.

Let's take a look at how the VAT is determined by the retailer.
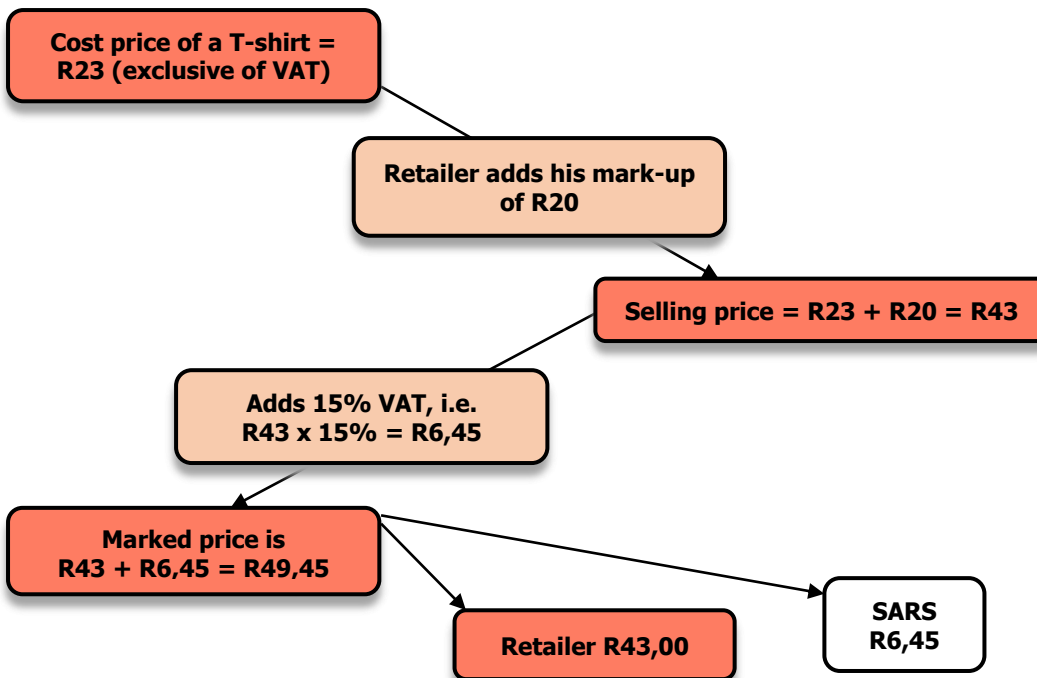
Let's take a look at the different prices as per the example:

Cost price	R23,00*
Selling price (exclusive of VAT)	43,00
VAT	6,45
Marked price (inclusive of VAT)	**R49,45**

*__Note__: If the retailer is a VAT vendor, it would have paid R26,45 (inclusive of VAT) and will therefore be able to reclaim R3,45 from SARS.

Scan the code for an explanation on the calculation of exclusive and inclusive VAT

Note the difference between the exclusive price and inclusive price, i.e.:

Exclusive price = Price **without** VAT
Inclusive price = Price **with** VAT added on, i.e. marked price

TASK 12.2 ⌘💧 Add VAT to cost price and mark-up

Required:
Complete the following table:

No.	Cost Price	Mark-up Amount / %	Exclusive: Selling Price	VAT (15%)	Inclusive: Selling Price
12.2.1	R25	R20	R45	R6,75	R51,75
12.2.2	110	25			
12.2.3	280	10%			
12.2.4	540		648		
12.2.5		25%	875		

INCLUSIVE PRICES

If the selling price quoted is the VAT inclusive amount, then in order to calculate the amount of VAT or the amount excluding VAT, the following formula needs to be used:

> SELLING PRICE x $^{15}/_{115}$ = AMOUNT OF VAT
> SELLING PRICE x $^{100}/_{115}$ = EXCLUSIVE AMOUNT

TASK 12.3 ⌘💧 Calculate VAT from VAT inclusive amount

Required:
Complete the following table:

No.	Exclusive: Selling Price	VAT (15%)	Inclusive: Selling Price
12.3.1			R552
12.3.2			828
12.3.3			92
12.3.4			897
12.3.5			529

TASK 12.4 ⌘💧💧 Calculate VAT from VAT inclusive and exclusive amount

Required:
Complete the following table:

No.	Cost Price	Mark-up	Exclusive Selling Price	VAT (15%)	Inclusive Selling Price
12.4.1	R430	20%			
12.4.2		30%	R494		
12.4.3	R720				R1 242
12.4.4		R66,60	R795		
12.4.5		R265			R1 495

TASK 12.5 💧💧💧 VAT calculations and interpretation

Information:
The South African Government provides essential services to the general population. In order to raise income to meet these costs, the state levies various forms of taxes in South Africa. One of the taxes levied on the supply of goods and services is value-added tax (VAT).

Required:
12.5.1   List three other forms of taxes levied in South Africa.
12.5.2   What is the current rate of VAT in South Africa?
12.5.3   Which Ministry of the Government has the authority to adjust the rate of VAT?

12.5.4 Briefly explain the following concepts in respect of VAT.
- Standard rated items
- Zero-rated items
- VAT exempted items

12.5.5 Indicate in the table below whether the following are standard rated, zero rated or VAT exempted. Place an X in the relevant columns.

GOODS/SERVICES	Standard rated	Zero-rated	VAT exempted
Rent paid on an outbuilding for domestic use			
Hotel accommodation			
White bread			
Rice			
Mealie rice			
School fees			
Water and electricity			
Interest on loan			
Baked beans			
Fruit			

12.5.6 Explain the following VAT related concepts:
- Input VAT
- Output VAT

12.5.7 Complete the following table. Assume that all goods and services are subject to VAT at 15%.

TRANSACTION	Value exclusive of VAT	VAT amount	Value inclusive of VAT
Credit sales	R16 200		
Cash sales			37 260
Cash purchases of trading stock		3 405	
Credit purchases of trading stock			20 815
Goods taken by the owner for personal use	2 000		
Goods returned to suppliers		270	
Goods returned by customers	600		
Account of a debtor written off			460
Discount allowed on credit sales	300		

12.5.8 Your mother gave you R150 and asked you to purchase some groceries from the local supermarket. After completing your purchases, the cashier presented you with the following cash sales slip.

```
         MONA'S SUPERMARKET
      (VAT REG NO. 30071957/5805)

      20:01:20.9
      16:25

      Eggs                 18,25   #
      White bread           9,89
      Brown bread           7,20   #
      Baked beans x 2      25,76
      Washing powder       36,80
      2l fresh milk        18,95   #
      2l coke              18,40
      TOTAL                    A
      VAT @ 15%                B
      Amounted tended     R150,00
      Change                  ??

      Items marked with # are zero rated
```

Study the above cash sales slip carefully and answer the following questions:

12.5.8.1   Is Mona's Supermarket a VAT registered vendor? Give a reason for your answer.
12.5.8.2   Calculate the amounts that should be indicated at:
- A
- B
12.5.8.3   Calculate the selling price of the washing powder exclusive of VAT.
12.5.8.4   Calculate the change that the cashier would have handed to you.

Scan for an explanation on Input and Output VAT and the calculation of the amount owed to SARS or owed by SARS.

After listening to the video you need to complete the VAT Input and VAT Output accounts. Note that there are alternative to the deductions to the VAT amounts. Your teacher will guide you as to which method is been used in your school and examining body.

INVOICE OR RECEIPT BASE:

There are two methods of calculating how VAT is paid and claimed, i.e. **Invoice basis and payments (receipts) basis.** The norm is to work on an invoice basis and unless the vendor request differently this will automatically apply when he/she registers as a VAT vendor with SARS.

Invoice basis

An invoice basis implies that VAT is charged to cash and credit customers and is due to SARS at the point when the invoice is issued. Example: You sell goods on credit for R100 + R15 VAT to J. Mboni (a debtor) on 1 June 20.5.   Mboni only pays his account on 10 August 20.5. However, you are required to pay VAT to SARS in July (bi-monthly) which means that you will have to pay the R15 VAT to SARS in July even though Mboni has not paid you as at that date. It must be noted that When Mboni eventually paid his account if R115, the entire amount belongs to the business because the business has already submitted the R15 to SARS.

Receipt basis

Using the same example, if the business chose the receipt basis, you would only be required to pay the R15 VAT to SARS after 10 August (as the norm is a bi-monthly payment method). It would mean you would only have to make payment in September.
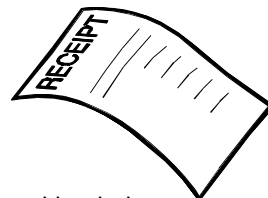
If Mboni made 2 payments, e.g. 10 August and then 10 September for R57,50 each, you would only be required to pay to SARS the portion of the account that is paid, i.e. R7,50 in September and the other R7,50 in November (remember we only pay SARS every second month).

From these examples, you can see that if you are registered on the invoice basis, which is the norm, you must pay the VAT when you issue the invoice, or the closest payment date thereafter, even if you have not received payment.

When you are registered on the receipts basis, you only have to pay when you receive payment either in full or part.

It must be noted that when making payment to SARS, it is a calculated amount, i.e. the difference between the VAT collected from customers (on sales) and that paid to service providers that you can claim back. If you work on the INVOICE basis, then you can also claim for purchases even if you have not paid while on the RECEIPT (PAYMENT) basis, you can only claim as and when you make payment.

The payment (receipt) basis is intended to help small businesses with simple Accounting systems, and those that may experience cash flow challenges. You may **not** register for the payment basis if:
- Your turnover is more than R2.5 million per year (subject to changes by the Minister of Finance).
- Your business is a company, trust or partnership of which the partners are not all natural persons.
- Associations not for gain and local authorities may, however, be on the payments basis regardless of turnover.

Note:
There are alternatives in the handling of reduction to VAT Input and VAT Output. Teachers are urged to adopt a method that the learners then follow. The textbook is following one method – if you use an alternative then you need to adapt as necessary.

BAD DEBTS AND VAT

If you have processed an invoice in good faith and accounted for the VAT in your VAT return but the debt turns into a bad debt, you are permitted to claim a reduction in your VAT as per Section 16 (3) of the VAT Act. Let's take an example: You sell goods on credit to a debtor for R200 + R30 VAT = R230 in August. September is your bi-monthly payment time and amongst other payments you make to SARS, you will pay the R30 (assuming you are working on an invoice basis). In months to come, you write off the debt as you cannot trace the debtor. In this case, you will not receive the R230 owing to you and, therefore, you were not expected to pay over the R30 to SARS. As you have already made this payment, you can claim a reduction that will come off your payments in future.

TASK 12.6 ⌘💧 Durban Traders (1): Bad debts and ethics

Durban Traders had sold goods on credit to B. Botha for R13 570 on 16 May 20.1. The amount on this invoice (no. DB 143) was inclusive of 15% VAT. The mark-up on cost was 100%.

On 3 June 20.1 B. Botha had paid Durban Traders an amount of R9 200.

By 31 August 20.1 it was found that B. Botha had disappeared without trace and all efforts to recover the outstanding amount owed by him had failed. It was decided to write off the balance owing by B. Botha.

Calculate the following:

12.6.1   The amount that had to be written off the account of B. Botha.

12.6.2   The adjusted amount of VAT that Durban Traders is liable to pay SARS in respect of this sales invoice no DB 143.

TASK 12.7 ⌘💧💧 Durban Traders (2): Transaction analysis on Bad debts and VAT

Refer to Task 12.6

Analyse the following three transactions (including VAT) according to the headings given below. Show the effect of the transactions on the accounting equation and assume the bank balance to be favourable and VAT control account to be a liability at all times.

12.7.1   The credit sale to B. Botha for R13 570 on 16 May 20.1 Mark-up on cost was 100%.
12.7.2   The amount of R9 200 received from B. Botha on 3 June 20.1 in part payment of his account.
12.7.3   The amount of R4 370 written off from the account of debtor, B. Botha, on 31 August 20.1.

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	Credited	Assets	Owners' Equity	Liabilities

DISCOUNT AND VAT

A discount is a reduction to a basic (selling) price of goods or services. There are many purposes/reasons for discounting such as to increase sales, to reward customers who pay before due date, to reward customers who are traders who buy in bulk so as to resell these goods to other smaller customers, etc. For our purposes we will look at two forms of discount: trade discount and discount for prompt payment.

Trade discount: A discount given to wholesalers and retailers who purchase in bulk to resell to their customers. This amount is deducted on the invoice or cash sales slip and no accounting entry is made in the books. A manufacturer or trader may offer a 20% trade discount to a retailer and this deduction is shown on the invoice and the retailer has to pay the net amount shown after the discount has been deducted. The 20% discount is not reflected anywhere in the accounting records.

Discount for prompt payment: An amount which a business allows to a debtor when he/she settles his / her account promptly, as per the credit terms, e.g. paying within 30 days. Where the prompt settlement discount applies, the vendor giving the discount is entitled to make an adjustment to the output tax in the VAT return for the tax period that covers the date on which the discount is taken.

Similarly, the vendor receiving the settlement discount must account for output tax in the VAT 201 return, or reduce the total amount of input tax deducted in the VAT return for the tax period in which the settlement discount is allowed.

EXAMPLE of discount allowed and its effect on VAT:

On 7 March 20.1 TK Traders sold goods on credit to debtor (B. Khoza) for R3 450. The goods were sold at a mark-up on cost of 50% and the selling price is inclusive of 15% VAT. B. Khoza will receive a 10% discount for prompt payment if he settles his account in full within 30 days.

On 28 March 20.1 TK Traders received an amount of R3 105 from B. Khoza in full settlement of his debt incurred on 7 March 20.1

The following workings reflect the effects on the relevant ledger accounts and the liability in respect of VAT:

GENERAL LEDGER OF TK TRADERS
BALANCE SHEET ACCOUNTS SECTION

Dr				Debtors Control (B. Khoza)				B	Cr
20.1					20.1				
Mar	7	Sales		3 000	Mar	28	Bank		3 105
		VAT Output		450			*Discount allowed*		300
							VAT Output		45

				Trading stock				B	
					20.1				
					Mar	7	Cost of sales		2 000

20.1				VAT Output	20.1			B	
Mar	28	Debtors control		45	Mar	7	Debtors control		450

20.1				Bank				B	
Mar	28	Debtors control		3 105					

NOMINAL ACCOUNTS SECTION

				Sales				N	
					20.1				
					Mar	7	Debtors control		3 000

		Cost of sales						**N**	
20.1									
Mar	7	Trading stock		2 000					

		Discount allowed						**N**	
20.1									
Mar	28	Debtors control		300					

Comment on workings:

- The original sale was R3 000 and the VAT payable was 15%, i.e. 15% of R3 000 = R450 therefore the debtor owes R3 450.
- The amount paid is R3 450 less 10% = R3 105 and the discount is R345
- However, included in the discount is VAT of 345 x $^{15}/_{115}$ = R45. The R45 can be claimed back from SARS. In your ledger accounts you will deduct from the VAT Output account. An alternative is to debit (add) to the VAT Input account. Both methods are acceptable. We suggest you follow the guidance of your teacher.

  − The VAT payable after the adjustment is therefore R405 which is R450 less R45.
  − The above example shows the effect on the VAT Output account – it reduces the amount owed to SARS.
  − The allowing of a discount has the effect of reducing the liability in respect of VAT and conversely the receiving of a discount has the effect of increasing the liability in respect of VAT.

RETURNS AND VAT

Credit notes are issued by a supplier for various reasons, after a tax invoice was issued, resulting in a reduction in the amount owing. Examples of this is when faulty/damaged goods are returned to a supplier or a trade discount was omitted. Where a vendor issues a credit note, the vendor is required to make an adjustment to the VAT. The vendor receiving a credit note must make an adjustment to input VAT. These adjustments must be accounted for in the VAT return for the tax period in which the increase in consideration occurs, that is, in the tax period in which the credit note is issued by the vendor.

Where a vendor issues a debit note, the vendor is required to make an adjustment to output tax. These adjustments must be accounted for in the VAT return for the tax period in which the increase in consideration occurs, that is, in the tax period in which the debit note is issued by the vendor.

EXAMPLE of sales returns and its effect on VAT:

On 25 June 20.1, debtor, M. Michael returned damaged valued R345. The value of goods was inclusive of VAT at 15%.

The following reflect the effects on the relevant ledger accounts and the liability in respect of VAT:

GENERAL LEDGER OF TK TRADERS

Dr		**Debtors Control (M. Michael)**							**Cr**
20.1					20.1				
June	1	Balance	b/d	XXX	June	25	Debtors allowance		300
							Output VAT		45

		Debtors allowances							
20.1									
June	1	Total	b/f	XXX					
	25	Debtors control		300					

		VAT Output							
20.1					20.1				
June	25	Debtors control		45	June	1	Balance	b/d	XXX

Comment on workings:
- The debtors' allowance of R345 included VAT of R45 (i.e. R345 x $^{15}/_{115}$).
- The return of goods by a debtor has the effect of reducing the business' liability in respect of VAT as the vendor does not owe SARS the amount on the debtors' allowance.

EXAMPLE of purchases returns and its effect on VAT:

Received a credit note for R2 875 from creditor, Reddy Traders, on 17 September 20.1 for unsuitable goods returned to them earlier in the month creditor. The amount of R2 875 was inclusive of VAT of 15%.

The following reflect the effects on the relevant ledger accounts and the liability in respect of VAT:

GENERAL LEDGER OF TK TRADERS

Dr						Creditors Control (Reddy Traders)			Cr
20.1					20.1				
June	17	Trading stock &		2 500	Sept	1	Balance	b/d	XXX
		VAT Input		375					

Trading stock

20.1					20.1				
June	1	Balance	b/d	XXX	Sept	17	Creditors control		2 500

VAT Input

20.1									
Sept	1	Balance	b/d	XXX	Set	17	Creditors control		375

Comment on workings:
- The creditors' allowance of R2 875 included VAT of R375 (i.e. R2 875 x $^{15}/_{115}$).
- The return of goods to a creditor has the effect of **increasing** the business' liability in respect of VAT as they originally claimed VAT back on this amount but it has to be reversed.

TASK 12.8 ⌘💧 Eshowe Wholesalers: Difference between trade discount and discount for prompt cash payment

Eshowe Wholesalers sells goods to traders and consumers. Their discount policy is 30% trade discount to traders only and a 10% discount to any customer who settles their account in full, in cash, within 30 days of purchase. Eshowe Wholesalers allows customers 90 days to settle their accounts after which they will charge interest on overdue account at 24% p.a.

Tulani Retailers purchases goods on credit to the value of R40 000 from Eshowe Wholesalers on 18 July 20.1.

12.8.1   Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 25 September 20.1.
12.8.2   Calculate the total amount that Tulani Retailers will pay Eshowe Wholesalers if they pay the full amount on 15 August 20.1.
12.8.3   Calculate the third and final amount that Tulani Retailers will pay Eshowe Wholesalers on 18 December 20.1 if they had made two payments on the following dates:
- A first payment of R15 000 on 29 July 20.1.
- A second payment of R8 000 on 31 August 20.1.

TASK 12.9 ⌘💧   Smit Traders: VAT and Sales returns

The following balances/ totals were extracted from the ledger of Smit Traders on 1 January 20.1.
- Debtors control   R25 000
- VAT Output   R4 000   (CR)
- Debtors allowances   R2 100

On 8 January 20.1 a debtor, P. Paulse, returned unsuitable goods valued R1 725. This amount was inclusive of 15% VAT.

You are required to open the Debtors control, Debtors allowances and VAT Control accounts in the General Ledger of Smit Traders and show how the transaction of the 8 January will be reflected in these accounts.

TASK 12.10 ⌘   Ixopo Traders: VAT and purchases returns

The following balances/ totals were extracted from the ledger of Ixopo Traders on 1 August 20.1.

- Creditors control   R38 000
- VAT Input   R9 000   (DR)
- Trading stock   R18 800

On 2 August 20.1, Ixopo Traders returned unsuitable goods valued R2 530 to creditor, W. Rooney. This amount was inclusive of 15% VAT.

You are required to open the Creditors control, trading stock and VAT control accounts in the General Ledger of Ixopo Traders and show how the transaction of the 2 August will be reflected in these accounts.

TASK 12.11 ⌘💧💧 Transaction Analysis on returns and VAT

Analyse the following transactions according to the headings given below. The amounts given are **VAT exclusive**. Show the effect of the transactions on the Accounting Equation and assume the bank balance to be favourable and VAT control account to be a liability at all times.

Transactions of Barcelona Traders:

12.11.1   Sold goods on credit to debtor, L. Messi for R3 000. Mark-up on cost was 50%.
12.11.2   Issued a credit note to L. Mess, R900, for goods returned.
12.11.3   Purchased trading goods on credit from, Madrid Traders, for R16 000.
12.11.4   Received a credit note from Madrid Traders for damaged goods returned R2 500.

No.	GENERAL LEDGER ACCOUNT		EFFECT ON ACCOUNTING EQUATION		
	Debited	Credited	Assets	Owners' Equity	Liabilities

TASK 12.12 ⌘💧💧 Soweto Traders: Calculation of balance in VAT control account

The following information was extracted from the accounting records of Soweto Traders for March 20.1.

- Balance owing to SARS on 1 March 20.1 in respect of VAT R3 500.
- Totals extracted from subsidiary journals on 31 March 20.1. These totals **do not** include VAT.

Credit sales of trading goods	R28 000
Credit purchases of trading goods	29 000
Cash sales of trading goods	52 000
Cash and cheques received from debtors in payment of accounts	23 800

Cash purchases of trading goods	21 000
Cheques issued to creditors in payment of accounts	18 700
Cheque payment to SARS in part payment for VAT	7 200
Returns of trading goods to creditors	4 800
Returns of trading goods by debtors	3 600
Bad debts written off for the month	2 900
Discount allowed to debtors for prompt payment	4 400
Discount received from creditors for prompt payment	3 500

Use the information above to calculate the amount payable or receivable from SARS in respect of VAT as at 31 March 20.1.

NOTE ON ETHICS AND INTERNAL CONTROLS

The articles and scenarios below may be dated, but relevant in highlighting the incidences of unethical and fraudulent activities that may be associated with VAT and taxes in general.

Teachers and learners are encouraged to read the newspapers regularly and explore the internet to learn more about current issues concerning the tax laws.

TASK 12.13 ⌘💧💧 Bad debts and ethics

Your accountant has approached you with a scheme that he believes is infallible. If debts are written off, then you are exempted from paying the VAT charged to the debtor to SARS. He proposes that your business writes off a few debts each year illegally, but this will mean that you can pocket that money. If the debts are large enough, this could result in a substantial amount of money to the business.

Your accountant is of the belief that SARS will not be able to catch you providing you do not write off too many in a year. SARS allows for the fact that bad debts are an inevitable fact of business and as long as you complete the required forms you will not be caught.

What will your reaction be? Your accountant is highly intelligent and has an outstanding career in business. If what he says is correct, it could mean large amounts of extra money in your pocket that would be tax-free. As your mother is very sick at the moment and you have large medical bills for her, this would certainly be a great help to you.

You are required to explain to the accountant what your philosophy is, regarding this matter, and to give supporting evidence to back up your decision.

PENALITIES FOR TAX EVASION AND FRAUD

An extract from the Value Added Tax Act of 1991 states the following:

"Any person who with intent to evade the payment of tax levied under this Act or to obtain any refund of tax under this Act to which such person is not entitled or with intent to assist any other person to evade the payment of tax payable by such other person under this Act or to obtain any refund of tax under this Act to which such other person is not entitled, shall be guilty of an offence and liable to a fine or to imprisonment for a period not exceeding 60 months."

In simple terms, this means that if you commit fraud by not paying your tax that is due in part or in full or claim a refund when you are not entitled to it, you are guilty. However, if you also assist someone else to commit the same fraud, you are also guilty.

VAT is payable by the 25th of the following month on a bi-monthly basis, i.e. some businesses will be in the even months and the rest in the odd months. If you do not pay by the due date, you will be charged interest at 10% of the VAT return plus 1,1% interest per month from the 1st day of the month following the month the tax is due or part of a month.

EXAMPLE:
Mr Brown must submit his tax return and payment of R4 000 in respect of June and July by the 25th of August. However, he only submits on the 4th of September. His penalty and interest will be calculated as follows:

10% penalty on R4 000	R400
1,1% interest per month or part of a month on R4 000	44
Total penalty plus interest	R444
TOTAL AMOUNT TO BE PAID R4 000 + R444	**R4 444**

TASK 12.14 🌢🌢 Ethics and fraud

Read the following extract from a report in a newspaper and answer the questions that follow:

SCORPIONS IN VAT FRAUD CRACKDOWN

The Scorpions raided a number of Durban businesses and homes early on Wednesday in a crackdown on a syndicate suspected of Value Added Tax fraud, the Directorate of Public Prosecutions said.

Spokesperson Sipho Ngwema said the Scorpions were alerted by the South African Revenue Services (SARS) of a syndicate of companies involved in fraud, initially estimated at around R15 million.

Further investigations have indicated that up to 31 companies are linked to the syndicate and are involved in fraud of around R41 million.

Ngwema said most of the companies in the syndicate were fronts with the volume of business done by them not warranting the amount of money they claimed back from SARS.
The Scorpions raided the homes of the two SARS VAT auditors who allegedly assisted the syndicate in defrauding the SARS.

The other premises raided included homes and businesses used by the syndicate.
The Scorpions, common name of the Directorate of Special Investigations, seized thousands of Rand and US dollars, documents and computers in the raid.

ATTORNEY APPEARS FOR TAX, VAT FRAUD

A Gauteng attorney appeared briefly in the Johannesburg Regional Court on Tuesday on Tax and Value Added Tax fraud of about R5 million.

The State alleged that the attorney under declared his final income for the financial years 1994 to 1998. His income totalled R2 780 991. The State also alleged that VAT for 1994 - 2000 was under declared.

Required:
Use the above 2 extracts from the newspapers to discuss the following topics in your groups:
• Why do you think people commit fraud?
• How do they manage to defraud (cheat) SARS?
• Discuss the following slogan as portrayed by SARS "Your tax quenches the nation's thirst" and the effect of fraud on the country. Report back to the class.

TASK 12.15 💧💧💧 Case study: Interpretation and tax fraud

Refer to the article below and answer the questions that follow:

THE FOLLOWING ARTICLE WAS TAKEN FROM THE
DAILY NEWS 17 NOVEMBER 20.8
(Names and some details have been changed)
ARTICLE: TAX MAN BUSTS VAT FRAUD

SARS has announced a range of new security measures to root out VAT cheats, who have shown 'a disturbing increase' in the past six months. It is even considering fingerprinting those registering for VAT and other tax, and has sought the expertise of accountant bodies to get to grips with the problem.

Exact losses had yet to be compiled, said SARS spokesperson Gugu Smit, but the scale of fraud was massive. Investigations into small businesses with little turnover, those who register them, and the possible introduction of biometric verification (fingerprint scanning) come after SARS investigators found these businesses were being used to claim VAT refunds.

"We are still quantifying the figures, but are finding serious abuse having taken place," Smit said. "It is difficult to quantify because we have between 700 000 and 800 000 VAT vendors and only have so many who do screening. But we pay out between R20 billion and R30 billion a month in VAT refunds, so there is potential for billions to have been lost through fraud," he said.

At the heart of SARS' concerns are small vendors (businesses) that apply for VAT registration, but have a turnover of less than R20 000 a year.

Although there is no legislation that prevents them from registering, investigators have found that incorrect registration details have been given in a bid to defraud the VAT system.

"Vendors with a turnover of less than R20 000 per annum are registered for VAT despite being below the legislative threshold, and we are seeing an increase in registrations by small businesses with zero or very little turnover. In conducting follow-up verifications, we find that many VAT vendors cannot be traced using the contact details supplied and their business premises are fake or occupied by different businesses", Smit said.

All businesses already registered and declaring under R20 000 in turnover in the past 12 months will now have their VAT registration suspended and may only be re-registered once they have motivated their reinstatement, SARS said.

"South Africa's tax system is based on self-declaration and depends to a large extent on the integrity of taxpayers to make full, accurate and honest disclosure and pay all the tax that is due," Smit said. The vast majority of VAT vendors are compliant and we thank them for making their fair contributions to the fiscus."

But SARS monitoring of VAT registrations and refunds in the last six months had revealed a disturbing increase in attempted fraudulent registrations and other attempts to defraud the VAT system.

"SARS is also considering implementing additional verifications, including the use of biometric tests (fingerprinting applicants) for VAT and other tax registrations. In South Africa and internationally, the use of biometrics as a safety mechanism is growing in use and SARS is investigating this as a longer-term solution," Smit said.

SARS met representatives of the South African Institute of Chartered Accountants and the South African Institute of Professional Accountants to discuss co-operates in finding ways to protect the system, while retaining its efficiency. We are very encouraged by the support by these practitioner representative bodies in this endeavour," Smit said.

In Durban last week, medical doctor Tulani Colin Khan was given a 10-year sentence, wholly suspended for five years, after he pleaded guilty to 11 counts of VAT fraud and two counts of income tax fraud. He understated his revenue by millions. Khan was also ordered to repay SARS R1,5 million and perform 1 000 hours of community service at a hospital in Durban dealing with HIV.

Questions:

12.15.1 Write out the full name for the following acronyms (abbreviations).
- SARS
- VAT
- SAICA
- SAIPA

12.15.2 Briefly explain ONE function of SAICA.

12.15.3 Explain who or what a VAT vendor is.

12.15.4 What is the minimum annual turnover for compulsory VAT registration?

12.15.5 How much does SARS pay out monthly for VAT claims?

12.15.6 Explain briefly what you understand by the term "biometric verification".

12.15.7 According to Gugu Smit what is South Africa's tax system based on? State at least THREE elements.

12.15.8 According to the article how do businesses commit VAT fraud?

12.15.9 How did SARS detect fraud in the case of Dr Tulani Colin Khan?

12.15.10 Do you agree with the punishment given? Give ONE reason for your answer.

12.15.11 Do you think that newspapers should be allowed to publish details of court cases of fraud and corruption committed by private individuals, business people and government officials?
Write your answers under the following headings:

No.	Fraud by	Yes / No	Reason
A	Private individual		
B	Business people		
C	Government officials		

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Understands the need for taxes.			
Understands how VAT works.			
Can calculate the amount of VAT if the price quoted is exclusive.			
Can calculate the amount of VAT if the price quoted is inclusive.			
Understands the difference between invoice and receipt base for the payment of VAT.			
Appreciates the penalties attached to fraud and evasion.			
Appreciates the effect on the economy if tax evasion takes place.			