



CHARTERED ACCOUNTANTS ACADEMY
leader in nurturing Chartered Accountants

**BRIDGING COURSE TO
CERTIFICATE IN THEORY OF ACCOUNTING
HANDBOOK**



VAT

BCTA VAT MECHANICS

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Bridging Certificate in Theory of Accounting (BCTA)

VAT Mechani

cs VMS301

VAT Mechanics

Module and Question Bank

1st Edition 2021

Published and Printed in Zimbabwe by

CAA Learning Media

2nd Floor Strachans Building

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Harare

Zimbabwe

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CAA Learning Media is an ICAZ **Approved Learning Partner**. This means we work closely with ICAZ to ensure this Study Text contains the information you need to adequately prepare for your BCTA Examinations and ultimately ZCTA and ICAZ ITC.

In this Study Text, which has been reviewed by the **CAA examination team**, we:

- Highlight the most important elements in the syllabus and the key skills you need
- Signpost how each chapter links to the syllabus and the study guide
- Provide lots of exam focus points demonstrating what is expected of you in the exam
- Emphasise key points in regular fast forward summaries
- Test your knowledge in quick quizzes
- Examine your understanding in our practice question bank
- Slides, video material accessible through MyCAA learning portal supports this module

BCTA VAT MECHANICS

INTRODUCTION

Dear Student.

We warmly welcome you to the BCTA Program. Since you have been admitted to this program, your entry level qualifications mean that you may or may not have done a tertiary level course on VAT although it may not have been Zimbabwean VAT. For those that have not done Zimbabwean Tax this means that you will need to catch up on the knowledge for Zimbabwean VAT. This course seeks to train you on fundamental VAT principles in Output tax, Input tax and calculation of VAT liability.

Our learning model has three main pillars namely, knowledge, comprehension and application. The pillar of comprehension is where we expect you to practice your ability to comprehend what you learn from different sources. This skill is required even on exam day where you will be expected to comprehend the scenario and the required tasks. Our experience has been that this is a major contributor to failure as students are unable to apply what they know because that they did not fully grasp a subject matter at study stage, on exam day or both. The pillar of application of the knowledge comprehended. Your assessments shall not focus on your ability to regurgitate prior knowledge but will test your ability to synthesise information at comprehension stage, analyses and evaluate it before applying it to the problem presented in the examination.

This places a lot of emphasis on exam day fitness and on ability to apply what you have learnt only as required. To achieve your transition to a student who will pass the course, the Tax department shall provide you with learning material, suggested study plans, video material, class lectures, class tutorials, in class tests, homework and quizzes to deliver the course. We implore you to start early and wish you success.

Regards,

Tax Department

Written together with the CAA Tax team.

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Background to Taxation

Because VAT is a subject grounded in law, there is usually a clearer distinction between right and wrong answers and more consistency in the expected layout of solutions than in other subjects. Students who struggle with detailed computations in other subjects may be able to improve their overall marks through good performance in the taxation question(s), since the numbers themselves are usually not complex.

Although on the surface Taxation may seem like a large volume of rules to memorise, underlying the development of the legislation are principles, objectives, and history. We would therefore encourage you to take the time to ask the “why” questions when engaging with the content, rather than focusing purely on the “what”/ “how” questions. This extra investment of time will make it easier to apply legislation in the exam, as well as help you to deal with any unfamiliar topics that may arise.

In order to maximise the effectiveness of the programme, you need to spend time comparing your solution to the model answer for each tutorial. It is not enough that you arrive at the same number as the solution; you need to follow the same approach, provide the same level of detail and have appropriate section referencing to score the available marks. Even if you came to the same answer, continue to ask yourself, “How could my exam technique have been better?”

Section summaries and areas of focus

Discussion questions

Exams will ask a discussion question involving the appropriate application of a section of the Value Added Tax Act principles within the syllabus. The questions tend not to be too complex in the facts, and sometimes steer students specifically to the section in question – the objective seems to be to test whether students can apply the provisions of a section that they are unlikely to have memorised in detail prior to the exam.

When answering such questions, it is important to consider the mark allocation in determining the level of detail required in your answer. If the mark allocation is high, it is unlikely to be sufficient to jump straight to the final answer. In such circumstances you should read the section a couple of times until you are familiar with how it operates, and then in your answer, explain each of the relevant provisions in the section, explaining how they work and in what circumstances they would apply. The point of such questions is not to trick students, but rather to test ability to interpret legislation, so do not be afraid to make obvious observations.

Calculation questions

Students most frequently lose marks in such questions due to items that they omit from their solutions. For example, a student may exclude an obvious transaction which was charged output tax in a calculation of VAT payable.

As you practice calculation questions, ask yourself why you failed to deal with items that you omitted from your solution. Once you see the solution, the operation of the relevant sections may seem obvious, but clearly you missed something in the scenario that should have prompted you to include this item. Note what it was that you missed, and start building up a memory of what types of information typically lead to which calculations, and which calculations typically comes together?

Exam technique is also important in these questions. Consider the layout that the solutions favour for each type of calculation and compare that to your own and consider the level of supporting reasoning in the solution in comparison to your own. You should not only be familiar with the technical content, but also confident of how you would lay out your solution if that content were examined.

Finally, make sure you score the easy marks. At this point, no student can expect to know all of the technical content. Do not let an item that you are unfamiliar with put you off. Even if you have to leave that item out altogether, answer all of the rest of the question, and be sure to pick up the marks for standard items like inclusion rates, rebates and calculation of value added tax payable.

Writing the exam

Examination technique and style of testing

Your examination technique, as with all the other subjects, is the primary cause of underperformance.

Completing the tutorials provided properly should assist in this regard. Completing a Taxation tutorial properly involves using the following techniques:

- Reading and analysing the scenario.
- Reading and analysing the required. In particular, it is important to identify whether the question requires a discussion or a calculation, and what format the solution should take.
- Answering the required without reference to the suggested solution. You must use the mark allocation and time allocation provided to you as a guide.
- Once complete, refer to the suggested solution and mark your attempt. This is not simply a case of determining what you got correct and what you did not but rather you need to establish why you got something incorrect. In other words, did you make a simple calculation error or is there something you do not understand at all—it is at this point you must be honest with yourself.

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- Use this process to identify areas where further work is necessary.

Completing a tutorial properly will also allow you to assess the quality of your workings, the logical flow of your arguments and the strength of your solution—in other words, your examination technique, and your approach.



BCTA 2022 SYLLABUS

TAXATION EXAMINABLE PRONOUNCEMENTS

1. Core legislation under examination and level description

The syllabus is principally concerned with the taxes and duties levied in terms of the following statutes:

- The Value Added Tax Act Chapter 23:12.

Regulations, interpretation notes and binding general rulings are to be covered on the same level as the applicable provision in the Act.

COURSE OUTLINE

2. SEMESTER TWO

2.1. Block 1

- 21.1.1 Introduction to VAT
- 21.1.2. Output VAT
- 21.1.3. Deemed Supplies, Time of supply, Value of supply

2.2. Block 2

- 2.1.4. Zero rated and exempt
- 2.1.5. Calculation of Tax

UNIT A - INTRODUCTION TO VAT

1. Objective of Study Unit

- Understand the background of VAT.
- Understand the accounting basis.
- Understand the administrative aspects of VAT

2. Background and Introduction to Vat

a) Background

The concept of VAT was first proposed in Germany in 1918. Despite this, it was only in 1954 that a variation of VAT was introduced in France. It took over 30 years for *sur valeur ajoutée* (VAT) as it is known today, to evolve.

In 1958 the Neumark Report recommended that VAT be adopted by member states of the EEC now the EU to promote tax harmonisation within the EU. In April 1967, the EEC issued a directive, which stated that member states were all to have implemented a common VAT system by January 1973. Today, more than 60 countries (a third being developing countries) have as part of their system of taxation a value-added tax.

VAT has been implemented in South Africa, Botswana, Angola, Namibia, Zambia, Mozambique, Tanzania etc.

Zimbabwe implemented VAT on 1st January 2004.

3. Introduction to Vat

Value Added Tax – It is an indirect tax on consumption, charged on the supply of goods and services.

Direct and Indirect Taxes – A direct tax is levied on persons based on their ability to pay and the level of income. An indirect tax is levied on transactions rather than on persons.

Characteristics of VAT

- A tax on consumption
- A multistage tax
- Charged on the value added

Single Stage and Multi-Stage Taxes

- A single stage tax is levied at one stage, when goods or services are purchased by the final consumer. It is levied at the final stage of the distribution chain for the good or service.
- A multi-stage tax is levied at each stage of the distribution chain.

Operational Aspects of VAT

- VAT is levied on the supply of goods and services. The VAT charged is called output tax and the VAT claimed is called input tax.
- VAT is levied or paid mainly by registered operators and any other person who is required to do so in terms of the Act.
- VAT payable to the Zimbabwe Revenue Authority is established by finding the difference between **Output tax** and **Input tax**. This principle is often referred to as the “VAT formula”
- With effect from January 2020, rate of VAT is 14.5%

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Prices Deemed to Include Tax

- Any price charged by any registered operator in respect of any taxable supply of goods or services shall for the purposes of this Act be deemed to include any tax payable in terms of paragraph (a) of subsection (1) of section six in respect of such supply, whether or not the registered operator has included tax in such price.
- The amount of any deposit payable to or refundable by a registered operator in respect of a returnable container shall be deemed to include tax.

Prices Advertised or Quoted to Include Tax

Any price advertised or quoted by any registered operator in respect of any taxable supply of goods or services shall include tax and the registered operator shall in his advertisement or quotation state that the price includes tax:

Inclusive vs Exclusive

Inclusive means including VAT and exclusive means excluding tax.

Activity 1: Mechanics of VAT (output tax – input tax)

Johnny Walker, a registered operator supplied the following information for the month of June 2020. The amounts are inclusive of Value added Tax charged and incurred by him in the course of trade.

Description	Amounts
Clothing sales	3,000
Shoes sales	2,000
Dustcoats sales	1,200
Clothing purchased	1,500
Shoes purchased	1,200

Calculate the amount of VAT payable or refundable for the month of June 2020.

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Solution

Transaction	Brief narration	Amount ZWL
Clothing sales	Output VAT $(14.5\%/114.5\% \times 3\,000)$ as the amounts are VAT inclusive	380
Shoes sales	Charged output VAT $(14.5/114.5\% \times 2\,000)$	253
Dustcoats sales	Output VAT $(14.5/114.5\% \times 1\,200)$	152
Clothing purchased	Claim input tax on clothing acquired $(14.5/114.5\% \times 1\,500)$ as the amounts are VAT inclusive.	(190)
Shoes purchased	Input tax $(14.5/114.5\% \times 1\,200)$	(152)
VAT payable		443

4. Accounting Basis

All registered operators are required by law to account for VAT charged by them and claim input tax on the purchases made.

The method on which VAT must be accounted for is determined by the accounting basis which can be either the invoice or the payments basis. In this unit we will be looking at the characteristics of both methods of accounting.

Invoice Basis – Section 8(1) &14

The general rule is that all registered operators will account for VAT on the invoice basis, unless the Commissioner, on written application by the registered operator, has directed otherwise.

This would have the effect that this registered operator will be required to account for VAT at the earlier of:-

- the time an invoice is issued; or
- the time any payment of consideration is received by the supplier

A registered operator accounts for both cash and credit transactions. Input tax is claimed **if and only if** the necessary documents are on hand.

Payments Basis - Section 14

It provides for an alternative method of accounting VAT other than the invoice basis. The registered operators will account for VAT only to the extent they have received payment from such sales and claim input tax to the extent of payments made on purchases and expenses.

The payment basis is only limited to public authorities, local authorities and associations not operating for gain. These registered operators, who wish to account for VAT on the payment basis, must apply to the Commissioner in writing.

Procedures for Change in Accounting Basis

Where a registered operator is registered on the payments basis and must be changed to the invoice basis or, vice versa an adjustment needs to be made.

This adjustment may either lead to an additional amount of tax being payable by the registered operator, or an amount being refundable by the Commissioner. In either case of adjustment, a registered operator is required to submit a list of all outstanding debtors and creditors to the Commissioner.

The registered operator must also supply all the information which the Commissioner may require on a VAT form. Calculation in each of the cases must be made and the difference must either be paid to the Commissioner or will be refunded by the Commissioner.

5. Tax Invoices / Fiscalised Tax Invoice

A **tax invoice** is a document which is prescribed in the VAT Act (Section 20). A registered operator making a taxable supply is required to provide the recipient with a tax invoice within thirty days of the supply being made.

- A tax invoice is a basis for registered operators to claim Input Tax Credit.
- Only one tax invoice should be issued for each taxable supply.
- Any replaced tax invoice should be clearly marked 'copy'.

Self-Invoicing – Section 20(2)

This applies where the recipient determines the value of the supply and the supplier has agreed that he shall not issue another tax invoice. The recipient should seek the approval of the Commissioner before issuing a tax invoice. This applies to specified classes of trade e.g. the supply of grain to GMB. The supplier, who is a registered operator, is provided with a copy of the tax invoice.

Self-Invoicing for Goods Re-possessed – Section 20(3)

The recipient should, within 30 days, create and furnish to the supplier, a document that contains the particulars of a tax invoice as stated in this section. That document shall be deemed to be a tax invoice provided by the supplier. Both the recipient and the supplier should be registered operators.

Features of a Valid Tax Invoice

- a) The words “tax invoice” in a prominent place,
- b) The name, address and registration number of the supplier,
- c) The name, address and VAT number of the recipient,
- d) An individual serialised number and the date upon which the tax invoice is issued
- e) A description of the goods or services supplied,
- f) The quantity or volume of the goods or services supplied.
- g) Price and VAT charged

There are three methods allowed for reflecting the price and VAT as follows:

- Method 1- The amount excluding VAT, plus the VAT charged and the total amount including VAT
- Method 2 - Where VAT is included in the final price, there should be a statement that VAT is included and the rate of tax
- Method 3 - Where VAT is included in the final price, the amount charged including VAT and the amount of VAT charged.

The registered operator is not required to issue a tax invoice where the total consideration for a supply, which is in money, does not exceed \$10 or the prescribed amount.

This part permits registered operators to issue a tax invoice as specified in subsection (4). Where it is impractical to issue a tax invoice, and there are sufficient records available to establish the particulars of the supply, the Commissioner may allow the registered operator

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not to issue a tax invoice. Examples where a full tax invoice may not be required are Insurance or construction contracts, lease agreements.

This part looks at information to be maintained by the recipient, who is registered, in respect of a supply of fixed property by a non-registered operator or re-possession of goods in terms of section 7(9).

This is for the purposes of claiming notional input tax. VAT officers are encouraged to familiarise themselves with the information required to be maintained.

6. Tax Periods [Section 27]

All registered operators are required to account for VAT by submitting returns to ZIMRA at regular intervals. The period covered by a VAT return is called a “tax period”. The Commissioner has determined specific requirements and characteristics for each of these tax periods.

‘Tax period’ ... in relation to a registered operator, means a tax period determined under section 27. Tax periods are regular intervals for which registered operators are required to submit returns and account for VAT. The Act provides for four different tax periods under which registered operators can submit their VAT Returns.

Under Category A and B, returns are submitted bi-monthly, whereas Category C is a monthly tax period and Category D any other period as may be approved by the Commissioner.

Requirements and Characteristics of Categories

Category A – Registered operators allocated to this Category are required to submit returns for each of the two monthly periods ending on the last day of: **January, March, May, July, September and November.**

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Category B – Registered operators allocated to this Category are required to submit returns for each of the two monthly periods ending on the last day of: **February, April, June, August, October and December.**

Category C - Any registered operator with a turnover (*excluding VAT*) exceeding prescribed amount **per annum** is required to have this **one-month tax period**. It also applies to any other registered operator who apply to the Commissioner to be allocated a one-month tax period; or is likely to exceed that amount in the period of twelve months beginning on the first day of any such month. The Commissioner may also allocate this one-month tax period to any registered operator who has repeatedly defaulted in performing any of his obligations as a registered operator.

Category D – Certain registered operators carrying on **farming activities** may apply for this tax period. Registered operators who will qualify for Category D are:

- Any registered operator whose trades consists solely of farming activities
- Any registered operator whose separately registered trade, branch or division consists solely of farming activities provided that any other trades, branches or divisions carried on by that registered operator do not consist of farming activities
- Any trade, branch or division of an association not for gain, which is treated as a separate person for registration purposes and whose activities consists solely of farming activities provided that any other trades, branches or division of such association not for gain do not consist of farming activities
- The total turnover (excluding VAT) of such registered operator, from all farming activities does not exceed or is not likely to exceed \$5,000,000 per annum or the prescribed amount
- The registered operator may not have been allocated a one month tax period (Category C);
- This Category D will end on the last day of such other months as approved by the Commissioner

Determination of Taxable Value

Where a person operates more than one trade or operates a trade in branches and divisions, it is necessary for the taxable supplies of all the trades, branches or divisions to be aggregated to ascertain the total turnover (*excluding VAT*).

This applies whether or not the separate trades; branches or divisions have been registered as separate registered operators. However, associations not for gain, which operate through separate trades, branches or divisions, are not required to aggregate under certain circumstances.

The Tax Period Applicable

A registered operator's first tax period will commence on the date on which he becomes a registered operator. Tax periods end on the last day of the month as determined in section 27(7) but may instead end within 10 days before or after such last day of the month. The first day of any tax period shall be the day following the last day of the preceding tax period e.g an operator with a tax period which ends on 26 July 2014 the first day of the next Tax period which is August starts on 27 July and not 1 August.

Changing of Category

The Commissioner may change a registered operator's Tax period, either on request of the registered operator, or for reasons deemed fit by the Commissioner.

The change will be effective from the tax period immediately following that period during which the decision is made, or the commencement of any future tax period. The first return after the change should not include any period for which a return has previously been made.

The effect of this is that a one-month return could be made for the changeover period if a registered operator changes for instance, from Category A to Category B.

Circumstances which will not affect Category C or D threshold

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A registered operator will not be deemed to have exceeded the prescribed amount for Category C purposes or the prescribed amount for Category D purposes, if the threshold has been exceeded due to:

- Any cessation of, or any substantial or permanent reduction in the size or scale of any trade carried on by the registered operator
- The replacement of any plant or any capital asset used in that trade
- Abnormal circumstances of a temporary nature

7. Returns and Payments [Section 28]

A Return is a prescribed period for submission of VAT 7 (Section 28). Every registered operator is required to submit the VAT 7 with payment on or before the 25th day of the month following the end of the relevant tax period.

	Tax periods	Due date – on or before
Category A	December / January	25 th February
	February / March	25 th April
	April / May	25 th June
	June / July	25 th August
	August / September	25 th October
	October / November	25 th December

Completion and Layout of the VAT Return

Every registered operator must complete and furnish a VAT return for each tax period.

Duties and Liabilities

- A return must be submitted whether or not tax is payable or refundable
- Returns and payment should be submitted to the Commissioner on or before the due date.
- Late submission of returns will attract penalty and interest. Penalty is 100% and interest is 10% per annum.

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Extension of Prescribed Period

The Commissioner may, under certain circumstances, extend the period within which the return must be submitted, or the tax must be paid – Section 28(3)

The Commissioner may accept payment of a deposit equal to estimated VAT liability – section 38(2). Where any registered operator received payment of goods or services in foreign currency then such operator shall pay the tax in foreign currency – Section 38(4). All payments are now in foreign currency.

Any amount in excess shall be refundable provided the registered operator does not owe in any other revenue head. However, if an underpayment is established later on interest is chargeable.

Special Returns

A return is submitted for sales in satisfaction of a debt made in terms of section 7(1) whether the seller is registered or not – section 29

Due Date for Special Returns

The return must be submitted within 30 days from the date of the sale.

The seller is required to:

- Furnish the special return
- Pay the tax due
- Send a copy of the return to the owner of the goods.

Other Returns

Any person may be required to submit a return by the Commissioner. For example, on imported services submitted on VAT 9

Assessments [Section 31]

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Subsection (1)

- a) A non-registered operator who charges VAT shall be deemed to be a registered operator.
- b) VAT payable in terms of section 31(3) (d) and (e) shall be deemed to be tax payable by the registered operator concerned and shall be paid within the period allowed by the Commissioner.

Subsection (2)

The persons liable for the payment of VAT shall be: -

- a) Registered operator, importer or recipient of imported services.
- b) The seller and/or owner
- c) A non-registered operator.

Subsection (3)

The following are the circumstances under which the Commissioner may issue an assessment:

- Failure by a registered operator to furnish a general return in terms of section 28 of the Act
- Failure by a seller of goods to furnish a general return in terms of section 29 of the Act.
- Failure by deemed suppliers to furnish returns in terms of section 30 of the Act.
- Where the Commissioner is not satisfied with any return or declaration furnished in terms of section 28, 29 and 30 of the Act.
- Where the Commissioner has reason to believe that any person who was required to pay tax did not do so.
- Where a non-registered operator charges VAT but does not remit it to ZIMRA.
- Where a registered operator charges tax where the supply is zero-rated or where no tax is chargeable.

Subsection (4)

In making such assessments the Commissioner may estimate the tax payable.

Subsection (5)

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The Commissioner shall issue the assessment in writing, stating the amount upon which tax is payable, tax payable, any additional tax payable and the tax period.

A copy of the assessment shall be sent to the owner or seller.

Subsection (6)

The Commissioner shall notify any person to whom the assessment has been made of his right to lodge a written objection within 30 days.

Objections

A person may lodge an objection where he is dissatisfied with any written decision by the Commissioner in the following circumstances:

- The Commissioner refuses to register that person as an operator in terms of Section 23(7);
or
- The Commissioner cancels that person's registration, or refuses to cancel that person's registration – Section 24(6) & (7); or
- The Commissioner refuses a refund – Section 44(8)
- The person is dissatisfied with any assessment raised by the Commissioner – Section 31, 66 or 67.
- The Commissioner issues a directive on a person deeming the activities of that person and those of one or more other persons to be that of a single person – Section 52(3) or (4).

For the objection to be valid, it has to: -

- a) Be in writing and
 - b) Specify in detail the grounds upon which the objection is made and
 - c) Be made within 30 days from the date on which the notice assessment or the Commissioner's decision is given. In the event of a dispute, the date to be considered will be the date the registered mail was posted.
-
- These are the reasons why it is considered that an assessment or a decision is incorrect. The grounds should be stated clearly, and it is important to raise all the grounds at the

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time of objection unless on good cause shown, leave is given to amend or add to the grounds.

- Where the Commissioner is satisfied that reasonable grounds exist for late submission of the objection letter, he may consider such objections to be valid.
- Once the Commissioner has considered the objection he must notify the objector, in writing, of his decision either to:
 - a) Alter any previous decision made by him; or
 - b) Alter or reduce any assessment previously by him; or
 - c) Disallow the objection.
- If an objection is not lodged, the assessment or decision made becomes final after 30 days.
- Should the Commissioner not condone any late lodging of any objection, his decision is subject to objection and appeal.
- Once a person has received a formal reply to his decision, he may either accept it or if he is still dissatisfied, take the matter further on appeal. If he chooses not to appeal, the Commissioner's reply to his objection is final and binding on him - Section 32(5).

Penalty and Interest

Circumstances under which Penalty and interest may be charged

- Failure to submit returns in terms of Sect.13, 28, 29 and 66
- Failure to pay VAT on time. This applies to registered operators who fail to remit VAT as shown on VAT 7 – section 31(2)(a)
- Any amount not properly refunded – section 31(2). The refund may be direct or indirect i.e. amounts set off against debts.
- Failure to pay tax due on sales in execution of debts on time – section 31(3)

Remission of Penalty and Interest

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The Commissioner may remit the penalty or interest to the extent that he is satisfied that the failure to pay tax on time was not due to an intention to avoid or evade payment of tax and:

- Such failure did not result in a financial loss (including interest to the State; or
- Such person did not benefit financially (taking interest into account) by not making payment in time.

UNIT B - OUTPUT VAT (CHARGING VAT)

8. Objective of Study Unit

- Understand how to charge output VAT.
- Understand the different circumstances when VAT is charged.
- Understand the VAT registration process.
- Explain who should register.
- Explain when one should register.
- Explain what is required to register.

9. Charging of VAT

Section	What is VAT charged on?	Who is liable to tax
6(1)(a)	Supply of goods and services by registered operators in the course of trade. <i>However, this will not apply to the sale of second hand motor vehicles subject to special excise duty in terms of the Customs Act.</i>	Registered operator
6(1)(b)	Goods imported by any person	The person
6(1)(c)	Supply of imported services by any person	The recipient of imported services
6(1)(d)	Goods and services sold through an auctioneer. <i>Provided that this will not apply to the sale of second hand motor vehicles subject to special excise duty in terms of the Customs Act.</i>	The Auctioneer

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6(3)	Excisable goods previously supplied excluding Excise duty and tax becomes payable in terms of section 6(1)(a)	The person liable for the payment of Excise duty in terms of the Customs Act
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Refer to the appendix with the glossary of terms to find the interpretations of the terms used these can also be found in section 2 of the VAT Act.

10. Imported Goods - (Section 12)

Importation means to bring goods or cause goods to be brought into Zimbabwe.

- The time of supply for imported goods shall be the date on which the goods are deemed to have been imported in terms of the Customs and Excise Act section 36.
- Value of supply of imported goods is the value for duty purposes (VDP) plus Customs duty excluding surtax levied in terms of the Customs and Excise Act.
- The importation of goods as prescribed in terms of the First Schedule Part II of the VAT Regulations are exempt from VAT: e.g.
- Goods imported by International Relief Organisations, Governments other than the Government of Zimbabwe, Foreign diplomatic missions, Head of State of Zimbabwe, Imports covered by a duty-free certificate
- Goods covered under a travellers' rebate, immigrant rebate
- Goods imported under any rebate prescribed by the Minister. etc
- For others refer to Part II of the First Schedule of the VAT Regulations

11. Imported Services - (Section 13)

Imported services means a supply of services that is made by a supplier who is a

- a) non-resident of Zimbabwe or
 - b) resident of Zimbabwe who carries on business outside Zimbabwe to a recipient who is a resident of Zimbabwe
- Time of supply is the general rule of time of supply.
 - Value of supply is the consideration of such supply or the open market value whichever is greater.

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“13 A Certain imported services deemed to be locally supplied

- (1) Despite section 13, the supply of radio and television services from outside Zimbabwe to an address in Zimbabwe or of electronic services by an electronic commerce operator domiciled outside Zimbabwe to a person resident in Zimbabwe shall be deemed to be a supply made in Zimbabwe.
- (2) The obligation to charge and account for tax shall be that of the supplier or his or her duly appointed representative in Zimbabwe.”

Exercise:

Bindura University of Science and Technology was sued by the lecturers that they had fired following an illegal industrial action. For representation NUST hired Advocate De Beers from South Africa who charged them R 14500.

Solution:

VAT payable = $14.5/100 \times R14500 = \underline{\underline{R2103}}$

Note: For the purpose of calculating VAT on imported services we don't use the tax fraction but apply 14.5% on the price charged for the services.

Failure to pay tax due on imported services the recipient will be liable to penalties and interest- Section 39.

12. Registration for VAT

Compulsory Registration

A person is obliged to register as a registered operator if he carries on trade and the total value of taxable supplies exceeds the prescribed amount (ZWL\$500,000) during any period of 12 months.

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A person is obliged to register as a registered operator if he carries on trade and the total value of taxable supplies is expected to exceed the prescribed amount (ZWL\$500,000) during any period of 12 months.

Threshold is deemed not to be exceeded when:-

- The sale of stock or other assets due to any cessation of or any substantial and permanent reduction in the size or scale of any trade;
- the replacement of plant and machinery or other capital assets used in the trade
- abnormal circumstances of a temporary nature e.g. one off transaction

Time Limit for Application to Register

A person should calculate at the end of each trading month the total value of taxable supplies by all trades, branches or divisions for the past 12 months. Where the total exceeds prescribed amount, the person becomes liable to register for VAT purposes. The person is liable for registration at the end of the month in which he reaches the threshold.

If however, after estimating the total value of supplies for the next 12 months, a person expects to exceed the prescribed amount, such a person has become liable for registration. The person is liable for registration at the beginning of the month in which he establishes liability for registration.

Registration in Retrospect

The effective date of registration should be the date where the threshold is exceeded if the registered operator has already been operating for some time.

Determination of Value of Supplies

VAT charged on supplies should not be taken into account when determining the prescribed amount. Any person supplying exempt supplies only is not required to register for VAT purposes.

Activity 2: Registration

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Bafana Bafana started operating a general dealer shop at a growth point at Mupandawana in Gutu with effect from January 2020. The following is his record of business activities for the period January 2020 to July 2020.

Required: State whether the operator qualifies for compulsory registration or not.

Jan sales	200,000
Feb sales.....	148,000
March sales.....	80,000
April sales.....	100,000
May sales.....	150,000
June sales.....	170,000

Voluntary Registration

A person wishing to register voluntarily must satisfy the following conditions: -

- that they are carrying on trade, or
- that they intend to carry on trade from a specified date,
- may apply to the Commissioner for registration

Requirements for Voluntary Registration

An application for voluntary registration can be disapproved by the Commissioner in the following instances:

- If the person has no fixed place of abode or business:
- If the person does not keep proper accounting records.
- If the person has not opened a banking account with any bank or similar institution for the purpose of his trade;
- If the person was previously registered for Sales Tax purposes and has failed to perform the prescribed duties under the Repealed Act.

An example of intention to carry on trade is farming, construction activities etc, where it is expected that consideration will be received after completion of certain activities, or after a period of time and the trader has made an application for voluntary registration. The Commissioner may approve registration of this nature.

Obligations of Voluntary Registrants

Before a person applies for voluntary registration, the following **obligations** should be brought to his attention.

- The registered operator will have to complete and submit VAT returns regularly and punctually;
- The registered operator will have to account for output tax on all his taxable supplies made;
- Proper accounting records must be kept by the registered operator;
- The registered operator will have to declare VAT on all the business assets, should registration be cancelled;
- The registered operator will have to declare VAT on the cessation of trade.

Registration requirements for a non-resident who carries on trade in Zimbabwe

Such a person shall be deemed not to have applied for registration until he has:

- Appointed representative person as contemplated in Section 47 of the VAT Act
- Furnished the Commissioner with the particulars of such representative person.
- Opened a bank account with any bank, building society or other similar institution for the purposes of his trade carried on in Zimbabwe and furnished the Commissioner with the same.

Date from which a person is deemed to be a registered operator

Where a person has applied for registration in terms of the Act, that person will be a registered operator as from the date determined by the Commissioner.

Where a person fails to apply for registration, when he/she was supposed to have applied, the person will be a registered operator as from the date that he/she became liable to register for the first time, unless otherwise directed by the Commissioner.

Non-Governmental Organizations

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In deciding whether to register as a registered operator or not, a Non-Governmental Organization **may** treat any separate business/trades carried on by that association separately.

Only those trades, branches or divisions with a turnover in excess of the prescribed amount are obliged to register.

Each one of these branches, divisions or trades must, however, be separately identifiable either by nature of its activities or by location; maintain its own system of accounting.

It is necessary for these Non-Governmental Organizations not for gain to apply in writing to the Commissioner to have its branches or divisions treated as separate trades.

Cancellation of Registration

Taxable supplies below the threshold – A registered operator ceases to be liable for registration when the Commissioner is satisfied that the level of taxable supplies during the next 12-month period will fall below the registration threshold of the prescribed amount.

If such a person wishes to cancel registration as a registered operator, application should be made in writing to the Commissioner on a prescribed form.

The Commissioner will advise the registered operator of his decision to cancel registration and the effective date.

Other circumstances under which a person may cancel registration

Registration can also be cancelled in various other situations, for example:

- If a registered operator ceases to trade or
- Where the business is sold as a going concern or
- Where the trader is now dealing exclusively in exempt supplies.

Requirements for Cancellation of Registration

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A registered operator, whose value of taxable supplies has declined below the prescribed amount, may apply to the Commissioner in writing to have the registration cancelled.

Where a registered operator ceases all operations, the Commissioner must be notified within 21 days of the date of such cessation. Registration will be cancelled with effect from the last day of the tax period during which all operations ceased.

In case of the cessation of all operations, the Commissioner must be informed in writing. This notification must also state the date of the cessation and whether the registered operator intends to carry on any trade within 12 months from that date of cessation.

Circumstances where the Commissioner may cancel registration

- If the Commissioner is satisfied that a registered operator is not carrying on a trade, as defined, the Commissioner may cancel such a registered operator's registration with effect from a date determined by him. He may also cancel registration of a registered operator where the turnover has fallen below the prescribed amount.
- The Commissioner may cancel a registered operator's voluntary registration for VAT, where it appears that, the registered operator has failed to comply with the following requirements for voluntary registration:
 - a) Has no fixed place of abode or business;
 - b) Does not keep proper accounting records relating to any trade carried on;
 - c) No longer have a bank account with any bank or other similar institution for the purposes of the trade;
 - d) Has previously failed to perform the duties under either the VAT Act or the Sales Tax Act.

Written Notification

Where the Commissioner has decided to cancel/not to cancel a registered operator's registration, such a registered operator must be informed in writing of the Commissioner's decision.

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Liabilities of the person ceasing to be a registered operator

A person, who ceases to be registered, remains liable for any liabilities or obligations incurred under the VAT Act while he was registered.

Where that person objects to the Commissioner's decision, cancellation will not take effect until the objection has been finalized.

Appendix 1: Glossary of Terms

Connected Person include: -

- a) Means any natural persons including the estate of a natural person if such person is deceased or insolvent and any near relative of that natural person. *This refers to a 'near relative' as defined in section 2 of the Taxes Act*
- b) Trusts and estates, their beneficiaries and relatives of beneficiaries and their estates in return; e.g. A Trust and a beneficiary of that Trust
- c) Partners to a partnership and their relatives
- d) Members of the Private Business Corporations and relatives of the members.
- e) Any immediate family group holding at least 5% of the company's equity capital or voting rights. Note that the 5% rule does not apply to a company that is a shareholder in another company. e.g. company and its directors.
- f) Sister companies with substantially the same shareholders or controlled by the same persons.
- g) Separately registered businesses, branches or divisions of a single entity; and;
- h) Retirement and medical aid funds and their principal employer entity.

Fixed date - is the date of commencement of VAT

Fixed property means land other than farmland, together with improvements affixed thereto, and includes any share or unit in a company which confers a right to or an interest in the use of immovable property, and, in relation to a property time-sharing scheme, any time-sharing interest, and any real right in any such land, unit, share or time-sharing interest;

'Trade' – in case of a registered operator is **any activity** which is **carried on continuously** or regularly by a person in Zimbabwe or partly in Zim in the **course or furtherance of which goods or which services are supplied** to any person for a consideration, whether or not for profit.

This includes any trade or activity carried on in the form of a commercial, financial, industrial, mining, farming, fishing, or professional concern or any other concern of a continuing nature or in the form of an association or club.

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- To distinguish between activities which are trades and those which are not the definition will be divided into two parts for this unit's purposes.

Activities deemed to be a trade

It is clear from this definition that almost any activity can be regarded as a trade. However, there are certain requirements that must be met before a person will be said to be carrying on a trade.

The requirements are:

- The activities must be carried on continuously or regularly;
- The trade must be in Zimbabwe or partly in Zimbabwe
- Goods or services must be supplied to other persons;
- These goods or services must be supplied for a consideration.
- Whether or not for profit.

Paragraphs (b) and (c) of the definition further provides for other concerns that are considered to be carrying on a trade in certain circumstances. These concerns include certain public authorities, welfare organizations, share block companies and certain activities of local authorities.

Activities not deemed to be a trade

- Services supplied by an employee to an employer for which a remuneration (salary/wage) is received;
- Remuneration received by the directors of a company;
- The activities of a branch which is permanently located outside Zimbabwe.
- Hobbies and private activities;
- any activity to the extent that it involves the making of exempt supplies as listed in the Act;

Unconditional gift means a

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- Payment voluntarily made to any association not for gain
- For the carrying on or the carrying out of the purposes of that association and
- In respect of which no identifiable direct valuable benefit arises or may arise
- In the form of a supply of goods or services to the person making that payment or
- In the form of a supply of goods or services to any other person who is a connected person in relation to the person making the payment,
- But does not include any payment made by a public authority or a local authority.

Good means corporeal movable things, fixed property, and any real right in any such thing or fixed property, but excluding-

- a) money;
- b) any right under a mortgage bond or pledge of any such thing or fixed property; and
- c) any stamp, form or card which has a money value and has been sold or issued by the State for the payment of any tax or duty levied under any Act of Parliament, except when subsequent to its original sale or issue it is disposed of or imported as a collector's piece or investment article;

Services means anything done or to be done, including the granting, assignment, cession or surrender of any right or the making available of any facility or advantage, but excludes the supply of goods, money or any stamp, as contemplated in paragraph (c) of the definition of "goods";

Supply includes "all forms of supply irrespective of where the supply is effected"

- A supply of goods may be effected under a sale, a rental agreement, instalment credit agreement, expropriation of property and all forms of supply whether voluntary or compulsory or by the operation of law.
- In some cases some supplies are *deemed* to have taken place.

Examples of Supplies

<u>Standard rate</u>	<u>Zero rate</u>	<u>Exempt</u>
• Clothing	• Exports	• Petrol

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- Furniture
- Transport of Diesel
- Motor vehicle repairs
- Medicines
- Education

Output tax “in relation to any registered operator, means the tax charged under paragraph (a) of subsection (1) of *section six*, in respect of the *supply of goods and services* by the *registered operator*”

- In simple terms output tax is tax charged by a registered operator on taxable supplies of goods or services.
- Some goods are subject to VAT and others are not. Goods that are subject to VAT are called standard rated supplies, special rated supplies and Zero-rated supplies. Standard/special rated and zero-rated supplies are all taxable supplies. Standard rated supplies are subject to 14.5% rate of tax, zero-rated supplies are subject to VAT at 0%.
-
- Exempt supplies shall not attract VAT.

Input tax, in relation to a registered operator, means tax claimable under section *sixteen* where a taxpayer was charged and the goods or services acquired are used in making taxable supplies.

Below are examples where a registered operator can claim input tax;

- In simple terms input tax is tax paid or payable by a registered operator on supplies made to him by other registered operators or on importation.
- Input tax will be paid on his business inputs which can be purchases of trading stock, assets, raw materials, consumables, services (accounting, legal etc).

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UNIT C - DEEMED SUPPLIES, TOS AND VOS

13. Objective of Study Unit

- Understand how deemed supplies work.
- Understand when VAT should be charged.
- Understand on what value VAT should be charged.

14. Deemed Supplies

Deemed Supplies [Section 7]

These are transactions that are regarded by Law to be actual sales. The deeming provisions both widen the range of transactions subject to VAT and clarify the fact that certain transactions are indeed taxable or not taxable.

15. Time of Supply

Time of Supply – section 8(1)

Is the time when a supply of goods/services is regarded to have taken place. One should account for VAT in the tax period in which the 'tax point' occurs at the rate of tax in force at that time. The general rule of time of supply is the earlier of date of issue of an invoice or date when any payment is received.

However, special time of supply rules apply for certain transactions.

<u>Deemed supply</u>	<u>Time of supply</u>	<u>Value of supply</u>
7(1) Sale in execution of a debt	8(1) The earlier of an invoice issued or payment received	9(2) Considerations Less VAT.
7(2) Cessation of trade by R/O	8(5) ,7(2) Day prior to deregistration	9(5) Lesser of cost or open market value Less VAT

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7(3) Door to door credit sale agreements	8(2) (b) Day after cooling off period.	9(2) Consideration Less VAT
7(4) (a) Lay bye agreements of a consideration not exceeding US\$120 including VAT.	8(2) (c) the time the goods are delivered to the purchaser.	9(2) Consideration Less VAT
7(4)(b) Cancelled lay bye agreement	8(2)(c) The time the agreement is cancelled PROVISIO	9(9) Amount retained Less VAT
7(5) Subsidy paid by the state or local authority	8(1) The earlier of an invoice issued or payment received	9(12) The amount of any payment made from time to time on behalf of the R/O is the consideration
7(7) Indemnity payments received from an insurance company	8(1) The earlier of an invoice issued or payment received	9(2) Consideration less VAT
7(8) Transfers to independent branches in an export country.	8(2) (e) The time the goods are delivered or the service is provided.	9(5) The lesser of cost or open market value Less VAT
7(9) Repossessions from debtors who are registered operators.	8(8) The time of repossession	9(13) The outstanding cash value on date of repossession is the consideration (less VAT)
7(10) The granting of the right to use goods with or without a driver, crew, pilot etc.	8(1) The earlier of an invoice issued or payment received	9(2) Consideration less VAT
7(13) single supply which attracts two rates of tax.	8(1) The earlier of an invoice issued or payment received	9(2) Consideration less VAT

Section 8(2) (d) – Coin operated machines (juke boxes, mini soccer machines fruit machines.

For the recipient, the time of supply is deemed to be the time the coin is inserted in the machine and for the supplier, the time of supply is the time when the coins are removed from the machine.

Section 8(3) (a) – Rental agreement. Where goods are supplied under any rental agreement or where services are supplied under any agreement which provides for periodic payment, the supply shall be deemed to be made for successive parts of the period of the agreement and each of the successive supply shall be deemed to take place when a payment becomes due or is received whichever is earlier.

Section 8(3) (b) (ii) – Periodic payments in respect of services in the construction, repair, manufacture, assembly etc - Goods or services supplied in the construction or improvements of other goods and such goods or services are applied under an agreement, which provides for the consideration to become due and payable in instalments periodically in relation to the progressive nature of the work.

These goods or services shall be deemed to be successively supplied and each successive supply shall be deemed to take place whenever any payment becomes due is received or an invoice is issued, whichever is the earliest.

The consideration for each successive supply is the amount of each payment made. An example is the construction contracts where a building contractor is paid as and when an architect's certificate is issued as each stage of the contract is completed.

Section 8(3)(c) – Instalment credit agreement. Time of supply is deemed to take place when the goods are delivered or when the supplier receives any payment whichever is earlier. Value of supply is the cash value of the supply.

16. Value of Supply

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Value of Supply [Section 9(2) & (3)]

It is the value on which VAT is applied. The General Rule is that the value to be placed on a supply of goods or services is the value of the consideration for the supply less so much of that value as represents tax – section 9(2)

If consideration for a supply is wholly an amount of money, the value of supply is based on that amount.

If the consideration for a supply is not in money, the value of supply is the open market value of that consideration.

Consideration is any form of payment in money or in kind in exchange for a supply.
Consideration includes VAT

$$\text{VAT} = \text{Consideration} \times \text{Tax Fraction}$$

$$\text{Value of supply} = \text{Consideration} - \text{VAT}$$

Example - The consideration for a shirt is \$23. Determine the VAT and the value of supply.

$$\text{VAT} = \$23 \times 14.5 \div 114.5 = \$ 2.91$$

$$\text{Value of supply} = \$23 - \$3 = \$20.09$$

Open Market Value is the consideration in money that the supply of those goods or services would generally fetch if supplied in similar circumstances on the relevant date in Zimbabwe if the supply were freely offered and made between persons who are not connected persons – section (3(2)). The open market value can be the consideration in money that a similar supply would generally fetch if supplied in similar circumstances by unconnected persons on the relevant date in Zimbabwe. (3(4))

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Value of Supply Among Connected Persons – Where goods or services are supplied for a nil consideration or for a consideration less than the open market value and the supply is among connected persons the value of supply is determined as follows:

- a) if the recipient can claim input tax - the value of supply is the consideration
- b) if the recipient cannot claim input tax – the value of supply is the open market value

A recipient cannot claim input tax if he/she is a non-registered operator or the goods or services will be used for the purposes of making non-taxable supplies in the case of a registered operator.

Example - John Murinda, a registered operator, supplied goods to his brother. The consideration was \$450 while the open market value was \$980. The brother is not a registered operator. What are the VAT implications?

Solution - VAT should be accounted for on the OMV since the recipient is a connected person

Gift Vouchers- In terms of **section 9(16)** when a gift voucher / token is issued, the transaction is ignored for VAT purposes. If the gift voucher / token is surrendered, it operates as a cash payment for the goods / services concerned.

Retail tokens and tickets – section 9(17)

- When a dealer issues tokens that may be exchanged for specific goods or services e.g. milk tokens or tickets for entertainment events – the issue of the token is a taxable supply at the consideration paid for the token.
- The surrender of the token in exchange for the goods / services is then disregarded for VAT purposes except when the additional amount is payable or a refund granted.
- In such a situation VAT is due on the additional amount or the refund is treated as a discount / price reduction depending on the circumstances.

Manufacturers' discount stamps and vouchers section 9(18)

- If a manufacturer issues stamps / vouchers entitling the recipient to a discount on future purchases, the issue is ignored for VAT purposes.
- The surrender of such stamps / vouchers to the dealer will be valued for VAT purposes including the face value of the stamp / voucher. The stamp or voucher is simply part payment / consideration for the goods.
- Such stamps / vouchers are usually referred to as “discount vouchers” and are issued as a gift at the time of a sale.

Example - If a customer is given a “10 % off” voucher by the manufacturer for a bar of soap which normally costs \$1 including VAT, the manufacturer is only required to account for VAT of 13c on \$1. The bar of soap therefore costs the customer 87c plus 13c VAT = 13c. The customer pays 90c (i.e. \$1 – 10c) in cash.

Section 9(21) - Where a taxable supply is not the only matter to which a consideration relates, the supply shall be deemed to be for such part of the consideration as is properly attributable.

Supply for no consideration - Section 9 (23) - Where any supply is made for no consideration, the value of supply is NIL. Note that different rules may apply for connected persons.

A consideration may either be in money or in kind (e.g. barter trade). Where the consideration is:

- a) in money, the amount of money
- b) in kind, the open market value of the consideration

Examples

- Goods or services are exchanged for other goods or services and the consideration is expressed in monetary terms – *consideration is the amount of money*.
- Goods or services are exchanged for goods or services and no monetary amount is mentioned (e.g. a cow for a pig) – *the consideration is the open market value of the goods or services exchanged*.

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- Goods or services are exchanged, and the consideration is expressed only partly in money (e.g. a pig plus \$80) – *the consideration includes the money and the open market value of the goods (pig)*

UNIT D - ZERO-RATED AND EXEMPT

17. Objective of Study Unit

- Understand which supplies are zero-rated.
- Understand which supplies are exempt.

18. Zero-Rated Supplies

Since a zero-rated supply is a taxable supply, registered operators making zero rated supplies may claim full input tax credit in respect of goods or services acquired to make zero rated supplies.

Zero rating applies primarily to exports and to certain other types of transactions which should not bear VAT for social and economic reasons.

Zero rating means that VAT on goods or services is levied at the rate of 0%.

- The zero rating of many of the activities is dependent upon either the activities themselves or the recipient of the supply being located in an export country.
- A registered operator who supplies zero-rated goods or services can apply for VAT registration.
- Where the person is registered, input tax is claimed.
- Where a rate of zero *per centum* has been applied by any registered operator under a provision of this section, the registered operator shall obtain and retain such documentary proof substantiating the registered operator's entitlement to apply the said rate under that provision as is acceptable to the Commissioner. [10(3)]

Exports

Where a registered operator supplies movable goods in terms of a sale or instalment credit agreement and those goods are exported, the supply of those goods is zero-rated – section 10(1)(a)

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Zero rate exports can be put into two categories i.e. Direct and indirect exports. Direct exports are defined in paragraph (a) and (b) of the definition of exported and indirect exports are in paragraph (d) of the same definition.

‘Export country’ means any country other than Zimbabwe and includes any part of Zimbabwe declared in terms of subsection (1) of Section 20 of the Export Processing Zones Act (Chapter 14:07) to be an export-processing zone – Section 2 refers. *The EPZ Act was repealed by the ZIA Act*

Exported

For goods to be exported, they must be sold for cash or on credit, or sold or let under an instalment credit agreement and one of the four circumstances set out below must exist: -

- The goods must be consigned or delivered by the registered operator to the customer / recipient at an address in an export country.
- The goods must be delivered by the registered operator to the owner or charterer of any aircraft. The aircraft must be going to a destination in an export country and the goods must be for use or consumption in such aircraft.
- The goods must be removed from Zimbabwe by the recipient who is a Zimbabwean resident, for conveyance to an export country in accordance with export incentive schemes approved by Minister
- The goods must be removed from Zimbabwe by the recipient who is not a Zimbabwean resident for delivery to an export country. These are indirect exports.

Indirect Exports

The goods must be removed from Zimbabwe by the recipient who is not a Zimbabwean resident for delivery to an export country. The goods shall be charged at zero *per centum*;

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Provided that –

- a) registered operators seeking to benefit from zero rating of goods sold to non-residents in terms of paragraph (d) of the definition of “exported”; shall satisfy the Commissioner that they will comply with all exchange control regulations relating to export of goods;
- b) where the Commissioner is satisfied that the goods referred to in paragraph (d) of the definition of “exported”, were not taken out of Zimbabwe, the seller of such goods shall become liable to the tax calculated at the prescribed rate;
- c) the tax shall –
 - (i) be debts due by the seller to the State; and
 - (ii) be sued for and recovered by action by the Commissioner in any court of competent jurisdiction”

The supply of goods used for the repair, modification or treatment of certain items temporarily admitted into Zimbabwe is zero-rated if the goods supplied are fixed to or physically form part of the goods attached to the admitted goods or Are consumed in the service concerned – section 10(1)(b).

The admitted goods in question are either foreign going aircraft or goods temporarily admitted into Zimbabwe - [section 10(2)(g)(iii) & (iv)]. Foreign-going aircraft means any aircraft engaged in the transportation for reward of passengers or goods wholly or mainly on flights between airports in Zimbabwe and airports in export countries or between airports in export countries;

The foreign-going aircraft can be owned by a company in Zimbabwe or a company outside Zimbabwe.

The goods temporarily admitted should: -

- Be used for processing, repairing, reconditioning or for manufacture of goods exclusively for export.
- Not become the property of the importer
- Be for specific purposes

[1st Schedule Part 11]

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Example

JJ Munda Ltd has a contract to repair South African Airways aeroplanes in Zimbabwe. JJ purchases spares, oils and machinery from Jagers Msasa for use in repairing the aeroplane. Explain how VAT is charged in the above transactions.

Solution

Jagers will charge VAT to JJ Munda Ltd at 14.5% and JJ Munda Ltd will charge VAT to South African Airways at 0%.

Gold supplied to the Reserve Bank of Zimbabwe - Section 10(1)(f)

Gold in the form of bars, blank coins, ingots, buttons, wire, plate or granules or in solutions is zero rated if supplied to the Reserve Bank of Zimbabwe or any bank registered under the Banking Act

The gold must not have undergone any process of manufacture other than the refining or manufacture or production of such bars, blank coins etc.

Specified Goods

The supply of certain specified goods e.g. basic foodstuff and goods for the disabled persons as set out in the 2nd Schedule part I, II and III is zero rated – section 10(1)(g)

Where any of the food stuff is supplied by any person in providing or serving any meal, refreshment, cooked or prepared food for purposes of immediate consumption the sale thereof is not zero rated.

Goods supplied to branches outside Zimbabwe

The supply of goods by a registered operator to or for the purpose of his branch or main business in an export country is zero rated if that branch or main business is permanently located outside Zimbabwe and it is separately identifiable; and maintains an independent system of accounting – Section 10(1)(h)

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An independent system of accounting takes its ordinary meaning. An independent system of accounting is one that will produce or is capable of producing the results of each branch without relying on the accounts of the parent entity or another branch or any other entity. It does not mean simply another cost centre in the parent's accounts

Example - A manufacturer of goods in Zimbabwe can transfer goods to its independent branch in a foreign country without having to account for output tax in respect of the transfer.

Activity 3: ZERO RATED GOODS

Please state whether the following is zero rated or standard rated

- Export of gold to south Africa
- Supply of gold to Barclays Bank of Zimbabwe by a registered operator
- Plain bread sales by TM Supermarket
- Supply of cooking oil, raw meat(beef), salt
- Sale of clothing by Express stores
- Sale of a residential stand by Pinnacle Property Holdings
- Sale of fried eggs by OK Zimbabwe
- Supply of fish from Kariba by OK Zimbabwe
- Supply of cell phones by Edgars stores

19. Zero Rated Services

Transport services - The services comprising the transportation of passengers or goods from a place: -

- outside Zimbabwe to a place outside Zimbabwe; or
- in Zimbabwe to a place in an export country; or
- in an export country to a place in Zimbabwe

This covers international transport by air, rail or road of goods or passengers. Where passengers are transported by air from one place in Zimbabwe to another place in Zimbabwe and such transport constitutes international carriage, then such transport is zero-rated. The

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local transport must contractually be supplied by the supplier of the international service – Section 10(2)(b)

Example - A flight from Victoria Falls to Bulawayo being part of an International flight from Victoria Falls to Frankfurt.

‘Ancillary transport services’ means cargo inspection services, preparation of customs documentation and storage of transported goods or goods to be transported – Section 2

The transportation including ancillary transport services of goods from one place in Zimbabwe to another place in Zimbabwe is zero rated to the extent that:

- The transport or ancillary transport services are supplied by the same supplier; and
- As an integral part of his service of providing transportation of passengers or goods to and from Zimbabwe (international transport) – Section 10(2)(c)

The services should be provided by the same supplier in a contractual sense and not physically.

Example

JJ Mann, in Bulawayo, contracts with Manica Freight Forwarders and Clearing agent, to export its goods to Cape Town (RSA). Manica contracts Bevan Haulage to transport the goods from Bulawayo to Beitbridge and NRZ to transport the goods from BB to SA. Manica is acting as principal in all cases. Which transactions are zero rated?

Solution

Bevan Haulage will charge VAT to Manica on the local transport service. Manica will claim input tax. NRZ will zero rate the service to Manica as it is providing an international transport service. Manica will zero rate all the service on the invoice to JJ Mann.

The services comprising the transportation of goods or any ancillary transport services are zero rated if;

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- They are supplied directly to a person who is neither a resident of Zimbabwe nor registered for VAT
- Otherwise than through an agent – Section 10(2)(e)

The service should be provided to the non-resident directly and not through an agent. This is to cater for the foreigner who does not use a local agent who could claim back input tax paid on his behalf. The services should be rendered directly in connection with:-

- The exportation of goods from Zimbabwe
- The importation of goods to Zimbabwe or
- The movement of goods through Zimbabwe from one export country to another export country.

Services in Relation to Land in An Export Country

Services of any kind whatsoever rendered directly in relation to land or improvements physically located in any export country are zero-rated. The services will be zero rated even if actually performed in Zimbabwe – Section 10(2)(f)

Example - The commission earned by a Zimbabwean estate agent for negotiating the sale of property in an export country would be zero-rated.

Intellectual Rights - The following services will be zero rated to the extent that those rights are for use outside Zimbabwe: -

- services relating to the filing, prosecution, granting, maintenance, transfer, assignment, licensing or enforcement of intellectual property rights and the incidental supply of any other services which are necessary for the supply of such services; or
- the acceptance by any person of an obligation not to pursue or exercise such rights - Section 10(2)(m)

Example - Road-To-Firm P/L produced a water pump for use in rural areas and registered the patent in Zimbabwe. In July 2020 the company entered into a royalty agreement with a South

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African company which will use the patent in producing the water pumps in other African countries excluding Zimbabwe. The South African company paid R40, 000.

The fee paid by the South African company is zero-rated as the patent will be used outside Zimbabwe.

Note - Services comprising the acceptance by any person of an obligation to refrain from carrying on a trade in Zimbabwe is excluded from zero rating e.g. restraint of trade

Services by Private Non-governmental Organisations

Services Supplied to Branches outside Zimbabwe

The supply of services by a registered operator to or for the purpose of his branch or main business in an export country is zero rated if

- that branch or main business is permanently located outside Zimbabwe and
- it is separately identifiable; and
- maintains an independent system of accounting [Sect 10 (2) (0)]

Transfer Payments by the State

The receipt of “**transfer payments**” from Public or Local Authorities is zero-rated. In essence, transfer payments are amounts paid out by the state for which it does not receive any goods or services in return – Section 10(2) (p). The transfer payments can be grants, subsidies, aid etc. This section entitles the registered operator to obtain and retain all documentary proof substantiating his right to apply the 0% - Section 10(3)

Tourist Services – section 10(2) (q). Services supplied by Tourist designated facilities, backpackers’ lodge, boarding house or operator of hunting safari to a non-resident, who pays in foreign currency, are zero rated.

These ‘tourist-designated facilities’ include:

- hotels, restaurants, lodges and places of like nature

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- tour operators
- game parks etc

In most instances the tourists purchase tour packages. The supply of a tour package should not be broken into its component parts. Where the tourist purchases any other goods outside the tour package VAT is chargeable. Services acquired outside the tour package may qualify for zero-rating if supplied by a designated tourist facility.

Pipeline Transport Services – VAT Regulations

Fixed Charges on Commercial and Domestic Electricity - VAR Regs

20. Exempt Supplies

Exempt supplies are those supplies on which no VAT is chargeable; some of which are given below:

- These include financial services as defined in terms of section 2 of the Act
- The supply of accommodation in a dwelling
- The supply of leasehold land by way of letting to the extent that it is used for accommodation in a dwelling.
- The supply of educational services or any training services in respect of any educational institution registered with the responsible Ministries of Education.
- The supply of medical services by any person or institution
- The transportation of fare paying passengers and their luggage by road or rail in the country
- The supply of goods or services as prescribed in the VAT Regulations e.g. rates charged by a local Authority etc. Refer to Part 1, 1st Schedule to the VAT Regulations

A trader of exempt supplies though meeting the threshold is not required to register for VAT.

Summary

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A supplier who deals exclusively in exempt supplies cannot register for VAT. VAT paid on the purchase of inputs used in the production of exempt supplies is not claimable.

Where a supplier deals in both exempt and taxable supplies he can register for VAT if taxable supplies meet the threshold, or he voluntarily opts for registration. This also raises the issue of apportionment, on claiming input tax credit The Registered Operator has to prorate his input tax credit claim. Exemptions also apply on imports.

Activity 4: True or False

Give answers to the following statements by stating whether it's **true or false citing the correct legislation. [18 marks]**

- a) The provision of education services by Harare Polytechnic to students at the college is exempt from VAT.
- b) The transport of fare paying passengers by road from Bulawayo to Harare by ZUPCO is zero-rated.
- c) The disposal of a second-hand passenger motor vehicle by registered operators is subject to VAT at 14.5%
- d) The time of supply of goods supplied through a lay by agreement is the earlier of an invoice or any payment being received by the registered operator.
- e) The provision of sewerage and refuse removal by Harare City Council is standard rated
- f) A supply of goods under a lay by agreement of goods valued at \$125 is deemed to take place at the time the goods are delivered.
- g) The value of supply in respect of goods which are deemed to have been supplied on cessation of trade is the open market value.
- h) The general rule of time of supply is the earlier of the date of the issue of an invoice by the supplier or recipient or the date any payment is received
- i) VAT charged by registered operators to customers in the course of trade is claimed as input tax.

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- j) A registered operator who ceases to trade with assets and stock on hand accounts for output tax in respect of such assets/stocks on hand.
- k) The provision of domestic piped water by Harare City Council is zero-rated.
- l) The disposal or sale of residential stands by a local authority registered for VAT is standard rated.
- m) A person who supplies exempt supplies exclusively cannot register for VAT
- n) The provision of transport services by a registered operator to transport goods from Zimbabwe to South Africa is exempt from VAT.
- o) Plain bread is exempt from VAT.
- p) A hire of a vehicle with or without a driver is deemed to be a supply of a service
- q) The definition of Trade excludes services provided by Local Authorities
- r) The supply of leasehold land by way of letting where the land is to be used for constructing a shopping complex is exempt from VAT.

Unit E - Calculation of VAT

21. Objective of Study Unit

- Understand how to calculate Value Added Tax.
- Understand the deduction of input tax.
- Understand which deductions are not permissible.

22. Calculation of Tax

Section 15 provides the formula for determining the VAT payable by or refundable to the registered operator during a tax period and outlines the requirements for claiming input tax deduction and describes circumstances in which input tax may be granted.

Calculation of tax payable [Sec 15 (1)]

Generally, the tax payable as determined by this section shall be in respect of each tax period during which the registered operator has carried on trade.

The tax is payable by every person who, on or after the fixed date, carries on any trade and is registered in respect of that trade or is not registered but is required to be registered. (Refer to definition of registered operator in terms of section 2).

Documents required for claiming input tax [Sec 15 (2)]

A registered operator is allowed to claim input tax if on the date of submission of the VAT return is in possession of the relevant documents in respect of the supply of goods or services or importation of goods into Zimbabwe.

The registered operator is required to claim the input tax on all tax invoices obtained by the end of the tax period.

- Where the transaction is a supply of goods or services – the applicable tax invoice, debit note or credit note [Section 15(2)(a)], within the tax period or 12 months whichever is the longer period and is held by such registered operator
- In the case of supplies under US\$10 or the prescribed amount, no tax invoice is required. Any other documents are sufficient e.g. receipt or till slips [Section 20(5)].

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- Where the transaction relates to progressive taxable supplies and such supplies are made in accordance with a written contract such as insurance, rentals, construction etc. the contract document is sufficient. The contract document should contain the supplier's name, address and VAT number; and the recipient should retain proof of payment of each regular amount in the form of bank statement or paid cheques. [Section 20(6)] as read with the Regulations.
- The document in respect of repossessed goods under an instalment credit agreement and second-hand goods. [Section 7(9)] or [Section 20(7)]
- In the case of importation of goods – the Bill of Entry or any other prescribed document.

Where records are not kept by the registered operator for a period of six years, in accordance with section 57(3), the Commissioner may disallow the claiming of input tax.

The documents required in terms of paragraph (a) and (b), whether in their original form or in the form authorised by the Commissioner shall be kept for a period of six years.

Calculation of Tax Payable or Refundable [Sec 15 (3)]

The amount of tax payable by the registered operator in respect of a tax period shall be calculated by deducting from the total amount of output tax any sum of input tax incurred in any particular tax period. This is often referred to as the VAT Formula

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Exercise

PP Ltd a dealer for computer shop made and received supplies as shown below:

	Value Of Supply	Output Tax
<u>Receipts:</u>		
Cash sales	556,000	
Credit sales	256,000	
Commission received	325,000	
Bank Interest received	145,000	
Total output tax		
<u>Expenses:</u>		Input Tax
Trade purchases	56,000	
Advertising	25,000	
Telephone	35,000	
Motor vehicle servicing	65,000	
Total input tax		
Tax Payable or refundable		

Calculate the tax payable or refundable.

Solution

	Value Of Supply	Output Tax
<u>Receipts:</u>		
Cash sales	556,000	80 620
Credit sales	256,000	37 120
Commission received	325,000	47 125
Bank Interest received	145,000	21 025
Total output tax		185 890
<u>Expenses:</u>		Input Tax
Trade purchases	56,000	(8 120)
Advertising	25,000	(3 625)
Telephone	35,000	(5 075)

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Motor vehicle servicing	65,000	(9 425)
Total input tax		(26 245)
VAT Payable		159 645

23. Input Tax Claims

The following input tax is deductible in respect of any particular tax period:

- a) Local purchases and expenses – Input tax in respect of the supply of goods and services made to a registered operator during the tax period excluding supplies of second hand (fixed property). This relates to local purchases of goods and services from another registered operator – section 15(3) (a) (i). Examples of items on which you can claim input tax are: raw materials, plant and equipment, accounting fees, electricity charges etc.
- b) Imported goods – Input tax charged in respect of imported goods – section 15(3)(a)(iv)
- c) Credit and debit notes - Input tax in respect of any credit note issued during the tax period, where the registered operator has previously overstated output tax and the registered operator has not made an adjustment in a subsequent tax period – section 21(2)(b) and 15(3)(a)(v)
- d) Where input tax is denied because the registered operator does not have a tax invoice the input tax is claimed when such document is obtained but not later than 12 months – section (15(3)(f))
- e) Bad debts - Input tax is claimed on bad debts that are irrecoverable and would have been written off – section 22. In the case of an instalment credit agreement, the input tax deduction is restricted to the VAT in respect of that portion of the cash value which has become irrecoverable.

Exercise

James Bond, a registered operator, supplied the following information:

- Bad debts not written off \$350,000
- Doubtful debts \$650,000
- Bad debts written off \$125,000

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Calculate the input tax that can be claimed.

Solution

Input tax claimable: $14.5\% \times 125\,000 = 18\,125$

Note: input tax is claimed on bad debts that have proven to be bad and are irrecoverable. No input tax can be claimed on doubtful debts and bad debts not written off.

- f) Where a bar of soap normally cost \$1 including VAT and a customer tenders a '20c off' voucher issued by Unilever South East Africa. The supplier of the soap must account for output tax on \$1.

The output tax is $14.5/114.5 \times \$1 = 13c$

When the dealer subsequently claims the amount of the discount voucher of 20c from Unilever, a deduction of input tax is granted to Unilever

Input tax $= 14.5/114.5 \times 20c = 3c$

- Input tax can be claimed in any later tax period but not later than 12 months if it is not claimed in any earlier tax period. (15(4)(a))
- Input tax in respect of second hand goods which is to the extent of the payment made to such goods – section 15(4)(b)
- Output tax is accounted for with respect to the tax period in which the supply is made or deemed to be made. Output tax cannot be declared in a later tax period – section 15(5)(a)
- Output tax on fixed property shall be accounted to the extent to which payment in relation to the purchase price has been made during the tax period – section 15(5)(b)

- Refund shall be made where the amounts of input tax, plus any credit carried forward is greater than the amounts of output tax and such excess amount exceed the amount of refund as prescribed will be refunded to the R/O – section 15(6)

24. Permissible and Prohibited Deductions

Section 16(1) allows for apportionment of input tax where goods are acquired and used for both taxable and non taxable purposes. Input tax is allowed to the extent to which the goods or services are used for purposes of making taxable supplies.

- Where the intended use of goods or services in the course of making taxable supplies is equal to not less than ninety per centum of the total intended use of such goods or services, the goods or services shall be deemed to have been acquired wholly for the purpose of making taxable supplies. (*Deminimus rule*). This therefore means allow full input tax claim.
- Where goods or services are successively supplied, input tax may be estimated where the calculation cannot be made accurately until the completion of the supply of the goods and services, and in such case such estimate shall be adjusted on completion of the supply e.g. a registered operator who estimates that the goods or services are being used 90% for making taxable supplies turns out that they were applied 75% for taxable use. Date of purchase operator would have claimed 100% and then later need to adjust on the 25% as output tax on completion of the project.

Note: The apportionment in this case shall be based on turnover. Any other basis shall be subject to approval by the commissioner.

Prohibited Deductions – Section 16(2)(a)

- Section 16(2) (a) Registered operators are not allowed to claim input tax in respect of goods or services acquired for the purpose of entertainment.

Permissible Deductions – proviso to section 16(2)(a)

Input tax claim is allowed in the following circumstances:

- goods or services are acquired by such registered operator to the extent that such goods or services are acquired for the purposes of entertainment which continuously or regularly supplies entertainment to clients or customers for a consideration to the extent that such taxable supplies of entertainment are made for a charge which covers all the direct and indirect costs of such entertainment or is equal to the open market value.
- Bona fide promotional activities not charged by the registered operator in respect of the supply to recipients who are clients or customers in the ordinary course of trade of entertainment continuously or regularly supplied to clients or customers for a consideration.
- Food left over which had initially been acquired for making taxable supplies of entertainment and are subsequently made to any employee of the registered operator or to any private voluntary organisation as all such food was not consumed in the course of making taxable supplies.
- Entertainment supplied to any employee or office holder of the registered operator or any connected person, to the extent that such taxable supplies of entertainment are made for a charge which covers all direct and indirect costs of such entertainment.
- Expenditure in respect of personal subsistence incurred by a registered operator in respect of any night that such registered operator or member is by reason of the registered operator's trade or in the case of such employee or office holder, he is by reason of the duties of his employment or office, obliged to spend away from his usual place of residence. Note that this shall not however extend to expenditure for amusement or recreation.

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- Goods or services consist of a meal or refreshments supplied by a registered operator to a passenger during a journey, if such meal or refreshment is supplied as part of or in conjunction with the transport service supplied by the registered operator and the supply of such service is a taxable supply e.g. Air Zimbabwe flights
- Goods or services consist of a meal or refreshment supplied by the registered operator as organizer of a seminar to participants of that seminar and a charge which covers the cost of such meal or refreshments is made by the registered operator to the recipient.
- Goods or services are acquired by a local authority for the purposes of providing sporting or recreational facilities or public amenities through the payment of a subsidy
- Goods or services are acquired by a private voluntary organisation for the purposes of making supplies in fulfilment of its object.
 - Section 16(2) (b) Fees or subscriptions paid by the Registered Operator in respect of membership of any club, association or society of a sporting or recreational nature.
 - Section 16(2) (c) Goods or services acquired by a Superannuation Scheme (Benefit Fund) for the purposes of the supply by such scheme of any medical or dental services.
 - Section 16(2) (d) Passenger motor vehicle supplied to or imported by the registered operator.

Provided that this paragraph shall not apply where such motor vehicle is acquired by the registered operator—

- (i) exclusively for the purposes of the trade or in the production of income of the registered*

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(ii) operator and of a type specified in the Charging Act or in regulations made in terms of Section seventy-eight; in the ordinary course of his or her trade as a motor dealer.

For the purposes of this paragraph a motor vehicle acquired by such registered operator for demonstration purposes or for temporary use prior to a taxable supply by such registered operator shall be deemed to be acquired exclusively for the purpose of making a taxable supply.

Notwithstanding anything in subsection (5) of section *fifteen*, where a registered operator has made a supply of goods as contemplated in subsection (9) of section *seven (repossession)* and in respect of the acquisition thereof by the registered operator a deduction of input tax under subsection (3) of section *fifteen* was denied in terms of subsection (2) of this section, the registered operator shall not be required to account for output tax in relation to such supply.

Activity 7: Apportionment of Input Tax (mixed trade) [15 Marks]

Tambo P/L is a registered operator in Category C. The company owns a 15-storey building in Harare which provides for both 60% commercial letting and 40% residential flats. Rentals for the month of November 2021 were \$15,000 excluding VAT for commercial letting and \$10,000 residential flats. The company incurred the following expenses inclusive of VAT.

• Repainting the whole building	• <u>\$7000</u>
• Water charges	• <u>\$2500</u>
• Plumbing services	• <u>\$5000</u>
• Municipal owners rates	• <u>\$1500</u>
• Estate agent commission	• <u>\$9000</u>
• Electrical repairs	• <u>\$1200</u>
• Accounting services	• <u>\$5000</u>
• Security services	• <u>\$3000</u>

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Calculate the VAT payable/refundable for the month of November 2021 return.

Rental (commercial)	$10,000 \times 14.5\% \times 9$	13,050	
Rental (residential)	Exempt	0	
Repainting the whole building	$\$7000 \times 14.5/114.5 \times 60\%$	(531,84)	2
Water charges	Exempt	0	2
Plumbing services	$\$5000 \times 14.5/114.5 \times 60\%$	(379,91)	2
Municipal owners' rates	Not charged	0	2
Estate agent commission	$\$9000 \times 14.5/114.5 \times 60\%$	(683,84)	2
Electrical repairs	$\$1200 \times 14.5/114.5 \times 60\%$	(91,18)	2
Accounting services	$\$5000 \times 14.5/114.5 \times 60\%$	(379,91)	2
Security services	$\$3000 \times 14.5/114.5 \times 60\%$	(227,95)	2
Total refundable		10,755	1