

## STUDY UNIT B – VALUE ADDED TAX

### INTRODUCTION



Value Added Tax (VAT) is an indirect tax levied on the consumption of goods and services. The tax is levied regardless of a taxpayer's income earning capacity and is collected by an intermediary. It represents tax on the "Value added" to a product throughout its production process.

### OBJECTIVE OF STUDY UNIT

- Understand what Value Added Tax is.
- Understand and discuss how and when Value Added Tax is charged.
- Discuss the different classifications of supplies.
- Discuss the administrative requirements of Value Added Tax.
- Discuss the impact of any changes that occur in the use of supplies to Value Added Tax.
- Define Key definitions in the VAT Act.
- Application of the VAT formula.
- Identify and discuss the VAT treatment of deemed supplies.
- Identify and apply the value of supply rules.
- Identify and apply the time of supply rules.
- Identify zero rated and exempt supplies.
- Calculation of VAT on imported goods and services.
- Discuss adjustments i.e., how they arise and the VAT treatment.

### STUDY MATERIAL

- Tax legislation Handbook.

## COMPETENCE FRAMEWORK EXPECTATION

### Professional Competences

- a. Ethical Behaviour
- b. Personal Attributes
- c. Critical thinking skills
- d. Problem solving skills

### Technical Competences

The relevant tax strategy concepts within the VAT framework to maximise tax benefits:

- Exemptions
- Deferment
- Options

| VII-2.2 CALCULATES VALUE ADDED TAX (VAT)   |   |                               |
|--|---|-------------------------------|
| COMPETENCE   | REQUIREMENTS  | LEVEL                         |
| 1. Identifies and determines the appropriate output and input tax                      | <p>Calculates VAT for the different categories of supplies e.g., standard rated supplies, deemed supplies, exempt supplies, zero rated supplies</p> <p>Adjustments interaction with other taxes, for example transfer duty (refer to the exclusions as set out in the annual list of examinable pronouncements)</p> <p>Calculates the VAT payable / refundable.</p> | Level X                       |
| 2. Identifies and discusses specific tax planning opportunities for taxpayers          | <p>Identifies and applies two or more options or alternatives.</p> <p>Identifies the alternative courses of action with their corresponding opportunities and risks.</p>  | Level I                       |
| 3. Applies and interprets tax legislation by applying relevant decisions of the courts | <p>Identifies the tax issue requiring interpretation.</p> <p>Identifies and describes the relevant tax case law principle that is applicable to support the interpretation.</p> <p>Applies the case law principles in advising and calculating taxes of taxpayers.</p>  | Level I                       |
| 4. Practises effective tax administration  | <p>Identifies the compliance and filing requirements and deadlines for the taxpayer in relation VAT.</p> <p>Describes standard administrative requirements</p>  | <p>Level I</p> <p>Level A</p> |

## VII-2.2 CALCULATES VALUE ADDED TAX (VAT)

| COMPETENCE | REQUIREMENTS  | LEVEL   |
|------------|---|---------|
|            | Prepares information for compliance and responds to administrative requirements | Level A |

## EXAMINATION POSSIBILITIES

Discussion and calculation questions that will require the student to demonstrate the appropriate level of competence.

## ASSUMED KNOWLEDGE

After the completion of the first year of your postgraduate studies, you should have a basic knowledge and understanding of VAT. In the VAT study unit, you should concentrate on those areas that were not covered in your previous studies, application of theory to practical situations and mastering of complex issues.

## INTEGRATION

VAT can be integrated with all the other taxes i.e., Income Tax, Capital Gains etc, often a student will have to be able to determine whether an amount contains VAT or not before dealing with the other issues. VAT can also be integrated with financial accounting and reporting, for example accounting for an asset in the accounting books should be net of refundable taxes like VAT if VAT Input tax was claimed by a VAT operator for that asset. This is in line with IAS 16 Property Plant and Equipment requirements in determination of the cost of an asset. IFRS 15 Revenue from Contracts, amounts collected on behalf of third parties such as VAT are not economic benefits that which flow to the entity and do not form part of revenue and are accordingly not recorded as revenue.

## Changes emanating from 2023 Budget Proposals

- Deferment of VAT threshold increase from USD500,000 to USD1million with effect from 1 January 2023.
- Change of rate from 14.5% to 15% with effect from 1 January 2023.

## Areas to note from the changes emanating from 2022 Budget Proposals

## Restrictions for claiming input tax

The restrictions are placed on the claiming of VAT input tax as follows:

- With effect from the 1st of January 2022, a tax invoice shall mean a fiscal tax invoice strictly printed by a fiscalised electronic register or fiscal memory device used by a registered operator.
- With effect from the 1st of January 2022, a compliant VAT input tax invoice is now strictly required to contain the words "fiscal tax invoice" in a prominent place.
- No tax clearances will be issued to operators who are not fully interfaced.

## COURSE NOTES

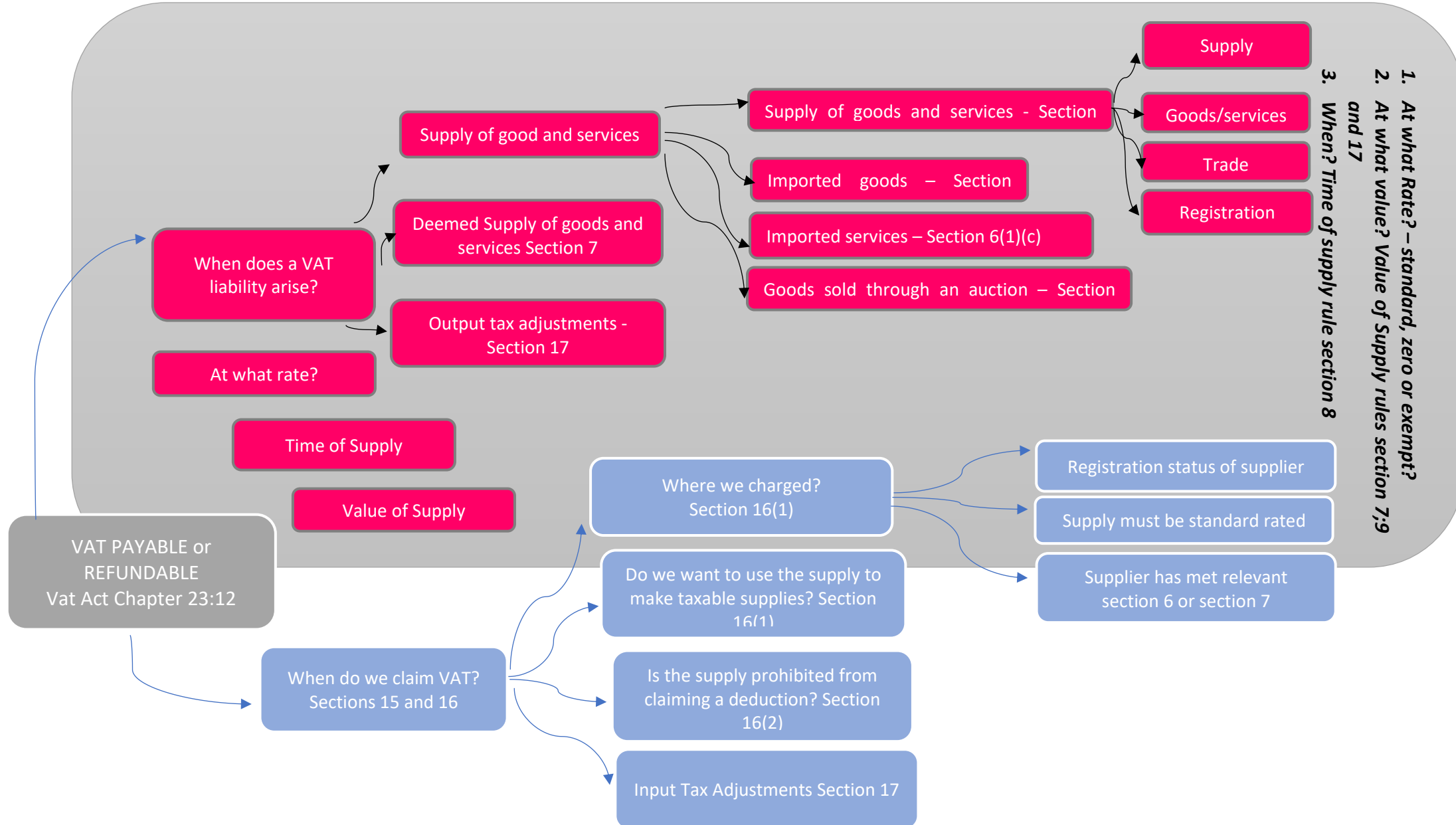
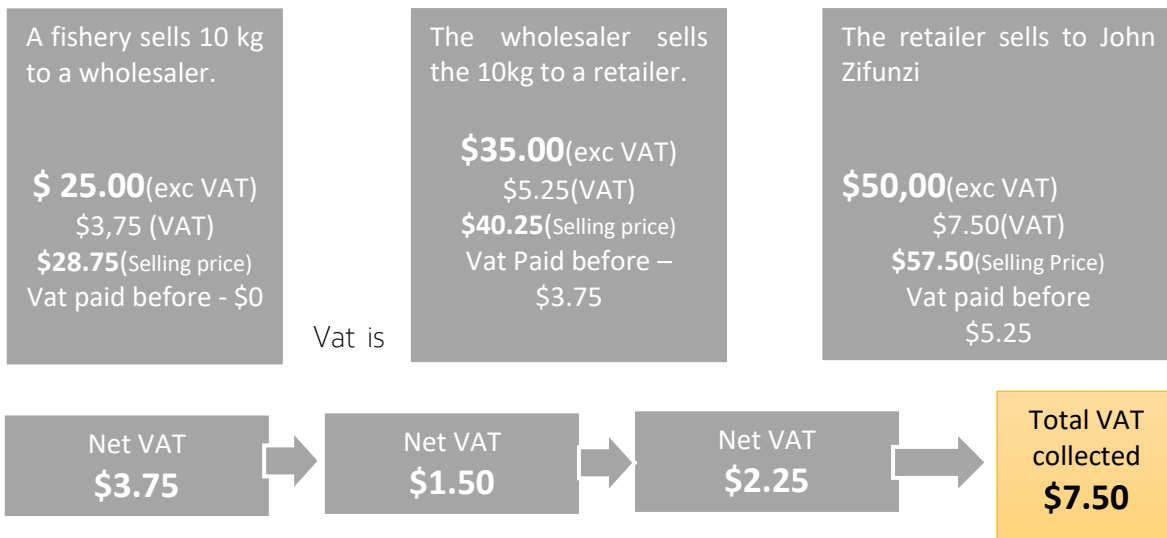


Illustration:



***Please note that the tax is not premised on the identity of the taxpayer but on the supply of the goods i.e., the fish. Student often focus on the taxpayer instead of the supply.***

collected at the three stages where value is added i.e., from fishery to wholesaler, from wholesaler to retailer and from retailer to consumer. The total of the net VAT collected at every stage of the value addition stages is finally borne by the final consumer of the goods i.e., \$7.50.

## Key Definitions/Interpretations – Section 2

To understand the operational aspects of the VAT Act, we first need to go through some key terms as defined in the Act. It is therefore important that when students identify instances where these terms are referred to in later sections of the chapter, they need to interpret their meaning with reference to the definitions below.

| TERM                         | INTERPRETATION   |
|------------------------------|--|
| Ancillary transport services | Means cargo inspection services, preparation of customs documentation and storage of transported goods or goods to be transported.   |
| Association not for gain     | Means <ol style="list-style-type: none"> <li>1. any religious institution of a public character (e.g., Roman Catholic Church); or</li> <li>2. any other society, association, organization, or educational institution of a public character, whether incorporated or not, which—               <ol style="list-style-type: none"> <li>i. is not carried out for the purposes of profit or gain to any proprietor, member or shareholder;</li> <li>ii. any property or income is utilized for the furtherance of its aims and objects;</li> </ol> </li> </ol> Examples of associations not for gain would include: <ol style="list-style-type: none"> <li>i. Government schools;</li> <li>ii. Mission Schools and hospitals</li> </ol> |
| Capital goods                | Means any asset, or any component of any asset, which is of a character subject to a deduction of expenditures incurred as provided in terms of <i>paragraphs (c) and (f) of subsection (2) of Section 15</i> of the Income Tax Act;<br><b>Examples include:</b> <ol style="list-style-type: none"> <li>a) Commercial buildings;</li> <li>b) Farm improvements;</li> <li>c) Machinery and utensils;</li> <li>d) Capital expenditures as defined in the <i>5<sup>th</sup> Schedule</i> of the Income Tax Act.</li> </ol>  |
| Connected persons            | The following are connected persons for the purposes of the VAT Act: <ol style="list-style-type: none"> <li>a. Near Relatives (refer to interpretation of near relatives in the Income Tax Act);</li> <li>b. A trust and its beneficiaries;</li> <li>c. A partnership and its members;</li> <li>d. A company and a shareholder with more than 5% equity interest;</li> </ol>   |

| TERM                        | INTERPRETATION  |
|-----------------------------|---|
| Financial Service means     | <ul style="list-style-type: none"> <li>• any service provided by a banking institution registered or required to be registered in terms of the Banking Act [Chapter 24:20]; or</li> <li>• any service provided by a building society registered or required to be registered in terms of the Building Societies Act [Chapter 24:02]; or</li> <li>• the provision of any deposit, loan, or credit, including the provision of any guarantee, indemnity, security or bond in respect of the performance of obligations related to a deposit, loan or credit; (for example if Entity X sales goods on credit and charges interest for the credit, then Entity X would have provided a financial service to the extent of the interest charged) or</li> <li>• the issue or transfer of ownership of any share in a company or interest in a private business corporation; or</li> <li>• services rendered by an insurer registered in terms of the Insurance Act [Chapter 24:07];</li> </ul> <p>the services of an actuary, insurance agent, insurance broker as defined in the Insurance Act [Chapter 24:07] or fund administrator as defined in the Pension and Provident Funds Act [Chapter 24:09], to the extent that those services are rendered to or on behalf of an insurer registered in terms of the Insurance Act [Chapter 24:07] or to or on behalf of a pension fund registered in terms of the Pension and Provident Funds Act [Chapter 24:09].</p> |
| Instalment Credit agreement | <p>means any agreement entered into on or after the fixed date whereby any goods consisting of corporeal movable goods or of any machinery or plant, whether movable or immovable are supplied under a sale under which—</p> <ul style="list-style-type: none"> <li>• the goods are sold by the seller to the purchaser against payment by the purchaser to the seller of a stated or determinable sum of money at a stated or determinable future date or in whole or in part in instalments over a period in the future; and</li> <li>• such sum of money includes finance charges stipulated in the agreement of sale; and</li> <li>• the aggregate of the amounts payable by the purchaser to the seller under such agreement exceeds the cash value of the supply.</li> </ul>  |

## CALCULATION OF VAT

VAT Payable/(refundable) = Output Tax – Input Tax

## General Operational Aspects of VAT

Since VAT is premised on supplies, it is important to know when VAT should be charged. It is important to define the kind of supplies that attract the tax (*section 6(1), section 12 and section 13*). In some cases, there is no proper supply but a deemed supply and these may also attract VAT as prescribed in (*sections 7 and 17*). After determining that there is a supply or deemed supply of goods or services it then becomes important to classify the supplies to determine the rate at which the supplies attract tax (*sections 10 and 11*). Some supplies (goods/services) are taxable at the standard rate (15%), some at zero % (*section 10*) and some are exempt (*section 11*) from VAT. If the supply is standard rated, then the value of supply to which the standard rate must be applied has to be determined (*section 9*). This could be the open market value, the cost or some other value prescribed by law. Lastly, since VAT is accounted for in defined periods for every registered operator, it is important to determine the time of this supply using the rules defined in the Act (*section 8*).

## When should VAT be charged, or output tax arise? – Sections 6; 7 &amp; 17

VAT shall be charged on:

- a. The supply of goods/services by a registered operator in furtherance of trade. *Section 6(1)(a)*
- b. On imported goods. *Section 6(1)(b)*
- c. On imported service. *Section 6(1)(c)*
- d. On goods sold through an auction *Section 6(1)(d)*

SUPPLY OF GOODS OR SERVICES - *Section 6(1) (a)*

In terms of *section 6(1)(a)*, VAT is charged on the value of the supply by any registered operator of goods or services supplied by him on or after the fixed date in the course or furtherance of any trade carried on by him.

**EXAM TIP**

**Supply** – Normally it is not difficult to establish whether there is a supply as defined but it is the absence of a supply that is usually examined. Also, in some cases supply is difficult to establish clearly and so the Act provides for deeming such supplies to be supplies per **section 7 of the VAT Act**. Also, to watch out for VAT Output on fringe Benefits, these are advantages or benefits which are given to employees as incentives to retain their services. Advantage or benefit includes board, occupation of quarters or residence, or the use of furniture or motor vehicle. It also includes the use of or enjoyment of any other property whatsoever, tangible or intangible, including a loan, an allowance, passage benefit and any other advantage or benefit whatsoever in lieu of or in the nature of remuneration as stated above.

**Example 1**

X lends an interest free loan of \$10,000 to B, repayable in 2 months time. What has X supplied? Is it money or credit?

X has not supplied money as they will get it back. So, there is no supply of money. X however has supplied credit, and this is a service as defined.



- Money – examples of supply of money are employee allowances and cash donations.
- Goods are excluded for the definition of services. This implies that there are certain goods that can be offered as a service and therefore a supply of both goods and services occurs simultaneously.

Example.

*A person may transport firewood from a bush on behalf of clients who would have gathered the firewood. He may end up gathering and transporting the firewood the clients' community center and therefore will be offering a firewood service. Since firewood qualifies for the definition of goods, the firewood itself shall not be a service.*

**Registration Status** – For a person to charge and collect VAT they must be a **registered operator**. Registration can be voluntary or mandatory per [section 23](#) of the VAT Act [Chapter 23:12]. Non-registered operators cannot claim input VAT as well and therefore the registration status of a taxpayer is very important in the determination of vat payable or refundable.

**Trade – Key aspects of trade are:**

- The regular activity, in Zimbabwe or partly in Zimbabwe; and
- To supply goods or services; and
- For a consideration; and
- Whether or not for a profit.
- Trade excludes hobbies, supply to a foreign independent branch, rendering of service by an employee to employer and the supply of exempt supplies.

The supply of goods and services, in the course or furtherance of any trade carried on by a registered operator, is the precondition for the registered operator's liability under VAT Act. Without limitation, the provision applies also to non-residents who carry on business in Zimbabwe, whether through a fixed base or not, on regular basis. The supply must be for a consideration, otherwise a gratuitous cannot constitute a supply of goods or services. **PS** [Section 6\(1\)\(a\)](#) shall not apply to the supply of second-hand motor vehicles that are subject to a special excise duty.

**IMPORTED GOODS – Section 6(1)(b) as read with (a. r. w.) Section 12**

Imported goods attract **Import VAT** which increases the output tax. The tax is chargeable to all imported goods that are taxable i.e., standard rated supplies. The identity of the taxpayer acquiring these goods is not the key i.e., it is chargeable whether the taxpayer is a registered operator or not.

The time of supply is the time the goods enter Zimbabwe for home consumption. The value of supply is the value for duty purposes plus duty.

**PS.** The exclusion of second-hand motor vehicles in [section 6\(1\)\(a\)](#) is not applicable to this section and therefore second-hand motor vehicles attract import VAT which increases output tax.



*Students often confuse import VAT and input VAT. At this stage it is import VAT which increases the VAT payable and if eligible to claim input tax, this shall be done in the next stage.*

**IMPORTED SERVICES – Section 6(1)(c) a. r. w. Section 13**

Imported services" means a supply of services that is made by a supplier who is not resident in Zimbabwe or carries on business outside Zimbabwe to a recipient who is a resident of Zimbabwe to the extent that such services are utilized or consumed in Zimbabwe;".

The recipient of the service has the responsibility to collect and pay the tax. (S)he shall furnish the Commissioner with a declaration of the information on the transaction. The time of supply shall be deemed to take place at the earlier of issue of invoice by either the supplier or the recipient or at the time when any payment is made by the recipient in respect of that supply. The value of supply will be consideration less VAT.

### SALE OF GOODS THROUGH AN AUCTIONEER

Where goods are being sold by a non-registered operator through a VAT registered **auctioneer** and the goods attract VAT, they will attract relevant output tax. Again, the second-hand motor vehicles as in section 6(1)(a) are excluded. The auctioneer must be as defined in section 56(6).

### ZERO RATED SUPPLIES – SECT 10

These are taxable supplies that attract a VAT rate of 0% and examples are:

- Exports
- Goods supplied to repair goods temporarily imported into Zimbabwe.
- Goods supplied under instalment credit agreement and are utilised in an export country.
- Goods supplied under a rental agreement if paid from an export country.
- Supply of business as a going concern
- Drugs as prescribed in the Medicines and Allied Substances Control Act
- Transportation of goods or passengers to and from an export country (international carriage)
- Transportation of goods and passengers transiting Zimbabwe.
- Gold supplied to the Reserve Bank or any other registered banks.
- Agricultural inputs supplied to farmers e.g., animal feeds, fertiliser, pesticides, seeds.
- Building bricks i.e., common bricks
- Basic commodities e.g., plain bread, cooking oil, milk, etc.

### EXEMPT SUPPLIES – SECTION 11

These are supplies that are not subject to VAT. Suppliers of exclusively exempt supplies are not required to register for VAT. Examples are:

- Financial services
- Educational services
- Supplies by an association not for gain of goods where such goods were manufactured using at least 80% of donated goods.
- Transport Services for fare paying passengers.
- Medical Services
- Supply of goods and services by an employee organization to its members to the extent that consideration of supply is limited to membership contributions.
- Supply of residential accommodation in a dwelling under a lease or hire agreement.
- Supply of piped water, rates charged by local authorities and domestic electricity.
- Supply of fuel and fuel products.

There are cases where a supply may potentially qualify for more than one class of supplies such as international carriage of fare paying passengers, and under such circumstance the Act should give guidance of which classification takes precedence.

### STANDARD RATED SUPPLIES

Any supply by a registered operator which is not specifically identified as either exempt or zero rated is standard rated. Standard rated supplies attract VAT at a rate of 15%.

### DEEMED SUPPLIES – SECTION 7

These are supplies that by their nature do not seem to be supplies but are for the avoidance of any doubt deemed by the VAT Act to be supplies made in the furtherance of a trade, e.g.

|   |   |
|---|---|
| Sale in execution of debt –<br><a href="#">sect 7(1)</a>    | <p>Where goods which have been acquired or produced by a person, are sold in execution of a debt owing by him.</p> <p><b>Example:</b><br/> <i>Entity X borrowed funds from Bank Z and has been failing to pay back the borrowed amounts. Through a court order bank Z attached property belonging to Entity X and went on to sale this property in order to recover their monies owed. In this case Entity X would be deemed to have sold their property even though they did not actually receive the money from the sale.</i></p> <p>Time of Supply: the earlier of payment or invoice being issued.<br/>         Value of Supply: Consideration less VAT</p> |
| Cessation of trade by a registered operator –<br>Sect 7 (2) | <p>The registered operator has to account for output tax on the value of assets on hand at the time he ceases to be a registered operator.</p> <p>However, no output tax is accounted for in respect of assets where input tax was originally denied in terms of section 16 (2).</p>  |

**Example:**

Y limited a registered operator ceased its trading operations on the 30<sup>th</sup> of June 2022 and at that time had the following assets at hand:

- i. Stove used in the staff canteen;
- ii. Furniture and equipment;
- iii. Standard rated Trading stock (all initially bought from registered operators)

On cessation of trade Y limited will be expected to account for VAT on the assets as follows:

- a. Stove – No output VAT since Y limited would have been denied claiming input tax on acquisition of the stove (refer to [sect 16\(2\)](#)).
- b. Furniture and equipment – Account for output VAT since these are taxable supplies.
- c. Trading stock – account for output VAT.

Time of supply: a day prior to de-registration.

Value of supply: The lesser of cost or open market value.

**Example: Exports zero rated**

You are a third-year trainee at TAS audit firm and during the audit you discovered the following with your audit client.

The audit client was zero rating sales to clients outside Zimbabwe who were making their own arrangements to come collect goods from the client premises and take them outside Zimbabwe.

Delivery took place in Zimbabwe and the goods.

The client should have had VAT charged at the standard rate. Even though the client could prove that subsequent to delivery of goods to the various export clients the goods did actually leave Zimbabwe. The issue is if delivery was in Zimbabwe the goods should have been standard rated and buyer would have claimed VAT rebate on export.

|  |   |
|--|---|
| Door to door sales with an option to return goods – 7(3)                     | <p>If goods are sold to a customer with an option to return the goods to the supplier within a defined period of time, the supply will be deemed to only have been made on expiry of the period to exercise option to return. Value of supply is the consideration less VAT.</p> <p><b>Example:</b></p> <p><i>Company A sold goods to its clients with an option that customers could return the goods before the expiry of 15 days from date of sale. Discuss VAT implications of these transactions.</i></p> <ol style="list-style-type: none"> <li><i>If customers return the goods within the stipulated 15 days, Company A would be deemed to not have made any sales to these customers;</i></li> <li><i>If the customers do not exercise the option to return the goods, the goods are deemed to have been supplied on expiry of the 15 days.</i></li> </ol> |
| Lay by agreement of consideration not less than ZWL\$12,500 or US\$25 – 7(4) | <p>Time of supply: time the goods are delivered to the purchaser.</p> <p>Value of supply: Consideration less VAT</p>  |
| Supply of a business as a going concern – 7(6)                               | Refer to <a href="#">Section 18</a>   |
| Indemnity payment under a contract of insurance – 7(7)                       | <p>Where a registered operator receives an indemnity payment in the furtherance of trade, it shall be deemed to be a supply except in the following cases:</p> <ol style="list-style-type: none"> <li>Where the indemnification is in respect of a motor vehicle or</li> <li>The registered operator was denied or was not able to claim input tax in respect of the initial acquisition of the indemnified assets.</li> </ol> <p>The amount received for indemnification shall, to the extent that it relates to a loss incurred in the course of carrying on a trade, be deemed to be consideration received. The value of supply is consideration less VAT and the time of supply is the day of receipt of that payment.</p>   |
| Transfers of goods to independent branches – 7(8)                            | <p>If a registered operator transfers goods or services to an independent branch in the furtherance of trade, the registered operator shall be deemed to have made a supply to that branch and shall account for output VAT.</p>  |
| Goods repossessed – 7(9)   | <p>This applies where a registered operator purchases taxable goods on credit which are later on repossessed due to failure to pay back the credit advanced. On repossession of the goods the registered operator is deemed to have made a supply and shall account for output VAT.</p> <p>Time of supply: The date of repossession</p> <p>Value of supply: Balance of cash value not recovered</p>   |

|                          |  |
|--------------------------|--|
| Betting services – 7(11) | Registered operators in the business of providing betting services shall be deemed to have made a supply in respect of all bets made with them.<br>Time of supply: The date the bet is made.<br>Value of supply: Amount received in respect of the bet |
| Betting services – 7(11) | Registered operators in the business of providing betting services shall be deemed to have made a supply in respect of all bets made with them.<br>Time of supply: The date the bet is made.<br>Value of supply: Amount received in respect of the bet |

### Time of Supply – Sect 8

Time of supply rules determine when a taxpayer should account for any output tax applicable for a taxable supply: General Rule: The earlier of any one of the following;

- Invoicing for the goods or services; or
- Receipt of the consideration (payment) for the goods or services; or
- Removal of a moveable good from the place of sale; or
- At the point in time that the recipient takes possession of an immoveable property; or
- At the point in time that the service is performed

### Value of Supply – Sect 9

| SUPPLY                                 | VALUE OF SUPPLY AND TIME OF SUPPLY RULES   |
|--|--|
| Goods supplied under rental agreements | <b>Time of supply – 8(3a):</b> Where payment is made in instalments the time of supply shall be deemed to take place when a payment becomes due or when received whichever is earlier. |
| Instalment credit agreements           | <b>Time of supply – 8(3c):</b> time of supply is the earlier of the goods being delivered or the signing of the agreement.<br><b>Value of supply – 9(6):</b> Cash value of the goods   |
| Sales to connected persons             | <b>Value of supply:</b> OMV where purchaser cannot claim input tax and amount paid where input tax is claimable  |
| Goods applied to own use               | Value of supply - 1. The value of the supply is the open market value of the goods.  |
| Instalment credit agreements           | <b>Time of supply – 8(3c):</b> time of supply is the earlier of the goods being delivered or the signing of the agreement.<br><b>Value of supply – 9(6):</b> Cash value of the goods   |
| Sales to connected persons             | <b>Value of supply:</b> OMV where purchaser cannot claim input tax and amount paid where input tax is claimable  |

| SUPPLY                   | VALUE OF SUPPLY AND TIME OF SUPPLY RULES   |
|--------------------------|--|
| Goods applied to own use | <b>Value of supply:</b> The value of the supply is the open market value of the goods. |

Where consideration is in money, the value is the consideration less VAT.

Where consideration is not in money, the open market value becomes the value of supply.

Remember special considerations for the valuation of advantages and benefits arising from employer and employee relationships.

## SPECIAL SUPPLIES

### Importation of goods: Section 12

When goods are imported for consumption in Zimbabwe an import VAT will be levied to the extent that the goods are taxable supplies.

The import VAT is calculated on Value for tax purposes as follows:

- o Value for Duty Purpose: Cost plus insurance and freight (CIF)
- o Add Duty = Value for Tax Purposes

### Example:

*Takudzwa travelled to South Africa for his annual holiday in July 2022. During the period he was on holiday he decided to acquire the following items for his boutique in the Harare CBD.*

|                 | US\$   |
|-----------------|--------|
| Clothing items  | 20,000 |
| Shelve racks    | 2,000  |
| Display dummies | 23,000 |

*He paid US\$4,000 for the costs of delivering the goods from South Africa to Beitbridge port of entry. The customs duty payable was calculated as US\$3,500 by the customs officials. Takudzwa also paid US\$400 for insurance cover for his goods whilst they were in transit.*

### Required

*Calculate the VAT payable by Takudzwa to ZIMRA.*

Solution

US \$

|                               |        |
|-------------------------------|--------|
| Total Value of imported goods | 45,000 |
| Freight costs                 | 4,000  |
| Customs duty                  | 3,500  |
| Insurance costs               | 400    |
| Value for VAT Purposes        | 52,900 |

Total VAT Payable ( $52,900 \times 15\%$ ) **7,935**

*Note: The obligation to remit the VAT to ZIMRA rests with Takudzwa, however if Takudzwa is a registered operator and the goods purchased are used to make taxable supplies he will have an option to claim an VAT input tax deduction in respect of the imported goods.*

Imported Services: Section 13

VAT is charged on all imported services whether or not the recipient of those services is making taxable supplies. (Refer back to the meaning of imported services given in the definitions section).

The value of supply is the greater of OMV or invoice value of the service. VAT is payable by the recipient of the services. Input tax is claimable on imported services.

Example

*Munhondo banking has both retail and investment banking units as part of its operations. In 2022 the bank decided to install a new banking system that would enable its clients to access the banking services over the internet. In June 2022 the bank engaged a consultant from South Africa to install and train its staff on the use of the new system. The consultant issued an invoice of ZAR80,000 covering the cost of installing the system and training staff. Since the bank had an on-going relationship with the consultant, the amount they were invoiced was discounted. The value of the invoice would have been ZAR100,000 if no discount was given.*

Required:

*What are the VAT implications of the transaction?*

Solution

*Although Munhondo deals in services that are exempt from VAT the company should account for VAT on the imported service. The VAT amount will be calculated as: ZAR100,000 (open market value which is higher)  $\times 15\%$  = ZAR15,000.*

*Therefore, Munhondo will remit the VAT to ZIMRA.*

**NB!!!** If the imported service constitutes either a zero rated or exempt supply the output VAT on the transaction would be nil.

Generally, VAT is accounted for on the invoice/accrual basis. VAT is accounted for on invoices received/issued irrespective of whether payment has been made/received.

VAT may also be accounted for on the cash basis, i.e., VAT is based on cash receipts/payments. Cash basis is only available to Local Authorities, Public Entities and Associations not for Gain.

### INPUT TAX – SEC 16

**Sec 16 (1):** Input tax is generally claimed on all goods/services provided they are utilised in the production of taxable supplies.

- Where it is incurred for mixed supplies, apportionment will be done.
- Basis of apportionment e.g., turnover basis.
- De minimus rule applies if use is 90% and above.

#### **Sect 16 (2):** Prohibited deductions

- o Entertainment: the provision of any food, beverage, entertainment, amusement, recreation or hospitality. Generally, input tax may not be claimed in respect of goods or services acquired for the purposes of entertainment, e.g., Provision of lunches to employees. However, the prohibition does not apply to goods/services acquired by operators in the business of supplying entertainment.
- o Purchase of passenger motor vehicles
- o Subscription fees to clubs or associations of a recreational nature

#### **VAT Formula**

Based on what we have covered to date when a registered operator is accounting for VAT, they need to apply the following VAT formula to determine the amounts payable or refundable from the tax authorities:

|                        |             |
|------------------------|-------------|
| Total Output VAT       | XXXX        |
| Less Total Input VAT   | (XXX)       |
| VAT payable/refundable | <u>XXXX</u> |

### ADJUSTMENTS – SEC 17

**Section 17(1):** where goods were acquired to make taxable supplies and are subsequently utilized to make non-taxable supplies an output VAT adjustment is done.

- The value of supply is deemed to be the OMV.
- In the case of reduction in taxable use the formula  $A * (B-C)$  is used.
- Where A is the OMV, B is the initial percentage use and C is the reduced percentage use.
- In this case the registered operator should account for output tax by multiplying the OMV with 15%.
- If originally input tax was denied when goods were acquired no adjustment is required.

**Section 17(2):** Reduction in taxable use of capital goods (deemed supply)

- Reduction of percentage use of capital goods:
- Adjustment is necessary where the operator was initially allowed to claim input tax.
- Adjustment not necessary where cost of goods is less than ZWL\$25,000,000
- Formula:  $A * (B-C)$  is applied.



- A is the lesser of cost or OMV, B is initial taxable use and C is the current taxable use.
- The time of supply is deemed to be the **31<sup>st</sup> of December** of that particular year of assessment.

### Example

XYZ limited a registered operator which makes both taxable and exempt supplies acquired a laptop computer for \$11,500 (Inc. VAT) on 1 April 2022. At the time of purchase the laptop computer was to be used 100% in the production of taxable supplies. However, on 1 August 2022 a decision was made to use the laptop computer 60% in the making of taxable supplies and the remainder in the making of exempt supplies. On that date the laptop computer had an open market value of \$8,000.

### Required:

Calculate the VAT output tax arising from the change in use. Note: XYZ had claimed the full input tax on the date they acquired the laptop computer.

### Solution

VAT Output Tax is calculated as follows:  $A * (B - C)$

A = \$8,000 (lesser of cost and OMV at date of change in use)

B = 100%

C = 60%

VAT Output =  $15\% * \$8,000 * (100\% - 60\%) = \$480.00$

### Fringe benefits – Sect 17(3)

An employer who provides fringe benefits to employees is deemed to have supplied goods or services on which **output tax** should be accounted for value of supply will be the value determined for PAYE purposes *ito* [section 8\(1\)\(f\)](#) of the Income Tax Act his subsection shall not apply to any such benefit if it is: -

The supply of goods or services which are exempt in terms of [section 11](#), e.g., residential accommodation [[section 11\(1\)\(c\)](#)], or

- The supply of such goods or services attract a rate of zero percent in terms of section 10, e.g., supply of bread or sugar to employees [[section 10\(1\)\(g\)](#)], or
- The supply of entertainment e.g., free meals.
- The benefit is granted by registered operators who are in the business of making exempt supplies. E.g., motor vehicle supplied to an employee by an educational institution, which is not registered for VAT.

### Example: Fringe benefit

Tanaka is employed by B Ltd a registered operator for VAT purposes. As part of his employment benefits Tanaka has free use of an Isuzu KB (3100ccs) during the 2022 tax year and also received an entertainment allowance of ZWL\$2,000,000 monthly which he used at his personal discretion. Tanaka had use of a company house for which he paid a monthly rental of ZWL\$3,000,000 whereas the market related rentals for a similar house is ZWL\$7,500,000.

### Required

Use of motor vehicle

The value of the benefit in terms of the income tax act is ZWL\$830,000. Therefore, the Output tax is calculated as follows:

$$= \$830,000 * 15/115$$

$$= \$108,260.87.$$

In B Ltd.'s records the VAT will be recorded as follows:

Dr Staff costs                                      ZWL \$108,260.87

(Cost to B Ltd)

Cr VAT Control Acc                              ZWL\$108,260.87

### Entertainment allowance

In terms of the Income Tax Act the entertainment allowance is a fringe benefit since Tanaka is not using the allowance for B Ltd.'s business. However, in terms of the VAT Act entertainment B Ltd would have been denied an input tax deduction in respect of entertainment-related expenses, therefore there is no Output tax which accrues on this benefit.

### Housing Benefit

Since Tanaka is paying below market rentals a benefit of \$4500 (\$7500 - \$3000) accrues on a monthly basis in terms of the Income Tax Act. However, the provision of residential accommodation is exempt from VAT, therefore no Output tax will accrue on the value of the benefit.

### Goods acquired prior to fixed date (1 January 2004) ([section 17\(4\)\(a\)](#))

Input tax adjustment will be made if goods are eventually utilised to make taxable supplies.

Formula:  $A * B * C$  is applied

A represents a tax fraction,

B lesser of cost or OMV and

C %age or ratio of intended use to total supply.

Where C is equal to or more than 90%, such % shall be deemed to be 100%.

This section is not applicable if input tax would have been denied in terms of [section 16](#) of the VAT Act, e.g., a registered operator takes a stove from his house for use in the business's staff canteen. Although the stove is now used in the business, it relates to the supply of entertainment.

### Goods acquired after fixed date (1 January 2004) ([sections 17 \(4\) \(b\)](#))

This section applies to new VAT registrants or those registered operators who would have been deemed by [section 7\(2\)](#) (cessation of trade) to have made a supply and input tax has previously been denied or not claimed.

- i. Where goods or services have been acquired by a **person on or after the fixed date** and tax has been charged in respect of the supply; or
- ii. Goods have been produced by a person on or after the fixed date and tax has been charged in respect of the supply of goods or services acquired by him for the purpose of production;

When such goods or services are subsequent to the fixed date applied in any tax period by that person wholly or partly for use in the course of making taxable supplies.

Such goods or services shall be deemed to be supplied in that tax period to that person and an input tax credit shall be deducted in terms of [S15 \(3\)](#)

The input tax deduction in terms of S15(3) shall be determined in accordance with the following formula:

$A*B*C$ , where –

A = the tax fraction

B = represents the lesser of Cost (including tax) and the OMV

C = represents the ratio of intended taxable usage to total intended use of goods immediately after the supply.

- a. Where ratio is equal to or more than 90%, such % shall be deemed to be 100%.
- b. NB!!! The above section ([S17\(4\)\(b\)](#)), shall not apply where a R/O has been previously denied input tax deduction due to him not producing sufficient proof to support the claim but has now produced such proof ([section 15\(2\)](#))

#### EXAMPLE

*On 1 September 2022 Aloice went to the Harare Agricultural show and whilst there he acquired a sadza cooking machine (Gwatamatik) for USD\$2,100 (Inc. VAT). At that time Aloice was contemplating starting a restaurant business but had not yet acquired premises to conduct the business from, therefore he used the Gwatamatik in his family home to prepare meals for his family. In December 2022 Aloice finally acquired premises for his restaurant business and immediately commenced operations as from that date. Aloice had already registered for VAT in anticipation of commencing operations. The Gwatamatik was transferred to the restaurant on the same date. The Gwatamatik had an open market value of USD\$2,500 as at the date of transfer.*

#### Required

*Calculate the input tax that can be claimed by Aloice.*

$$15/115 * 2,100$$

**273.91**

## Registration for VAT

|   |   |
|---|---|
| Registration for VAT – <a href="#">Section 23</a>       | Any person who on or after the “fixed date” (effective date of the VAT Act) carries on or intends to carry on any trade (s) and whose taxable value of supplies exceed or is likely to exceed ZW\$4,800,000 or US\$ 40,000 or the prescribed amount is required to register for VAT in terms of <a href="#">section 23</a> of the Act.  |
| Liability for Registration – <a href="#">sect 23(1)</a> | <p>A person is liable to register if: -</p> <p>At the end of any month, the total value of supplies of goods or, services (turnover) has exceeded \$4,800,000 or the pre- scribed amount in the preceding period of 12 months, or</p> <p>There are reasonable grounds for believing that the total value of supplies of goods and services, which will be made in the following 12 months, will exceed the prescribed amount.</p> <p>Unless it can be shown that the prescribed amount was exceeded as a consequence of: -</p> <p>The sale of stock or other assets due to any cessation of or substantial and permanent reduction in the size or scale of any trade.</p> <p>The replacement of plant and machinery or other capital assets used in the trade</p> <p>Abnormal circumstances of a temporary nature.</p> <p>Registration should be done <b>within 30 days</b>.</p>  |
| Voluntary Registration – <a href="#">sect 23(3)</a>     | <p>A person can apply for voluntary registration even if the total value of taxable supplies is less than the prescribed amount per annum.</p> <p>As a general rule of thumb, it will be advantageous for a person to register if they supply goods or services mainly to other registered operators.</p> <p>The person must satisfy the Commissioner that they are carrying on trade.</p> <p><a href="#">Advantages of voluntary registration</a></p> <p>The VAT registration certificate is a prerequisite by most suppliers for consideration to participate in tenders.</p> <p>Being VAT compliant is also a consideration by ZIMRA for the issuance of a tax clearance certificate which saves on potential withholding tax of 10% from invoices issued to customers.</p> <p>Avoidance of potential penalties and interest from late VAT registration.</p> <p>Input tax claim from purchases obtained from VAT registered suppliers.</p> |

|   |  |
|---|--|
| Registration Procedure –<br><a href="#">23(7)</a> | <p>Application for compulsory and voluntary registration must be made on the prescribed registration form together with any other documents, which the Commissioner may require from time to time (i.e., company registration particulars, bank details, etc.)</p> <p>For compulsory registration, this must be completed no later than 30 days from the date on which the registration threshold has been reached or the date it is established that the threshold is likely to be reached.</p>   |
| Deregistration – <a href="#">Sect 24</a>          | <p>A registered operator may be deregistered if: -</p> <p>If the value of his taxable supplies falls below the registration. He ceases to carry on any trade and will not carry on any trade within 12 months after that date.</p> <p>Where he has applied for registration in anticipation of commencing a trade and has not commenced that trade.</p> <p>A registered operator has successfully applied for voluntary registration, and it subsequently appears that he has not complied with the requirements.</p> <p>Cancellation of registration, with the approval of the Commissioner will take effect from the last day of the tax period on which the application is made.</p> <p>A person who ceases to be registered remains responsible for any duties or obligations under the Act while he was registered.</p> |

## TAX PERIODS – SECTION 27

### *Submission of Returns and Payments*

All registered operators are required to submit returns and account for VAT to the Commissioner at regular intervals. These intervals are called tax periods.

A registered operator's first tax period will commence on:

- The commencement date of VAT, or
- The date on which he becomes a registered operator, if he was not liable or carrying on any trade at the commencement date of VAT.
- The month in which a registered operator's tax period ends will be determined by the Commissioner.
- Tax periods do not all end at the same time for all registered operators.

These are as follows:

#### *Two – month Tax Period (Category A or B)*

- Most registered operators will be allocated a "standard tax period" of 2 months unless otherwise requested, but such persons can elect to be on Category C (monthly).
- Registered operators may choose between the 2 categories, but if no choice is made the Commissioner will allocate them either category A or B automatically. The tax periods end as follows: -

Category A: The last day of: - January, March, May, July, September and November

Category B: The last day of: - February, April, June, August, October and December

*One – Month Tax Period (Category C)*

- Larger enterprises whose taxable supplies exceed \$50 million, or the amount prescribed will be to submit returns on a monthly basis.

*Any Other Tax Period (Category D)*

- Registered operators will qualify for any other tax period if: -
- The registered operator's trade consists solely of farming activities; or
- The registered operator whose separately registered trade, branch or division consists solely of farming activities, provided any other trades, branches or division carried on by that registered operator do not consist of farming activities; and
- The total turnover from all farming activities must not exceed \$5 million or the pre-scribed amount.

## TAX INVOICE –SECTION 20

*Requirements for Tax Invoice*

- In practice, a registered operator is normally required to issue a tax invoice which satisfies the requirements of the Commissioner and the requirements of the contracting parties.
- A registered operator is required to issue a tax invoice within 30 days from the date of supply, but it may not be necessary to issue a tax invoice where the consideration in money does not exceed ZW\$5,000 or \$10.
- However, in such cases, some type of source document is required in order to claim input tax e.g., till slip, petty cash slip. etc.

*Details on a tax invoice should include:*

- The words "FISCAL TAX INVOICE" in a prominent place.
- Name, address and VAT registration number of the supplier.
- Name, address and VAT registration number of recipient.
- Individual 22 serialized number and date of issue.
- Description of goods and /or services.
- Quantity or volume of goods or services supplied.
- Price & VAT \*\*NB!!!
- A registered operator is not allowed to issue more than one tax invoice for a single supply.
- If the need arises for him to issue another tax invoice for same supply, he is only allowed to issue a copy invoice clearly marked "copy".

## OBJECTIONS AND APPEAL

### 13.1(i) When Can Objections be made?

- When a person is not satisfied with an assessment. Such person may object to all or part of the assessment.
- Objections may be lodged against decisions made by the Commissioner. Such objections may be on the liability for registration, the cancellation of a registration, the refusal by the Commissioner to authorize a refund or a ruling which the registered operator may have good reason for disagreeing with.

### Lodging an Objection– Section 32

A person wishing to make an objection to the Commissioner's assessment or decision must:

- Put the objection in writing.
- Specify in detail the grounds of the objection.
- Be made within **30 days** after the date of the decision or assessment. In the event of a dispute, the date of the assessment or decision will be the date the registered mail was posted to the person raising the objection.

If the objection is received by the Commissioner within the stipulated time period, the Commissioner will either:

- Alter the decision.
- Alter or reduce the assessment, or
- Disallow the objection.

A written notice must be sent to the person objecting to the Commissioner's ruling/assessment etc. informing him of his decision.

### Grounds of Objection

The grounds of objection should be stated clearly, and it is important to raise all the grounds at the time of objection. The Commissioner may, on good cause shown, give leave to the objector to amend or add to the grounds.

### Late Objections

If there is a delay in lodging a written objection, the Commissioner may accept it provided good reasons are given for the delay. If an objection is not lodged, the assessment/decision becomes final after 30 days.

### Appeals–Section 33

An appeal is only lodged if and when a person's objection was disallowed. A registered operator must appeal against the disallowance of the objection within **30 days** of the date of the notice. An appeal can be made to the Fiscal Appeal Court or to the Supreme Court depending on the nature of the dispute.

The appeal must be: -

Made in writing.

Lodged with the Commissioner within 30 days after the date of the notice of disallowance of the objection.

If there is a delay in the lodging of a written appeal, the Commissioner may condone the delay, depending on the reasons.

The appellant is limited to the grounds of objection stated in his original objection unless, on good cause shown, leave is given to amend the grounds. The appellant or the Commissioner may appeal to the Supreme Court against any decision of the Fiscal Appeal Court.

#### Agents and Auctioneers (sec 56):

In cases where an agent makes a supply of goods or services on behalf of another person who is his principal, that supply shall be deemed to have been made by the principal, [section 56\(1\)](#).

Where the agent is a registered operator, the agent may issue and receive tax invoices, debit notes or credit notes. This though does not relieve the principal of the obligation to account for output tax, deduct input tax and submit returns, [section 56\(2\)](#).

Where goods are imported into Zimbabwe by an agent who is acting on behalf of another person (a resident of Zimbabwe), the importation shall be deemed to have been made by the principal regardless of the fact that the documents are held by the agent, [section 56\(3\)](#).

Where goods are imported by an agent on behalf of a foreign principal who is not a registered operator and the agent has paid tax on importation and there is an agreement in writing that the principal will not reimburse such agent, then that importation shall be deemed to have been made by the agent and not the principal. The agent will claim input tax, [section 56\(4\)](#).

Where agents issue or receive tax invoices, credit notes and debit notes, they are required to maintain sufficient records, [section 56\(5\)](#).

Special provisions have been made in respect of auction sales where transactions will not ordinarily be a taxable supply. In such situations, the auctioneer is deemed to have supplied the goods in the course of furtherance of his trade, [section 56\(7\)](#).

#### Payment of VAT

VAT shall be remitted in the currency in which it was collected. Furthermore, VAT on importations shall be paid in the prescribed currency with the exception of cases where the imported goods were paid for with bond notes and coins or non-nostro bank transfers. Furthermore:

- Where VAT was paid for in a different currency from which the goods or services were paid for, VAT shall be paid for in the same currency as the goods.
- Where VAT was paid for using bond notes and coins whilst the price of the goods or services was paid for in foreign currency, VAT shall be payable in foreign currency.
- Where VAT was paid for in foreign currency whilst the goods or services were paid for in bond notes and coins then VAT shall remain payable in foreign currency.

#### TAX PLANNING

Students can be examined on choosing the option that has the least VAT consequences or least tax consequences with VAT being one of the taxes. Common examples are:

- [Employment costs that may have fringe benefits.](#)



Employers and employees often enter negotiations to structure fringe benefits including among other things housing, motor vehicles, allowances and so on. The student is expected to be able to discuss the tax implications of the various options in the hands of both the employee and the employer. The student is also expected to apply any relevant anti-avoidance legislation. Common example is whether the employer buys a vehicle and grants the right to use it to the employee who can later buy it at a lower price, or the employer buys a vehicle for employee and the employee pays back the vehicle through deductions or service over an agreed period. These transactions could be viewed as loans or as remuneration and have different VAT implications.

- **Financing a business.**

Businesses are often faced with various financing decisions such as taking out loans, or equity financing or hybrid financing. Financing could be from local sources or from foreign, and the financing exercise may involve attendant services which could be imported services. It is important to understand the underlying transactions and the VAT consequences of such transactions.

- **Structuring a sales transaction**

Businesses dispose of things from time to time for different reasons. Disposals are normally straightforward supplies which is what VAT is based on and therefore often attract VAT. It is important to note that businesses structure disposals in many varied ways and these alter both the value of supply and the time of supply. Commonly sales could be for cash or for credit (with varied terms). In some cases, the purchaser is renting to buy, or there could be a hire purchase agreement, suspensive sale arrangements with or without nominal interest. The sales could also be between connected person. The student shall be expected to advise either the buyer or the seller or both on the best way to structure such sales transaction taking into consideration the VAT aspect of the resultant tax.

## SUMMARY VAT MIND MAP

Whenever you are tackling a VAT question you need to ask yourself the following questions:

1. Have you identified and understood the details of the transaction?
2. Has the transaction been effected as part of the taxpayer's trading activities?
3. Is the taxpayer a registered operator?
4. Has the transaction resulted in income or an expense for the taxpayer?
5. Income: possible Output VAT
6. Expenditure: possible Input VAT
7. Should there be output VAT? Supply of goods or services, imported goods, imported services or goods sold through an auctioneer.
8. Determine whether the transaction is either zero rated, standard rated or exempt;
9. Determine the time of supply based on the information provided;
10. Determine the value of supply based on the information provided; and
11. Where applicable calculate the Output VAT or Input VAT arising from the transaction.
12. In the case of expenditure and input tax, was the taxpayer charged VAT?
13. Is the taxpayer going to use the supply in the making of taxable supplies?
14. Is the supply not a prohibited deduction for input tax?
15. Are there no VAT implications stemming from an adjustment per sections 17 and 18?

## PRACTICE QUESTION

### Diamond Ltd

Diamond Ltd is in the business of making specialized cosmetics. Diamond (the owner) decided to diversify her business interest by purchasing a block of flats to rent out to tenants for accommodation. The business (Diamond Ltd) made the following supplies during its 2022 year of assessment:

|  | ZWL\$                      |
|--|----------------------------|
| Income from cosmetics                      | 10,000,000 (including VAT) |
| Income from flat rentals for accommodation | 6,000,000                  |

Diamond Ltd incurred the following expenses:

- Purchased a printer that will be used to print invoices for specialized cosmetics customers. The cost of the printer was ZWL\$ 50,000 (including VAT).
- Cleaning equipment worth ZWL\$ 24,000 (including VAT) that will be used to clean the block of flats.
- Materials and consumables for making the cosmetics which cost ZWL\$ 45,000 (including VAT)

### Required

|    |   |    |    |
|----|---|----|----|
| 1. | Discuss, with supporting calculations, the VAT consequences to Diamond Ltd of all its transactions for the 2022 year of assessment with the assumption that Diamond Ltd is a VAT registered operator. | 15 |    |
|    | <i>Communication skills – presentation</i>  | 1  | 16 |

### Solution

You are required to:

Marks

Discuss, with supporting calculations, the VAT consequences of Diamond Ltd with the assumption that Diamond is a VAT registered operator. 15

### Cosmetics

- VAT is charged on the supply of goods or services supplied by VAT operator (Sec 6(1)a) 1
- Cosmetics are taxable standard rated supplies. 1
- TOS – the earlier of invoice or payment or delivery 1
- VOS – consideration less VAT 1
- Therefore, output VAT is  $15/115 * 10,000,000 = 1,304,347.82$  1

### Flat rentals

- Supply of residential accommodation is an exempt supply (Sec 11) 1
- Therefore, no output tax can be charged. 1

### Printer purchase

- The input VAT can then be claimed per section 16(1) if: 1
  - o The tax has been paid and
  - o The goods are to be used in the making of taxable supplies.
- The transactions meet the provisions of section 16(1), output VAT was paid, and cosmetics is a standard rated taxable supply. 1
- Hence, Diamond can claim input VAT of \$190,125 on the printer purchase. Per section 16(1).  $15/115 * 50,000 = 6,521$  1

### Cleaning equipment

- A deduction is permissible where the taxpayer is charged on the goods or services acquired and the supplies are used in the course of making taxable supplies (sec 16.1). 1
- The equipment will be used on residential accommodation which is an exempt supply. 1
- Diamond cannot therefore claim input tax on the equipment expense. 1

### Materials and consumables

- Input tax can be claimed where the taxpayer is charged on the goods or services acquired and uses the supplies to make taxable supplies. 1
- The materials and consumables will aid the making of cosmetics which are taxable supplies. 1
- Diamond should claim input tax on the expenditure.  $(15/115 * 45,000 = 5,869)$  1

**TOTAL MARKS** 16

### Data Shoe Company

As a result of a strike and subsequent meetings with a trade union, Data Shoe company, a VAT registered operator now operates a canteen for its employees. Employees requested a free lunch at work rather than a pay increase. It cost Data the following:

|   | ZWL\$                   |
|---|-------------------------|
| Material to convert factory building into canteen                           | 142,500 (including VAT) |
| Equipment for the canteen   | 64,800 (including VAT)  |
| Labor charges paid to the construction company                              | 57,000 (including VAT)  |
| Engineer hired from India and brought in Zimbabwe for designing the canteen | 12,000 (excluding VAT)  |
| Electricity charges consumed for converting the factory building to canteen | 500 (excluding VAT)     |

|    |  |    |    |
|----|--|----|----|
| 1. | Discuss with supporting calculations the VAT implications of the costs above to Data Shoe company. | 15 |    |
|    | <i>Communication skills – logical flow</i>   | 1  | 16 |

Discuss with supporting calculations the VAT implications of the costs above to Bata Shoe company. 15

## Solution

### Material to convert factory building into Canteen

- Input tax can be claimed when a registered operator is charged on the goods or services acquired and the supplies are used in course of making taxable supplies. Sec 16(1). 1
- Bata Shoes will have been charged if he acquired the goods from a registered operator. 1
- The canteen however is providing entertainment which is prohibited. 1
- Therefore, no input tax can be claimed on the conversion of the canteen. 1

### Equipping the canteen

- The equipment will be used in a canteen that is providing entertainment which is prohibited. 1
- Bata cannot claim input tax on the equipment acquired. 1

### Labor charges to construction company

- The supply of labour was used on a canteen that shall be providing entertainment which is prohibited by sec 16(2) . 1
- Therefore, no input VAT is claimed on the expenditure on labour. 1

### Engineer from India

- Imported services means a supply of services that is made by a supplier who is not resident in Zimbabwe or carries on business outside Zimbabwe to a recipient who is a resident of Zimbabwe to the extent that such services are utilized or consumed in Zimbabwe. 1
- The engineer was hired from India hence is not a Zimbabwean resident and the designs will be made in Zimbabwe thus the services will be utilized in Zimbabwe therefore this is an imported service. 1
- Deductions are allowed for imported services if the registered operator has been charged and the supplies are used to make taxable supplies in terms of Sec 16(1). 1
- The engineer is designing the canteen which will be providing entertainment that is prohibited. 1

- No input tax can be claimed by Bata Shoe on the imported service. 1

#### Electricity charges

- Industrial Electricity is a standard rated supply. 1
- Data Shoe can claim input tax if it was charged, and the supply was used to make taxable supply. 1
- The electricity was used for the canteen which is providing entertainment as such no input tax can be claimed. 1

**TOTAL MARKS 16**