

TOPIC 1.13: VAT

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding VAT. The FSOP's are drafted in the following categories:

- 1.13.1 Overview of the accounting for VAT**
- 1.13.2 Introduction**
- 1.13.3 Procedures regarding the completion and submission of the VAT 201 forms**
- 1.13.4 Other administrative procedures to be performed for VAT**
- 1.13.5 VAT amendments that became effective from 1 July 2006**
- 1.13.6 AFS disclosure requirements**

1.13.1 OVERVIEW OF THE ACCOUNTING FOR VAT

When accounting for VAT the municipality must ensure that the necessary finance standard operating procedures are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	Section FSOP
Introduction. It is important that the municipality adheres to all applicable VAT related legislation, administers its VAT related activities properly and accounts for VAT correctly.	Section 1.13.2
Procedures regarding the completion and submission of the VAT 201 form. The VAT 201 form should be completed accurately and submitted to SARS before the 25 th day of the month following on the month in which a VAT period ends.	Section 1.13.3
Refer to section 1.13.3 below regarding other procedures to be performed to ensure that the municipality's VAT 201 return is accurate .	Section 1.13.4
<p>VAT amendments that became effective from 1 July 2006. A number of amendments to the VAT Act were proposed which came into effect on 1 July 2006. In essence, the amendments have the effect that:</p> <ul style="list-style-type: none"> ▪ Property rates became subject to VAT at the zero rate. ▪ All sundry income, formerly not subject to VAT will be subject to VAT at the Standard rate (excluding those specifically exempted). ▪ Input tax will be deductible in respect of all expenditure formerly incurred for the making of non-taxable supplies, which now become taxable. ▪ Apportionment ratios may now be calculated on the turnover-based method. <p>The main objective of these amendments was to unlock the input tax which municipalities could previously not claim, because of the non-taxable nature of many of the supplies made by municipalities. The amendments are also aimed at assisting municipalities to simplify the VAT administration of municipalities.</p>	Section 1.13.5
AFS disclosure requirements. The municipality should ensure that on the face of the statement of financial position, the VAT creditor or debtor is disclosed and that a separate note to the AFS detailing the basis of VAT registration (invoice or cash) and the timing of payments to/ from SARS.	Section 1.13.6

1.13.2 INTRODUCTION

It is important that the municipality submits its VAT returns timeously and accurately in accordance with all VAT related legislation. Furthermore general operational procedures should be in place to ensure the effective and efficient working of VAT related administration.

Any VAT due or receivable by the municipality at financial year end will result in a VAT related creditor or debtor that needs to be disclosed in the AFS. Along with these balances, information regarding the VAT registration basis of the municipality should be disclosed in the AFS.

1.13.3 PROCEDURES REGARDING THE COMPLETION AND SUBMISSION OF THE VAT 201 FORMS

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Monthly / two monthly VAT201 returns should be completed and submitted to SARS before the 25 th day of the month following on the month in which a VAT period ends.	<p>Ensure that the monthly / two monthly VAT201 returns are completed and submitted by the municipality to SARS before the 25th day of the month following on the month in which a VAT period ends (e.g. 25th of May if April's VAT201 is completed).</p> <p>Upon the completion of the monthly / two monthly VAT201 returns, ensure that they are filled in completely and accurately - thus ensure that:</p> <ul style="list-style-type: none"> ▪ The official responsible for completion of the VAT201 returns is trained / experienced in and competent to fill in and process the VAT201 returns; ▪ No blank spaces are left open on the form – should any spaces not be completed for a good reason, a line should be drawn through the space; ▪ The input VAT claimed is based on the municipality's VAT input report, generated from the municipality's accounting system. Ensure that this VAT input report is supported by invoices and other necessary working papers and agree the input VAT claimed on the VAT201 returns (standard & zero rated) to these workings/ invoices and the VAT input report; ▪ The output VAT should be based on the municipality's VAT output report, generated from the municipality's accounting system. Ensure that this VAT output report is supported by working papers and agree with the output VAT stated on the VAT201 return; and ▪ The spaces provided on the VAT201 return for output VAT, standard input VAT and zero rated input VAT 	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		are filled in using the correct information (e.g. that zero rated input VAT is not filled in the space for standard VAT input).			
2	The municipality should agree the information on the VAT201 assessment done by SARS each month with the information filled in on the VAT201 return by the municipality. Unexplained differences or disagreements between the above mentioned VAT assessment and return should be taken up with SARS.	Upon receipt of the VAT201 assessment done by SARS each month, agree SARS's computation and commentary to that filled in on the VAT201 return by the municipality. Should any unexplained differences or disagreements exist, reconcile SARS's assessment to that of the municipality and take grievances up with SARS within 2 months from the assessment date as it appears on the VAT assessment. <i>(Even if payments to/ from SARS are debited / credited directly to the municipality's bank account, the assessment provided by SARS should still be checked and validated for correctness).</i>	FCP	CFO	Monthly / Every two months
3	Payments made to and received from SARS should be done punctually and payments to/ receipts from SARS should be agreed to the municipality's monthly bank statements.	Ensure that payment is made punctually to SARS (via cheque payment or direct electronic bank transfer) and agree payment made to / received from SARS to the municipality's monthly bank statements. Should payment / receipt not reflect on the municipality's bank statements within one month from the VAT assessment date (as received from SARS), follow up with SARS immediately.	FCP	CFO	Monthly / Every two months

1.13.4 OTHER ADMINISTRATIVE PROCEDURES TO BE PERFORMED FOR VAT

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Output VAT should be declared with regard to the following: benefits to personnel, insurance claims received, and fixed assets sold.	Confirm that output VAT is declared with regard to the following: benefits to personnel, insurance claims received, and fixed assets sold.	FCP	CFO	Monthly / every two months
2	VAT should be paid in the correct period and against the prescribed percentage.	Ensure that VAT is paid in the correct period and against the prescribed percentage.	FCP	CFO	Monthly / Every two months
3	The actual payment (amount due to SARS) or income (amount due by SARS to municipality) should be accrued as a creditor or debtor in the AFS for the year ended 30 June.	Ensure that the actual payment (amount due to SARS) or income (amount due by SARS to municipality) is accrued as a creditor or debtor in the AFS for the year ended 30 June.	AP	CFO	30 June each year
4	VAT can only be claimed if supported by a valid tax invoice, as required by section 20(4) of the VAT Act.	<p>Ensure that VAT is only claimed if supported by a tax invoice, as required by section 20(4) of the VAT Act. A valid tax invoice must have the following detail:</p> <ul style="list-style-type: none"> (a) The word: "tax invoice" must appear on the invoice. (b) The name, address and VAT registration number of the business enterprise (vendor). (c) The name, address and VAT registration number of the receiver of the goods. (d) A tax invoice number as well as the date when the invoice was issued. (e) Detail description of the goods or services 	LCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>rendered.</p> <p>(f) The quantity or volume of the goods sold.</p> <p>(g) The value of the goods (exclusive of VAT), the VAT charged and the total price payable inclusive of VAT.</p> <p>(h) Indication if the VAT is charged at the standard rate of 14% or zero-rate.</p>			
5	According to the Value-Added Tax act (section 1) entertainment means the provision of any food, beverages accommodation entertainment, amusement, recreation or hospitality of any kind by a vendor whether directly or indirectly to anyone in connection with an enterprise carried on by him.	<p>Confirm that no VAT is claimed on the following expenditure: entertainment, subscriptions and passenger vehicles.</p> <p>Municipalities are however in terms of proviso (v) to section 17(2)(a) of the VAT Act entitled to claim input tax in respect of "entertainment" as defined in section 1 of the VAT Act, only in respect of goods or services which are acquired by a municipality for the purpose of providing sporting or recreational facilities or public amenities to the public. Furthermore the municipality will also be entitled to claim input tax where it supplies entertainment for a fee which covers the cost of the supply.</p>	LCP	CFO	Monthly / Every two months
6	VAT should be claimed on bad debts written-off, discount allowed, and credit notes issued (if on invoice system).	Confirm that VAT is claimed on bad debts written-off, discount allowed, and credit notes issued (if on invoice system – predominantly for municipal entities – however, should VAT control accounts be in use, ensure that these balances are reversed upon these occurrences).	FCP	CFO	Date when grant is received

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
7	Output VAT should be declared on any consumer deposits utilised to redeem outstanding accounts.	Confirm that output VAT is declared on any consumer deposits utilised to redeem outstanding accounts.	LCP	CFO	Date when consumer deposit is utilised
8	A VAT reconciliation should be performed by the municipality as an accuracy and completeness test of the output VAT paid and input VAT claimed by the municipality for the financial year.	<p>Note: The following VAT reconciliation should be performed by the municipality, unless one/both of the following conditions exist:</p> <ul style="list-style-type: none"> • In the above-mentioned section "Procedures pertaining to VAT 201 forms", procedure 2, the assumption is made that a municipality's accounting system should be able to generate a VAT input / output report. If this is the case, the GL VAT totals should agree to these reports, as it is the same system that generates both reports. Thus the information as per the VAT201 returns would automatically agree to the GL, rendering the below-mentioned reconciliation unnecessary; or • If the municipality's revenue / expenditure sources have various VAT implications and the computations of the individual VAT output/input VAT is too complicated, the below-mentioned reconciliation would not be performed (e.g. municipality's GL's do not, in most cases, categorize revenue and expenditure per department, but show revenue and expenditure for the municipality as a whole. Usually the various departments do not all make taxable supplies, thus VAT is not applicable to these 	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>departments. Furthermore, differential VAT rates (e.g. 14% * 96%) apply to some of these departments. All of these factors make the manual computation/reconciliation of VAT difficult and tedious).</p> <p>Perform an annual VAT reconciliation, as follows:</p> <ul style="list-style-type: none"> ▪ Determine the total annual taxable supplies of the municipality per the municipality's GL (as per taxable department within the municipality) and calculate output VAT on this amount; ▪ Determine the total annual capital and operating expenditure of the municipality on which input VAT may be claimed per the municipality's GL (as per taxable department within the municipality) and calculate input VAT on these expenses; ▪ Obtain all the municipality's VAT201 returns for the year and sum separately all the output VAT totals and all the input VAT totals as they appear on the VAT201 returns; ▪ Reconcile the total annual VAT output as determined per step 3 with the total annual VAT output as determined per step 1 and obtain explanations for any deviances; ▪ Reconcile the total annual VAT input as determined per step 3 with the total annual VAT input as determined per step 2 and obtain explanations for any deviances; <p>Based on the above-mentioned VAT reconciliation, once acceptable explanations have been found for the above-mentioned deviances, post the necessary journals to the GL to correct the affected GL accounts.</p>			

1.13.5 VAT AMENDMENTS THAT BECAME EFFECTIVE FROM 1 JULY 2006

A number of amendments to the VAT Act were proposed which came into effect on 1 July 2006. In essence, the amendments have the effect that:

- Property rates became subject to VAT at the zero rate.
- All sundry income, formerly not subject to VAT will be subject to VAT at the Standard rate (excluding those specifically exempted).
- Input tax will be deductible in respect of all expenditure formerly incurred for the making of non-taxable supplies, which now become taxable.
- Apportionment ratios may now be calculated on the turnover-based method.

The **main objective** of these amendments was to unlock the input tax which municipalities could previously not claim, because of the non-taxable nature of many of the supplies made by municipalities. The amendments are also aimed at assisting municipalities to simplify the VAT administration of municipalities.

a) OUTPUT TAX

- Standard-rated supplies

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Municipalities are liable to account for VAT at the Standard rate (14%) in terms of section 7(1)(a) of the VAT act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in	Ensure that VAT is accounted for at the Standard rate of 14 % except where the supplies are: <ul style="list-style-type: none"> ▪ Specifically zero rated ▪ Exempted ▪ Out of scope for VAT purposes. 	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	terms of section 12 of the VAT Act or out of scope for VAT purposes.	See Annexure 1 for examples of Standard-Rated supplies.			
2	Generally an agreement between an agent and a principle is a contract whereby one person (the agent) is authorised and usually required by another (the principle), whose function/responsibility/mandate it is to provide goods and/or services, to a third person, on the principle's behalf.	<p>Agent/Principle relationship</p> <ul style="list-style-type: none"> Ensure that where the municipality assumes the responsibility of supplying services as principal, the activity will form part of the municipality's taxable activities. The fees charged in respect of such services supplied, should be subject to VAT at the Standard rate of 14%. The municipality will therefore be entitled to claim all VAT incurred in supplying those services. If the municipality acts as an agent (e.g. issuing licenses or permits), the municipality should only account for output tax at the standard rate of 14 % in terms of section 7(1)(a) of the VAT Act, on the commission or fee earned in respect of the activity performed on behalf of the principal. <p>See Annexure 2 for a summary of the differences between an agent and a principal.</p>	FCP	CFO	Monthly / Every two months

- Zero-rated supplies

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	The supply by a municipality of certain goods and services will be subject to VAT at zero-rate (0%) in terms of section 11 of the VAT act.	<p>Ensure that VAT is accounted for at the Zero-rate (0%) for the following supplies:</p> <ul style="list-style-type: none"> ▪ Municipal property rates ▪ Grants for purposes of taxable supplies ▪ Supplies to a vendor in a customs controlled area. ▪ Exports ▪ Housing subsidies <p>Ensure that Input VAT on the expenses incurred for the making of zero-rated supplies, is claimed by the municipality.</p>	FCP	CFO	Monthly / Every two months
2	The provision of section 8(15) of the VAT Act are not applicable where a municipality levies a flat rate.	<p>Flat rate charges for all services – taxable at the standard rate (14%)</p> <p>Ensure that where a municipality charges a single consideration for municipal property rates, electricity, gas, water drainage removal or disposal of sewerage or garbage and no consideration is specifically allocated to each supply (i.e. a “flat rate is charged for all services provided), the flat rate will be taxable at the standard rate of 14%.</p>	FCP	CFO	Monthly / Every two months
3	<p>Grants to Municipalities</p> <p>Grants received by municipalities from public authorities will in principle be in respect of deemed supply of</p>	Scrutinize the income vote for grants received for the purpose of taxable supplies and ensure that VAT is accounted for at the Zero-rate (0%).	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	<p>services in terms of section 8(5A) of the VAT Act and may be zero rated in terms of section 11(2)(t) of the VAT Act, provided that the grants received are in connection with taxable services supplied by the municipality.</p> <p>A “grant” as defined in section 1 of the VAT act, means any appropriation, grant in aid, subsidy or contribution transferred, granted or paid to a vendor by a public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No.1 of 1999), but does not include -</p> <ul style="list-style-type: none"> (a) A payment made for the supply of any goods or services to that public authority or municipality, including all goods or services supplied to a public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act ,1999 (Act No 1. of 1999) (b) A payment contemplated in section 8(23) 	<p>Where a grant is received, the amount must be attributed according to the extent to which it relates to taxable supplies and the extent to which it relates to making exempt or non-taxable supplies.</p> <p>Where the grant is made in respect of exempt or out of scope activities ensure that the grants received by the municipality will have no VAT implications in the hand of the municipality. Accordingly the municipality will not be entitled to claim any input tax in respect of goods or services acquired in this regard.</p>			

- Exempt supplies

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	The making of exempt supplies as envisaged in section 12 of the VAT Act, by a municipality, does not fall within the ambit of the municipality's enterprise activities.	<p>Ensure that Output tax is not due where grants are received by the municipality to make exempt supplies.</p> <p>Examples of exempt supplies are:</p> <ul style="list-style-type: none"> The levying of interest on outstanding accounts receivable (section 12(a)) The supply of dwelling under an agreement of the letting and hiring thereof (section 12(c)) Public passenger transport in South Africa by bus or by train (excluding the rental of a bus or train without an operator (section 12(g)). 	FCP	CFO	Monthly / Every two months

- Out of scope supplies

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Out of scope supplies are supplies that do not fall within the ambit of the VAT Act. Accordingly, the supply is not subject to VAT at either the standard rate (14%), the zero rate (0%), nor is it exempt in terms of section 12 of the VAT Act.	<p>Ensure that "Out of Scope" supplies are not subject to VAT at either the Standard rate (14%) or the zero rate (0%) and is not exempt in terms of the VAT Act.</p> <p>Examples of Out of Scope Supplies are:</p> <ul style="list-style-type: none"> Statutory fines and penalties. The imposition of statutory fines or penalties by the municipality falls outside the scope of VAT. Examples are speeding and parking fines, library fines for the late return of books, and building control and other fines Any grants paid by public authorities to make out of scope supplies Any unconditional gifts (donations) from charities or inheritance from individuals provided that there is no quid pro quo in terms of a supply of goods or services to that person or a connected person in return for the donation or inheritance. 	FCP	CFO	Monthly / Every two months

b) INPUT TAX

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	In order for a municipality to claim input tax, the goods or services must be acquired for purposes of consumption, use or supply in the course of making taxable supplies.	<p>Scrutinize the input tax account and ensure that input tax is not claimed where goods or services are acquired for exempt (section12) or out of scope/non-supplies.</p> <p>Ensure that where the municipality qualifies to be registered on the payment basis, that input tax is only claimed to the extent that:-</p> <ul style="list-style-type: none"> ▪ Payment for the taxable supply has been made by the municipality; and ▪ The VAT was incurred for the purpose of consumption, use or supply in the course of making taxable supplies. 	FCP	CFO	Monthly / Every two months
2	<p>Apportionment</p> <p>Where goods or services are acquired to make both taxable and exempt/out of scope or non-supplies, the VAT expense must be attributed according to the intended purpose for which those goods or services will be utilized.</p> <p>Where the expense cannot be directly attributed to either, taxable or exempt/out of scope supplies, the extent to which input tax may be claimed, has to be calculated</p>	<p>The person who is responsible for capturing Input VAT on the accounting system should familiarize himself/herself with the intended purpose for which those goods or services will be utilized.</p> <p>Ensure that when goods or services are acquired:-</p> <ul style="list-style-type: none"> ▪ Wholly for taxable supplies, the full input tax can be claimed. ▪ Wholly for exempt supplies, no input tax can be claimed; ▪ For both taxable and exempt supplies (commonly referred to as "mixed supplies), a ratio using the turnover based method is applied to claim input tax. 	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	<p>according to the apportionment percentage obtained using an approved method.</p> <p>As from 1 July 2006, all rulings granting municipalities permission to use any special method of apportionment (e.g. the adjusted/varied input-based method or other special approved method) are withdrawn. Therefore all municipalities must apply the turnover based method.</p>	<p>The commissioner may, within the discretion provided in terms of section 17(1) of the Act, approve another method of apportionment which is reasonable in the circumstances and which may be used.</p>			
3	<p>Formula for the turnover based method:</p> $\frac{\text{Total value of taxable supplies} \times \text{VAT incurred}}{\text{Total value of all supplies}} = \text{Input tax claim}$	<p>Ensure the following when calculating Input tax using the turnover based method:</p> <ul style="list-style-type: none"> ▪ The value of taxable supplies excludes any VAT charged ▪ The “total value of all supplies” consists of the value of all taxable supplies (excluding VAT), exempt supplies and non-supplies. Also ensure that taxable supplies include zero rated supplies as well. ▪ Capital goods should be excluded from the calculation unless they are supplied under a rental agreement/operating lease. (Not a finance lease) ▪ Exclude any goods or services where the input tax was denied from the calculation (e.g. the purchase of passenger vehicle) 	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		See Annexure 3, example 1 : Apportionment of input tax according to the turnover based method.			
4		Ensure that where the application of the formula results in an apportionment percentage of more than 95%, the municipality is entitled to claim the full amount of input tax.	FCP	CFO	Monthly / Every two months
5	Grants by municipalities to municipal entities Grants made by the municipality to municipal entities will in terms of the provisions of section 8(5) of the VAT Act be deemed to be a service to the municipality and taxable at the standard rate since it does not qualify as a "grant" as defined in section 1 of the VAT act.	Ensure that grants made to municipal entities are taxable at the standard rate.	FCP	CFO	Monthly / Every two months

c) OTHER PROCEDURES

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	Additional procedures should be performed regarding VAT amendments affecting local authorities.	<p>Ensure that the following additional procedures are performed regarding VAT amendments affecting local authorities:</p> <ul style="list-style-type: none"> • Review the VAT indicator for all income and expenditure streams and accounts and amend where required. • Determine for which expenditure, input tax credits, including capital, may be claimed. • Differentiate between transactions where the municipality acts as an agent (e.g. on behalf of a province) and principal, and determine appropriate VAT treatment of expenditure. • Determine the VAT treatment of grants, including the VAT coding of the funds received as well as the expenditure. • Determine when output VAT is payable on the sale of assets. • Amend VAT procedural policies and manuals. 	FCP	CFO	Monthly / Every two months
2	The time of supply in terms of section (9)(3)(d) of the VAT Act, is the earlier of the date of registration of transfer, or the date any payment of the consideration is made.	<p>The time of supply in respect of a sale of fixed property, which prior to 1 July 2006 was not used in the course or furtherance of the municipality's enterprise falls on or after 1 July 2006, VAT is payable at the standard rate even though the agreement of sale might have been entered into prior to 1 July 2006.</p> <p>The supply of fixed property which was used to make</p>	FCP	CFO	Monthly / Every two months

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>exempt supplies, e.g. residential accommodation, will however not be subject to VAT, as the supply is exempt.</p> <p>See Annexure 3, example 2: Contracts that commence before and ending after 1 July 2006</p>			
3	<p>Adjustments regarding capital goods (acquired after 1 July 2006) used partially for taxable supplies.</p> <p>An annual adjustment incase of application of capital goods or services must be done in the following instances:</p> <ul style="list-style-type: none"> • Adjustments to output tax are required in those situations where there is a decrease in the extent of taxable use or application of capital goods and/or services by a vendor (see section 18(2)); • Adjustments to input tax are required in those situations where there is an increase in the extent of taxable use or application of capital good and/or services by a vendor (see section 18(5)). 	<p>The municipality should ensure that an annual output or input tax adjustment is made in the case of capital goods or services.</p> <p>The provisions are aimed at ensuring that where capital goods and services are used for mixed purposes, the input tax which may be claimed must be in proportion to the extent to which those assets are applied for taxable use in the municipality's enterprise over the lifetime of the assets. The adjustments are required where the input tax apportionment percentage applied by the municipality during the year varies by more than 10% from the percentage applied in the previous year.</p> <p>See Annexure 3, example 3: Adjustments of input and output VAT regarding capital goods used partially for taxable supplies</p>	FCP	CFO	30 June each year

1.13.6 AFS DISCLOSURE REQUIREMENTS

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1	The municipality should present a VAT creditor or debtor in its AFS and should disclose a separate note to the AFS detailing the basis of VAT registration (invoice or cash) and the timing of payments to/ from SARS.	<p>Ensure that the following information is disclosed in the AFS:</p> <ul style="list-style-type: none"> ▪ On the face of the statement of financial position, the VAT creditor or debtor should be presented. ▪ A separate note to the AFS detailing the basis of VAT registration (invoice or cash) and the timing of payments to/ from SARS. 	AP	CFO	30 June each year

ANNEXURE 1: EXAMPLES OF STANDARD RATED SUPPLIES

Examples of standard rated supplies include:

▪ Electricity, gas, water, drainage, refuse removal	▪ Disposal of sewerage or garbage
▪ Upgrading/building of roads	▪ Hospitals as principal
▪ Abattoirs	▪ Farming
▪ Parking grounds and garages	▪ Produce markets
▪ Township development	▪ Letting of buildings e.g. halls, offices or shops
▪ Airports	▪ Quarries and sale of sand
▪ Cement-making	▪ Caravan parks, pleasure and holiday resorts
▪ Nurseries/Hiking trails	▪ Brickyards
▪ Liquor sales	▪ Provision of computer services
▪ Game farms	▪ Dog tag fees
▪ Cattle pens and auction facilities	▪ Fee/refunds/commission received
▪ Royalties	▪ Library services
▪ Provision for bus/taxi shelters	▪ Fire Brigade services/fire fees
▪ Entrance fee to recreational facilities	▪ Issuing of licenses or permits as principal
▪ Letting of bus without a bus operator	▪ Public Transport enforcement (CCTV)
▪ Connection and reconnection fees	▪ Parks and recreational services
▪ Fees for making copies of documents	▪ By products sales
▪ Meter reading fees	▪ Inspection/re-inspection fees
▪ Trading fees	▪ Signage fees
▪ Industrial effluent/Effluent sales	▪ Weighbridge fees
▪ Recoveries of infrastructure maintenance	▪ Subdivisions/Zoning/re-zoning
▪ Encroachment fees	▪ Removal of restrictions
▪ Filming fees	▪ Burial fees/grave sales/cremation/cemetery fees
▪ Recoupment : telephone/parking from staff	▪ Informal trading levy/Trade licence
▪ Salvage items	▪ Recoveries other
▪ Roadworthy application/certificate	▪ Advertising fees
▪ Boat registration	▪ Fishing permits
▪ Duplicate certificates	▪ Health: Licensing and regulation: Trading

<ul style="list-style-type: none">▪ Street frontage administration fee▪ Banana ripening▪ The supply of accommodation in a hostel or boarding establishment▪ Services rendered by one municipality to another municipality▪ Fees for acting as collecting agents for Province (e.g. motor licences)▪ Letting of commercial accommodation, e.g. hostels	<ul style="list-style-type: none">▪ Selling of animals, birds, fish▪ Towing fees
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ANNEXURE 2: DIFFERENCES BETWEEN AN AGENT AND A PRINCIPAL

For VAT purposes, the differences between an agent and a principal can be summarised as follows:

	Agent	Principal
a.	The agent will not be the owner of any goods or services acquired on behalf of the principal.	The principal is the owner of the goods or services acquired on his/her behalf by the agent.
b.	The agent will not alter the nature or value of the supplies made between the principal and third parties.	The principal may alter the nature or value of the supplies.
c.	Transactions on behalf of the principal will not affect the agent's turnover, except to the extent of the commission or fee earned on such transactions	The total sales represent the principal's turnover whereas the mark-up is the principal's profit percentage.

ANNEXURE 3: ILLUSTRATIVE EXAMPLES

Example 1: Apportionment of input tax according to the turnover based method

Protea Municipality buys equipment costing R 114,000 (including VAT) and a new mini bus costing R 57,000 (including VAT) during the February 2007 tax period. On 1 July 2006, the municipality was compelled to utilise the turnover based method of apportionment. The following income streams were reflected on the Municipality's final trial balance for the year ended 30 June 2006.

Trial balance for the year ended 30 June 2006:

No	Description	Tax Status Prior 1/07/06	Tax Status Post 1/07/06	Value (R)
1	Assessment rates	Non-taxable	0%	2,000,000
2	Sale of electricity	14%	14%	1,000,000
3	Sale of water	14%	14%	1,500,000
4	Meter reading fees (Water & Electricity)	14%	14%	300,000
5	Community Hall Rental income	Non-taxable	14%	50,000
6	Collection fees from XYZ Dept	Non-taxable	14%	20,000
7	Passenger transport	Exempt	Exempt	100,000
8	Grants for taxable activities	0%	0%	1,000,000
9	Grants for non-taxable activities	Non-taxable	Non-taxable	1,000,000
10	Speeding and parking fines	Non-taxable	Non-taxable	500,000
Total Income				7,470,000

	Calculate the input VAT which the Protea Municipality may claim on the purchase of the equipment and the new mini bus.
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The apportionment percentage should be calculated as follows:

No	Description	Value (R)
1	Assessment rates	2,000,000
2	Sale of electricity	1,000,000
3	Sale of water	1,500,000
4	Meter reading fees (Water & Electricity)	300,000
5	Community Hall Rental income	50,000
6	Collection fees from XYZ Dept	20,000
7	Passenger transport	100,000
8	Grants for taxable activities	1,000,000
9	Grants for non-taxable activities	1,000,000
10	Speeding and parking fines	500,000
	Total Income from taxable supplies (excludes items 7, 9 and 10)	5,870,000
	Total income from all supplies	7,470,000

Formula for the turnover based method:

Total value of taxable supplies x VAT incurred = Input tax claim
 Total value of all supplies

$$\frac{5,870,000}{7,470,000} \times 14,000 = \mathbf{R\ 11,001.34}$$

Protea Municipality may therefore claim R 11,001.34, (78.58 % of the R 14,000) VAT paid on the purchase of equipment as input tax, as the expense is incurred partly for the making of taxable supplies and partly for making exempt supplies. No input tax may be claimed on the purchase of the new mini bus, as that expense is wholly attributable to the making of exempt supplies (passenger transport).

Example 2: Contract that commence before and ending after 1 July 2006

A project was undertaken by Protea Municipality and progress payments for the various phases are as follows:

No	Description	Invoice date (Time of supply)	Payment date	R (including VAT)
1	Phase 1	30/05/2006	01/07/2006	114,000
2	Phase 2	10/06/2006	15/07/2006	57,000
3	Phase 3	20/06/2006	30/07/2006	34,200
4	Phase 4	15/07/2006	15/08/2006	22,800
5	Phase 5	31/07/2006	30/08/2006	136,800
6	Phase 6	31/08/2006	30/09/2006	228,000
7	Phase 7	15/09/2006	31/10/2006	57,000
8	Phase 8	30/09/2006	15/11/2006	22,800
				672,600

	On which progress payments relating to the respective phases of the project undertaken by the Protea Municipality can input VAT be claimed?
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Input tax on the following amounts can be claimed:

No	Description	Claim input tax	Reason	Tax Period deductible	Input tax claim (R)
1	Phase 1	No	Time of supply before 1/7/06	n/a	-
2	Phase 2	No	Time of supply before 1/7/06	n/a	-
3	Phase 3	No	Time of supply before 1/7/06	n/a	-
4	Phase 4	Yes	Time of supply after 1/7/06	Aug 06	2 800
5	Phase 5	Yes	Time of supply after 1/7/06	Aug 06	16 800

No	Description	Claim input tax	Reason	Tax Period deductible	Input tax claim (R)
6	Phase 6	Yes	Time of supply after 1/7/06	Sept 06	28 000
7	Phase 7	Yes	Time of supply after 1/7/06	Oct 06	7 000
8	Phase 8	Yes	Time of supply after 1/7/06	Nov 06	2 800
					57 400

Example 3: Adjustments of input and output VAT regarding capital goods used partially for taxable supplies

ABC municipality (registered for VAT) on 1 July 2006 buys computer software for R 456,000 (including VAT). It makes 60% taxable supplies and 40 % exempt supplies based on the turnover based apportionment method. The software is used to administer the supplies of all the taxable and exempt divisions of the municipality. The software is therefore used by ABC municipality partially in the course of making taxable supplies and partially for making exempt supplies.

	What percentage of the VAT incurred on the acquisition of the computer software may be claimed as input tax?
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In this case, 60% of the VAT incurred on the acquisition of the computer software may be claimed as input tax.

If ABC municipality on 1 August 2007 decided to use the software, which was acquired on 1 July 2006, wholly for making taxable supplies, the 40% VAT which was previously not claimable, may be claimed as input VAT as it is now wholly attributable to making taxable supplies. Similarly, if it was decided to use it solely for the purpose of making exempt supplies, an output tax adjustment needs to be made in respect of the 60% previously claimed as it is now wholly attributable to making exempt supplies.