

Business Law & Tax Review

VAT slowdown to hit SARS and vendors

Receipts are falling and collections from debtors are slowing

GERHARD BADENHORST

Edward Nathan Sonnenbergs

CONSUMER spending has been dramatically reduced as a result of the global economic downturn.

Value-added tax (VAT) receipts by most tax authorities have also been negatively affected and in SA a substantial deficit compared to the budget of R167bn is expected for this year.

In a surprise move the UK actually reduced its VAT rate from 17,5% to 15% for a 13-month period from December 1 2008 to December 31 2009 in an attempt to stimulate the economy by providing a direct incentive for consumers to spend. Leading businessmen in Australia also called for halving of the VAT rate in that country to 5% to “give an injection of cash into people who have got purchasing power”.

UK Prime Minister Gordon Brown claims that their VAT rate cut is already making a difference, but the move has been slammed by opposition parties, describing it as a waste of money as it costs the UK treasury about R171bn.

France and Germany have said that a general cut in the VAT rate is not the answer for them and they will rather provide targeted aid to their ailing economies.

A VAT rate cut in SA is not considered or expected. Although a rate cut may stimulate consumer spending, it will do very little to provide relief for the poor, as most basic foodstuffs are already subject to the zero rate. Judging from the medium-term budget policy statement tabled by Finance Minister Trevor Manuel in October last year, it is unlikely that the calls for the expansion of the list of zero-rated foodstuffs will be adhered to. Consumers can therefore expect very little or no relief from a VAT perspective.

The decline in VAT collections and the VAT budget that is drifting off

course will no doubt put pressure on the South African Revenue Service (SARS). Vendors can therefore expect that SARS will review VAT refund claims more thoroughly, which will result in delays in the payment thereof.

SARS is also expected to intensify its VAT audits and vendors should be prepared for it. Vendors who sell on credit are likely to experience delays in collecting payment from their debtors for goods or services supplied.

This will have a negative impact on their cash flow as they will be required to pay the VAT to SARS before collecting payment from debtors.

Vendors who may be tempted to manipulate their VAT payments to SARS to alleviate their additional VAT funding requirements, should not even think about it.

Such manipulation is tax evasion and fraud, and exposes the vendor to penalties, interest, additional tax of up to 200% and even imprisonment. Former Springbok cricketer Garth le Roux and his accountant were both recently sentenced to six years imprisonment for VAT and tax fraud.

There are legitimate measures



which vendors can consider to improve their VAT cash flow, which include:

- Individuals and partnerships consisting of natural persons with an annual turnover of less than R2,5m, qualify to pay VAT only when payment is received from debtors;
- Vendors with an annual turnover of less than R1,2m qualify to submit their VAT returns every four months;
- Long outstanding debts should be written off as soon possible to enable the vendor to claim bad debt relief under the VAT Act;
- Vendors who pay VAT manually can reduce their VAT funding requirements by a few days by changing to the SARS e-filing system, in which case

VAT payments are due only on the last business day of the month as opposed to the 25th day;

- The issue of an invoice triggers a VAT payment. Vendors who issue invoices generally at the end of a month should consider postponing the issue of invoices to the beginning of the following month, thereby moving the obligation to pay VAT into the next tax period; and
- Vendors can consider requesting credit customers to make upfront payments equal to the VAT on the goods or services supplied.

With VAT receipts falling and collections from debtors slowing, SARS and vendors are in for a tough year.

UK Prime Minister Gordon Brown claims that their VAT rate cut is already making a difference