

VAT TERMINOLOGIES

Presented to
VAT Implementation Team
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VAT Terminologies and Concepts

- There are words, terms and concepts that are specific to VAT and are used in VAT legislations around the world.
- These terms have special meaning for VAT administration.
- Tax Officers and the business community must become familiar with those words/terms and concepts.



OBJECTIVE OF PRESENTATION

To familiarize officers with key terms which basically define the main principles of VAT

Common Terms under the VAT

- 1. Goods/Services
- 2. Supply
- 3. Imposition of the tax
- 4. Taxable activity
- 5. Registered person
- 6. Taxable person
- 7. Excess Credit/Refund
- 8. Taxable supplies
- 9. Progressive Supplies
- 10. Periodic supplies
- 11. Exempt supplies
- 12. Zero-rated supplies
- 13. Exempt import
- 14. Mixed supplies
- 15. Consideration
- 16. Recipient
- 17. Tax period
- 18. Output/Input VAT

What do all these concepts mean?

A broad-based, multi-stage transaction tax on value added

- broad-based ⇒ charged on a wide range of goods & services
- multi-stage ⇒ charged at every level of the economic chain
- transaction tax ⇒ charged on each transaction
- value added ⇒ \approx salary & wages plus profits.....

A consumption tax

- consumption ⇒ passed on to consumers in price of each consumer transaction; consumers cannot claim it back

Explanation of Terms

- **Goods**
 - **Real property**
 - - interests in land, buildings etc
 - **Tangible property**
 - - trading stock, capital equipment
- **Services**
 - Anything that is not a good or money is a service
 - Legal, medical, educational

The term “goods” does not include money

Money

Money is a measure of value. It includes –

- Coin
- Paper currency
- Negotiable instrument used as currency
- Bill of exchange
- Promissory note
- Bank draft
- Postal order
- Money order
- Credit card/debit card

• Supply

Types of transactions to which VAT may be applied:-

- **There are two types of supplies:**
 - supplies of goods
 - supplies of services
- **A supply has to be either a supply of goods or a supply of service – not both at the same time**
- ***VAT cannot be applied to money because it is neither a supply of goods nor a supply of services***

Supply of Goods

- **A supply whereby the recipient receives the right to use, consume or dispose of goods, through:**
 - Sale, exchange or transfer transactions
 - Lease or hire including goods supplied under finance leases (hire purchase)
 - Any other thing that the Act or Regulations deems as a supply of goods

Supply of Services

- Performance/rendition of services by one person to another
- Form/way of supplying = sales, leases, licences

Recipient

- The person to whom a supply is made
 - It could be a taxable person or a person who is not registered
- Supplier → goods or services → to Recipient
(action) → (thing supplied) → (receipt)

Imposition of the tax

- The tax rate to be applied on imports and supplies of goods and services
 - VAT may be applied at one or more positive rates
 - Standard Rate and Reduced (special) Rate
 - Zero-rate may apply to import and supplies of some goods and services
 - Rate of 0% - totally free of VAT
- **Threshold** – annual value of taxable supplies (Zero, Standard, Reduced rates) that qualifies a business to be registered for VAT

Taxable activity

- Any activity conducted regularly and continuously whether or not for profit, includes a supply of public entertainment

Registered Person

- A person who is registered for VAT -These are the only persons authorized to charge VAT on supplies of goods and service
- Only registered persons can claim input tax deductions for VAT paid on imports and domestic acquisitions

Taxable Person

- A person who is registered for VAT (registered person) or a person who is required to register



Output tax:

VAT charged by registered persons on taxable supplies of goods or services

Input tax:

VAT paid by registered persons on imports or included in the price of local purchases of goods or services

Input tax credits:

Deductions of input tax against output tax

- **VAT payable:** Output – Input = (+)
- **Excess Credit:** Output – Input = (-)

Tax period

- Reporting period for registered persons
- A calendar month

Progressive and Periodic supplies

- Supplies that are made periodically or progressively under an agreement, **and**
- The agreement provides for periodic or progressive payment; **or**
- A supply of goods or services through a lease, hire or licence

Taxable supplies

- A supply of goods or services given in the course of the furtherance of a taxable activity other than an exempt supply

Exempt supplies

- Supplies on which no VAT is charged (no VAT rate)
- Persons who make exempt supplies are not entitled to input tax deductions in respect of these supplies

Zero-rated supplies

- Supplies that are taxable at a rate of 0%
- Registered persons can claim input tax deductions in respect of acquisitions used in making these supplies

Exempt import

- Imports on which no VAT is charged – may be detailed in a Schedule to the Act

Mixed supplies

- Where a person makes both taxable and exempt supplies
- A registered person who makes mixed supplies may be able to deduct some or all of the tax paid on acquisitions or imports

● Consideration (S.2)

- Money paid or payable directly or indirectly for an inducement of a supply,
 - It includes amounts paid or payable as duties, levies, fees, charges, and taxes (excluding VAT) paid or payable on the supply.
- The fair market value of anything paid or payable in kind directly or indirectly for the inducement of the supply, **less**
- Discounts and rebates given or accounted for at the time of the supply

- **VAT Inclusive Price (S.99)**– selling price of good/service with VAT
 - **VAT invoices(S.29)** – documentary evidence of sales of taxable supplies between two registered persons
 - **Sales receipts(S.29)** - documentary evidence of sales of taxable supplies from a Registered Person to a non-registered person
 - Both documents should show the VAT paid on taxable supplies
 - Difference: indication of Recipient's details (name, TIN, etc.)
- **Debit Note(S.30)** – documentary evidence provided by a Registered Person to another Registered Person when additional VAT has to be charged (undercharged)
- **Credit Note(S.30)** – documentary evidence provided by a Registered Person to another Registered Person when the tax charged was too much. (overcharged)
 - The VAT registered business that issues a VAT credit or VAT debit note has to reflect such adjustment by reducing or increasing the **output tax** reported on its next VAT return.
 - Likewise a VAT registered business that receives a VAT credit or VAT debit note has to reflect such adjustment by reducing or increasing the **input tax credit** reported on its next VAT return.



- **Apportionment formula (Sec 26)**

- used to determine the percentage of input tax that a registered business carrying on mixed activities can claim when filing a VAT Return.
- Used when the business cannot directly allocate how much VAT paid on an acquisition go towards making the taxable supply and exempt supplies
- it calculates ratio of taxable sales to total sales , then claims that percentage of input tax.

Conclusion:

- These terms may slightly different meaning in the normal english language, however, their meaning will have to be interpreted in the context of VAT
- It is important that once you understand the “VAT language/jargon”, you should break it down in layman terms when presenting to businesses and consumers



THANKS FOR YOUR ATTENTION!!!

QUESTIONS?