

3.1 VAT

Policy number: 005A/25/03/09

Scope: The policy provides the financial guidelines as specified by the Act that is applicable when SU wants to institute a claim for VAT, the method according to which a cost center's VAT claim percentage is determined and the issuing of invoices.

Policy:

Basic concepts regarding VAT, such as output tax, input tax, taxable purveyances and exempt purveyances are continuously used among University staff in their daily execution of tasks. For the sake of completeness these concepts are briefly explained.

OUTPUT TAX

Output tax is the tax levied when a business provides taxable purveyances (VAT on sales).

INPUT TAX

Input tax is the tax levied with regard to goods and services purchased for providing taxable purveyances (VAT on purchases).

EXEMPT DELIVERIES

The provision of some goods and services is exempt from VAT. Input tax with regard to such purchases is not reclaimable. Educational services and donations, for instance, are exempt from VAT.

TAXABLE PURVEYANCES AT STANDARD RATE

The provision of goods and services is taxable at the standard VAT rate and input tax can be set off against output tax. In practice, the provision of goods and services generally is taxable.

RECLAIM PERCENTAGE OF A COST CENTER

All cost centers have a VAT reclaim percentage that varies between 0% and 100%. This percentage is calculated as a percentage of taxable deliveries over total deliveries (taxable plus non-taxable sales). This percentage has no connection to the output VAT that has to be paid to the Receiver of Revenue. All payments to the Receiver normally comprise the full 14% VAT on a specific taxable income. The VAT reclaim percentage can be determined with programs FFB007P and FFB184P.

Example:

Supposing cost center X annually receives taxable income of R250 and non-taxable income of R250. Cost center X consequently has an income of R500 for the year. The VAT reclaim percentage can therefore be presented as follows:

$$\frac{\text{Taxable Income}}{\text{Total Income}} \times \frac{100}{1} = \frac{250}{500} \times \frac{100}{1} = 50\%$$

Supposing cost center X incurs some expenses worth R228 during the year: This R228 therefore comprises a tariff + 14% VAT, with VAT calculated as follows:

$$\frac{14}{114} \times \frac{228}{1} = R28$$

Because the cost center has a 50% VAT reclaim percentage,

$$\frac{50}{100} \times \frac{28}{1} \quad \text{i.e. R14 of the input VAT can therefore be reclaimed.}$$

On the taxable income of R250, however, $\frac{250}{1} \times \frac{14}{114} = R30.70$ has to be paid to the Receiver, i.e. the full VAT amount of 14%.

RECLAIMING VAT

At least three types of tax invoices are applicable for reclaiming VAT. Each type has its own requirements that have to be met by the tax invoice before VAT can be reclaimed.

Invoices for amounts larger than R5 000 (inclusive of VAT)

The following information has to appear on the invoice:

- that it is a tax invoice
- the supplier's name, address and VAT registration number
- the name, address and VAT registration number of the purchaser
- the invoice number and date
- a description of the goods, as well as the quantity
- the value of the goods and the tax requested

Invoices for amounts smaller than R5 000 (inclusive of VAT)

When the total amount of the invoice including VAT does not exceed R5 000, the abovementioned remains applicable. It is not necessary, however, to show the supplier's address, the receiver's name and VAT registration number or the quantity of the goods.

Situations in which the total amount inclusive of VAT is smaller than R50 for which it is not necessary to generate an invoice

When the total amount inclusive of VAT does not add up to R50, it is not necessary to generate an invoice. Any buyer who wants to claim VAT has to provide evidence of purchase of the fact that VAT was levied. It is important to indicate the name of the supplier and the fact that VAT was levied on the invoice.

VAT LEVIED WHEN INVOICES ARE ISSUED

All external work, research, consulting and goods that are provided by departments must be invoiced via the debtor's system. All invoices that are issued must be approved by the person whose cost centre is used or by the head of department/executive head/discipline head thereof. The person who issues the invoice must ensure that the correct income account is used. If there is any doubt regarding the income account, Financial Services should be contacted.

No invoice may be created on Stellenbosch University letterheads or generated by computer programs. The debtor's system should always be used to create invoices.

The following income account is used when invoices are created for domestic income:

- 5388: Income sponsorships: Sponsorships are paid towards this income account. VAT is levied.
- 5413: Commissioned research: Funds obtained for contract research are paid towards this income account. VAT is levied.
- 5415: Zero-rated sales: Funds obtained from the sale of exempt products (mainly agricultural products) are paid towards this income account. No VAT is levied.
- 5597: Sundry income (Taxable): Funds obtained for services rendered, goods supplied, research and any other taxable supplies are paid towards this income account, exclusive of payments from the NRF, WRC, other statutory councils and income that belongs specifically to one of the named income accounts. VAT is levied.
- 5267: Department of Water Affairs and Forestry: Funds received from the Department of Water Affairs and Forestry is paid towards this income account. VAT is levied.
- 5270: DST income: Funds received from DST are paid towards this income account.
- 5307: Water Research Commission: Funds received from the Water Research Commission are paid towards this income account. VAT is levied.
- 5387: Income Bursaries: Funds received for paying out bursaries. No VAT is levied.
- 5777: Income received from the attendance of educational seminars, congresses and courses. No VAT is levied.

The following income account is to be used when invoices are created for foreign income:

- 5777: Income received from the attendance of educational seminars, congresses and courses.
- 5598: Foreign payments: Funds received from abroad are paid in against the income account.
- 5387: Income Bursaries: Funds received for paying out bursaries.
- 5592: Foreign Income Exempt: Foreign income received for non-taxable supplies, excluding 5777, 5387 or 5373 (donations)

Please note: No VAT is levied on foreign income.

Foreign or domestic donations are paid in via the Marketing and Communication Division on income account 5373. Invoices may not be generated for the payment of a donation.

No invoices may be issued towards income account 5596 without prior authorisation from Financial Services.

When prices are quoted for goods and services, the quotations related to taxable deliveries must make allowance for VAT.

No income may be recorded against an expense account.

Contact division:
Financial Services