

DANNHAUSER LOCAL MUNICIPALITY



VALUE ADDED TAX POLICY 2025/2026

1. DEFINITION

- Value-Added Tax is commonly known as VAT. It is an indirect tax on the consumption of goods and services in the economy. Revenue is raised for government by requiring certain businesses to register and to charge VAT on the taxable supplies of goods and services.
- **Value-added tax (VAT):** A tax levied and paid on the supply of goods or services, calculated at a standard rate of 15.5% or zero rate (0%) , exempt supply.
- **Output tax:** means tax levied with regard to provision or rendering of taxable goods or services (VAT on sales).
- **Input tax:** means tax that is levied with regard to goods and services purchased for providing taxable supplies (VAT on purchases)

2. PURPOSE

- The policy provides the financial guidelines as specified by the Act that is applicable when municipality wants to institute a claim for VAT, the method according to which VAT claim percentage is determined and the issuing of invoices. Basic concepts regarding VAT, such as output tax, input tax, taxable supplies and exempt supplies.
- To ensure that the entity adheres to all applicable VAT related legislation, and administers its VAT related activities properly.
- Municipality must ensure that it has complied with the requirements of the VAT Act with regards to submission of the VAT returns to ensure that the total output VAT declared and total input VAT claimed for the year, as well as the VAT liability or VAT receivable as disclosed in the financial statements is reasonable.

3. Legislative context

In terms of Section 95(c) (i) of the Municipal Finance Management Act, 56 of 2003, as amended, the Accounting Officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure that the entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Paragraph 2.6 of Chapter 2 for

VAT 419 guide, stipulates that a municipal entity is an entity created by one or more municipality to carry on certain activities which would otherwise be conducted by the municipalities concerned, it will have to register separately for VAT if it makes taxable supplies in excess of the compulsory VAT registration threshold. As a general rule a municipal entity does not conduct activities on behalf of municipality, but rather for its own account. Refer to paragraph 7.5 of the Vat 419 guide for more details on municipal entities

4 REGISTRATION OF VAT

The municipality is registered for the payment of VAT on a cash basis.

5. OUTPUT TAX

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

6. INPUT TAX

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

7. 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.

8. ZERO RATED

The following goods and services are zero-rated:

- Exports
- 19 basic food items(Brown bread, Maize meal., Samp., Mealie rice., Dried mealies., Dried beans, Lentils., Pilchards/sardinella in tins, Milk powder.Dairy powder blend,Rice.,Vegetables.
- Fruit,Vegetable oil,Milk.,Cultured milk, Brown wheaten meal,Eggs.
- Edible legumes and pulses of leguminous plants, Illuminating paraffin
- Goods which are subject to the fuel levy (petrol and diesel)
- International transport services
- Farming inputs
- Sales of going concerns, and
- Certain grants by government.

9. TAXABLE SUPPLIES 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.

10. Tax Invoices

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.

10.1 Invoices for amounts larger than R3 000 (inclusive of VAT)

Except as the Commissioner may otherwise allow, and subject to this section, a tax invoice (full tax invoice) shall be in the currency of the Republic and shall contain the following particulars:

- 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 or volume of the goods or services supplied.
- the value of the goods and the tax requested

10.2 Invoices for amounts smaller than R3 000 (inclusive of VAT)

When the total amount of the invoice including VAT does not exceed R3 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.

10.3 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.

11. GRANTS BASED ON THE VAT 419 GUIDE

The purpose of this circular is to provide clarity to municipalities on the VAT treatment of grants based on the VAT 419 guide to municipalities.

11.1 Background

- Prior to 1 April 2005, the term grant was not defined in the VAT act instead; the VAT legislation referred to, and defined the term transfer payment. One of the main issues faced by municipalities was that the appropriations made to them by government under the annual Division of Revenue Act for example, equitable share grants, did not comply with the definition of transfer payment. Therefore these receipts did not qualify as a zero rated supply under section 11(2)(p) of the VAT act as it read at the time. This created a problem in that, public authorities and municipalities were generally under the impression that such payments qualified to be zero rated and did not budget for the VAT, which should have been included at the standard rate. Amendments were therefore introduced to the VAT Act and the amendments included amongst others the following:
- The definition of transfer payment was replaced with the definition of a grant. The definition of a grant included in its meaning any appropriations made by government under the annual Division of revenue act. The deeming provisions of section 8(5) of the VAT act were amended to now only apply to a designated entity.
- The zero rating provision under section 11(2)(p) was replaced with section 11(2)(t) of the VAT act. This new provision allowed the deemed supply under section 8(5A) of the VAT act in respect of grants made to municipalities as well as grants made by municipalities to be zero-rated.
- After careful consideration of amongst other the above, South African Revenue Services (SARS) issued the Value-Added Tax Guide - **VAT 419 – Guide for Municipalities** dated 31 October 2008, which relates to the application of the Value-Added Tax (VAT) law in respect of municipalities. The main purpose of this guide is to provide guidance and clarity on the VAT treatment of supplies made by municipalities from 1 July 2006 page 4 of 5.

11.2 Discussion

- An extract from the VAT 419 Guide,"A grant is a means of assistance from the State or a municipality being a gratuitous or unrequited payment by the grantor, where no exchange is expected in the form of a supply of goods or services of corresponding value. Where the recipient is required to perform minor actions in regard to the grant, such as providing the grantor with a report or information on how the grant funds were spent, those actions are not regarded as constituting an actual taxable supply of services by the grantee to the grantor in terms of section 7(1) (a) of the VAT Act."

11.2.1 Grants can be either grants made for taxable supplies or grants made for exempt supplies.

11.2.2 Grants received for the purposes of making taxable supplies are zero rated supplies. A grant is subject to VAT at a zero rate only where the municipality has not actually supplied any goods or services to the public authority, municipality or constitutional institution making the payment. Where there is an actual supply of goods or services by the municipality, the supply will be subject to Vat at the standard rate.

11.2.3. Where a grant is received by a municipality from a public authority, constitutional institution, or another municipality, the receipt gives rise to a deemed supply of services in terms of section 8(5A) of the VAT Act. This deemed supply is zero-rated in terms of section 11(2) (t) of the VAT Act, provided that the grant is for the purpose of assisting the municipality to make taxable supplies of goods or services in the course of its enterprise.

If a grant is received for the purposes of exempt or other non-taxable purposes, the municipality will not be entitled to claim any input tax in respect of any goods or services acquired in this regard. A grant must be attributed and declared on the VAT 201 return according to whether it relates to taxable, exempt or other non-taxable supplies. Where the grant is for both taxable and non-taxable purposes, the receipt must be attributed accordingly. For example, if 30% of a grant is for subsidizing the municipality's public transport business (exempt supply) and 70% is for subsidising the supply of water and electricity to customers (taxable supplies), 30% of the grant will not be taxable, and the other 70% will be subject to VAT at the zero rate.

12. SUBMISSION OF VAT 201 RETURNS

- A vendor is required to submit VAT returns and make payments of the VAT liabilities (or claim a VAT refund) in accordance with the allocated to the vendor. The VAT returns and payments are normally submitted / made on or before the 25th day after the end of the tax period. Late payments of VAT will attract a penalty and interest
- On 19 October 2012, SARS clarified in a notice that vendors who use eFiling may continue to submit their VAT declarations on the 25th of the month. The benefit of no interest, penalties or prosecution will remain effective if the declaration and payment are submitted via eFiling (or EFT) on or before the last business day.

13. APPORTIONMENT METHOD

- The SARS Binding General Ruling (VAT) : NO. 4 (Issue 3) that was issued on the 27th March 2015, prescribes the acceptable apportionment methodology to be applied by municipality and constitutes a BGR under Section 89 of the Tax Administration Act.
- The VAT incurred on expenses acquired for a mixed purpose may be deducted as input tax to the extent determined in accordance with an apportionment method as contemplated in section 17(1) (that is , determined in accordance with a ruling contemplated in section 41B OR Chapter 7 of the Tax Administration Act, 2011).
- A municipality must use a turnover based method of apportionment to determine the amount of goods or services for a mixed purpose.
- This standard method relies essentially on the simple arithmetic relationship between taxable and total supplies.

14. ACCOUNTING RECORDS

It is good accounting practice to keep VAT control accounts. The main accounts will be output tax account input account and VAT Control account

15. VAT RECONCILIATION

VAT reconciliation must be performed on a monthly basis to reconcile VAT 201 and general ledger, at year end all suspense account must be cleared. The balance of input tax and output tax must be carried forward to the VAT Control Account.

15.1 Value Added Tax Act No. 89 of 1991

Section 55(1) (1) Every vendor shall keep such books of account (which books of account, where generated by means of a computer, shall be retained in the form of a computer print-out) or other records as may enable him to observe the requirements of this Act and enable the Commissioner to satisfy himself that the vendor has observed such requirements, and every vendor shall, in particular, keep the following records and documents-(a) a record of all goods and services supplied by or to the vendor showing the goods and services, the rate of tax applicable to the supply and the suppliers or their agents, in sufficient detail to enable the goods and services, the rate of tax, the suppliers or the agents to be readily identified by the Commissioner, and all invoices, tax invoices, credit notes, debit notes, bank statements, deposit slips, stock lists and paid cheques relating thereto: Provided that a vendor's records do not have to show the rate of tax where the vendor has been authorised by the Commissioner to calculate the tax payable by him in accordance with a method prescribed by regulation, as contemplated in section 16 (1)

15.2 POLICY ADOPTION

This policy has been considered and approved by the Council of **Dannhauser Municipality** on this day..... of 2025 and will be implemented as from 1 July 2025