

VAT Alert

5 March 2009

VAT deregistration

Deregistration as a VAT vendor could create a VAT cost!

VAT vendors, with a total value of taxable supplies (i.e. turnover) of less than R20, 000 in the last 12 months, may have received correspondence from the South African Revenue Service (SARS) indicating SARS's intention to deregister them as VAT vendors. SARS further states in the correspondence that it intends to suspend the VAT registration from a certain date and that refunds after that date will not be paid out. The vendor will then have to motivate to SARS (at the SARS branch where the vendor is registered) why the suspension should be lifted, by providing SARS with certain information and documentation.



Turnover of less than R20,000

The VAT Act provides that a vendor must (subject to certain exceptions) make taxable supplies of at least R20,000 in a 12-month period to remain entitled to be VAT registered. However, it was proposed in the 2009 Budget speech to increase this threshold to R50, 000 from 1 March 2010.

Taxable supplies include both standard-rated (14%) and zero-rated (0%) supplies. A vendor with taxable supplies in excess of R1 million (R300,000 before 1 March 2009) is obliged to register as a VAT vendor.

Should a vendor, for example, not have disclosed his zero-rated supplies on the VAT return, even where these are in excess of the compulsory registration threshold, SARS may also issue such an intention to deregister notification.

The consequences of deregistration for the vendor are that:

- refunds are withheld; and
- a VAT cost with deregistration may be created.

The VAT cost is created due to the deemed supply of all goods and rights capable of assignment, cession or surrender at the time that the person ceases to be a vendor.

This means that the vendor must account for output VAT on all qualifying assets and rights on hand at the date of deregistration. However, if an input tax deduction on the acquisition of the goods was denied, such goods do not form part of the deemed taxable supply at the date of deregistration.

How to prevent the deregistration

- Submit the required information within the period required by SARS and obtain proof of such submission. The information required could include:
 - the ID document of vendor/representative person,
 - banking particulars,
 - physical business address,
 - a written submission describing the nature of the business together with reasons why the business activities will show turnover of R 20,000 only after a period of time and the expected date that the business will reach this threshold, and
 - financial records together with copies of the 10 highest Rand value tax invoices for purchases in respect of capital and non-capital goods.

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- Ensure that VAT returns are completed correctly or submit amended VAT returns to disclose zero-rated supplies.
- Should VAT refunds be withheld, request payment thereof, as well as interest on late refunds, in writing.

Voluntary deregistration

Where taxable supplies of less than R1 million (R300,000 before 1 March 2009) are made, a vendor can request voluntary deregistration from SARS by completing a VAT 123 form.

A vendor who has taxable supplies of less than R1 million should consider whether they wish to remain registered as a VAT vendor. The types of supplies made, profile of customers and VAT incurred on expenditure should be taken into account in making this decision.

Where a vendor chooses to deregister as a result of the increase in the threshold, a VAT cost is created due to the deemed supply of all goods and rights capable of assignment, cession or surrender at the time the person ceases to be a vendor. This means that a VAT liability on the value of assets and rights held on deregistration may be incurred. In these circumstances the tax payable in respect of the deemed supply made can be paid in six equal monthly instalments or in so many monthly instalments as the Commissioner may allow, provided the vendor ceases to be a vendor on or before 30 June 2009.

However, where a person elects to deregister as a VAT vendor and register as a “micro business” after 1 March 2009, not only is the tax payable in respect of the deemed supply payable in six equal monthly instalments or in so many monthly instalments as the Commissioner may allow, the amount on which VAT is calculated is also reduced by R100,000.

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