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VAT rate increase and the apportionment implications for educational institutions

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VAT rate increase

The VAT rate increased from 14% to 15% with effect from 1 April 2018. All VAT vendors, including educational institutions, have made the necessary changes and updates to their systems and documentation to ensure this increase is incorporated. There are however many implications to still take into account and we have set out below some of the additional considerations that are applicable for educational institutions in this regard.

The impact on the VAT 201 returns

For input tax on the VAT returns there will be no difference between the two rates as the full amount of input tax, regardless of the rate, can be included in one block. The difference however may be relevant when it comes to calculating the apportionment adjustment, but we will discuss that below.

For the output tax on the VAT returns it is very important that the vendor is aware of what supply is being made and at which rate. The VAT 201 return has been updated and blocks 1 and 1A now calculate the output tax based on the new tax fraction of 15/115. It is therefore important when completing the VAT return that only supplies that were levied at the standard rate of 15% are included in this block. The return will then calculate the output tax, based on VAT at 15% on these supplies. If supplies levied with 14% VAT are also included in this block, the vendor will be over declaring output tax to SARS on these supplies. Supplies where VAT was charged at a rate of 14% should be included in block 12 as this will only be the output tax amount.

Apportionment adjustment

General

The VAT rate increase will have a significant impact on educational institutions and these institutions will need to factor this in when determining their annual apportionment adjustment.

Generally, the full amount of VAT paid on goods and services, acquired or imported by a vendor for the purposes of making taxable supplies may be deducted as input tax.

However, where VAT is incurred for taxable and other non-taxable purposes (i.e. for mixed purposes), only a portion of the VAT may be deducted. A vendor is therefore required to determine the part that relates to taxable supplies and deduct input tax only to that extent.

Binding General Ruling No.16 (Issue 2) issued on 30 March 2015 ("BGR 16") provides clarity on the formula to be used when applying the turnover-based method to calculate the apportionment ratio of a vendor. The turnover-based method is the only preapproved method that may be used to apportion VAT incurred for mixed purposes without specific prior written approval from the Commissioner. However, where this method is not fair and reasonable or inappropriate, application must be made to SARS for an alternative method.

A vendor is allowed to apply the prior financial year's actual apportionment ratio to the tax periods in the current financial year to determine the extent of input tax incurred for mixed purposes.

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An adjustment must then be made for any shortfall or overestimation in the percentage used when the actual percentage for the year is capable of being calculated. This adjustment must be done within six months after the financial year end.

Where expenses are incurred before and after 1 April 2018, the actual percentage must be applied to the VAT (14% and 15%) that was incurred by the vendor.

Value-Added Tax Class Ruling issued to Universities

The VAT ruling for an alternative method of apportionment issued to Public Universities South Africa ("USAf") is based on the varied input based method of apportionment, which requires that the input tax incurred for taxable supplies and exempt supplies should be taken into account when calculating the apportionment rate. The calculation is therefore based on input tax and the increase in VAT will have to be taken into account when performing the apportionment calculation.

The actual apportionment adjustment that has to be done will also be effected. If the apportionment adjustment is done based on the actual expense amount then universities will either have to be able to distinguish between the VAT rate that was applicable to the expense or will have to determine the actual input tax that was claimed for the expense. It is paramount that the system is able to provide this level of information when performing the calculations.

It would not be possible to base the calculation on the specific date when the invoice was recorded as it is possible that invoices are only recorded months after issued or any of the transitional rules can be applicable to the expenses and the above level of information will be required. If it is not currently possible for the system to provide this level of information, it is important that this is updated as soon as possible to ensure that the apportionment calculation for the 2018 financial year can be done.

Furthermore, it is important that Universities are able to distinguish for both output tax and input tax, which supplies are made at 14% and what are made at the new rate of 15%. It is therefore imperative that this was taken into account when any updates to the system was done or should be included in the system as soon as possible.

Budgeting

The VAT Act does allow for suppliers to recover the VAT rate increase from recipients, unless it was agreed otherwise by the parties. In most instances suppliers will have recovered this increase in the VAT rate from the University and this will therefore have major implications on the budgets finalised by the educational institutions for the 2018 financial year.

Most businesses are able to recover this additional VAT cost from its customers, educational institutions are however providing exempt supplies and it is therefore not possible to deduct any input tax on expenses that are directly attributable to the making of any exempt supplies. An additional VAT cost will therefore arise from the increase in VAT, which educational institutions cannot recover. Whilst the effect will not be as significant, an additional VAT cost will also have to be taken into account on any mixed expenditure. This will especially be important to consider for any large capital projects that is to be done in the 2018 financial year and educational institutions will have to consider how this additional cost will be funded.

The takeaway

Even though the effective date for the VAT rate increase was 1 April 2018 there are many considerations that need to be taken into account in the upcoming months to ensure that educational institutions are VAT compliant and are applying the correct VAT rate.

Additionally, even though this has been the first VAT rate increase in 25 years, this does not mean it will take another 25 years for Government to announce the next increase and it is important that institutions ensure that the changes and pitfalls they're experiencing now with this increase is documented to ensure that the next VAT rate increase is a smoother process.

Let's talk

For a deeper discussion of how this issue might affect your institution, please contact:

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