

# MODULE 7

## VALUE ADDED TAX (VAT)

### Note to the Teacher:

The purpose of this Module is to expose learners to the following aspects of taxation:

- reasons why we pay tax and
- the different types of tax that are levied by the state.

In particular we will focus on VAT (value added tax). The grade 10 curriculum statements only require a basic knowledge of the concepts. Learners are not required at this level to do the recording. However, it is a fact of life and is a tax that all sectors of the population are exposed to, so it is a very important life skill that the learners need. It is up to you, as to how far, you take this topic at this stage.

The reason why it has been incorporated at this stage in the textbook is to afford the educators, who so wish, to incorporate VAT into the recording system. However, this module can be done whenever you so desire. It should also be integrated with ethics, which is also covered later in the book.

If you have access to computerised accounting systems, it is recommended that you introduce this topic together with the programme. It will mean that in the initial stages learners can focus on the entries instead of just the calculation.

### VAT EXCLUSIVE OR VAT INCLUSIVE:

It is essential that you are aware of whether the figures quoted are **VAT inclusive** or **VAT exclusive** as this will have a big bearing on the figures to be recorded.

It is important that you concentrate on the manual calculation of VAT – this calculation is similar to the calculation of Cost of Sales.

For example: Goods are marked at R364.80 inclusive of VAT. (Assume this is a cash sale). The VAT included in this figure is calculated as follows:

$R364.80 \times \frac{14}{114} = R44.80$ . This means that the following double entry is made:

Dr Bank with R364.80  
Cr Output VAT with R44.80  
Cr Sales with R320.

### VAT INPUT AND VAT OUTPUT:

This aspect is to be covered in grade 11, but we can mention some elementary aspects to learners – how far you go will depend on you and your learners.

Two separate accounts are kept in the general ledger: VAT Input which is the VAT on purchases – an asset account and VAT Output which is VAT on sales – a liability account. These 2 accounts are then closed off to the SARS (VAT) account in order to determine whether SARS owes you money or whether you owe them money. Many learners get the Input and Output accounts mixed up – ensure that they can clearly distinguish between the two.

## TASK 7.1 Why pay tax according to SARS

The purpose of this activity is to get learners to consolidate their knowledge of taxation in general in South Africa.

<b>A</b>	taxes	<b>G</b>	defence
<b>B</b>	job	<b>H</b>	Finance
<b>C</b>	economic	<b>I</b>	budget
<b>D</b>	services	<b>J</b>	expenditure
<b>E</b>	hospitals	<b>K</b>	financed
<b>F</b>	roads		

## TASK 7.2 Definitions and explanations of some forms of taxes in South Africa

COLUMN "X"		COLUMN "Y"
1.	Income Tax	C
2.	Capital Gains Tax (CGT)	A
3.	Value Added Tax (VAT)	E
4.	Excise duty	G
5.	Transfer duty	J
6.	Estate duty	I
7.	Unemployment Insurance Fund (UIF)	H
8.	Skills Development Levy (SDL)	F
9.	Donations Tax	B
10.	Pay As You Earn (PAYE)	D

## TASK 7.3 Taxable items, zero-rated and exempt items

No.	Goods / services	14% VAT	0% VAT	VAT Exempt
1.	Brown bread		✓	
2.	Salary of hotel manager			✓
3.	Tinned sardines		✓	
4.	Petrol		✓	
5.	School fees payable to public school			✓
6.	Purchase of a personal computer	✓		
7.				
8.				
9.				
10.				
11.				
12.				

## TASK 7.4 Presentation of Government revenue and expenditure

The purpose of this task is for the learners to research the sources of tax revenue and government expenditure. It would be a good idea if this topic could be covered at the time when the national budget is presented.

## TASK 7.5 Debate on whether income tax should be abolished

The debate will serve to expose learners to the fact that while taxes are seen as a burden to most people, they are essential and that we all gain from them. It is important for them to see the 2 sides of the government budget – government expenditure and government income.

## TASK 7.6 Group discussion on taxation

By allowing the learner's time to explain to each other it gives them an opportunity to see if they fully understand the concepts – so please allow them the time to complete this task.

## TASK 7.7 Group discussion on taxation

This task gives the learners another opportunity to clarify their knowledge with an emphasis on ethics. Ethics is an important aspect of the new syllabus and is covered in a later module. However, it is preferable if the topic is not covered in isolation but is integrated in all the other modules where appropriate. This would be an opportunity to discuss the topic.

## TASK 7.8 Ethical & internal control scenarios affecting VAT

Before undertaking this task, it is advisable to inform the learners about what is meant by ethics in business, fraud and internal control (you may refer to Modules 13 and 14).

7.8.1	A business charges customers 14% on the selling price of their goods or services (VAT Output). The business can deduct the VAT that it has paid to its suppliers (VAT Input). The difference between VAT Output and VAT Input is paid over to SARS.
7.8.2	Yes. There are many disreputable businessmen in the country who might be tempted to evade (not to pay over) VAT due to SARS. Unless SARS sets up a special division to detect and combat this fraud, the problem will escalate.
7.8.3	SARS collects VAT on behalf of the SA Government which uses the funds to provide services and facilities to the citizens in the country that might not be provided by other businesses e.g. education, health care, police services. If the Government does not collect enough to cover its needs, then the rate of Income Tax and VAT will increase, which negatively affects all citizens. Also it is a matter of fairness. If amounts of VAT have been paid to businesses, then these must be accounted for in the VAT calculation. The businesses should not be able to keep these amounts for themselves.
7.8.4	Check that the proper internal procedures and recording processes are in place in the business to correctly account for VAT. Check that VAT Output = Sales subject to VAT x 14%. Check that VAT-exempt items or zero-rated items are legitimate. Be sure that the business has not charged customers VAT on exempt or zero-rated items. Check that all VAT Input amounts cover legitimate business items. Check that the correct calculations have been done.

### CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Understand the reasons for taxation in the country.			
Understand the basic principles of Value Added Tax.			
Understand who needs to register as a VAT vendor.			
Understand the difference between standard VAT, zero-rated and tax exempted items.			
Understand the difference between tax evasion and tax avoidance.			
Analyse ethical and internal control scenarios affecting VAT.			