

# CIGFARO *m*SCOA NATIONAL WORKSHOP

## ITEM 7.1

How to account for VAT in *m*SCOA


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**national treasury**  
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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NATIONAL TREASURY

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## OBJECTIIVE OF THE SESSION

- To provide guidance on the VAT transactions in *m*SCOA

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## BACKGROUND

- VAT Act 1991 (Act no 89 of 1991) and its amendments
- VAT 419 guide
- Foreign Donor Funded Projects
- MFMA Circulars 48, 55, 58 and 59

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## OUTPUT AND INPUT TAX - DEFINED

- Output Tax: Refers to the tax levied at the standard rate by a municipality or entity on the taxable supply of goods or services ie. electricity, water, wastewater management and waste management.
- Input Tax: Refers to the tax paid by a municipality or entity on the acquisition of goods or services of taxable supplies.
- Capital Input Tax: Refers to the tax paid by a municipality or entity on the acquisition of capital goods in the form of assets or the payment for contractors for the construction of assets to be used in providing taxable goods or services. Input VAT Capital must be reported in a separate area on the VAT 201 submission.

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## WHERE ARE THE OUTPUT TAX ACCOUNTS IN *m*SCOA

### • Output Tax – Movement Accounting

#### Accrual of Output VAT

|             |  |
|-------------|--|
| IL001009001 | Liabilities: Current Liabilities: VAT Credit Output Accrual: Opening Balance |
| IL001009002 | Liabilities: Current Liabilities: VAT Credit Output Accrual: Recognised      |
| IL001009003 | Liabilities: Current Liabilities: VAT Credit Output Accrual: Transfers       |

#### VAT on Payments received from Debtors

|             |   |
|-------------|---|
| IL001010001 | Liabilities: Current Liabilities: Output VAT: Opening Balance |
| IL001010002 | Liabilities: Current Liabilities: Output VAT: Recognised      |
| IL001010003 | Liabilities: Current Liabilities: Output VAT: Transfers       |

#### VAT on the Provision for the impairment of Doubtful Debt (Contra Account)

|             |   |
|-------------|---|
| IL001011001 | Liabilities: Current Liabilities: Output VAT: Provision for Doubtful Debt Impairment: Opening Balance |
| IL001011002 | Liabilities: Current Liabilities: Output VAT: Provision for Doubtful Debt Impairment: Recognised      |
| IL001011003 | Liabilities: Current Liabilities: Output VAT: Provision for Doubtful Debt Impairment: Transfers       |

#### VAT 201 - VAT Control Account

|             |  |
|-------------|--|
| IL001008001 | Liabilities: Current Liabilities: VAT Payable Control: Opening Balance |
| IL001008002 | Liabilities: Current Liabilities: VAT Payable Control: Transfers       |
| IL001008003 | Liabilities: Current Liabilities: VAT Payable Control: Payments        |

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## WHERE ARE THE INPUT TAX ACCOUNTS IN *m*SCOA

### • Input Tax – Movement Accounting

Long code      *m* SCOA Item description

#### Accrual of Input VAT

|                |  |
|----------------|--|
| IA001011001001 | Assets: Current Assets: VAT Receivable: Input Accrual: Opening Balance |
| IA001011001002 | Assets: Current Assets: VAT Receivable: Input Accrual: Recognised      |
| IA001011001003 | Assets: Current Assets: VAT Receivable: Input Accrual: Transfers       |

#### VAT on payments made to creditors

|                |  |
|----------------|--|
| IA001011002001 | Assets: Current Assets: VAT Receivable: Input VAT General: Opening Balance |
| IA001011002002 | Assets: Current Assets: VAT Receivable: Input VAT General: Recognised      |
| IA001011002003 | Assets: Current Assets: VAT Receivable: Input VAT General: Transfers       |

#### VAT on payments made to creditors on Capital purchases

|                |  |
|----------------|--|
| IA001011003001 | Assets: Current Assets: VAT Receivable: Input VAT Capital: Opening Balance |
| IA001011003002 | Assets: Current Assets: VAT Receivable: Input VAT Capital: Recognised      |
| IA001011003003 | Assets: Current Assets: VAT Receivable: Input VAT Capital: Transfers       |

#### VAT 201 - VAT Control Account

|                |  |
|----------------|--|
| IA001011004001 | Assets: Current Assets: VAT Receivable: VAT Control: Opening Balance |
| IA001011004002 | Assets: Current Assets: VAT Receivable: VAT Control: Transfers       |
| IA001011004004 | Assets: Current Assets: VAT Receivable: VAT Control: Receipts        |

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## NATURE OF THE OUTPUT TAX TRANSACTIONS

### • Output Tax – Transactions

| Output VAT :  |                   |            |
|---|-------------------|------------|
| <b>STEP 1: Billing Transaction</b>  |                   |            |
| Account Description   | Long code         | AMOUNT (R) |
| DR: Assets: Trade Services and Customer Service Debtors: Electricity: Monthly billing | IA001010003001002 | 1150       |
| CR: Revenue: Exchange Revenue: Service Charges: Electricity: Electricity Sales :      |                   |            |
| Commercial Conventional   | IR002006001008001 | -1000      |
| CR: Liabilities: Current Liabilities: VAT Credit Output Accrual: Recognised           | IL 001009002      | -150       |
| <b>STEP 2: Receipting Transaction</b>   |                   |            |
| Account Description   | Long code         | AMOUNT (R) |
| DR: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Deposits         | IA001001001001002 | 575        |
| CR: Assets: Trade Services and Customer Service Debtors: Electricity: Collections     | IA001010003001005 | -575       |
| DR: Liabilities: Current Liabilities: VAT Credit Output Accrual: Transfers            | IL 001009003      | 75         |
| CR: Liabilities: Current Liabilities: Output VAT: Recognised                          | IL 001010002      | -75        |
| <b>STEP 3: Transfer the liability to the VAT control account</b>                      |                   |            |
| Account Description   | Long code         | AMOUNT (R) |
| DR: Liabilities: Current Liabilities: Output VAT: Transfers                           | IL 001010003      | 75         |
| CR: Liabilities: Current Liabilities: VAT Payable Control: Transfers                  | IL001008002       | -75        |
| This amount will be used to populate the VAT 201: Output declared                     |                   |            |
| <b>Complete the VAT 201 Output VAT with the total Output VAT due to SARS</b>          |                   |            |

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## NATURE OF THE OUTPUT TAX TRANSACTIONS(2)

### • Output Tax –Provision for bad debt

#### Vat on Impairment of Debt

| Account Description   | Long code           | AMOUNT (R) |
|---|---------------------|------------|
| DR: Gains and Losses: Trade and other Receivables from Exchange Transactions: Ele       | IZ005007001         | 200        |
| DR: Current Liabilities: Output VAT : Provision for Doubtful Debt Impairment: Recognise | IL001011002         | 30         |
| CR: Current Assets: Trade Services and Customer Service Debtors: Impairment : Reco      | IA00101000300100800 | -230       |

### • Irrecoverable debt written off

#### VAT on Debt write off

| Account Description  | Long code         | AMOUNT (R) |
|--|-------------------|------------|
| DR: Expenditure: Bad Debts written off   | IE001             | 100        |
| DR: Liabilities: Current Liabilities: VAT Credit Output Accrual: Recognised          | IL 001009002      | 15         |
| CR: Assets: Trade Services and Customer Service Debtors: Electricity: Debt write off | IA001010003001006 | -115       |

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## NATURE OF THE INPUT TAX TRANSACTIONS

### • Input Tax – Transactions

#### STEP 1: Accrual of Input VAT

| Account Description   | Long code      | AMOUNT(R) |
|---|----------------|-----------|
| DR: Bulk Purchase : Electricity: ESKOM  | IE 002         | 200       |
| DR: Assets: Current Assets: VAT Receivable: Input Accrual: Recognised   | IA001011001002 | 30        |
| CR: Current Liabilities: Trade and other Payables Exchange Transactions: Electricity Bulk purchase : Deposits | IL001006008002 | -230      |

#### STEP 2: Payment of the invoice

| Account Description  | Long code           | AMOUNT(R) |
|--|---------------------|-----------|
| DR: Current Liabilities: Trade and other Payables Exchange Transactions: Electricity Bulk purchase : Withdrawals | IL 001006011003     | 230       |
| CR: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Withdrawals                                 | IA00100100100100100 | -230      |
| DR: Assets: Current Assets: VAT Receivable: Input VAT General: Recognised  | IA001011002002      | 30        |
| CR: Assets: Current Assets: VAT Receivable Input Accrual: Transfers  | IA001011001003      | -30       |

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## NATURE OF THE INPUT TAX CAPITAL TRANSACTIONS(2)

### • Input Tax Capital - Transactions

#### STEP 1: Accrual of Input VAT Capital

| Account Description   | Long code           | AMOUNT(R) |
|---|---------------------|-----------|
| DR: Assets: Non Current assets: Electrical Infrastructure: In use:HV Switching station: Cost Acquisitions | IA00201500100300100 | 2000      |
| DR: Assets: Current Assets: VAT Receivable: Input Accrual: Recognised                                     | IA001011001002      | 300       |
| CR: Current Liabilities: Trade and other Payables Exchange Transactions: Payables and Accruals :Deposits  | IL 001006011002     | -2300     |

#### STEP 2: Payment of the invoice on Capital purchase

| Account Description  | Long code           | AMOUNT(R) |
|--|---------------------|-----------|
| DR: Current Liabilities: Trade and other Payables Exchange Transactions: Payables and Accruals : Withdrawals | IL 001006011003     | 2300      |
| CR: BANK: withdrawals  | IA00100100100100100 | -2300     |
| DR: Assets: Current Assets: VAT Receivable: Input VAT Capital: Recognised                                    | IA001011003002      | 300       |
| CR: Assets: Current Assets: VAT Receivable Input Accrual: Transfers  | IA001011001003      | -300      |

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## NATURE OF THE INPUT TAX TRANSACTIONS

### Input tax General and input tax Capital to VAT Control

STEP 3: Transfer Input VAT General and Capital to the VAT Control account

| Account Description  | Long code       | AMOUNT (R) |
|--|-----------------|------------|
| DR: Assets: Current Assets: VAT Receivable: VAT Control: Transfers       | IA 001011004002 | 330        |
| CR: Assets: Current Assets: VAT Receivable: Input VAT General: Transfers | IA001011002003  | -30        |
| CR: Assets: Current Assets: VAT Receivable: Input VAT Capital: Transfers | IA001011003003  | -300       |

These amounts will be used to populate the VAT 201: Input claimed

### VAT net result – VAT receivable

VAT Control - Receivable

| Account Description   | Long code      | AMOUNT (R) |
|---|----------------|------------|
| DT: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Deposits | IA001011004002 | 255        |
| CR: Assets: Current assets: VAT Control: Receipts                             | IA001011004004 | -255       |

### VAT net result VAT payable

VAT Liability

| Account Description  | Long code       | AMOUNT (R) |
|--|-----------------|------------|
| DT: Liabilities: Current Liabilities: VAT Payable Control: Payments              | IL001008003     | 120        |
| CR: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Withdrawals | IA 001011004004 | -120       |

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## NATURE OF THE INPUT TAX TRANSACTIONS

### Input tax General and input tax Capital to VAT Control

STEP 3: Transfer Input VAT General and Capital to the VAT Control account

| Account Description  | Long code       | AMOUNT (R) |
|--|-----------------|------------|
| DR: Assets: Current Assets: VAT Receivable: VAT Control: Transfers       | IA 001011004002 | 330        |
| CR: Assets: Current Assets: VAT Receivable: Input VAT General: Transfers | IA001011002003  | -30        |
| CR: Assets: Current Assets: VAT Receivable: Input VAT Capital: Transfers | IA001011003003  | -300       |

These amounts will be used to populate the VAT 201: Input claimed

### VAT net result – VAT receivable

VAT Control - Receivable

| Account Description   | Long code      | AMOUNT (R) |
|---|----------------|------------|
| DT: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Deposits | IA001011004002 | 255        |
| CR: Assets: Current assets: VAT Control: Receipts                             | IA001011004004 | -255       |

### VAT net result VAT payable

VAT Liability

| Account Description  | Long code       | AMOUNT (R) |
|--|-----------------|------------|
| DT: Liabilities: Current Liabilities: VAT Payable Control: Payments              | IL001008003     | 120        |
| CR: Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Withdrawals | IA 001011004004 | -120       |

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## FUND SOURCE FOR VAT

- Payment or receipting of VAT on subsequent transacting requires the Fund source to be:

Operational: Revenue: General Revenue: Taxes: Taxes and Surcharges (FD001001001009002).

- System config must be checked and corrected. Do not use Non- Funding.
- Municipalities should ensure they stay up to date with the directives of SARS in terms of the VAT Act

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## VAT ON CONDITIONAL GRANTS

Guidance provided in MFMA Circular 48,55 and 58 on treatment of VAT on Grants.

1. Grants is zero rated. No output tax to declare, no input tax can be claimed on grants paid.
2. Municipalities must treat "reclaimed VAT" as their own revenue.

Examples of accounting in MFMA Circular 58.

3. Municipalities must distinguish between Transfers and subsidies and Agency payments

Interpretation note 39 on VAT Treatment of public Authorities and grants

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## VAT ON AGENCY FEES

From a VAT perspective, there is a distinction between:

- An unrequited payment (grant) which is given to the municipality to carry out its mandated functions (where a deemed supply arises to the extent that they make taxable supplies); and **ZERO RATED**
- Payments which the municipality receives from any person which constitutes consideration for actual supplies made in return and which would usually be taxable at the standard rate. **STANDARD RATED**

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## VAT ON FOREIGN DONOR FUNDED PROJECTS

Reference Guide on Foreign donor funded projects

- Donations from FDFP is zero rated if
  1. Official development assistance agreement(ODAA)
  2. Minister of Finance must approve in writing.
- Reporting of FDFP must be done on a separate VAT 201 return
- Setup in Financial Systems is important to cater for a separate submission.

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