

MOST SMALL START-UPS CAN'T REGISTER FOR VAT! By Jonathan Hore

Well, the Tax laws change and it appears only a handful notice the changes. As I write this article, I know I am likely to be the bearer of bad news when I put my last full-stop at the end of this article. But the truth of the matter is that if you are a small business without significant business volumes, you may never be able to register for VAT in the near future. Things have changed and you better come to terms with the new dispensation.

WHAT USED TO HAPPEN?

Before the VAT Act (hereinafter 'Act') was amended with effect from 23 January 2015, any person could register for VAT on a voluntary basis. The Act allowed persons who intended to conduct business to get a VAT number. That meant even a business which did not have a single client could find itself with a VAT number. As you may know, such an arrangement has its advantages and its disadvantages as well. The major disadvantage is that most businesses that registered were too small and did not have the know-how of complying with VAT or the resources to hire a Tax consultant. Therefore, their compliance with the filing obligations imposed by the VAT Act was very unsatisfactory.

THE CLEAN-UP

Having noticed this sort of an undesirable scenario in tax administration, the Ministry of Finance & Economic Development decided to tighten the screws by amending the voluntary VAT registration provisions in the VAT Act. What that amendment simply meant was that if one needed to voluntarily register for VAT, they should have reached P500 000 in taxable turnover. Well, believe you me, that's a milestone for most start-up businesses and some small businesses that have existed for years still struggle to reach that threshold.

The overall effect of the amendment is that it closed the open door for voluntary registration by prescribing the P500 000 threshold. BURS is now no longer entertaining anyone who intends to voluntarily register when their turnover does not exceed P500 000. Alternatively, you need to prove somehow that you will reach that threshold, such as through a tender or contract. In other words, if you are small and have nothing major to justify registration, you can't register for VAT; period.

WHO IS AFFECTED?

Well, I cannot exhaust the list of those who are affected but what I know is that the majority of start-up companies will not find it easy to be on the VAT register. Exploration companies, mining entities, plantation farmers and property construction companies, unless if they win a major tender/contract and convince BURS that they will exceed the P 500 000, will also remain outside the VAT register. Any other person who does not manage to generate the stated turnover will also struggle to be on the VAT register.

WHAT ARE THE EFFECTS?

Big businesses somehow frown when a small trader informs them that he is not registered for VAT. I can't explain where this comes from but they will simply think you are joking or not worth their business. Some think that if a supplier is not registered for VAT, that increases their costs as they are used to claiming VAT that suppliers charge. But the fact of the matter is that if someone is not registered for VAT, they simply can't charge VAT so they are in no way more expensive than the one who is registered for VAT, assuming they don't play around with their pricing. In any case, the one who tampers with their pricing risks losing business, so it's a game that one won't win.

THE P1M THRESHOLD

Well, the P1m limit is not for voluntary registration but for compulsory registration. What that means is that anyone who exceeds or has reasonable expectation to exceed P1m in a 12 month period is required to compulsorily register with BURS. So, the Act here provides that one can register based on an expectation to reach the P1m in a 12month period. That is different from voluntary registration where you have to prove beyond doubt that you have actually reached the P 500 000. In other words, you can't rely on expectation to reach the set P 500 000 threshold.

WHAT IF I AM SMALL?

I am sorry folk, if you are a small trader and you can't meet the required taxable turnover or do not have a reasonable expectation to exceed the same, you can't register for VAT. You better get prepared to have your potential clients looking at you as if you are some small boy from the corner trying to do business with them. That does not sound good but that's reality. The VAT register now belongs to bigger traders and not small ones. I am aware that this affects even bigger start-ups as they may pump in a lot of millions into the economy but can't claim the VAT they incur. This technically increases their tax costs.