

## **CLAIM VAT ON GOODS YOU BUY FROM NON-VAT REGISTRANTS: By Jonathan Hore**

Those in the finance fraternity have been taught that VAT registrants can only claim VAT if they purchase goods or services from sellers who are registered for VAT. Fair and fine, that is applicable to most of the transactions but then there are instances where a VAT-registrant can claim VAT on second-hand goods purchased from non-VAT registrants. I want to shed more light on this matter in today's analysis. In this article, words importing the masculine shall be deemed to include the feminine.

### **Second-hand goods**

Before I get too deep into the analysis, let me state that the topic of today is VAT on second-hand goods or alternatively, notional input tax. Second-hand goods are goods previously owned and used by another person, excluding animals. As an example, a second-hand car qualifies under the definition of second-hand goods on which VAT may be claimed. The alternative title of this VAT is notional input tax, which means that the VAT is claimed when it simply doesn't exist; it is theoretical. Notice here that such VAT claims can only be done by VAT registrants who intend to use the goods for their business, i.e. to sell or to repeatedly use. I proceed to highlight some of the key issues about this tax below.

### **Seller mustn't be VAT registered**

I stated above that the seller must not be registered for VAT. That being the case, the seller will not charge VAT. However, the purchaser, who must be VAT-registered can still claim theoretical VAT based on the provisions of the VAT Act. The buyer needs to keep details of the seller, price paid, identification number and other particulars of the transaction. No tax invoice is required to claim the VAT.

### **Seller must be in Botswana**

The notional VAT can only be claimed if the seller is based in Botswana. What this means is that it cannot be claimed on imports as those will be subject to import VAT when they are cleared at the border or port of entry.

### **Formula**

The VAT can be claimed using what we call the tax fraction (12%/112%) as applied on the amount actually paid to the seller. It is very important to note that the tax cannot be claimed on an amount not yet paid. Let's say you go to a motor dealer who offers to buy your used car for P336 000 but only pays you P 224 000, the dealer can only claim VAT on the P 224 000. The VAT claimable will be P 24 000 (being 12%/112% x P 224 000). The VAT on the balance of P 112 000 will only be claimed as and when payment is made to the seller.

### **Who can claim this?**

Well, this tax may be claimed by all VAT-registrants as long as the VAT is not prohibited. However, the following are some examples of businesses which can claim the notional VAT:

- **Any VAT registrant:** If a VAT registrant purchases a second-hand truck, machine or immovable property from a non-VAT registrant and they intend to use it in their business, then they can claim the VAT on second hand goods thereon.
- **Car dealers:** Most car dealers buy and sell second-hand vehicles and those registered for VAT can maximise on their VAT claims through the notional VAT.
- **Immovable property dealers:** Dealers in property may also claim this VAT although their claims are more complicated than what we stated above. Further, any

other person who does not deal in immovable property can claim the tax if they use the property for their taxable business.

- **Second-hand shops:** Shops which buy and sell second-hand goods are also eligible to claim the mentioned VAT.

### **Conclusion**

It is understandable that most VAT registrants may not be aware of this tax and unfortunately, they lose out on what they could legally claim. I guess that's why every business needs a tax consultant and I am sure you know only one such consultant! If this article was informative, let me get a big, 'Bravo, Yours Truly!'

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax whatsapp group or know more about our 8 Tax e-books, send me a text on the number below.