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MOVING ASSETS OUT OF BUSINESS TRIGGERS VAT

Business assets are generally items of great value and importance to an enterprise and its owners. Basically, assets are acquired for the furtherance of generating revenue and help in the running of an enterprise. However, in some instances, business operators are compelled to modify the original use of business assets so that they suit an alternative trade or to fulfil a new business endeavour. Consequently, such change inherently triggers Value Added Tax (VAT) implications, particularly when such change is executed by a VAT registered enterprise to pursue a new venture that accommodates exempt supplies. The same VAT consequences arise where the assets are put to a private endeavour such as allocation of the assets to directors or employees' use. In this article, words importing the masculine shall be deemed to include the feminine.

The principle

Fundamentally, a VAT registered operator is only permitted to claim VAT incurred on asset acquisitions that are utilised towards the production of taxable supplies. For clarity, the VAT incurred on acquisition of assets or purchases of goods and services is technically known as input tax, whereas taxable supplies are goods and services which are ordinarily sold and chargeable to a VAT rate of either 0% or the standard rate of 12%. Looking at it from a different perspective, one is permitted to claim a VAT credit on inputs that are directly converted to or utilised in producing taxable supplies. Having regard to the principles governing claiming of input tax, let us now have a look at the technicalities of changing the use of assets and how VAT is triggered.

Enter change

As alluded to above, a VAT credit i.e., input tax, is ordinarily granted when an acquired asset is utilised in the production or making of taxable supplies. Now, if a change of asset use is made such that the proportion of taxable use is less than the non-taxable use in relation to the use when the asset was first acquired, a claw back of the input tax previously claimed should be calculated and paid to BURS. On the other hand, when the asset use changes from making taxable supplies, in whole or in part, to the use of wholly non-taxable supplies i.e., exempt supplies or private use, output tax is determined based on the lesser of cost and prevailing market value of the asset at the time the change of use occurs.

Enter VAT

Having regard to the above rules of change of use, it is key to note that the claw back of input tax (in the form of deemed output tax) is determined by making use of a tax fraction i.e., (14/114) on the lesser of the market value or cost the impacted asset. Technically, the claw back tax i.e., the determination of deemed output tax is only applicable to assets that previously qualified for input tax credit when acquired, imported, or manufactured. As an addition, the same rules also apply to inventory and also in instances where use of acquired services might also change to be expended towards non-taxable supplies. As an illustration, if a telecommunications company changed its business model to diversify into financial services sector which is exempt from VAT and transferred assets which cost P1.12m (VAT-inclusive) to the new business when the market value then is P2m, the telecommunications company should claw back the input tax previously claimed by making use of the tax fraction

i.e., 12%/112% of P1.12m, yielding VAT due to BURS of P112 000. Therefore, the company will be liable to pay VAT of P120 000 on the change of use of the transferred assets.

Well folks, we hope that was insightful. As us the two Yours Truly say goodbye, remember to pay to Caesar what belongs to him. If you want to consult, join our free Tax WhatsApp group or to know about our 9 Tax e-books, send us a text on the cell number below. You can read more tax articles on our website, www.aupracontax.co.bw under the ‘Tax articles’ tab.