

VAT APPORTIONMENT AND WHY IT IS DONE: By Jonathan Hore

Welcome folks to this rather special topic called VAT apportionment. I say special because it needs a lot of concentration and effort in order for you not to miss some critical points of the article. Before I get into much detail, allow me to lay down a few basic matters, which are critical in the analysis of today's topic. VAT can only be charged by a person who is registered with BURS for VAT purposes, also known as a VAT-registrant. That person is required to regularly file VAT returns of transactions that would have occurred during their tax period. A tax period is either a period of 1 or 2 months of trading, during which the VAT registrant is required to account for VAT on both sales and purchases.

VAT charged by a VAT registrant is called output tax whilst VAT paid or incurred when a VAT registrant acquires services or goods is called input tax. I will focus on the special aspect of apportioning input tax today, which primarily looks at VAT incurred on purchases or acquisitions. It is necessary for me to state that VAT apportionment is done by persons who are called mixed VAT suppliers. I will expand on the concept of mixed suppliers below. In this article, words importing the masculine shall be deemed to include the feminine.

MIXED SUPPLIERS

VAT apportionment is primarily done by persons who are technically called mixed suppliers. These persons offer both taxable supplies (charged to VAT at 12% or at 0%) as well as exempt supplies. Examples of such suppliers include the following: banks (interest income – exempt) and fee-based income (taxable), pharmacists (taxable and exempt drugs), property companies (commercial rent - taxable) and residential rent (exempt) and transport companies (local passenger transportation – exempt) and local goods transportation (taxable).

These VAT registrants can only claim VAT incurred towards the advancement of a taxable supply. For example, a property company which lets out both commercial property (taxable) and residential property (exempt), is only allowed to claim VAT incurred towards its commercial property division as VAT is eventually charged on the commercial rent. Any VAT incurred towards residential property is not claimable as that is an exempt activity. Therefore, the VAT-registrant is supposed to check each purchases tax invoice he receives and ask himself whether the VAT is driving the commercial property or residential property division and treat the VAT accordingly. This is commonly called direct attribution of input tax.

However, there will be circumstances where that VAT-registrant will not be able to directly attribute the VAT to either divisions, as some inputs will be used by both the taxable and exempt divisions. For example, if the VAT-registrant procures training for employees of both the commercial and residential property divisions and gets one tax invoice, how does he allocate that VAT between the divisions? That then calls for the apportionment of the VAT on purchases.

WHAT IS VAT APPORTIONMENT?

I am about to get technical; watch me. VAT apportionment refers to scenarios where a mixed supplier has to determine the proportion of taxable supplies (chargeable to VAT at 12% or 0%) over total supplies (taxable plus exempt). That proportion will be used to determine the claimable VAT in cases where the mixed supplier cannot allocate VAT directly to commercial or residential divisions. For example, if the taxable supplies in a particular tax period are P 1m and exempt supplies are P3m, it means that the VAT apportionment ratio

will be P1m (taxable) over P 4m (total supplies - P3m +P1m), which is 25%. Therefore, if VAT incurred for training employees of both the commercial and residential divisions amounts to P 100 000, the VAT-registrant can only claim 25% of the VAT, which is P 25 000. The difference of P75 000 cannot be claimed as it represents the proportion of exempt supplies to total supplies, which cannot be claimed. In other words, the VAT-registrant has to expense the P 75 000 if it relates to consumables or capitalise it if it relates to assets. Please stop shaking your head; I warned you that I was getting technical.

USE OF THE RATIO

Ideally, the input tax apportionment ratio is supposed to be determined in each tax period, except if the VAT-registrant has agreed to a different arrangement with BURS. However, the mixed supplier can claim the full input tax incurred if his input tax apportionment ratio is above 90%. That is recognition by the legislature that the ratio is high enough and skewed towards taxable supplies and there is no need for apportionment once the ratio exceeds 90%.

CONCLUSION

The apportionment of input tax basically recognises the fact that since the supplier offers both taxable and exempt supplies, they cannot claim the full input tax that they incur. In so doing, the apportionment only allows for the claiming of input tax which is linked to the advancement of a taxable activity whilst that linked to exempt supplies is thrown out. By the way, if you are a mixed supplier, you need to walk with a Tax consultant through this bumpy VAT journey of yours.

Well folks, I hope that was insightful. As yours truly says goodbye, remember again to give to Caesar what belongs to him and act responsibly during the holidays.