

VAT Description

Value Added Tax (VAT) was introduced in Botswana with effect from 1 July 2002 replacing the Sales Tax system which was at import and manufacture's level as well as on some services.

VAT was introduced because it is a fairer system in that the built-in input credit facility ensures that the VAT itself does not become a business expense. Thus the problem of "tax cascading", which often occurs with Sales Tax, is reduced or avoided. With Sales Tax there is no input credit facility and the result is that tax on certain input costs becomes an additional business expense which must be recovered in the price of the goods or services provided.

Another reason for introducing Value Added Tax is that it is much more effective in tax administration terms. Since one person's output tax is very often another's input tax; there is a useful audit trail which helps with verification of VAT amounts declared as due and payable.

VAT also provides a more stable and sustainable revenue base for Botswana, because a wider range of goods and services are subject to tax.

VAT is an indirect tax levied on the supply of goods and services consumed within Botswana. It can be called a consumption tax as the amount you pay is directly related to purchases you make.

Value Added Tax (VAT) is a tax charged on all taxable supplies made. The tax is collected on imports at the time of importation, while for local supplies; it is collected by VAT registered suppliers on behalf of Botswana Unified Revenue Service.

Botswana's VAT operates on an Invoice Basis. This means that output tax must be declared and is payable on the basis of invoices issued, not on the basis of payments received. Liability for output tax occurs when an invoice is issued or when payment is received, whichever is the earlier.

Taxable Activity

Liability of VAT arises only when a person carries on a taxable activity. Taxable activity is defined as an activity which is carried on continuously or regularly by any person in

Botswana, whether or not for profit, that involves the supply of goods or services to another person for consideration.

Taxable supplies

A taxable supply is any supply of goods or services by a VAT registered person in the course or in furtherance of a taxable activity. These are defined to include a wide range of business transactions, including *importing* or *exporting*, trading, manufacturing, providing professional services, entertainment or personal services, provision of electricity, gas or water supplies, and goods or services provided by clubs or societies.

Taxable supplies do not include hobby activities, private sales of personal or domestic goods, services provided by an employee to an employer for a wage or salary, and exempt supplies.

Taxable supplies include both standard rated supplies and zero rated supplies. *Standard rated supplies* are supplies that attract VAT at the rate of 12%.

Zero rated supplies are those that attract VAT at the rate of 0%.

Zero rated supplies are outlined in the First Schedule to the Value Added Tax Act and the some of the examples are:

- Millet grain, millet meal, wheat grain, maize cobs, flour, sugar, maize meal and sorghum meal in their natural state and not mixed with other products;
- Goods and services exported from Botswana;
- International Transport services;
- Paraffin, petrol, diesel; etc.

General Rule for:

Time of supply – the earlier of an invoice being issued or payment received.

Value of supply – Where the consideration is in money, the amount of money and where the consideration is not in money, the fair market value (FMV).

Consideration

Consideration means the total amount in money or kind, paid or payable (including any deposit on any returnable container) for the supply or import of goods.

It includes: duty, levy, fee, any charge except tax paid or payable, reduced by any price discounts or rebates allowed.

Consideration does not include:

- (a) any cash payment made by a person as an unconditional gift to an association not for gain; or
- (b) a deposit, except a deposit on a returnable container unless that deposit is forfeited.

Exempt Supplies

Exempt supplies are not subject to VAT and are not counted as part of a person's taxable turnover. If a person makes only exempt supplies he cannot be registered for VAT purposes. Exempt supplies are outlined in the *Value Added Tax (Exemption) Regulations* as read with section 11 of the VAT Act.

The main exempt supplies for VAT purposes are as follows:

- Financial, Educational and Medical Services;
- Long term residential letting (including provision of hostel accommodation on a non-profit basis);
- Leasing or renting of land for erecting a dwelling; and
- Prescription drugs.

Registration

Any person making taxable supplies with a value of more than P500, 000 per annum must register for VAT purposes. Similarly, a person is required to register for VAT if he knows, or believes, that the value of his taxable supplies in the next 12 month period will exceed P500, 000 per annum.

Input Tax

This is VAT paid to local suppliers or on imported goods subject to VAT. For a VAT registered person, Input Tax is credited against "Output Tax", which the VAT amount is charged on taxable supplies made by the person.

For somebody making mixed supplies (i.e. both exempt and taxable supplies), input tax credits are allowed only for those inputs used to make taxable supplies, an apportionment method acceptable to the Commissioner General of Botswana Unified Revenue Service must be used to allocate the input tax credit between exempt and the taxable supplies. However, where taxable supplies purchased as input represent more than 90% of the total purchases, a credit for all the input tax can be taken.

Input tax credit can never be taken for input related exclusively to the making of exempt supplies.

Example of apportionment: Electricity consumed in a building used for both commercial and residential.

Total area 1000 square metres

Commercial area 600 square metres

Electricity bill P5500.00 VAT inclusive

VAT claimable will be: $P589.29 * 600 / 1000 = P353.59$

Notional Input Tax

This is input tax claimed by a registered person on second hand goods acquired from a non-registered person.

For example: A motor dealer purchases second hand motor vehicle from a non-registered person for a price of P66 000.00. The notional input tax claimable will be:

- $P66,000 * 12 / 112 = P 7071.43$

Output Tax

This is tax charged by a registered person on taxable supplies.

For example: Sale of a computer:

Price	P10, 000
Add Vat at 12% (output tax)	<u>P 1,200</u>
Total price	<u>P11,200</u>

Tax Invoices

Every VAT registered persons must issue tax invoices for every supply made to a VAT registered customer.

A Tax Invoice must contain the following;

- The words "Tax Invoice" clearly indicated on top;
- The name, address and VAT-registration number of the supplier;
- The name, address and VAT-registration number of the person receiving the supply if registered;
- The date of issue and the serial number;
- A clear description of the goods or services supplied;
- The quantity or volume of the goods or services supplied; and

- The consideration for the supply, the VAT due and the consideration including the VAT due.

[Note: It is also acceptable for a Tax Invoice to indicate the total VAT-inclusive cost of a supply, but in this case, it must be clearly indicated that the price shown is inclusive of Vat at 12%]

The style and the layout of the invoice is to be determined by the registered person but they must include the details specified above.

Tax Debit Notes and Tax Credit Notes

Tax Debit and Credit Notes must also be issued, clearly designated as such and providing much the same detail as a Tax Invoice, when supplementary charge is made or when a reduction in the amount charged or due is agreed between a seller and a buyer.

Non-deductible Input Tax

Input tax in some purchases is not allowed as input tax credit, even if the inputs are directly related to the making of taxable supplies. These are dealt with in section 20 of the Value Added Tax Act.

These include VAT paid in respect of:-

- (a) The purchase, lease or hire of a passenger vehicle, unless a person is in the business of dealing in, or hiring, such vehicles, and the vehicle was acquired for the purposes of such business;

[Note: A passenger vehicle in this context means a vehicle designed or adapted to seat up to nine persons and includes a double-cab vehicle.]

- (b) Entertainment expenditures, unless a person is in the business of providing -
 - (i) entertainment and the supply relates to the provision of taxable supplies of entertainment in the ordinary course of the business; or
 - (ii) taxable supplies of transportation services and the entertainment is provided to passengers as part of the transportation service;

[Note: Entertainment for the purpose of denying input tax credit includes food, drink, tobacco, accommodation, hospitality or recreational activity].

- (c) Fees or subscriptions paid in respect of membership in a club, association, or society of a sporting, social, or recreational nature.

VAT Filing and *Payment* obligations

Every registered person must submit a *return* for each tax period, within 25 days after the end of the tax period whether or not tax is payable in respect of that period.

Where the VAT return for a month shows an excess of Output Tax, the return must be accompanied by a *payment* equal to the difference.

The completed VAT *return* is a declaration of the output VAT charged / collected, and the VAT on input that a registered person is entitled to claim as credits. The difference between these two totals represents the VAT due to BURS or the VAT due to him as a refund.

- Where output tax exceeds input tax for a period, payment of the excess must be made at the same time as the VAT return is submitted.
- Where input tax for a period exceeds the output tax, the excess represents a refund claim.

Once a person is registered for VAT, he must file regular *returns*, even for a tax period which he had no liability for VAT.

Category and Tax Period

The minister may by regulations, authorize a different tax period for specific categories or classes of registered persons.

Once a person is registered, he is allocated a particular *category* of tax period; either A, B or C depending on the annual turnover.

Registered persons in category A and B submit every two months while those in Category C submit monthly.

Record Keeping

A registered person is required to keep the original record of all goods and services supplied to him as well as copies of all supplies made to him. The records must be kept in Botswana and must be in either English or Setswana.

The following must be kept for at least 7 years after the period to which they relate:-

- Original tax invoices, tax credit and debit notes received.
- A copy of all tax invoices, tax credit and debit notes issued
- Documents to show all supplies of goods and services made and received;
- Invoices, Debit Notes and Credit Notes issued and received;
- Deposit slips and bank statements;
- Cash till tapes/records;
- A record of cheques issued;
- Receipts issued;
- Documents relating to import and export transactions;
- Stock records;
- Evidence to support applying a Zero-rate to supplies made;
- Documents or records to confirm transactions or entries in books of accounts.

Every registered person must have a Tax Invoice to support claims for input tax deducted. Without an Invoice (which must also comply with the requirements), the input tax credit cannot be deducted.

Pricing and Costing

(i) Pricing

- Any price charged by a registered person in respect of a taxable activity is deemed to include VAT.
- Prices quoted or advertised for taxable supplies should always be VAT inclusive.
- If a registered person quotes a pre-tax price, the amount of VAT due and the VAT inclusive price must be shown or displayed with equal prominence or impact.

(ii) Costing

- A registered person has to exclude the Input tax in the determination of the price.

Example

	Correct	Incorrect
Cost of goods	P110 000.00	P110 000
Less: Input tax	P 11 785.72	-
Actual cost	P 98 241.28	P110 000
Mark up @ 30%	P 29 472.39	P 33 000
Price excl. VAT	P127 713.67	P143 000
VAT @ 12%	P15 325.64	P 17 160
Sub Total	P143 039.31	P160 160
Less VAT Recovered	-	P 11 785.72
Selling Price	P143 039.31	P148374.28