

## Can a firm register for VAT even if its taxable supplies fall below the K10 million per annum limit?

One can also register for VAT even if the taxable supplies are lower than K10 million. This is called voluntary registration. For one to qualify for voluntary registration, he/she must:

- Have a fixed place for conducting the business
- Keep proper accounting records for all transactions
- Be in a position to file regular and reliable tax returns as required by the Law

## How can a taxpayer determine whether an item is taxable or not?

All items are taxable at a standard rate of 16.5% except those listed on the 1st Schedule. The 1st Schedule lists Exempt Supplies (No VAT charged). The 2nd Schedule lists zero rated supplies (where VAT is charged at zero rate)

## Value Added Tax Invoices

VAT invoices must be clearly identified with words such as 'Tax Invoice' displayed prominently on each invoice.

Only VAT registered persons are authorized to issue VAT invoices and no claim for input tax is allowable unless a tax invoice supports it. It follows that VAT registered suppliers must issue a tax invoice for every supply made to a customer.

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## Features of a Tax Invoice

A tax invoice should have:

- The date of issuance and serial number
- The name, address and taxpayer identification number (TPIN) of the supplier and the customer
- A clear description of the goods or service supplied including the quantity or the extent of the service provided
- The consideration for the supply including the VAT due

## What are the offences and penalties associated with VAT operation and administration?

### Offences

1. Failure to keep proper accounting records
2. Failure to file regular and reliable tax returns
3. Failure to register
4. Failure to issue an invoice or sales receipt.

### Penalties

- (a) In case of failure to issue an invoice, fine is K100, 000 and imprisonment for five years if convicted in a court of law.
- (b) In case of failure to register, one would be asked to pay tax from the date he/she would have registered for tax



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# Understanding...

## VALUE ADDED TAX VAT



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## Facts about VAT: How it is operated and administered

### What is value added?

Value added is the difference between the business' purchases of inputs and output.

Assuming that a business produces a carton of soap sold for K20, 000 from inputs like soda, palm oil etc. bought at K15, 000, the value added would be  $K20, 000 - K15, 000 = K5, 000$ . VAT would be charged on this value (K5, 000).

Similarly, if a distributor sells one tonne of sugar at K200, 000 from a factory price of K160, 000 including expenses, value added would be  $K200, 000 - K160, 000 = K40, 000$ . VAT is chargeable on this value (K40, 000).

## How is VAT collected?

VAT is collected by registered business people that act as Government agents at all points in the chain of production and distribution. These include manufacturers, wholesalers, retailers and service providers. When a registered supplier sells taxable items he/she is required to issue a tax invoice, showing the VAT paid on those goods and services.

## Is VAT charged on imported services?

VAT is also charged on imported services. The person/ organization importing the service is mandated to account for the VAT and must remit to MRA. A registered person who makes taxable supplies must charge VAT and remit to MRA by the 25th day of the month immediately following the month to which the return relates.

The standard rate for VAT is currently at 16.5%



## Who is liable to register for VAT?

Any person who makes taxable supplies of goods or services and whose business turnover is estimated or exceeds K10 million per year is required to register for VAT. Registration for VAT can be done at any MRA office nearer to the trader. MRA has offices in all the three regions of the country.

When one is registered for VAT, he/she would be given a registration certificate, which must be displayed or exhibited permanently at principle place of business.



## When should a business person apply for a VAT registration?

Any businessperson who qualifies as a taxable person or has grounds to believe that he/she will qualify as a taxable person is liable to apply for VAT registration to MRA.

He/she must apply for registration to MRA within 30 days of becoming liable or qualified to register for VAT.

## What should a registered person do after registering for VAT?

A registered person must:

- Keep records of all supplies made or received
- For all purchases and sales, VAT invoices must be properly recorded and filed since they show the amount of VAT paid on the goods and services.
- In addition, all bills of entry for imported goods showing the amount of VAT paid must be recorded properly and filed. A summary of VAT paid and received for the period covered by the return should be maintained