

$$\int \frac{dx}{\sin^2 x} = \text{ctg } x + C$$

$$\frac{dx}{\cos^2 x} = \text{tg } x + C$$

NPO VAT REGISTRATION RULES & BENEFITS

Ridhwaan Khan CA(SA)

HDip (Tax), HDip (VAT)

TPC - Director of Tax

- Qualified Chartered Accountant (17 years experience)
- Post Graduate in Advanced Taxation (Honours)
- Post Graduate in Advanced VAT (Honours)
- Member of SAICA
- VAT specialist & Technical advisor for SAICA - Eastern Region Tax Committee
- VAT & PAYE project advisor for KZN Provincial Treasury
- Registered SARS Tax Practitioner (PR-0008992)
- Tax Trainer & Advisor to Auditor General South Africa (AGSA)
- Currently serves as Tax advisor to more than 50 tax exempt entities
- Extensive Tax and VAT consulting experience across Non-Profit, Corporate, Banking & Insurance, Education & Public Sectors
- +16 years' Income Tax, VAT & PAYE experience
- +3 years' audit experience
- +2 years' Computer & Internal Audit experience



T U R N I N G P O I N T
CHARTERED ACCOUNTANTS (SA)



Overview

Points to Cover

1. Introduction
2. VAT for NPOs
3. Effect & Benefits of VAT registration
4. NPO VAT Review
5. Q&A

Introduction

- What is VAT?
- Basic VAT example
- Output Tax/Input Tax overview
- VAT Registration – General Rule
- VAT Enterprise

What is VAT?

VAT is an Indirect Tax on consumers

VAT is levied at each stage of the supply chain of the production cycle

Rate of VAT in SA is 15% (from 1 April 2018)

Vendor charges output & claims input tax

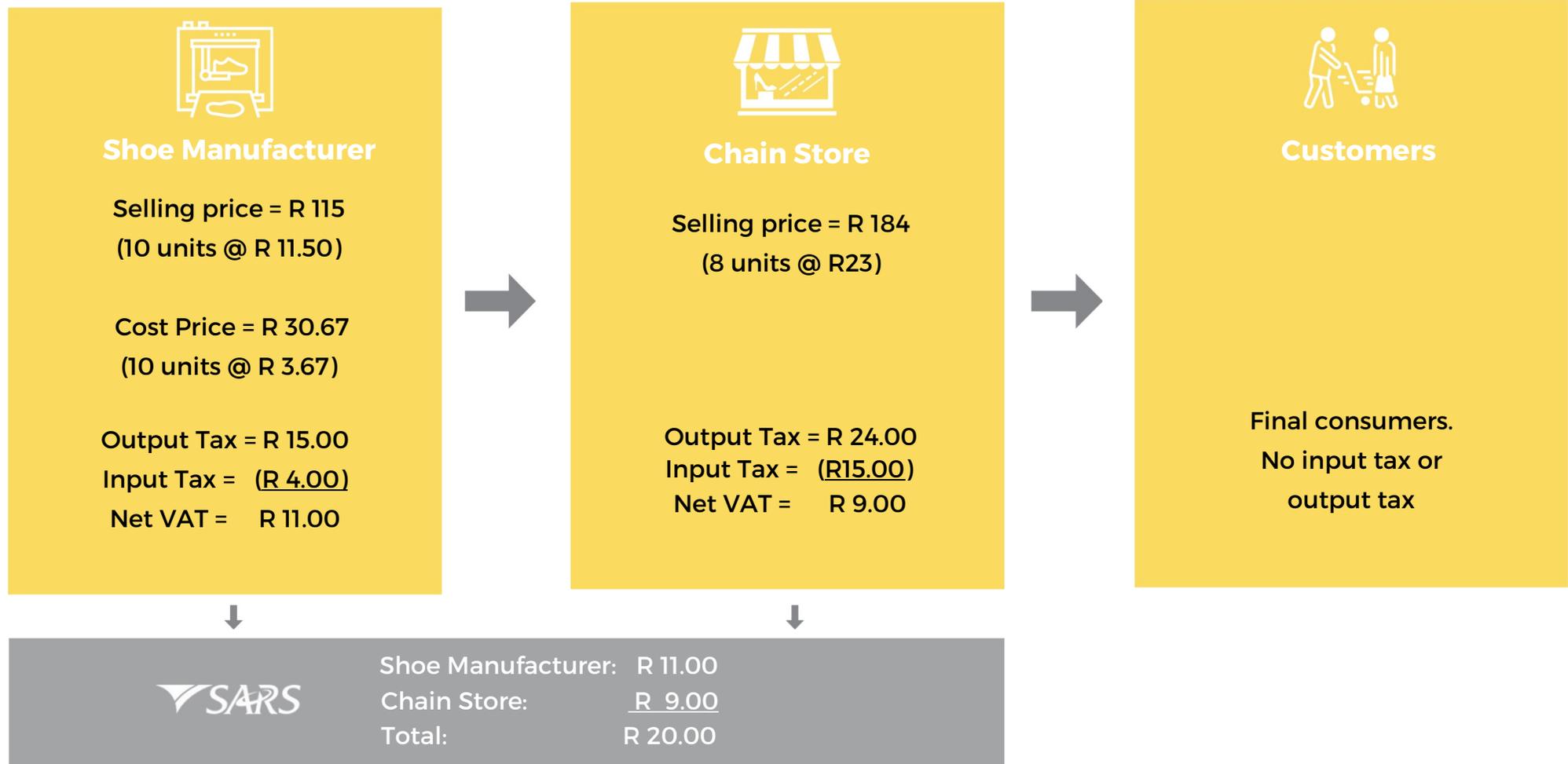
Output tax: VAT charged by vendors on taxable supplies made

Input tax: VAT incurred by vendors on purchases (i.e. VAT charged to them by other vendors)

Net VAT payable or refundable is output tax collected less input tax

VAT Vendors = Collection agents

Basic VAT Example





Output Tax & Input Tax Overview

OUTPUT TAX

—

INPUT TAX

=

**NET VAT
PAYMENT/REFUND**

Payable on certain 'supplies'
made

- Sale of products
- Rendering of Services

Claimed on certain 'supplies'
received

- Purchases
- Expenses



VAT Registration

General Rule - when should one register for VAT ?

COMPULSORY

- Existing businesses (**VAT enterprise**) with sales (taxable supplies) that have already exceeded the threshold of R1 million within the preceding 12 months
- Existing or future **businesses (VAT enterprise)** that have a written contractual commitment with sales (taxable supplies) exceeding R1 million within the next period of 12 months.

VOLUNTARY

- If sales (taxable supplies) in business (**Vat enterprise**) in previous 12 months exceeded R50 000
- Can also apply for voluntary registration if it is expected to make sales (taxable supplies) exceeding R50 000 in the next 12 months in business (**Vat enterprise**)



VAT Enterprise

GENERAL DEFINITION

Any activity carried on continuously or regularly wholly or partly in SA

In the course of which goods or services are supplied for a consideration whether or not for profit

SPECIFIC INCLUSIONS

Welfare Organisations

Foreign Donor Funded Projects

Public Authorities

Electronic Services

SPECIFIC EXCLUSIONS

Remuneration of employees

Private hobbies

Exempt supplies

Commercial accommodation
< R 120 000 p.a.

VAT for NPOs

- Summary
- Association not for Gain
- Welfare Organisation
- Welfare Activity: Education & Development
- VAT Registration

VAT in context for NPOs (Summary)

Government acknowledges the significant role of NPOs in society

Concession for **Welfare Organisations** to become VAT vendors:

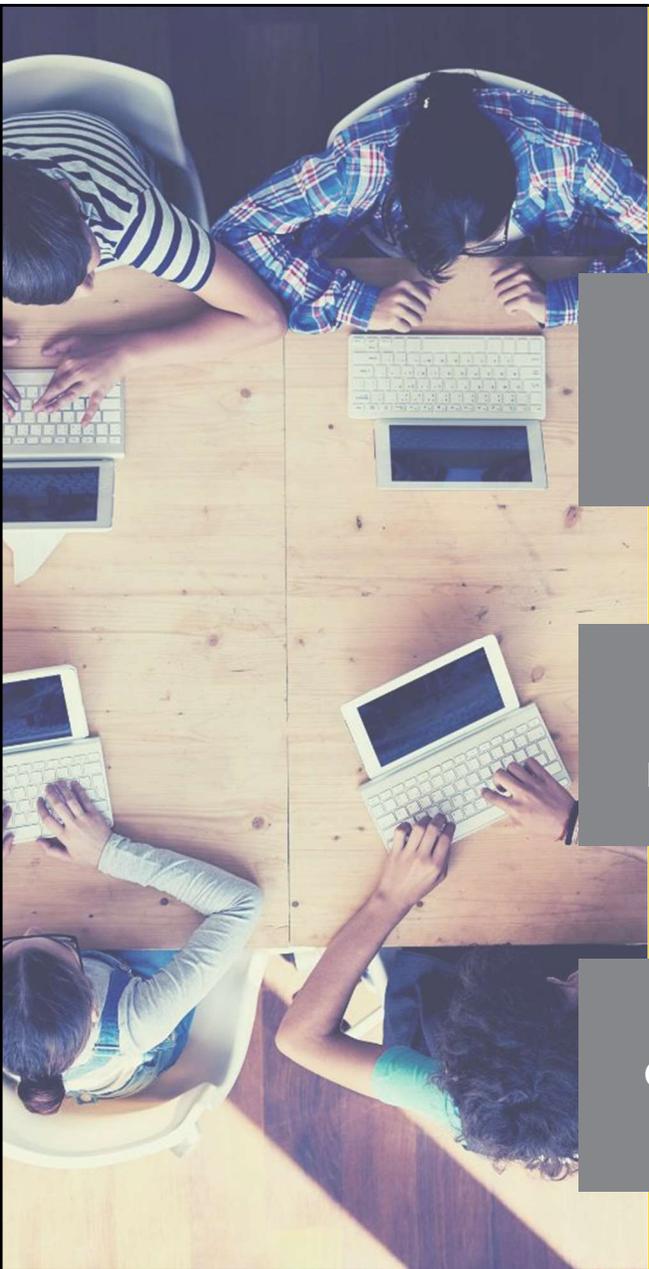
- No Output VAT on grants & donations received
- Can claim Input VAT paid on expenditure (further concessions apply)

However, Output VAT has to be paid on the sale of goods or services rendered (taxable supplies)

If NPO is an **Association Not for Gain**, but not a Welfare Organisation, fewer concessions apply:

- Normal VAT registration (per the general definition),
- No Output VAT on grants & donations received
- Can claim Input VAT paid on expenditure (no special concessions however apply)
- Various concessions apply regarding VAT compliance

To determine in which category NPO falls, definitions must be considered



Association Not for Gain

EDUCATIONAL
INSTITUTION

- No profit or gain to owner, member or shareholder; &
- Use funds for aims, objects & salaries

RELIGIOUS
INSTITUTION OF
PUBLIC CHARACTER

OTHER SOCIETY,
ORGANISATION OR
ASSOCIATION

- No profit or gain to owner, member or shareholder;
- Use funds for aims, objects and salaries; &
- Transfer assets to similar association after liquidation



Welfare Organisation

- Public Benefit Organisation (PBO) approved by SARS for Income Tax purposes
- If it carries on any activities listed by the Minister of Finance in Government Gazette (GN 112) under the following headings:
 - Welfare & humanitarian;
 - Health care;
 - Land & housing;
 - Education & development; or
 - Conservation, environment & animal welfare
- A Welfare Organisation is automatically an Association Not for Gain

Welfare Organisations

Welfare Activity: Education & Development



Provision of school buildings or equipment for public schools & educational institutions making exempt supplies (s 12(h)), for the benefit of the poor & needy & physically disabled



Career guidance & counselling for purposes of attending a school or higher education institution (envisaged in S12(h)(i)(aa) & (bb))



Programmes addressing life skill needs of children at schools, pre-schools or educational institutions (envisaged in s 12(h))



Educational enrichment, academic support, supplementary tuition or outreach programmes for the poor & needy



Training for unemployed persons to enable them to obtain employment

VAT Registration

Welfare Organisations

VAT Enterprise, even if no consideration is charged, to the extent of following activities:

- Welfare & humanitarian;
- Health care;
- Land & housing;
- Education & development; or
- Conservation, environment & animal welfare



Voluntary registration even if R50 000 threshold not met, can deduct input tax

Does not apply to:
other activities, even if
'charitable', e.g. religious,
sporting;
and
VAT exempt activities, e.g.
letting of dwelling,
educational services

VAT Registration

Associations Not for Gain

- Normal VAT registration requirements apply
- May be registered only if it carries on a VAT enterprise, thus
 - if it supplies goods or services for a consideration
 - e.g. if goods are sold, services rendered at a fee, entrance fees charged at events etc
- If registered as a VAT vendor, but carries on an activity that only makes supplies for no consideration, it does not carry on an enterprise, e.g. religious activities



Transactions

Effect of VAT registration

Output Tax

- Donation Income
- Grants & Subsidies
- Exempt Supplies
- Comparing Educational Services (exempt) to Education & Development (welfare activities)
- Supply of Donated Goods

Input Tax

- Benefits
- Entertainment
- Mixed Welfare & Non-Welfare work
- Summary

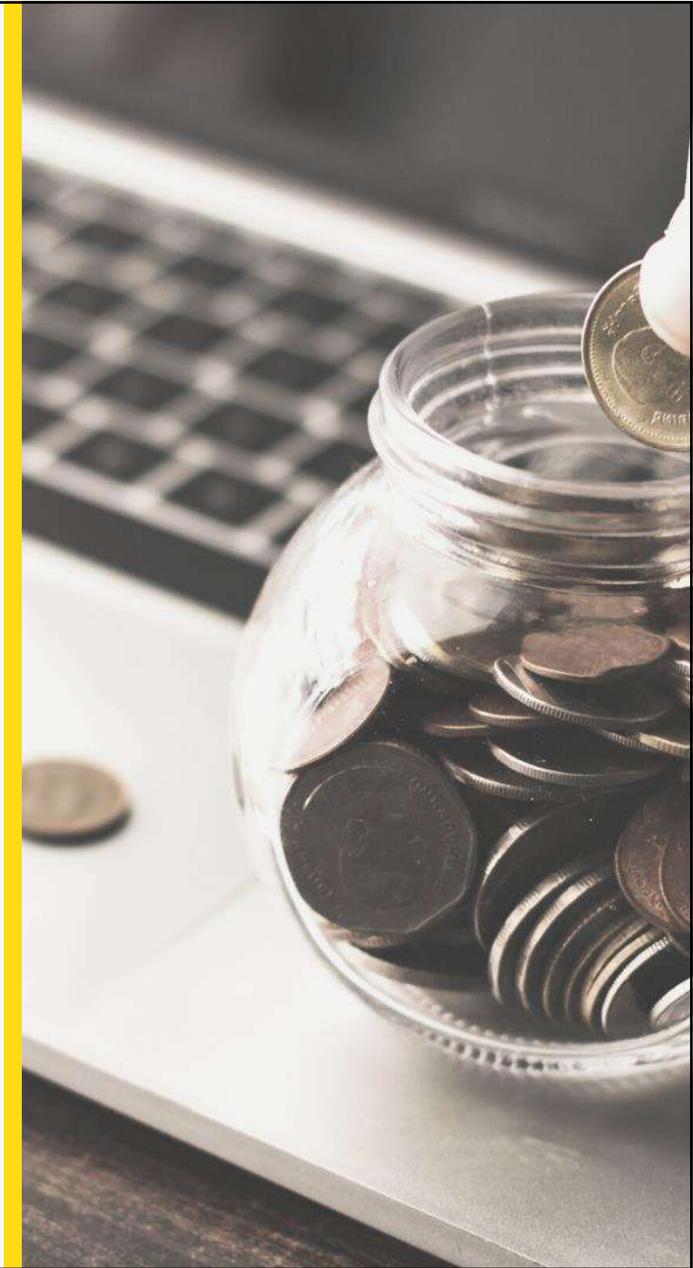
Donations

(No Output VAT payable)

- Amount donated to Association Not for Gain or Welfare Organisation is not consideration for supply of goods or services: No VAT payable

What is a donation:

- voluntarily made to Association Not for Gain (or Welfare Organisation) for carrying out its purposes
- whether in money or otherwise
- for which no **identifiable direct valuable benefit** arises in the form of a supply of goods or services to the donor or a connected person in relation to the donor &
- which is not made by a Public Authority or Municipality



Donations

(Examples)



DONATION

No Output Tax payable:

- No benefit accrues to donor (including connected person in relation to donor), payment is completely gratuitous – made out of disinterested benevolence
- If arguable that some benefit accrues to donor, but not identifiable direct valuable benefit arising in respect of payment made (e.g. mere acknowledgment in a document or on website, or an insignificant token of gratitude)



NOT A DONATION (CONSIDERATION FOR SUPPLY)

Output Tax payable:

- Benefit is identifiable, direct & valuable, e.g.:
 - where donor receives advertising or promotional services,
 - where logo of donor must be printed on tickets, or banners displayed



Grants & Subsidies

(Zero Output VAT payable)

0% VAT (i.e. no VAT) payable by:

- **Association Not for Gain** that receives a Government or Municipal **grant** to make taxable supplies to other persons

Grant = appropriation, grant-in-aid, subsidy or contribution transferred, granted or paid to a vendor by a Public Authority, Municipality or Constitutional Institution

- **Welfare Organisation** that receives a subsidy from a Public Authority or Municipality in the course or furtherance of its VAT welfare activities

Grant/Subsidy or Service Level Agreement?



HOW TO DISTINGUISH

- Grant or Subsidy is not 0% if paid for the actual supply of goods or services
- Analyse facts &/or contract to determine whether a Grant or Subsidy, or Service Level Agreement



CASE LAW

Marshall NO v Commissioner for SARS

- PBO (Red Cross Air Mercy Service Trust) concluded aeromedical contracts with Provincial Health Departments
- Tariffs payable for the services were agreed in their contract
- Supreme Court of Appeal (2016): Zero rate applies only where payment is not linked to an actual supply of goods & services. The deeming provision operates to create an imagined supply of goods & services
- Constitutional Court (2019): Confirmed the SCA judgment

Exempt Supplies

- Not taxable supply - no VAT payable & no input tax deductible
- Not part of taxable turnover - if only exempt supplies, an NPO may not register as a vendor

Examples

- Letting of residential dwelling
- Donated goods or services supplied by Association Not for Gain
- Educational services



Exempt Supplies - Educational Services

- Supply of educational services by following entities is exempt from VAT
 - State schools, or public or private colleges registered under the FET Colleges Act, 2006
 - Universities
 - PBOs providing adult basic education & training registered under the Adult Basic Education & Training Act, 2000, education & training of religious or social workers or of persons with a permanent physical or mental impairment, or bridging courses for indigent persons to enter a higher education institution
- Supply of crèche and after-care services is exempt from VAT

**** Supply of such educational services by a Welfare Organisation is exempt from VAT – thus no input tax deductible**



WELFARE ACTIVITY: EDUCATION & DEVELOPMENT

4. EDUCATION AND DEVELOPMENT

- (a) The provision of school buildings or equipment for public schools and educational institutions engaged in exempt activities contemplated in section 12(h) of the Value-Added Tax Act, 1991, for the benefit of the poor and needy and physically disabled.
- (b) Career guidance and counselling services provided to persons for purposes of attending any school or higher education institution as envisaged in section 12(h)(i)(aa) and (bb) of the Value-Added Tax Act, 1991.
- (c) Programmes addressing life skill needs of children at schools, pre-schools or educational institutions as envisaged in section 12(h) of the Value-Added Tax Act, 1991.
- (d) Educational enrichment, academic support, supplementary tuition or outreach programmes for the poor and needy.
- (e) Training for unemployed persons with the purpose of enabling them to obtain employment.

Extract of Education & Development "Welfare Activities" as per Regulation No. 112

Exempt Supplies - Donated Goods & Services

Supply by Association Not for Gain (or a welfare organisation) of the following is exempt from VAT:

- donated goods or services; or
- any other goods made by the association if at least 80% of the value of the materials used in making the goods consists of donated goods

Donated goods or services are goods or services donated to Association Not for Gain & intended for use in the carrying on or out of its purposes

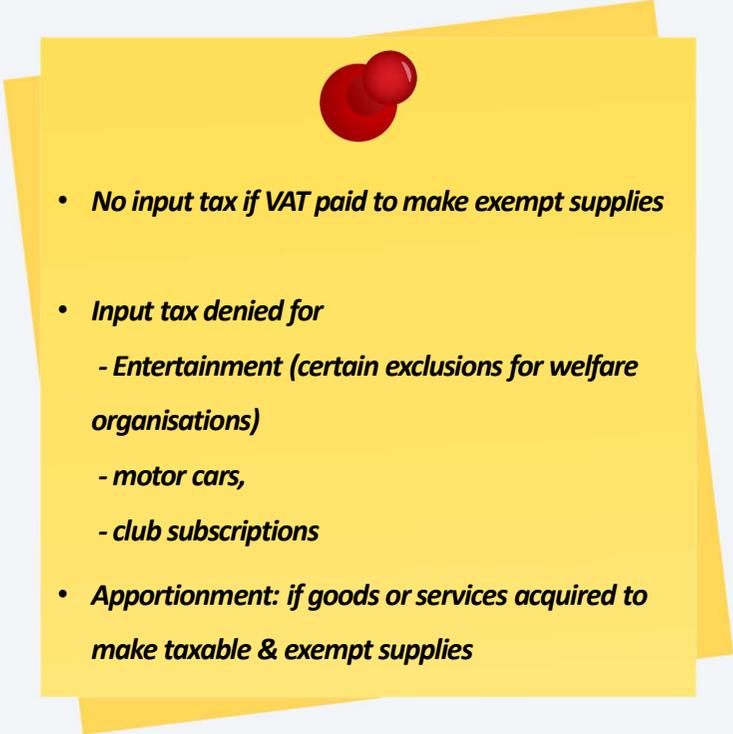
Effect: Association Not for Gain or welfare organisation does not have to charge VAT or pay VAT to SARS

Input Tax



DEDUCTIBLE COSTS

- VAT vendor may deduct VAT paid on goods or services acquired to make taxable supplies, as input tax:
 - whether stock, goods or services purchased for welfare purposes, capital assets, overheads or running costs
 - input tax is deducted from output tax on VAT return for the tax period, even if goods not sold or services rendered yet
- VAT vendor may deduct notional input tax on second-hand goods bought to make taxable supplies (various requirements apply, e.g. payment of purchase price)

- 
- *No input tax if VAT paid to make exempt supplies*
 - *Input tax denied for*
 - *Entertainment (certain exclusions for welfare organisations)*
 - *motor cars,*
 - *club subscriptions*
 - *Apportionment: if goods or services acquired to make taxable & exempt supplies*

Input Tax - Impact of Origin of Funds

- Deductibility of input tax is determined -
 - by purpose of the acquisition of goods or services
 - not by origin of funds used to acquire goods or services
- Thus irrelevant whether goods or services are purchased from -
 - Trading Income
 - Grant Income received
 - Donation Income



Input Tax - Entertainment



INPUT TAX DENIED

- Amusement
- Recreation
- Refreshments
- Meals
- Beverages
- Accommodation
- Hospitality of any kind



INPUT TAX ALLOWED

- Entertainment enterprises
 - Restaurants
 - Hotels
- Employee's subsistence
- Transport service meals
- Meal & refreshments at seminars
- Sporting or recreational facilities of municipalities



Input Tax Denial - Entertainment

GENERAL RULE

- VAT paid on acquisition of goods or services for purposes of entertainment is denied as input tax
- Example: If vendor distributes food free of charge, it may generally not deduct VAT on the acquisition of goods or services to provide the food, as input tax

WELFARE EXCEPTION

- Welfare Organisations may deduct input tax if goods or services are acquired to make supplies in the furtherance of its aims and objects, (in the course of carrying on its listed VAT welfare activities)

Mixed Welfare & Non-Welfare Work

To the extent that a Welfare Organisation makes taxable supplies for a consideration in the course of its business activities, the normal input tax & output tax rules apply

VAT registration not allowed to the extent the activities involve the making of supplies for no consideration in pursuance of religious, philosophical or other belief systems, as these are not listed VAT welfare activities

Exempt supplies or other non-taxable activities do not become 'taxable' when the PBO qualifies as a Welfare Organisation due to other Welfare Activities carried on by it

Apportionment of VAT costs incurred by the PBO for VAT Welfare Activities & other non-business activities is thus required

Welfare Organisation - Summary

Welfare Organisation Benefits



May apply for VAT registration, even if no consideration is charged

No output tax payable on donations received

Branches may be treated as separate persons for VAT registration purposes

General denial of input tax for entertainment does not apply

May deduct VAT incurred for purposes of soliciting of donations as input tax

May use payments basis of accounting

Exemption applies to sale of donated goods or services, or other manufactured goods if donated goods & services constitute at least 80% of value of supply

Certain goods imported which are forwarded free of charge to an Association Not for Gain are exempt from VAT on importation

TPC's NPO VAT Review Solution



MONEY BACK

Monies that were previously lost unknowingly through unclaimed VAT & other tax benefits, recovered on behalf of your NPO at absolutely no risk to you



DO MORE

Cost savings allow you to further your activities & do more, as VAT will no longer be a cost to your NPO (for e.g. item costing R115,000 inc. VAT, will now truly cost R100,000).



MAXIMISE RESOURCES

Maximum utilisation of resources, as donor monies go the full mile - no longer trapped in taxes like VAT



RECURRING INCOME

VAT refunds become a recurring income stream to your NPO, as input VAT can be claimed on qualifying costs incurred & no output VAT is applicable to donations.

Net effect is your NPO would be in a refund position.

NPO VAT Review Snapshot



ASSESS TAX BENEFITS

Apply TPC's internally developed NPO Needs Analysis to assess if your organisation has taken advantage of all available tax benefits. Access is available for **FREE** via our website www.tpcsa.co.za



QUANTIFICATION

Implement our **CASHDETECT** data analysis tool to retrospectively analyse, quantify & verify unclaimed VAT together with any other unclaimed tax benefits (e.g. SDL, Transfer Duty etc), your NPO may have been entitled to.



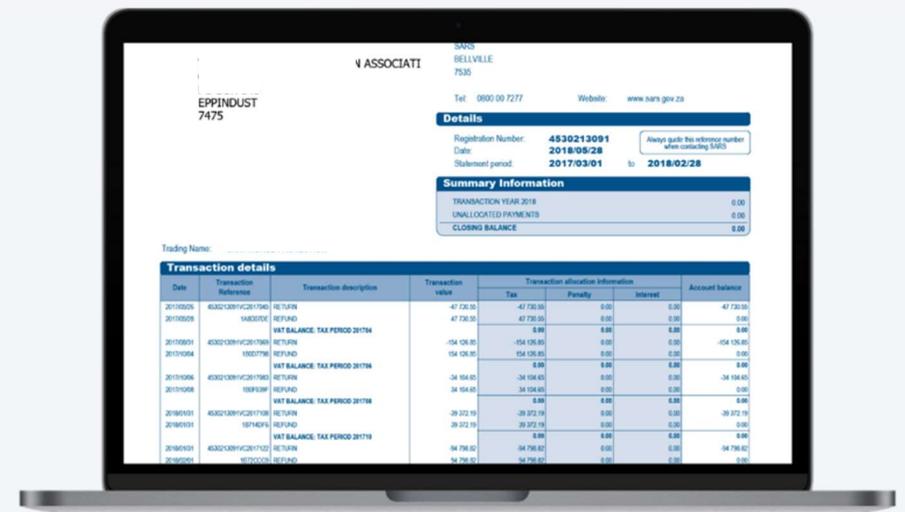
VAT REGISTRATION

Evaluate whether your organisation meets all of the applicable criteria required for VAT registration & thereafter obtain the necessary registration approvals from SARS.



CLAIMS SUBMISSION

Collate claim schedules & supporting documents for a retrospective submission to SARS to ensure unclaimed VAT, & other benefits, are refunded to your NPO.





MICHELLE MULLEY

PROJECT CO-ORDINATOR

"The value of contributions made by TPC to Ekukanyeni Relief Project was priceless as we can now claim back our input VAT which is helping our organisation to a great extent with our operational costs. We are so grateful & highly recommend TPC services to other NGOs"



JOY OLIVER

DIRECTOR

"We engaged TPC to claim a rebate from SARS of the VAT that we had paid between 2010 and 2016. From the start, we were impressed by TPC's understanding of the rules relating to tax relevant to NGOs. Without them we would not have been able to claim a refund of over R1million in VAT"



JONAS SCHUMACHER

MD

"TPC has tremendously helped us by retrospectively registering our organisation as a VAT vendor thereby enabling us to reclaim our input VAT as such. Notable is their outstanding professionalism, and conduct as displayed throughout the process. Their in-depth knowledge and attention to detail in the areas of taxation and accounting is highly dependable"



A FEW OF OUR NPO VAT CLIENTS

TAILORED NPO VAT SOLUTIONS

Specialised VAT support designed for your NPO

1

NPO VAT Reviews

Retrospective success based VAT & Tax Recovery Reviews

2

VAT Management

Periodical VAT compliance, return submissions & refund management

3

VAT Capacity Building

VAT training & capacity building programmes for NPOs

4

VAT Opinions/Consulting

Technical VAT opinions, review of Grant/Donor agreements advise & planning



About TPC



**NPO
SPECIALISTS**



**TECHNICAL
EXPERTISE**



**PROVEN TRACK
RECORD**



**TRUSTED NPO
ADVISORS**



TURNING POINT
CHARTERED ACCOUNTANTS (SA)

Q & A



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