

VAT Deregistration: Know about the VAT Exit Charge

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The VAT Act requires persons carrying on an enterprise whose taxable supplies have exceeded or are expected to exceed R1million in a period of 12 months to register for VAT. A person may also voluntarily register if their supplies have exceeded R50 000 or are expected to exceed R50 000 in a 12-month period. A person may opt to voluntarily register for various reasons amongst them to secure the claiming of input VAT.

Where a person no longer meets the requirements for registration, the vendor may apply to SARS for deregistration. A person may also deregister if they cease to carry on an enterprise, in which case the vendor must advise SARS who will cancel the vendor's registration. It is worth noting that on ceasing to be a vendor, the vendor will still be liable for all its VAT obligations that arose whilst he was still a vendor. Thus, deregistering as a vendor does not absolve one from obligations already incurred under the VAT Act.

There are procedures that a vendor has to follow to deregister including the completion and submission of the VAT123e form to SARS. On deregistration as a vendor there are immediate VAT implications which the vendor must be aware of. The implications on deregistration are often overlooked yet they could be significant depending on various factors such as the total amount of enterprise assets of the vendor etc. Depending on the value of the enterprise assets of the vendor at the date of deregistration, the amount of output VAT to be accounted for and paid to SARS may be significant and may put a strain on the vendors cashflow.

S8(2) of the VAT Act provides that where a person ceases to be a vendor, he is deemed to have made a supply of any goods and rights owned that formed part of his enterprise on the date of deregistration (subject to certain exceptions). That simply means if a vendor deregisters, he must account for output VAT on any goods or rights owned on date of deregistration. Output tax is accounted for at a rate of 15/115 on the lesser of:

- The VAT inclusive cost of all goods and rights owned; and
- The market value of all the goods and rights owned on the date that he ceases to be a vendor.

The exit VAT charge is also applicable to creditors balances that are less than 12 months old. On deregistration as a vendor, the vendor must account for Output VAT on the amounts due to creditors on which he previously claimed input VAT within a period of 12 months before deregistration. The VAT on unpaid debts must be accounted for immediately before ceasing to be a vendor. There is also a general provision applicable to all vendors and not only to those in the process of deregistration. This general provision requires a vendor to account for output VAT on the amounts due to creditors which are not paid within 12 months from date they become payable.

There is a minor relief but just in terms of payment date. The VAT payable on deregistration should be paid to SARS within 6 months of deregistration where a vendor deregisters solely because the total value of taxable supplies in the preceding 12 months did not exceed the voluntary registration threshold of R50 000 or the compulsory registration threshold of R1million.

Vendors who wish to embark on the deregistration process should be aware and take note of the final VAT implications of such a step. The decision to deregister should not be taken lightly but a vendor must weigh the pros and cons of such action and make an informed decision. The timing of the deregistration should also be properly planned in order to take into account the effect of the deregistration on cashflow etc. It is also advisable to reduce or pay off the creditors before deregistration to avoid paying exit charge on creditors balances. Therefore, proper planning should be undertaken before deregistration to avoid any surprises.

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Should you have any queries on this matter, please feel free to contact your PKF relationship partner or firm.

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