

MSUNDUZI LOCAL MUNICIPALITY

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The Msunduzi Municipality

Value Added Taxation Policy

VAT POLICY

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1. *Introduction*

This policy applies to Msunduzi Local Municipality, its municipal entities and it all municipal officials on behalf of or assisting it or a municipal entity in making or managing VAT related supplies in terms of the Value-Added Tax Act 89 of 1991 and the Tax Administration Act 28 of 2011. Value Added Tax is commonly known as VAT.

With effect from 1 April 2018, VAT is levied at a standard rate of 15% on the supply of most goods and services.

2. *Objectives of the policy*

This VAT policy is therefore aimed at declaring most accurate information on the VAT 201 filed to South African Revenue Services, avoiding all unnecessary penalties and interests. The effectiveness of the VAT policy is dependent on the accuracy of the municipality's collections and payments systems, which must identify all VAT related supplies according to the categories defined in the VAT Act.

3. *Scope Of Policy*

The Policy deals with:-

- Responsibility / Accountability;
- Accounting Basis
- VAT ethics and principles;
- VAT procedures;

4. *Responsibility / Accountability*

- 4.1. The City Manager as the Accounting Officer of the municipality is accountable for the VAT declaration to South African Revenue Services.
- 4.2. The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of VAT.
- 4.3. Efficient and effective VAT management include:-
 - 4.3.1. Accurate tax indicators linked to the tariffs according to the VAT Act.
 - 4.3.2. Accurate calculations of VAT refund or payment.
 - 4.3.3. Accurate VAT rate has been applied to each supply; 14% before 1 April 2018 and 15% thereafter should be applied for standard rate supplies.
 - 4.3.4. Timely submission of the VAT returns to SARS.
 - 4.3.5. Taking precautions actions that avoids penalties and interest charges.
 - 4.3.6. Verification of the Input tax and Output tax information extracted by the accounting system.

5. *Accounting Basis*

- 5.1. The Commissioner has granted the municipality permission to account for VAT on the **payments basis**, this means the municipality declares output VAT and deducts input VAT in the applicable tax period only to the extent to which payment of the consideration is received or made in that tax period, subject to certain exceptions in accordance to the VAT Act.
- 5.2. The VAT payable or receivable is accounted for on the **accrual basis** for the purposes of preparation of the financial statements of the Municipality in accordance with GRAP 1.

6. *VAT ethics and principles*

The Chief Financial Officer shall monitor or delegate someone to monitor that the VAT Returns are submitted to SARS on a **monthly basis** to ensure that Council remains compliant with the VAT Act.

7. *VAT procedures*

7.1. **Tax period**

- 7.1.1. The tax period for VAT purpose is from the 1st to last day of each month.
- 7.1.2. The municipality shall submit VAT to SARS on the monthly basis.

7.2. **VAT Rate**

- 7.2.1. The municipality shall levy the VAT rate for each supply at 14% before 1st of April 2018 and 15% thereafter should be applied for standard rated supplies.

7.3. **Output Tax**

- 7.3.1. The municipality shall disclose output tax by applying the applicable VAT rate to the value of a supply of goods or services.
- 7.3.2. The municipality shall disclose output tax in accordance to the following categories; standard rate, zero-rated and exempt supplies.
- 7.3.3. Agreements with government bodies/external institutions are reviewed for VAT implications.
- 7.3.4. All manual adjustments are supported by the appropriate documents.
- 7.3.5. Statements of accounts (from e-filing) should also be reconciled on a monthly basis to see if adjustments have been made by SARS.

7.4. **Input Tax**

- 7.4.1. The municipality shall disclose input tax by applying the applicable VAT rate to the value of a supply of goods or services.
- 7.4.2. The municipality shall disclose input tax according to function, as capital or operating.
- 7.4.3. All tax invoices must be valid and in compliance with section 20 of the VAT.
- 7.4.4. All tax invoices have been reviewed by Creditors section using Tax Invoice Checklist for impermissible input tax claims on a monthly basis.
- 7.4.5. User departments finance officers should ensure that correct tax code is applied on all expenditure and review all expenses directly related to exempt / non-taxable supplies to ensure input VAT not claimed thereon.

8. Commencement date

This policy and amendments shall be affective as from **1 July 2024**.