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YOUR LEADER IN **PROFIT RECOVERY**

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FRINGE BENEFITS AND VALUE-ADDED TAX

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Experienced! Capable! Proven!

FRINGE BENEFITS AND VALUE-ADDED TAX

A fringe benefit is defined as a perk that an organisation gives and/ or pays to an employee for the performance of services.

There are eight fringe benefits that attract Output tax and include the following:

1. Rewarding employees for excellent services rendered;
2. Goods / services given to employees' relatives;
3. The opportunity to purchase an asset at less than actual value;
4. Right of use of an asset;
5. Free meals and / or refreshments;
6. Free or cheap services;
7. Medical costs incurred by the employer, and
8. Motor vehicles given as company cars.

For a fringe benefit to arise there must be four elements present:

1. There must be an employment relationship between the person receiving the benefit and the person giving the benefit;
2. The benefit accrues to the employee because of his employment;
3. The benefit must be a reward for services rendered (or to be rendered) by the employee, and
4. The benefit is taxed, even if it is granted by an associated institution, rather than the employer directly.

Certain fringe benefits granted to employee's attract Output VAT which is payable by the employer. If SARS conducts a VAT audit, this may be the first item they check for compliance. Penalties and interest will be charged should you be non-compliant.

However, there are benefits which are not subject to this rule, such as travel allowances, entertainment allowances, low interest loans, housing subsidies, meals provided to employees in canteens and international travel.

In essence, all fringe benefits other than those which have no income tax value (for example long service awards below R2 000) or which are exempt supplies in terms of the VAT rules (for example long term residential accommodation and loans), are subject to VAT, generally on the same value as is used for income tax purposes.

VAT is payable each time a fringe benefit becomes subject to PAYE for income tax purposes.

How to Calculate the Fringe Benefits of VAT on Company Cars

Where the vehicle is a motor car (not a bus or kombi) and the Input VAT was specifically denied, the calculation is as follows:

- 0.3% x the Determined Value of the car x 14/114 = Output VAT payable

And for any other vehicles, the calculation is:

- 0.6% of the determined value of the car x 14/114 = Output VAT payable

If the employee pays in full for the repairs or maintenance of the car, the calculated amount must be reduced by R85 per month.

Remember: The Determined Value of the car is the purchase price, excluding VAT and finance charges.

Example:

The Mayor is provided with a Council vehicle by the Municipality. The determined value of the car is R140 000. The consideration for the deemed supply of the fringe benefit is R420 per month (R140 000 x 0.3%. His employer must therefore account for output tax of R51.58 a month (14% of the value of the fringe benefit).

The deemed Output VAT can be accounted for by the following journal entry:

Debit Salary and Wages (the expense account to be claimed for normal tax purposes); Credit SARS Output VAT Account.

Note: On Fringe Benefits that there will be a PAYE liability to the employee, and the Value-Added Tax liability is not charged to the employee but takes the form of an adjustment in the Municipality VAT return for the period.

It appears that this is widely unknown and taxpayers should check with their VAT administration personnel to ensure that the law is complied with.

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The Company:

- *Founded in 2001*
- *National footprint with Head Office in Pretoria*
- *Extensive experienced professionals*
- *Market Leader*
- *Proven track record*
- *B-BBEE Status level: A Level 3 Value Adding Supplier*

Service Offering:

- *Value-Added Tax Reviews*
- *Accounts Payable Reviews*

Value Proposition:

- *Direct bottom line value addition*
- *No capital outlay; No direct / upfront cost to client*
- *Extensive knowledge and expert advice*
- *Quick turnaround*

Key Differentiators:

- *Complete line-by-line transactional review*
- *Ability to handle large data-sets*
- *All claims supported by relevant source documentation*
- *Intelligent back-office systems enhanced over the years*
- *Unique data manipulation capabilities*
- *Contingency based costing – (No recovery = No fee!)*
- *Invoicing only upon client's receipt of the financial benefit*
- *Most work performed off-site (mainly data collection and verification on-site)*
- *Post-review support: Handling of queries raised by SARS as well as Auditor General*

Additional Value-add:

- *Skills transfer*
  - *VAT training*
  - *Section 20 of the VAT Act (valid tax invoices)*
  - *SARS eFiling*
- *Tailor-made reporting (Client specific requirements).*
- *Queries Auditor General*
- *Year-end journals (VAT accounts)*

Client base includes the following sectors:

- *Local Government*
- *State Owned Enterprises*
- *Organs of State*
- *Provincial Government*
- *Corporate Companies*

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