



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
 - o VAT training
 - o Section 20 of the VAT Act (valid tax invoices)
 - o 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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VAT APPORTIONMENT:
“THE 95%”
written by JP Nortje

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Experienced! Capable! Proven!

VAT APPORTIONMENT: "THE 95%"



It is often found that a municipality neglects to perform their VAT apportionment calculation 6 months after year end and it is presumed in practice that 100% Input VAT is claimable.

Municipalities will be surprised, as this is however not the case and many calculated apportionment ratios may fall below the 95% threshold.

The only approved ratio is the Turn-over Based method of apportionment effective from 1 April 2007.

Y = $a \times 100$
(a + b + c) 1
Y = the apportionment percentage
a = the value of all taxable supplies (including deemed supplies)
b = the value of exempt supplies
c = the sum of any other amounts not included in a or b in the formula, which were received or accrued during the period (whether in respect of a supply or not)

There are a few factors that can influence the apportionment ratio in a very negative way that can cause the ratio to dip below the 95% required line, in order to claim 100% on

mixed overhead departments, as per the de minimus rule.

• **Interest on investments and surplus bank accounts**
There are numerous municipalities that receive interest on investments as they are required to invest surplus funds or unspent grants. The interest received is exempt as per section 12 and should be included in b in the formula.

• **Fines**
Although it does not fall under exempt supplies, it is regarded as "out of scope" and should be included in c of the formula.

SARS issued a Binding General ruling on 27 March 2015, which specifically states the following:

“b” = The value of all exempt supplies made during the period, excluding interest earned on funds for day-to-day operations held in for example a current account at a bank in the formula “c”, will typically include but is not limited to items such as statutory fines, penalties, dividends etc.

However traffic fines are only included in “c” to the extent that payment has actually been received by the municipality.”

Many municipalities are not aware of this ruling and still use the full accrued value for traffic fines.

Furthermore, the question frequently asked is: If I invest money in a call account and it is freely available to transact with, does this constitute “interest earned on funds for day-to-day operations”. Maxprof is in the process of obtaining a ruling from SARS to get clarity on the matter, but from other rulings applied for, it is apparent that SARS tends to view this as excludable.

What if a municipality does not obtain the required 95% to two decimal points? Apportionment will have to be applied to mixed departments (departments which renders a service to both wholly taxable and wholly exempt departments), system coding or VAT parameters will have to be changed to for eg. the following:

- Municipal Manager;
- Human Resources;
- Finance;
- IT;
- Mayor.

It is crucial that adjustments are made after year end if the ratio is below 95% as SARS may impose severe penalties and interest if they were to discover this as part of a routine audit.

We would like to receive your comments on the above mentioned issues. What constitutes interest earned on day-to-day operations? Please email me at jp.nortje@maxprof.co.za

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