

## **Value Added Tax (VAT)**

VAT is a form of tax that everybody has to pay when buying goods and services. It is charged as 15% of the price of the goods.

The 15% is paid to the provider of the goods and services, and they in turn pay it to the government.

The final consumer pays the VAT, while the people along the chain of producing goods and services (e.g sellers and producers of a product) do not.

Certain items, such as basic foods, like milk, bread, fresh fruit and vegetables, maize meal and tinned pilchards are exempt from VAT, which means that they are not taxed. Educational fees, and bus, train and taxi fares are also exempt from VAT.

### **Key concepts**

**Vat inclusive** - This is a price that includes VAT.

**Vat exclusive** - This is a price that excludes VAT.

**Vat exempt** - An item that is VAT exempt does not have VAT added to the price of the item.

### Worked example: Calculating the VAT on purchases

#### QUESTION 1

Zinhle visited the Sunshine Supermarket in Wellville. After paying for her shopping, she checks her till slip and thinks that the VAT (R 23, 63) on the till slip is incorrect. She calculates 15% of R 188, 13 to be R 28, 22

Sunshine Supermarket		
61 11th Street, Wellville		
Tel no. 061 711 2813		
Tax invoice VAT No. 442 00010895		
Ginger biscuits		R13.99
Cott/Cheese		R15.99
Cott/Cheese		R15.99
Tomatoes, pkt		R 6.99 *
Choc One 60G		R 5.49
Plastic bag 24L		R 0.39
Veg pie		R 9.99
Yoghurt s/berry 175ml		R 5.79
Yoghurt plain 175 ml		R 5.49
L/FAT yoghurt 175ml		R 5.49
Cheddar chs /kg		R22.93
Teabag R/Bos		R19.99
Ice cream vanilla		R19.99
Lemon shampoo		R15.99
<b>Balance due</b>		<b>R188.13</b>
<b>Rate</b>	<b>VAT</b>	<b>TOTAL</b>
15%	23.63	157.51
*0%	0.00	6.99
<b>PLEASE RETAIN AS PROOF OF PURCHASE.</b>		

Show that Zinhle is incorrect by answering the following questions:

- 1.1 Why are the tomatoes indicated with a \*?
- 1.2 What is the total cost of the items that are VAT inclusive?
- 1.3. Is 15% of this total R 23, 63 or R 28, 22?
- 1.4. Show how the balance due (R 186, 55) was calculated.
- 1.5 Explain why Zinhle is incorrect in believing the VAT is wrong.

## SOLUTION

- 1.1 The tomatoes are a basic foodstuff and so they are exempt from VAT.
- 1.2. R 157, 51.
- 1.3 R23.63
- 1.4 Balance due = (total cost of VAT incl. items) + (15% VAT on those items) + (total cost of VAT exempt items).
5. Zinhle calculated the VAT as 15% of the total balance due, not as 15% of the VAT inclusive items only.

## Activity 1: Calculating VAT and checking till slips

1. Bongi decides to use the following formula to calculate the cost of the items before VAT, the VAT and the VAT inclusive price.

**Total cost (R) = Amount before VAT (R) + 15% of the amount before VAT (R).**

**VAT = Amount before VAT x 15%**

Complete the table below by calculating the values of a) to g). Show all your calculations.

<b>Amount</b>	8,76	8,76	21,92	6,13	0,35	24,55	28,06	<b>a</b>
<b>VAT</b>	1, 31	1,31	3,93	0,92	0, 05	<b>b</b>	<b>c</b>	<b>d</b>
<b>Total</b>	10, 07	10, 07	<b>e</b>	<b>f</b>	<b>g</b>			132,32

## QUESTION 2

Copy the slip and correct the mistakes:

DICEY STORES		
61 11th Street, Dodgeville		
Tel no. 061 333 9999		
Tax invoice VAT No. 4423338888109		
Milk 2L		R17.99 *
Apples 2,5kg		R20.99 *
Carrier bag 24L		R 0.40
Carrier bag 24L		R 0.40
Sunflower oil 250ml		R14.99 *
Salted chips		R 7.99
Brown bread loaf		R 6.99 *
Sauce Peri Peri		R13.99
Brown bread loaf		R 6.99 *
<b>Balance due</b>		<b>R90.73</b>
EFT credit card		R90.73
TAX-CODE	TAXABLE	TAX VALUE
Zero VAT	R0	R0.00 *
VAT	R79.59	R11.14
Total tax		R11.14
CHANGE		R0.00