TAX

Tax
A compulsory levy imposed on citizen's earnings or purchases to fund the activities of government.

Taxable
A service, purchase or item or earning that has tax applied to it.

Tax invoice
Printed record of what was bought, what it cost, what was taxable, the tax amount, method of payment, amount tendered, and change due, if any.

Indirect tax
Tax which is levied on the income or profits of the person who pays it e.g. income tax

Direct tax
Tax which is levied on goods or services e.g. VAT

VALUE ADDED TAX (VAT)

1. **Value Added Tax (VAT)** is a tax that is levied at **15%** (currently in South Africa) on most goods and services, as well as on the importation of goods and services into South Africa.
   The Minister of Finance announced during the Budget Speech in February 2018 that VAT will increase from 14% to 15% in the 2018/2019 financial year.

   VAT is not charged on some essential groceries in South Africa. These include: paraffin; brown bread; maize meal; samp; mielie rice; dried mielies; dried beans; lentils; tinned sardines; milk powder; milk; rice; vegetables; fruit; vegetable oil and eggs.

2. **VAT exclusive price** is the price before **VAT** is added.
   VAT exclusive price = VAT inclusive price ÷ 1,15

3. **VAT inclusive price** is the price after **VAT** is added.
   VAT inclusive price = VAT exclusive price × 1,15

4. **VAT** = VAT inclusive price - VAT exclusive price

A new Polo Vivo costs R165 130,43 excluding VAT (**VAT exclusive**). Calculate the price of the Polo, including VAT (**VAT inclusive**).

Price VAT inclusive = Price VAT exclusive × 1,15

WHERE DOES 1,15 COME FROM?

 → Value Added Tax →
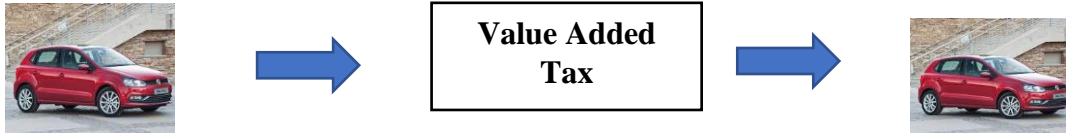
= 100% (Price excl VAT)   + 15% VAT   =   115% (Price incl VAT)

$$115\% = \frac{115}{100} = 1,15$$

Price VAT exclusive = Price VAT inclusive ÷ 1,15

Price of POLO Vivo including VAT = R165 130,43 × 1,15 = R189 899,99

NB!!! – Price excluding VAT is NOT minus (-) 15%

There is no such method where 15% is calculated and subtracted.

EXAMPLES

Tyron makes a gift basket containing the following items

ITEMS (per unit)	SELLING PRICE
Bar-One	R10,04
Peppermint Crisp	R8,70
Kit Kat	R20,66
Cadbury 80 g chocolate slab	R6,73
Empty basket	R29,99

(5)

1. Determine the price of each item excluding VAT.

2. Determine the total cost price of a gift basket, excluding VAT. (2)

3. Determine the total amount of VAT on a gift basket. (3)

Solutions:

1. $\dfrac{R10,04}{1,15} = R8,73$

    $\dfrac{R8,70}{1,15} = R7,57$

    $\dfrac{R20,66}{1,15} = R17,97$

    $\dfrac{R6,73}{1,15} = R5,58$

    $\dfrac{R29,99}{1,15} = R26,08$

2. R8,73 + R7,57 + R17,97 + R5,85 + R26,08
    = R66,20

3. R76,12 – R66,20
    = R9,92

QUESTION 1

The price list given below shows the price for different types of clocks. Study the price list and answer the questions that follow.

CLOCK A	CLOCK B
Including VAT: R3 350,00	Excluding VAT: R220,00
CLOCK C	**CLOCK D**
Excluding VAT: R2 100,00	Including VAT: R5 950,00

[Adapted from www.pricecheck.co.za]

1.1 What does the acronym VAT stand for? (2)

1.2 At what percentage (%) is VAT levied (charged)? (2)

1.3 Calculate the cost price of **CLOCK A and D**, excluding VAT. (4)

1.4 Calculate the selling price of **CLOCK B and C**, including VAT. (4)

1.5 Determine the amount of VAT that will be paid on each clock. (4)

[16]

5

QUESTION 2

A sleeper couch is advertised at Mega Shop as below.

	PRICE Was	PRICE Now
CAYMAN Sleep Couch	~~R2 699~~ (including VAT)	R1 999 (excluding VAT)

Use information above to answer the questions that follow.

2.1 Show that the couch's original price excluding VAT was R2 346,96. (3)

2.2 Show with calculation that a customer is expected to pay R2 299 including VAT when purchasing the couch at SALE price. (3)

[06]

QUESTION 3

VAT in South Africa increased to 15% with effect from 1 April 2018.

The following shows how a vehicle dealer calculated the new increased VAT incorrectly:

Selling price of the vehicle is R160 087,72.

Selling price, including 14% VAT = R160 087,72 + 14% of R160 087,72
= R160 087,72 + R22 412,28
= R182 500

VAT increased with 1%.
New selling price, including 15% VAT = R182 500 + R182 500 × 1%
= R182 500 + R1 825
= R184 325

Identify the mistake the dealer has made in calculating the new selling price. Hence, calculate the new selling price, including 15% VAT (excluding accessories and other charges). (4)

[04]

QUESTION 4

ANNEXURE A shows an invoice of the cellphone contracts taken out by Mr Fortune.

Gebruik BYLAE A om die vrae wat volg, te beantwoord.

4.1   State the number of cellphone contracts shown on this invoice.   (2)

4.2   Name the cellphone contract which shows the most expensive device.   (2)

4.3   Show how the VAT amount of R142,95 was calculated.   (2)

4.4   Calculate the missing value **A**.   (2)
                                                                                 [08]

ANNEXURE A

CELLPHONE CONTRACT INVOICE

Cellphone Account

Customer Care
Tel: +27083245 Tel:123(free from
cellphone)
E-mail: customercare@ABC.co.za
Website: www.abc.co.za

Mr SJ Fortune	Invoice date	17-01-2021
5 Second Avenue	Account Number	BA4536782C
Zone 2	Payment Method	Direct Debit
Smelderado	Due Date	01-03-2021
2463	Arrears	R0,00

Summary of charges for your ABC plan:

ABC Made For You S   Contract date: 13-03-2019 to 12-03-2021

Description	From	To	Amount excl. VAT
Device	17-12-2020	16-01-2021	260,87
ABC made for You S	17-01-2021	16-02-2021	94,78

Subtotal: (excl. 15% VAT)			R 355,65

ABC made for You XS   Contract date: 13-05-2019 to 12-05-2021

Description	From	To	Amount excl. VAT
Device	17-12-2020	16-01-2021	R173,91
ABC made for You XS	17-01-2021	16-02-2021	R86,09

Subtotal: (excl. 15% VAT)			R260,00

Your ABC Choice 5GB   Contract date: 19-08-2019 to 18-08-2021

Description	From	To	Amount excl. VAT
Device	17-12-2020	16-01-2021	R165,22
Your ABC Choice 5GB	17-01-2021	16-02-2021	R172,13

Subtotal: (excl. 15% VAT)			R337,35

VAT total 15%			R142,95

Total amount due for current period (VAT incl.)			**A**