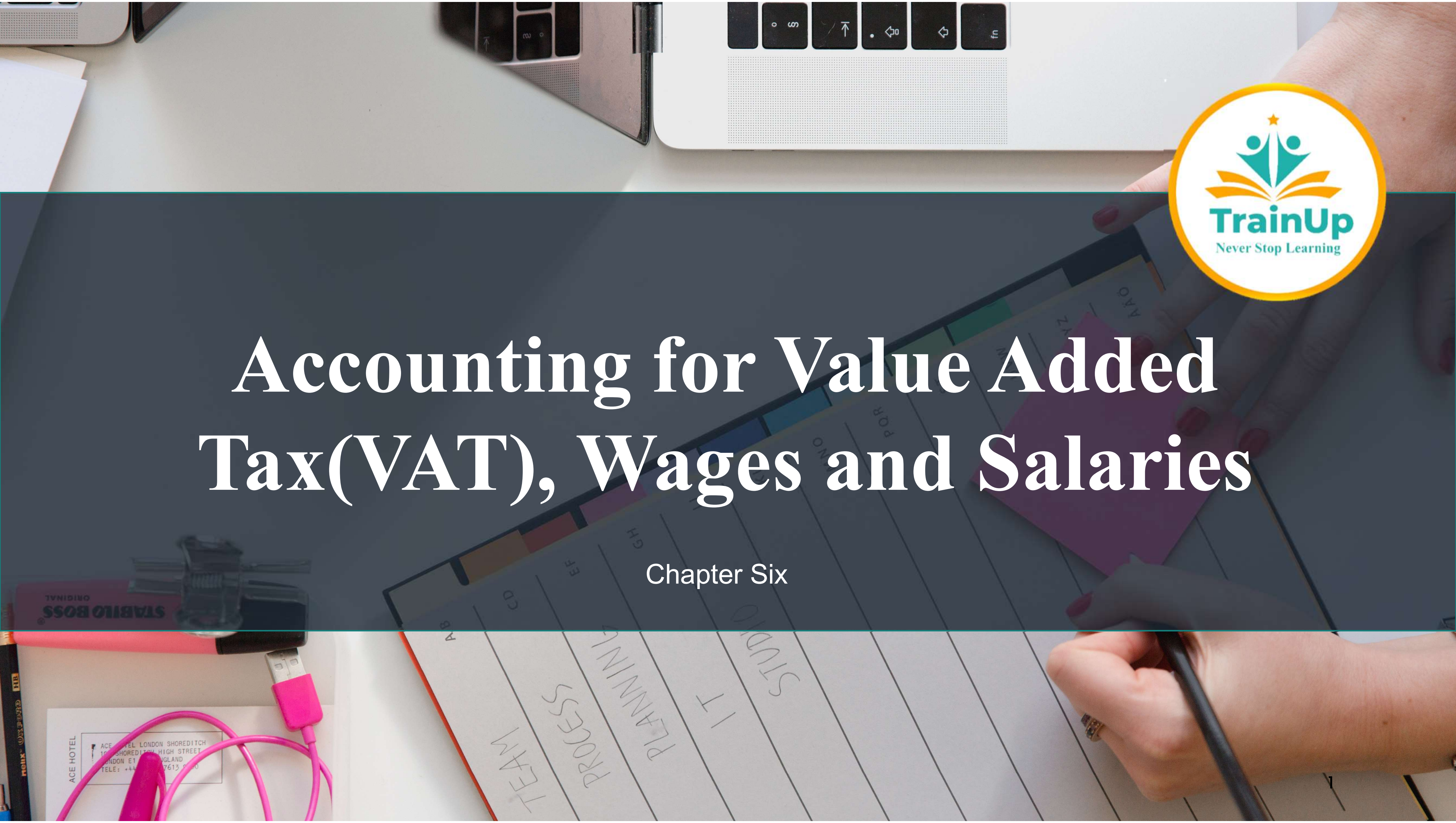

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Accounting for Value Added Tax(VAT), Wages and Salaries

Chapter Six

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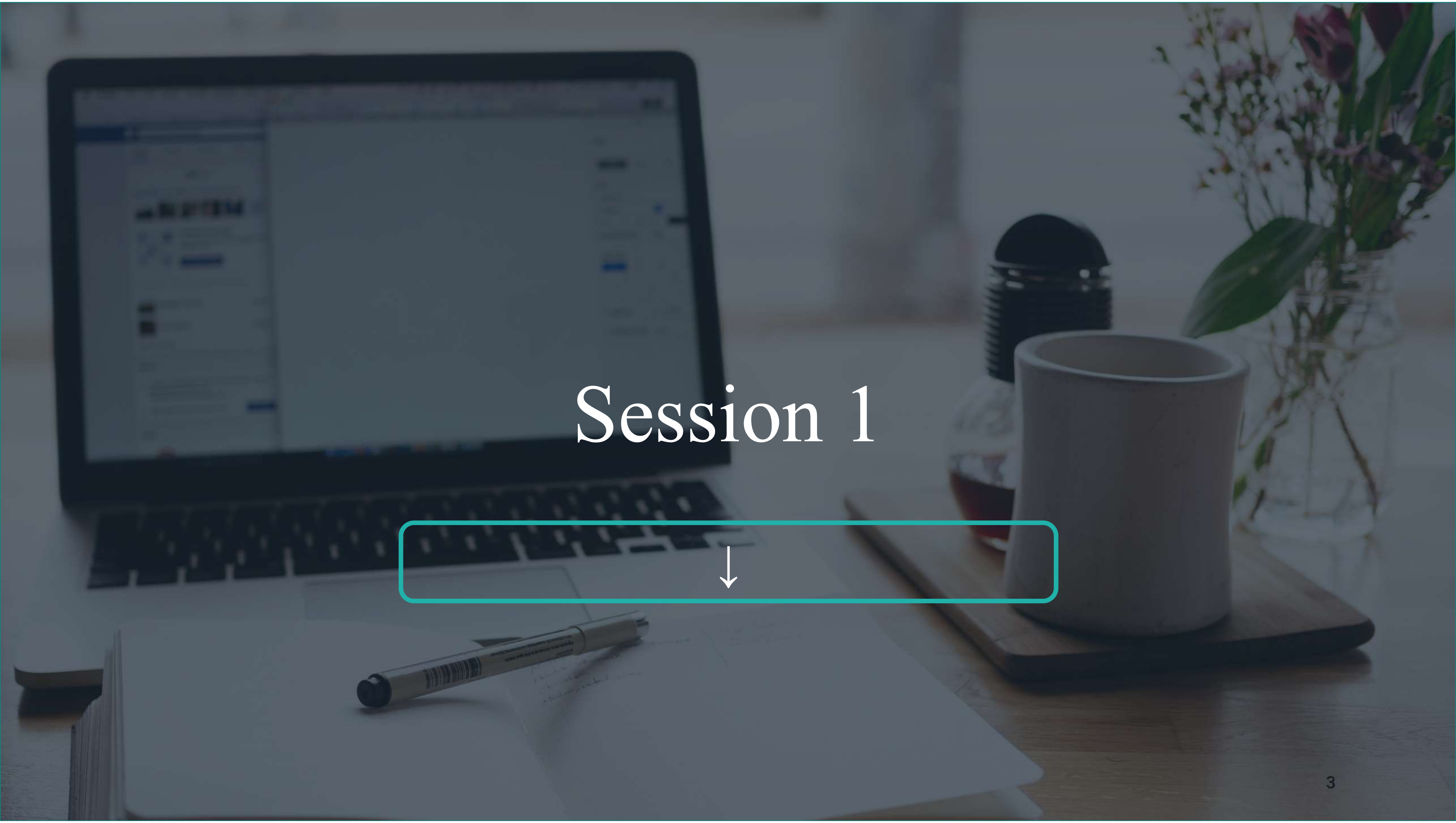

Session 1

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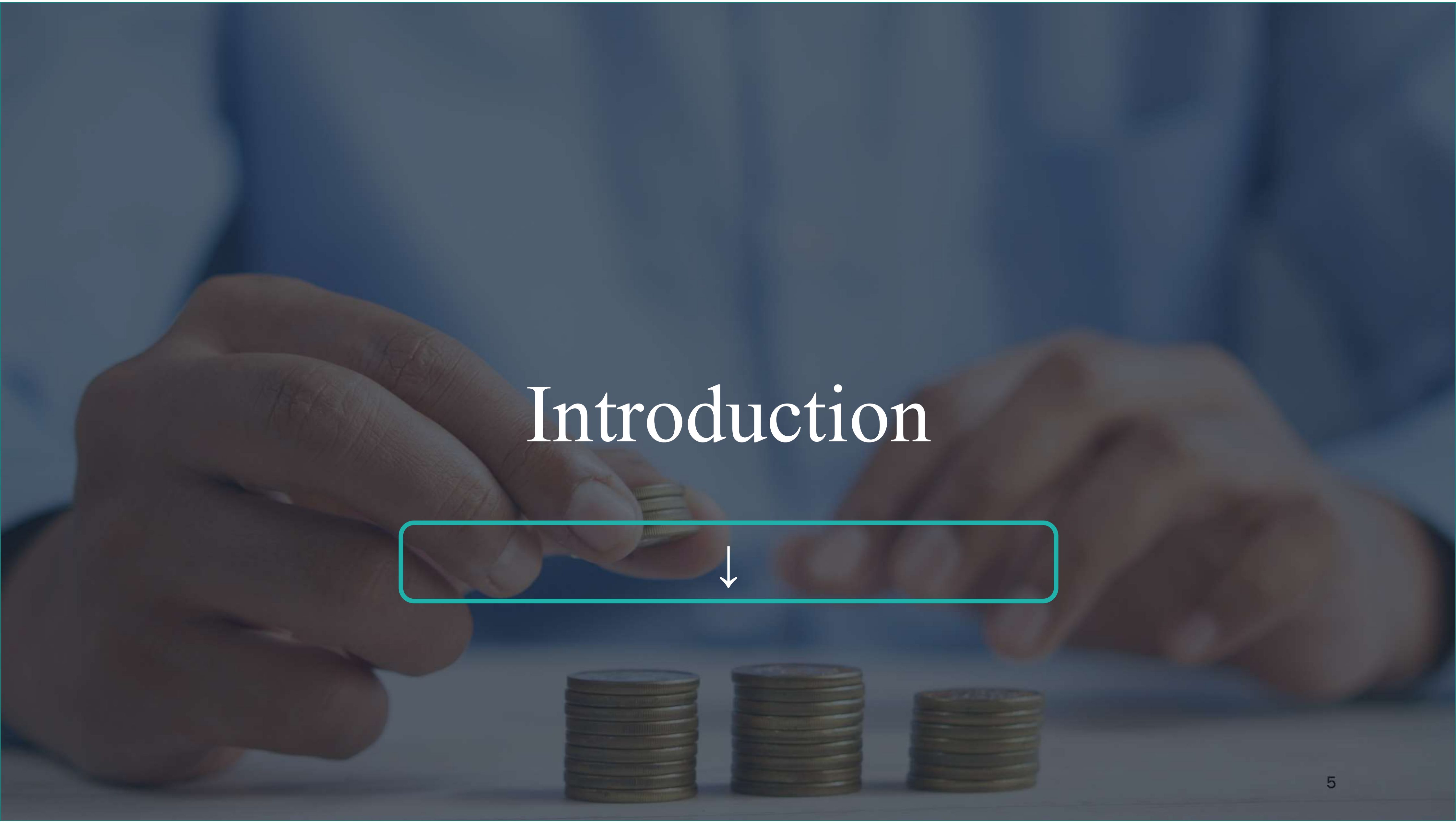
Chapter 6

Session 1

Accounting for Value Added Tax(VAT), Wages and Salaries

Introduction



Chapter 6

Session 1

Type of Tax

- ***Direct tax*** imposed on individuals and the liability to pay that tax is on that individual; the individual *cannot pass on that tax to any other individual*.
- ***Indirect tax refers*** taxes collected by the manufacturers or sellers or goods or services and ***paid to the government***. *such tax passes to the other person i.e., to end consumer.*
- Income tax—
- Payroll tax—
- Corporate tax—
- Property tax—
- Sales tax—
- Value added Tax

Chapter 6. Accounting for VAT), Wages and Salaries

Introduction

- Under the value added, every business is in effect a **tax collector**.

- A **value-added tax (VAT)** is a type of ***consumption tax*** that is placed on a product **whenever value is added** at a *stage of production* and at the *point of retail sale.*
- The amount of *VAT that the user pays is on the cost of the product, less any of the costs of materials used in the product that have already been taxed.*

Although, most transactions are called taxable supplies and the VAT on such in Uganda is 18% standard rate of the price of goods or services, certain other transactions are charged at *zero rate, some are VAT exempted.*

Chapter 6. Accounting for VAT), Wages and Salaries

Introduction

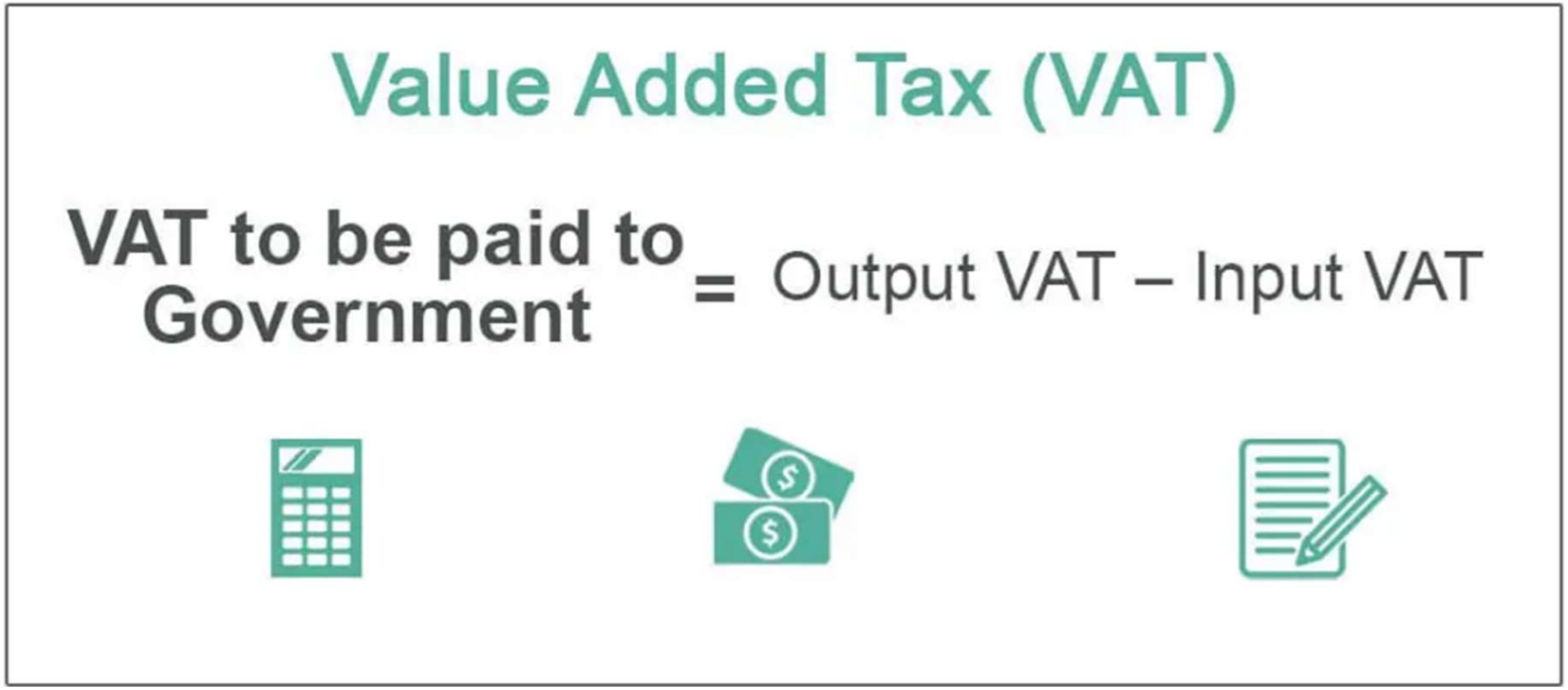
- A business registered for VAT has to pay to Uganda Revenue Authority (URA) the amount of output tax minus the input tax. **The tax rate is 18%**

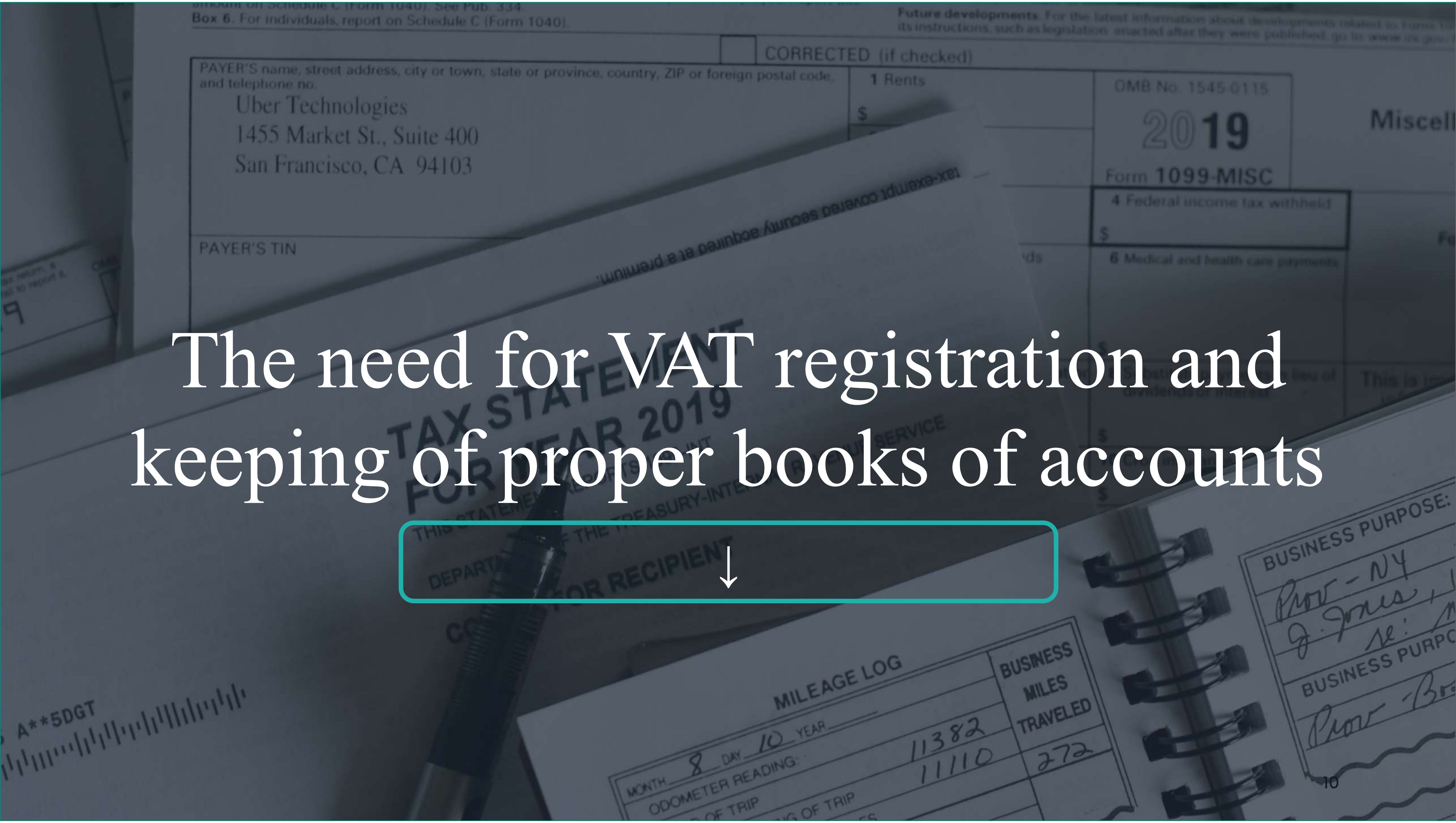
- *All business dealing in taxable supplies with a **gross turn over above 150 million are required to register for VAT.***

❖**Output Tax** is the VAT a taxable person charges upon making taxable supplies i.e. ***tax charged upon selling taxable goods and services***.

❖**Input Tax** is the VAT a taxable person is charged on **taxable purchases**. The purchases may be from local sources or imported

Introduction





The need for VAT registration and keeping of proper books of accounts

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The need for VAT registration and keeping of proper books of accounts

- The business must keep accurate financial records of purchases and input tax in order to calculate the VAT payment to be made.

- The amount of VAT to be paid each quarter of the year is the difference between the **sales output tax** and **purchase input tax** and is paid quarterly or yearly to URA.

The need for VAT registration and keeping of proper books of accounts

VAT Payable vs Refundable

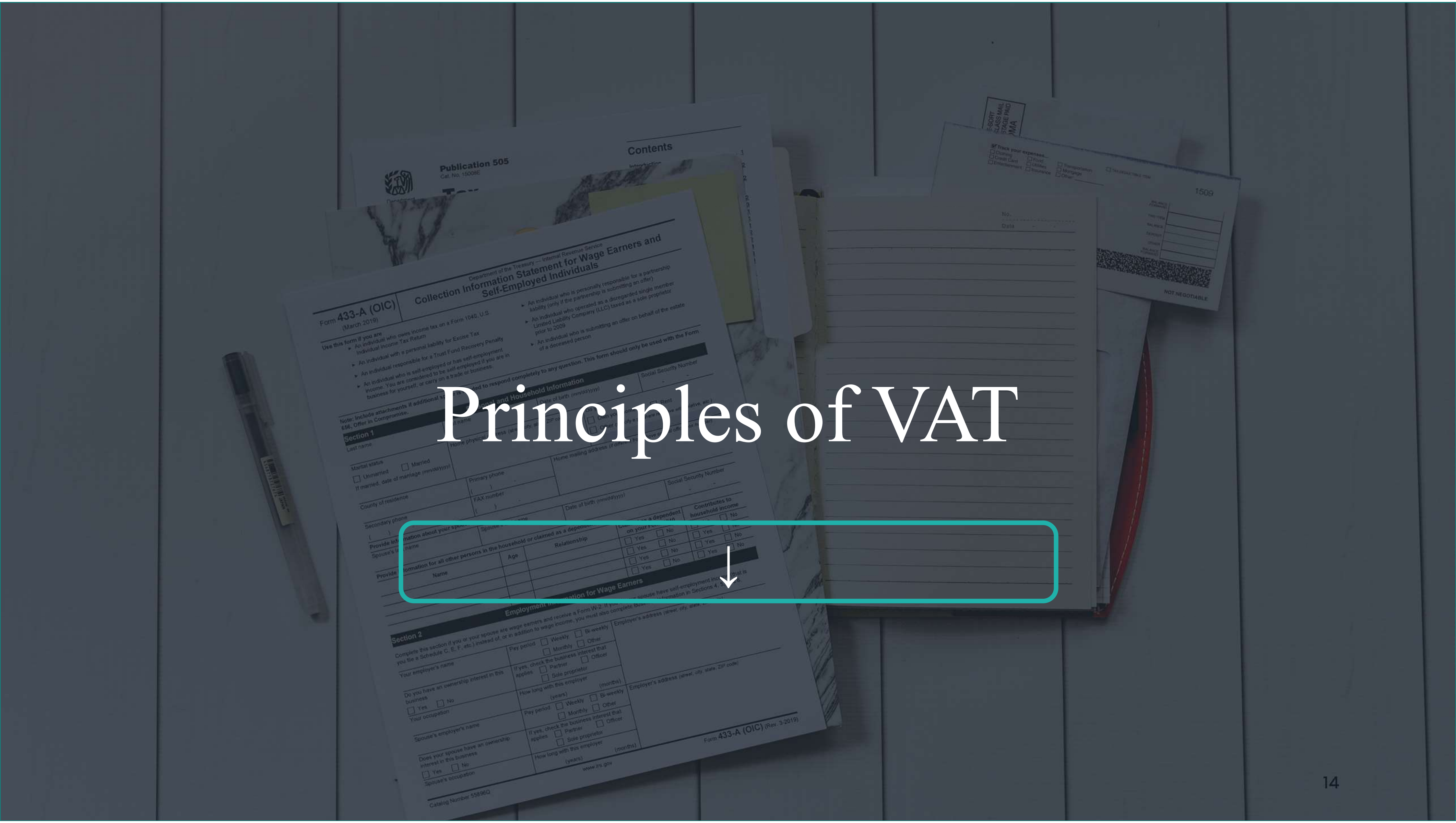
- When **output tax is greater than input tax**, the taxpayer *pays the difference*
- when **output tax is less than the input tax**, the taxpayer *claims for a refund of the difference.*

For example:

- If output tax = 100,000 and input tax = 77,000 then
- VAT payable = 100,000 – 77,000 = 23,000

The need for VAT registration and keeping of proper books of accounts

- Specific types of businesses transactions are exempt from VAT such as
- Insurance,
- Loans (financial services),
- Education services, and so on.
- If the business only supplies exempt items then the business **cannot register for VAT** to reclaim the input paid on purchases.



Principles of VAT

Principles of VAT

- VAT is a form of indirect taxation
- A business that is registered for VAT is essentially a ***collection agent for the government.***
- VAT is charged on purchase (**input tax**) and sales (**output tax**).
- VAT is excluded from the reported sales and purchase of the business for accounting purposes.
- Periodically the business pays the VAT to URA

Principles of VAT

- If output tax exceeds input tax, the business pays the excess to URA
- If input tax exceeds output tax, the business is repaid the excess by the tax authorities
- VAT is charged on most goods and services

- During purchasing……………**Input tax**
- Selling ……………………….**Output tax**

- To be paid to URA = output – Input tax

Example

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Example

Total sale of company = 10,000

Add: VAT (18%) = 1,800

total = 11,800

Inclusive

11,800

VAT = (18/118)x 11,800

= 1,800

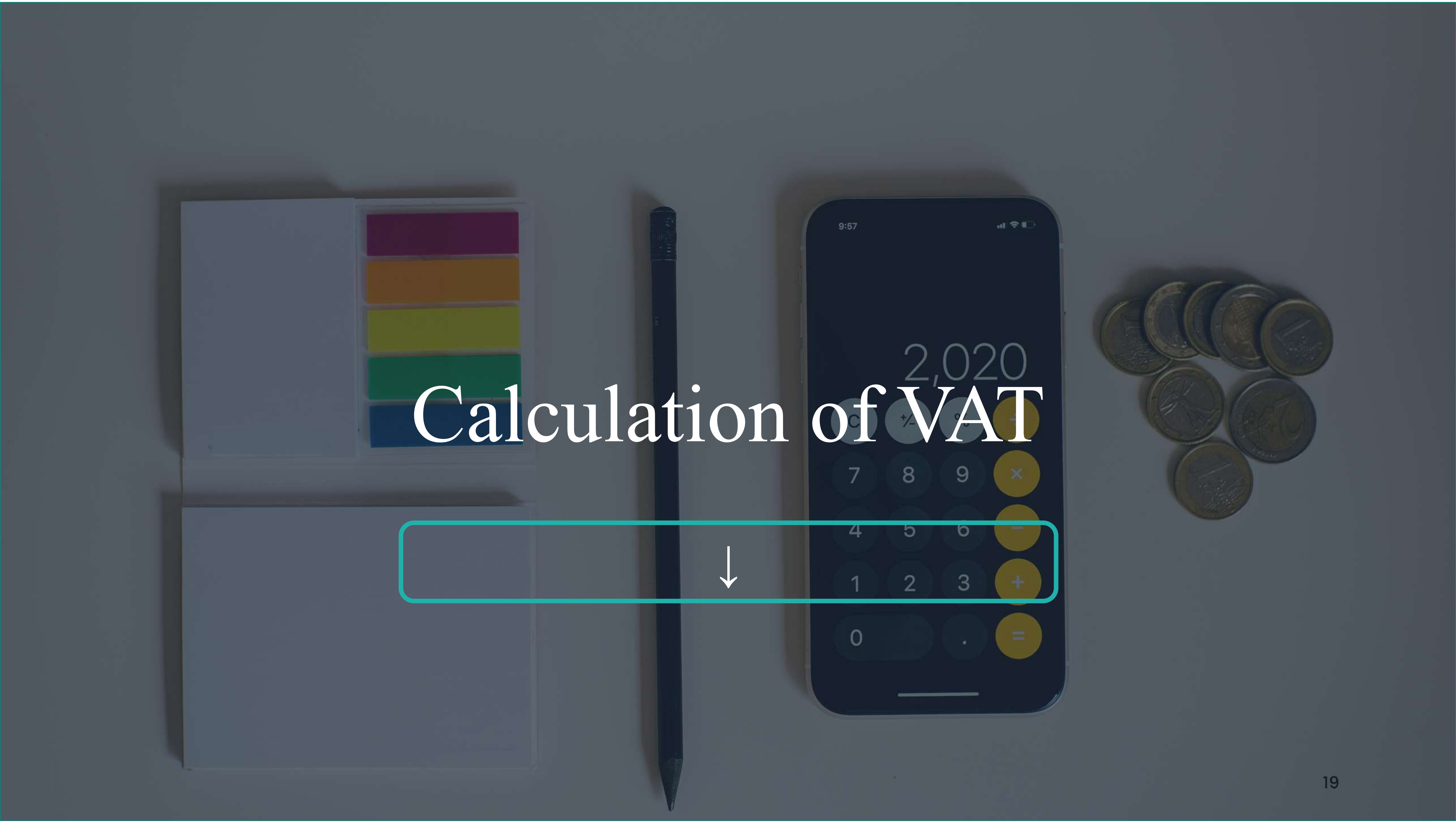
Exclusive

10,000

VAT = 18/100 x 10,000

= 1,800

Calculation of VAT



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Calculation of VAT

If the VAT rate is	18%	
Net selling price (tax exclusive price)	100%	
Gross selling price (tax inclusive)		**118%**

This is because:

- The net selling price is the amount that the business wishes to achieve.
- The gross selling price is the price charged to the customer.
- The difference is paid to the tax authorities.

Computation of VAT – Example

Orlando sales the following goods:

1. To Bruno at a **tax inclusive** price of Ugx. 470
2. To Cosmos at a **tax exclusive** price of Ugx. 700

How much VAT is Orlando collecting on behalf of government?

Computation of VAT – Example

Sale to Bruno = (18/118) x 470 = 72

Sale to cosmos=(18/100)x 700 =126

Total VAT collected to the gov’t = 198

Brunos total sale plus VAT………………..470

Less: VAT (72)

Bruno Revenue……………………………..398

2. Lorenzo **purchases goods** for Ugx. 170,625 (including VAT) and **sells goods** for Ugx. 230,500 (including VAT). If VAT rate is 18% what amount of VAT is ultimately payable to URA?

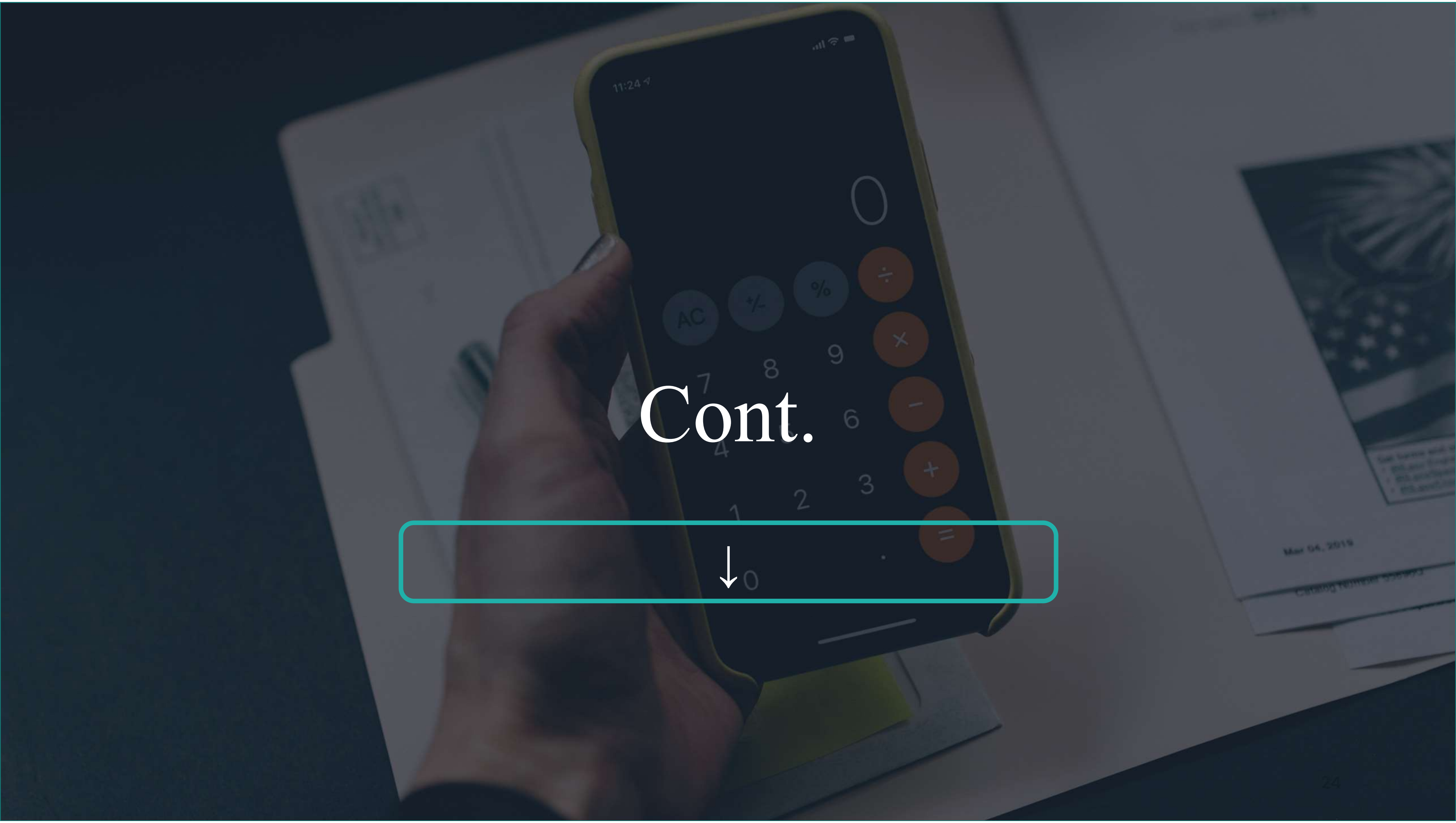
Solution

Purchase	**Sale**
Input VAT	Output VAT
Vat = (18/118) x 170,625	Vat = (18/118) x 230,500
Input vat = 26,028	output Vat = 35,161

VAT to be paid = output – input

= 35,161 – 26,028 =**9,133**

Cash …….9,133	vat pay………9,133
vat pay……………………….9,133	cash………….9,133



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VAT

Accounting entries for VAT

Accounting entries for VAT

The usual book keeping entries for purchase and sales are only slightly amended by VAT, the main addition being the introduction of a VAT account, which is receivable or payable account with URA.

VAT paid on purchases (input tax)

purchases costs excluding VAT…….xxx

VAT account…………………………….xx

payable/cash ……………………………..xxxx

VAT

VAT charged on sales (output tax)

receivables/cash sales price including VAT (gross selling price)….xxxx

Sales price excluding VAT (net selling price)…..……..xxxx

VAT account……………………………………………….xxx

You should immediately notice that the sales amount does not include VAT because **it is not income** –

It will have to be paid to the tax authorities, and the receivables account does include VAT, as the customer must pay the full amount due.

VAT

Payment of VAT

VAT (amount paid)……………………….xxxx

cash (amount paid)………………………………….xxx

If output tax exceeds input tax, a payment must be made to URA

Receipt of output VAT

cash (amount received)…………..xxx

VAT (amount received)………………………………..xxx

VAT

If input VAT exceed output VAT, there will be a receipt from URA

Note that URA does not have to pay you in cash. This VAT credit can be carried forward as an asset to be off-set against subsequent VAT liabilities.

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