

Common VAT errors made by medical practitioners

Value-added tax (VAT) was introduced on 30 September 1991 at a rate of 10% and increased to 14% on 7 April 1993.

In this article I would like to discuss certain of the more common VAT-related errors made by medical practitioners and which I come across when checking clients' VAT returns.

The consequences of submitting incorrect VAT returns are severe, as SARS is entitled to charge a 10% penalty as well as interest on any underpayment of VAT. Therefore should you be doing your VAT calculation consistently incorrectly the cumulative penalties and interest chargeable by the SARS could add up to many thousands of rands.

The more common errors are discussed below.

VAT registration

Any doctor whose taxable supplies (i.e. gross patient fees) in a 12-month period exceeds or is likely to exceed R1 million must register as a VAT vendor. (The threshold was increased from R300 000 with effect from 1 March 2009). Doctors with a turnover of between R50 000 and R1 million can voluntarily apply to be registered for VAT. Please note that this figure is based on gross billings, i.e. before deducting any expenses.

Conversely, should your annual gross fees be less than R1 million you do not have to register as a VAT vendor. If you are a VAT vendor and your turnover is below R1 million or decreases to below R1 million per annum for any reason (competition opening next door, going on semi-retirement, working half day, ceasing to dispense), it may be in your interest to de-register for VAT. The reason for this is that the medical aid tariff includes VAT which you will have to pay over to the Receiver if you are not a VAT vendor.

Should you choose to de-register as a VAT vendor, you will have to pay VAT on the lower of the cost or market value of all practice assets, as well as VAT on monies owing to you by patients on the VAT de-registration date if you are on the payment basis.

The VAT amount due to SARS can be paid over 3 VAT periods after de-registration date.

There are 2 bases for registering for VAT:

- the invoice basis, where VAT is payable in respect of the period when the invoice is issued to the patient
- the payments basis, where VAT is payable in respect of the period when payment is received from the patient/medical aid.

Only natural persons (i.e. not CCs, companies or trusts) and partnerships of natural persons

whose taxable supplies do not exceed R2.5 million may elect the payments basis.

As medical aids or patients can often take more than 2 months to pay, it is normally preferable for a medical practitioner to be registered on the payments basis. SARS, however, will register you on the invoice basis unless you have specifically requested the payments basis. You must ensure that you are calculating your VAT liability according to the appropriate basis. However, should your annual turnover exceed R2.5 million you have no choice. In this case you can only be registered on the invoice basis. Therefore if your annual turnover is approaching R2.5 million, great care must be taken to ensure that you are accounting for VAT on the correct basis.

Output tax

If you have registered as a VAT vendor, you must charge VAT on all professional services rendered and medicines dispensed and pay it over to SARS. The VAT you must pay over is called output tax.

Care must be taken that VAT is not paid to SARS on items on which no VAT is payable, e.g. medical trials on behalf of overseas companies, interest on overdue accounts and rental received from letting of residential property. This list is not exhaustive and I would suggest that you speak to your financial advisor if you have any other income besides your professional fees or dispensing income to ensure that you are not paying VAT on items that are exempted or zero-rated.

VAT input credits

VAT paid on any practice expense (including capital items) can be deducted from VAT owing to SARS (i.e. claimed as an input tax credit). There are however certain practice expenses on which the VAT paid cannot be reclaimed. These include VAT paid on entertainment, staff teas and refreshments, club subscriptions, sedan-type motor cars and personal expenses. It is incorrect, illegal and subject to severe penalties to reclaim the VAT paid on these types of expenses.

On the other hand, there are certain expenses on which the VAT can be claimed, but are often omitted in error from the VAT calculation. Common omissions include VAT paid on the rental of practice premises, VAT paid on equipment purchased (whether by installment sale, cash or leased), VAT refunded to patients together with fee refunds, VAT paid on practice insurance and motor car insurance, VAT paid on motor car expenses (including repairs), and VAT paid on bank charges.

If an item is purchased second hand and no VAT has been charged by the seller, an input credit can still be claimed and is often overlooked (this is called a notional input

tax credit). VAT or transfer duty paid on the purchase of practice premises (used exclusively for that purpose) can be reclaimed by means of a VAT input credit. If only partially used, an apportionment can be made.

No VAT can be reclaimed as an input tax credit unless you are in possession of a valid tax invoice. Therefore when you are claiming any VAT credit, make sure you have received the necessary VAT invoice from the supplier of the goods or service.

Assistant fees (not employees)

There often is confusion among doctors as to who is responsible for paying VAT on assistant fees. If the assistant is a VAT vendor he must provide the specialist with a VAT invoice. The specialist will then pay the assistant his assistant fee plus VAT.

The specialist can then claim an input tax credit in respect of the VAT he has paid the assistant. Should the assistant not be a VAT vendor, the specialist will pay the assistant fee only.

Purchase or sale of practice or equipment

Should a doctor sell his practice entirely to another doctor and they are both registered as VAT vendors, no VAT will be payable as this transaction will be zero-rated for VAT. The sale agreement must be in writing and must state that the transaction is to be zero-rated and also comply with various other requirements.

If, on the other hand, a doctor merely closes his practice he will have to pay VAT to SARS on all his equipment at the lower of the cost or market value as well as on any fees still due to him if he is on the payments basis.

If a doctor should sell any equipment while continuing to practice he will have to charge VAT on the sale and pay it over to SARS.

VAT returns

VAT returns must be submitted every two months, by the 25th of the month after the end of the VAT period. Should your annual turnover exceed R30 million, VAT returns must be submitted every month. Practices with an annual turnover of less than R1.5 million may file VAT returns every 4 months.

The above is not an exhaustive list of all the possible VAT problems that can confront a medical practitioner. I would suggest that a practitioner request his financial advisor or accountant to undertake a VAT audit at least once a year to ensure that their VAT calculations are being done correctly.

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