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Input VAT Apportionment

The Essential Guide to Partial Exemption rules for VAT

A VAT registered business falls within the scope of partial exemption when it has supplies of both a taxable and an exempt nature. Output VAT cannot be charged on an exempt supply and equally any input VAT incurred directly in making the exempt supply, generally, cannot be recovered.

Registered VAT taxpayers with both taxable and exempt supplies, the amount of input VAT claimable as input tax is restricted to the extent of value of the taxable supplies. The taxpayers are expected to use the partial exemption formula when determining the deductible VAT input for each tax period.

Types of supplies

There are three main categories of supplies. These entail;

- (i) 16% Vatable
- (ii) Zero rated supplies
- (iii) Exempt supplies

Taxable supplies in this instance construes 16% standard rated supplies and zero rated supplies.

Input VAT deduction

The following supplies are specifically disallowed for input VAT deduction:

- (i) Acquisition of passenger cars or minibuses including costs such as repairs and maintenance (subject to some conditions);
- (ii) Entertainment, restaurant and accommodation services unless incurred when out of work station on official business.

Input VAT deduction shall be allowed within six months after the end of the tax period in which the supply or importation occurred. It must be supported by an original or certified copy of the invoice and electronic tax receipt (ETR) or invoice with an ESD signature. The general rule is:

- full deduction of all the input VAT attributable to taxable goods (standard rated and zero-rated);
- no deduction of any input VAT which is directly attributed to exempt supplies; and
- deduction of the input VAT attributable to the remainder of the taxable supplies, calculated using an apportionment formula reflected in Table 2 below.

Table 1: Generic rules for claiming input VAT

Possible VAT input	Deduction
Vatable sales (0% and 16%)	All the input VAT is deducted for VAT incurred on purchases that are made exclusively in making taxable supplies
Exempt Sales	No deduction of Input VAT for VAT incurred on purchases that are made exclusively in making exempt supplies
Both Vatable and Exempt Sales	Allocate between vatable and exempt sales

Apportionment of Input VAT

The direct attribution method requires that input VAT incurred on a purchase is fully claimable if strictly incurred in making a taxable supply. The entire input VAT is not claimable should it be exclusively in making an exempt supply. Table 2 below shows the VAT claimable where you have both standard and exempt supplies:

Table 2: Input VAT apportionment formula

$$\text{Claimable Input VAT} = \frac{\text{Total Input VAT} \times \text{Vatable sales}}{\text{Total sales}}$$

$$\text{Where Total Sales} = \text{Vatable Sales} + \text{Exempt Sales}$$

Note that where the value of taxable supplies (standard rated and zero rated) is more than 90% of the total supplies, all the deductible input tax is claimable and the restriction using the formula in table 2 is not applicable. The converse applies with relation to exempt supplies whereby in the event that the exempt supplies are more than 90%, no input VAT is claimable under the apportionment formula.

Outcome	Deduction
Claimable input VAT >90%	Total input VAT deducted
Claimable input VAT <10%	No input VAT deducted
Claimable input VAT (between 10% and 90%)	Only percentage on input VAT is deducted

Therefore, entities should be mindful of all the input VAT incurred where they charge output VAT and claim input VAT and apply the direct attribution method i.e. match taxable input to taxable output and vice versa and where the company is unable to do so on costs that would be attributable to both exempt and taxable (for example audit fees and other overhead costs), this should be apportioned.

Conclusion

The registered taxpayers have to work-out the portion of common VAT input that is attributable to vatable sales. Failure to do this may lead to incorrect input VAT claim and hence paying less VAT in total. This subjects one to tax liabilities of principal, penalties and interest.

Caveat

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