



CIGFARO KZN BRANCH VAT Disclosures

31 July 2025



www.salga.org.za

SALGA MANDATE

Transform local government to enable it to fulfil its developmental mandate.

Lobby, Advocate & Represent

Lobby, advocate, protect and represent the interest of local government at relevant structures and platforms.

Employer Body

Act as an employer body representing all municipal members and, by agreement, associate members.

Capacity Building

Build the capacity of the municipality as an institution as well as leadership and technical capacity of both Councillors and Officials.

Support & Advice

Support and advise our members on a range of issues to assist effective execution of their mandate.

Strategic Profiling

Build the profile and image of local government within South Africa as well as outside the country.

Knowledge & Information Sharing

Serve as the main hub of LG knowledge and intelligence and to facilitate peer learning within the sector.

Inspiring Service Delivery



- **VAT DISCLOSURE IN AFS**
 - **GRAP 104 (Financial Instruments),**
 - **GRAP 19 (Provisions) and**
 - **GRAP 108 (Statutory Receivables)**
- **VAT ON IMPAIRMENT DISCLOSURE**
- **VAT ON IMPAIREMENT OF RECEIVABLES**

- The nature of the liability is different for vendors on the accrual or payments basis. It is different because obligation to pay SARS arises at a different point:
- Accrual/invoice basis - VAT is payable to SARS on transaction date.
- Payments basis – VAT is payable to SARS when cash is received.

- Receivables:
 - GRAP 104 Financial Instruments
 - GRAP 108 Statutory Receivables
- Payables:
 - GRAP 104 Financial Instruments
 - GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
- Statement of Financial Position
 - GRAP 1 Presentation of Financial Statements

ASSUMPTION: VAT-PAYMENT BASIS

Receivables

A financial asset is:

- (a) cash;
- (b) a residual interest of another entity; or
- (c) a contractual right to:
 - (i) receive cash or another financial asset from another entity;
or
 - (ii) exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Payables

A financial liability is any liability that is a contractual obligation to:

- (a) deliver cash or another financial asset to another entity; or
- (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

- The distinguishing factor between applying GRAP 104 or another Standard is whether the arrangement is **contractual** or not.
- Arrangements are contracts when there are willing parties to the arrangement, the parties have rights and obligations, and the rights and obligations are enforceable.

VAT on Creditors

- If an entity enters into an arrangement between another party to provide goods and/or services in return for cash (or on credit), then this would be a contractual arrangement.

VAT on Debtors

- The collection of VAT by the vendor from the customer is as a result of the contractual arrangement to provide goods and services in return for consideration.

ASB FACT SHEET & AUDITOR GENERAL's INTERPRETATION:

VAT: PAYMENT BASIS

- The VAT accrual account does not represent amounts to be received or paid, but rather amounts that are associated with transactions that are yet to be settled. There is no money to be received or paid to SARS for these amounts **as yet**.
- As there is no transaction to “settle” with a specific counterparty at this point, the requirements for **set off** are **inappropriate**. As a result, **separate presentation** of the VAT accrual “debit” and “credit” may be more appropriate.

GRAP 104

- If the arrangement is contractual, GRAP 104 is applied. Other arrangements are accounted using GRAP 108, GRAP 19 or another applicable Standard.

GRAP 108.05

- *Statutory receivables are receivables that:*
 - (a) arise from legislation, supporting regulations, or similar means;*
 - and*
 - (b) require settlement by another entity in cash or another financial asset.*

GRAP 19.17:

- *A legal obligation is an obligation that derives from:*
 - (a) a contract (through its explicit or implicit terms);*
 - (b) legislation; or*
 - (c) other operation of law.*

VAT ACCRUAL (RECEIVABLE/PAYABLE)

- As the transaction arises from a contract, the entire transaction including the VAT component is classified as a contractual receivable or payable.

SARS LIABILITY

- The liability to pay VAT to SARS arises from legislation. As a result, it is statutory.

- Both the VAT accrual account and the VAT control account are statutory arrangements. However, the nature of the liabilities are different – the VAT accrual represents VAT still to be collected in cash, while the VAT control represents the liability to SARS.

SARS RECEIVABLE

- STATUTORY RECEIVABLE (GRAP 108)

SARS PAYABLE

- STATUTORY PAYABLE (GRAP 19 to inform AFS accounting policy)

Statutory Receivable/Payable

- VAT receivable from or payable to SARS is not a financial instrument, and should be treated as a statutory receivable or payable. The amount of VAT receivable from or payable to SARS is calculated as the net amount of output VAT collected and input VAT paid. As the amount due from or to SARS is already a net amount, there is no separate recognition of a receivable or payable.

VAT accrual

- The VAT accrual account does not represent amounts to be received or paid but rather amounts that are associated with transactions that are yet to be settled. There is no money to be received or paid to SARS for these amounts as yet.

- Statement of Financial Position
 - GRAP 1 Presentation of Financial Statements Par. 79:
...
 - (i) **receivables from non-exchange transactions (taxes and transfers);**
 - (j) **receivables from exchange transactions;**
 - (k) cash and cash equivalents;
 - (l) **taxes and transfers payable;**
 - (m) **payables from exchange transactions;**
 - (n) provisions;
 - (o) liabilities and assets for current and deferred tax, where applicable (as defined in the IAS Standard on Income Taxes);
 - (p) financial liabilities (excluding amounts shown under (k), (l) and (m));
 - (q) non-controlling interest, presented within net assets; and

#	Line item	Source	General Ledger	Standard
1	VAT on Payables/Creditors	Creditors list	VAT: Input	GRAP 104
2	VAT on Receivables/Consumer debtors	Debtors list	VAT: Output	GRAP 104
3	SARS (Statutory)	Statement	VAT: Control Account	GRAP 108 (Receivables)
4	Impairment of receivables	Impairment calculation	Impairment of Receivables	GRAP 104



#	Line item	Source	General Ledger	Standard
1	VAT on Payables/Creditors	Creditors list	VAT: Input	GRAP 104
2	VAT on Receivables/Consumer debtors	Debtors list	VAT: Output	GRAP 104
3	SARS (Statutory)	Statement	VAT: Control Account	GRAP 108 (Receivables)
4	Impairment of receivables	Impairment calculation	Impairment of Receivables	GRAP 104



VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

Notes to the financial statements (Continued)

5. Trade and other receivables from exchange transactions

		2024/2025 (R'000s)	2023/2024 (R'000s)
Affiliated/Related Parties/Associated Companies	5.1		
Prepayments and Advances	5.2		
Trading Service and Consumer Service Debtors	5.3		

VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

Notes to the financial statements (Continued)

5.3 Trading Service and Consumer Service Debtors

	2024/2025 (R'000s)			2023/2024 (R'000s)		
	Gross	Impairment	Total	Gross	Impairment	Total
Trading Service and Consumer Service Debtors						
Electricity						
Waste Management						
Waste Water Management						
Water						
Housing Selling Scheme						
Land Sale Debtors						
Market Agency						
Merchandising, Jobbing and Contracts						
Property Rental Debtors						
Water and Sanitation Service Authority						
Input Vat Accrual						
Vat Control (Receivable) due from SARS						
Total Trading Service and Consumer Service Debtors						

CORRECTION

VAT Reconciliation

#	Line item	Source	General Ledger	Standard
1	VAT on Payables/Creditors	Creditors list	VAT: Input	GRAP 104
2	VAT on Receivables/Consumer debtors	Debtors list	VAT: Output	GRAP 104
3	SARS (Statutory)	Statement	VAT: Control Account	GRAP 108 (Receivables)
4	Impairment of receivables	Impairment calculation	Impairment of Receivables	GRAP 104



VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

AFS NOTE: RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

6.1.8 Statutory Receivable

	2024/2025 (R'000s)	2023/2024 (R'000s)
Vat Control (Receivable) due from SARS		



=

Property rates



- Statement of Financial Position
 - GRAP 1 Presentation of Financial Statements Par. 79:
 - ...
 - (i) receivables from non-exchange transactions (taxes and transfers);
 - (j) receivables from exchange transactions;
 - (k) cash and cash equivalents;
 - (l) **taxes and transfers payable;**
 - (m) payables from exchange transactions;
 - (n) provisions;
 - (o) liabilities and assets for current and deferred tax, where applicable (as defined in the IAS Standard on Income Taxes);
 - (p) financial liabilities (excluding amounts shown under (k), (l) and (m));
 - (q) non-controlling interest, presented within net assets; and

VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

AFS NOTES: TAXES AND TRANSFERS PAYABLE

30.7 Statutory Payables

	2024/2025 (R'000s)	2023/2024 (R'000s)
Compensation Commission (COID)		
PAYE Deductions		
Vat Control (Payable) due to SARS		
Total		

VAT Reconciliation

#	Line item	Source	General Ledger	Standard
1	VAT on Payables/Creditors	Creditors list	VAT: Input	GRAP 104
2	VAT on Receivables/Consumer debtors	Debtors list	VAT: Output	GRAP 104
3	SARS (Statutory)	Statement	VAT: Control Account	GRAP 108 (Receivables)
4	Impairment of receivables	Impairment calculation	Impairment of Receivables	GRAP 104



VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

Notes to the financial statements (Continued)

30. Trade and Other Payables from Exchange Transactions

		2024/2025 (R'000s)	2023/2024 (R'000s)
Affiliates, Related Parties and Associated Companies	30.1		
Bulk Purchases	30.2		
Contractors	30.3		
Control, Clearing and Interface Accounts	30.4		
Employee Benefits	30.5		
Other Payables	30.6		
Statutory Payables	30.7		
Vat Payable	30.8		
Total			

CORRECTION!

VAT DISCLOSURE: AFS SPECIMEN (EXTRACT)

Notes to the financial statements (Continued)

30.8 **Vat** Payable

	2024/2025 (R'000s)	2023/2024 (R'000s)
Output Vat Accrual		
Provision for doubtful debt impairment/ VAT on impairment of receivables		
Total		



= NOT A PROVISION

CORRECT?

Statement of Financial Position as at 30 June 2024

		Group and Municipality		Municipality	
Figures in Rand thousand	Note(s)	2024	2023 Restated*	2024	2023 Restated*
Assets					
Current Assets					
Inventories	2	869,552	816,770	857,314	804,867
Current tax receivable		92	-	-	-
Receivables from exchange transactions	3	1,837,745	1,572,621	1,828,260	1,560,894
Receivables from non-exchange transactions	4	133,266	129,487	133,266	129,487
VAT receivable	17	38,318	99,678	38,318	97,654
Consumer debtors	5	12,113,004	10,387,625	12,167,604	10,462,081
Current portion of long-term receivables	6	3,126	6,124	3,126	6,124
Cash and cash equivalents	7	8,477,046	8,812,400	8,377,707	8,639,466
		23,472,149	21,824,705	23,405,595	21,700,573



CORRECT?

Liabilities

Current Liabilities

External borrowings	14	1,332,643	921,997	1,332,643	921,997
Current tax payable		-	272	-	-
Payables from exchange transactions	15	11,316,657	8,270,733	11,308,485	8,264,386
Transfers payable from non-exchange transactions	16	21,371	21,694	21,371	30,247
VAT liability	17	1,260,847	869,413	1,251,387	862,416
Consumer deposits	18	2,862,668	2,736,326	2,845,199	2,712,528
Post-employment benefit obligation	19	311,882	207,032	311,882	207,032
Unspent conditional grants and receipts	20	630,548	2,486,288	630,548	2,486,288
Provisions	21	1,152,915	1,047,336	1,142,134	1,037,426
		18,889,531	16,561,091	18,843,649	16,522,320

CORRECT?

17. VAT

VAT reconciliation

VAT receivable from SARS - municipality and its entities	38,318	99,678	38,318	97,654
VAT payable to SARS - entities	(9,460)	(6,997)	-	-
VAT on invoices raised but not yet paid	(1,251,387)	(862,416)	(1,251,387)	(862,416)
	(1,222,529)	(769,735)	(1,213,069)	(764,762)

VAT is claimed on the payment basis. Only once an invoice is paid is VAT claimed and receivable from SARS. The increase in the VAT receivable from SARS is due to the improvement in the payment period of invoices, thus resulting in a significant decrease in the number of invoices awaiting payment. The debtors' collection period remained unchanged from the previous month, resulting in a net payable to SARS.

The significant increase in the VAT payable on invoices raised but not yet paid is mainly due to the rising consumer debtor balances due to various factors such as tariff increases and billing of consumers that had incorrectly received the 6kl rebate on water and sanitation charges.

During the previous reporting period the net VAT payable or receivable was presented on the Statement of Financial Position. Given that the nature of the VAT payable or receivable is different in that one relates to a receivable from SARS and the other outstanding payments from consumers, it might not be appropriate to offset these amounts on the Statement of Financial Position. As a result, the VAT receivable from SARS is separately presented as a receivable, with the VAT relating to invoices raised but not yet paid presented as a VAT payable, with comparative figures adjusted. The VAT note provides an analysis and disclosure of both the VAT receivable and payable given that some users of financial statements would find this additional information useful.

Over the past few years, the Auditor-General of South Africa (AGSA) has raised issues about the VAT treatment of **transfers** from provincial **departments** to **municipalities**. It was found that municipalities were not accounting for **VAT for grants** that do not meet the **definition of a grant for VAT purposes**. All the grants received from provincial departments are treated the same.

- The key to understanding whether VAT is payable on a transfer is to identify which sphere is legally mandated to perform a function.

VAT act definition:

- “any appropriation, grant in aid, subsidy or contribution transferred, granted or paid to a vendor by a public authority, municipality or constitutional institution listed in Schedule 1 to the Public Finance Management Act, 1999 (Act No. 1 of 1999), but *does not include a payment made for the supply of any goods or services* to that public authority or municipality...”
- In other words, it is a grant if it is a payment to support a municipality to perform the municipality’s function. **But if a provincial department transfers funds to a municipality to perform a provincial function on their behalf, then that is not a grant for purposes of the VAT Act.**

- Instead, a payment to a municipality for any function legally assigned to the province is considered to be the purchase of a service by the province and VAT of 15% is applicable on the **payment**, just as it would be for a payment to any private sector service provider.
- This position is confirmed in the **VAT 419 Guide**, which explains: “... ***where the underlying provincially mandated activity has not been assigned to a municipality, any payment by the province to the municipality for goods or services supplied cannot qualify as a zero-rated “grant”.*** (See page 41).

Application of the ACT

DELEGATED

municipality acts on behalf of the province or national government

given responsibility for implementing the function with service level or agency agreement (i.e. Province retain control of the budget)

ASSIGNED

municipality takes over the function

Completing shifting of the responsibility either through legislation or by executive decision. Takes effect on proclamation by President

AGENCY

municipality takes over the function

Agent acts on behalf of the principal in supplying goods or services. The supply is deemed to be made by the principal and not the Agent

Assigned function

- Transfer received is zero-rated.
- The municipality may deduct input tax on the VAT incurred on goods or services acquired in the course

Delegated function

- the full transfer received is **standard-rated at 15%**
- municipality can claim input VAT for its expenses on purchased for this function

Agency

- Output tax is calculated based on the amount retained by the municipality and not to the full amount expended
- The municipality is entitled to deduct input tax on the VAT incurred on goods or services acquired in the making of the taxable supply

BACK PAYMENT TO SARS

- Municipalities will have to pay for the VAT on the grants received for which they were delegated over the years this could include interest and penalties. Currently, the anticipation is that at least 5 years worth of VAT has to be accounted for.

BUDGETARY IMPLICATIONS

- The impact of this VAT has to be included in the budgets going forward.

PRIOR YEAR ADJUSTMENTS

- The incorrect application of the VAT Act has to be corrected in the AFS with the errors being accounted for as far back as practically possible.

INCREASED STRAIN ON RESOURCES

- The municipalities it acts as agent of the province, but it is also expected to contribute financially to some of the services eg. provision of library services. With the reduction of the grant by 15%, it will further reduce the available funds to perform the services.

Legal/Regulatory Source	Application
Value-Added Tax Act No. 89 of 1991	Section 93: Request for correction of returns
SARS Interpretation Note 52	Dealing with time of supply & retrospective corrections
MFMA Circulars / Treasury Instructions	To align with audit findings and promote compliance
SARS VAT Ruling Application	Treasury recommends all affected municipalities submit applications
GRAP 3	Restatement of errors in prior financial statements

Steps Municipalities Must Take

➤ Engage SARS:

- Apply for a **binding VAT ruling** confirming treatment of library funds.

➤ Perform VAT Calculation:

- Calculate output VAT retrospectively over affected years.

➤ Amend VAT Returns:

- Submit requests under **Section 93** of the VAT Act to correct historical returns.

➤ Disclose in AFS:

- Recognise VAT payable in the **Statement of Financial Position**.
- Restate prior year figures, **if material**.

EXAMPLES?



➤ LIBRARY GRANTS

➤ INEP GRANTS

1. STATUTORY RECEIVABLE/PAYABLE

2. PRIOR PERIOD ERROR NOTE

1. RECEIVABLES FROM EXCHANGE TRANSACTIONS

1.1 INPUT VAT ACCRUAL (AFS NOTES)

AND

2. PAYABLES FROM EXCHANGE TRANSACTIONS

2.1 OUTPUT VAT ACCRUAL & IMPAIRMENT (AFS NOTES)

EITHER

3. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

3.1 STATUTORY RECEIVABLE (AFS NOTES)

OR

4. TAXES AND TRANSFERS PAYABLE

4.1 STATUTORY PAYABLES (AFS NOTES)

QUESTIONS?





Thank You



www.salga.org.za