



**Revenue
Services**
Lesotho

**TAX GUIDE ON VALUE
ADDED TAX INVOICE,
CREDIT NOTE AND DEBIT
NOTE – VAT 105**

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Introduction

This document aims to provide guidance on the issuance of the Value Added Tax Invoice, Credit note and Debit note as some of the primary records a vendor¹ is expected to keep as per the provisions of the Value Added Tax Act².

What is a Value Added Tax Invoice?

It is a document that is issued by the vendor to another vendor following a taxable transaction. The VAT invoice is a document used by the vendor to claim input VAT paid on the purchases and allowed expenses. The total of the received VAT invoices is shown as input VAT in the VAT Returns. The vendor making the supply should issue the recipient of the supply with the original VAT invoice and retain the copy for record keeping. If the vendor to whom the supply is made loses the original VAT invoice, such vendor can approach the vendor who made the supply to be issued with another VAT invoice clearly written "COPY" as more than one VAT invoice cannot be issued for a single transaction. A valid VAT invoice must contain the following information:

- the words 'Value Added Tax Invoice' or 'VAT Invoice', written in a prominent place on the document
- the commercial name, postal address, physical address, Taxpayer Identification Number and VAT registration number of the person making the supply;
- the commercial name, postal address, physical address, Taxpayer Identification Number and VAT registration number of the person to whom the supply is made
- an individualized invoice number, drawn from a consecutively numbered invoice book or other record.
- the date of issue of the VAT invoice;
- a brief description (including quantity or volume) of the goods or services being supplied;

and either separately show

- the consideration for the supply (that is, the value of goods or services you supplied before applying the VAT rate);
- the amount of VAT charged
- and the consideration inclusive of VAT

or

- in a case where the VAT payment is not shown separately, there should be a statement that consideration includes VAT at a certain rate.

¹ A vendor is a person who is registered or is treated as registered because that person ought to have registered for VAT purposes

² Act No 9 of 2001

Adjustment of a Value Added Tax Invoice

As it has been mentioned earlier, no more than one VAT invoice can be issued per single transaction. The following scenarios can lead to the requirement for a change in a VAT invoice if one or more of them take place after a VAT invoice has already been issued;

- cancellation of a supply
- the nature of the supply has been fundamentally changed i.e the tax charged when the VAT invoice was originally issued has changed. This could be as a result of factors including;
 - i. the goods ordered are different from the goods actually delivered and invoiced to the customer
 - ii. the incorrect rate of VAT was used on the original invoice that was issued.
 - iii. the wrong quantity of goods was invoiced
 - iv. the wrong service to the one performed was invoiced.
- the consideration that was previously agreed on has been changed by agreement of the transacting vendors as a result of reasons including a discount offer.
- the goods or part of the goods have been returned.

In an instance where one or more of the above scenarios happen after a VAT invoice has been issued, the vendor making the supply should issue the recipient of the supply with either the Credit Note or the Debit Note.

What is a Credit Note?

It is a note issued by the vendor making the supply in the case where the consideration for the supply is **reduced** after an invoice has already been issued. This can be the result of, amongst others, cancellation of the supply, a discount offer etc.

The credit note should contain the following information:

- the words 'credit note' in a prominent place;
- the commercial name, postal address, physical address, Taxpayer Identity Number of the vendor making the supply;
- the commercial name, postal address, physical address, Taxpayer Identification Number of the vendor receiving the supply;
- the date of issue of the credit note;
- a brief explanation of the circumstances which gave rise to the issue of the credit note;
- sufficient information to identify the taxable supply to which the credit note relates;
- the taxable value of the supply shown on the VAT invoice, the correct taxable value, the difference between the two amounts and the VAT relating to the difference (that is, the VAT overcharged)

What is a Debit Note?

It is a note issued by the vendor making the supply in the case where the consideration for the supply is **increased** after an invoice has already been issued. This can be the result of, amongst others; the reduced rate of VAT being used instead of a standard rate of tax (15%), a wrongly reduced quantity of goods is invoiced etc.

The debit note should contain the following information:

- the words 'debit note' in a prominent place;
- the commercial name, postal address, physical address, Taxpayer Identity Number of the vendor making the supply;
- the commercial name, postal address, physical address, Taxpayer Identification Number of the vendor receiving the supply;
- the date of issue of the debit note;
- a brief explanation of the circumstances which gave rise to the issue of the debit note;
- sufficient information to identify the taxable supply to which the debit note relates;
- the taxable value of the supply shown on the VAT invoice, the correct taxable value, the difference between the two amounts and the VAT relating to the difference (that is, the VAT overcharged).

What happens if the VAT Return has already been submitted at the time a Credit Note or a Debit Note is issued?

When a Credit Note is issued, it means that the vendor making the supply declares in the VAT Return the output VAT which is increased by the amount of the difference between the VAT due on the transaction and the VAT actually paid on the transaction when the invoice was issued. This means that in the tax period in which the Credit Note is issued, the vendor who made the supply should make an input tax adjustment, that is, claim input VAT credit of the VAT difference that resulted from issuing the Credit Note which is equal to the output VAT overpaid on the transaction when the VAT invoice was issued.

The vendor who receives the Credit Note on the other hand has claimed input VAT in a VAT Return which is increased by the amount of the difference between the VAT that was due on the transaction and the VAT actually paid on the transaction when the VAT invoice was issued. This means that in the tax period in which the Credit Note was received, the vendor who was issued with the Credit Note should make an Output Tax adjustment, that is, declare in the VAT Return the VAT difference that resulted from being issued with a Credit Note which is equal to the input VAT over claimed on the transaction when the VAT invoice was issued.

In an instance where the Debit Note is issued, this means that the vendor making the supply declares in the VAT Return the output VAT which is reduced by the amount of the difference between the VAT due on the transaction and the VAT actually paid on the transaction when the invoice was issued. This means that in the tax period in which the Debit Note is issued, the vendor who made the supply should make an output tax adjustment, that is, declare output VAT of the VAT difference that resulted from issuing

the Debit Note which is equal to the amount of output VAT under declared on the transaction.

The vendor who receives the Debit Note on the other hand has claimed input VAT in a VAT Return which is decreased by the amount of the difference between the VAT that was due on the transaction and the VAT actually paid on the transaction when the VAT invoice was issued. This means that in the tax period in which the Debit Note was received, the vendor who was issued with the Debit Note should make an Input Tax adjustment, that is, claim credit in the VAT Return amounting to the VAT difference that resulted from being issued with a Debit Note Which is equal to the amount of input VAT under claimed on the transaction.

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