Value Added Tax (VAT) Rates Change

Effective Date: 1st April 2018

The Minister of Finance Dr. Moeketsi Majoro in his budget speech delivered in Parliament on 28 February 2018 announced changes in rates of Value Added Tax (VAT) on the supply of goods and services. Legal Notice No 27 has been published in the Government Gazette No 24 of 23 March 2018 to effect the changes. The new VAT rates are effective from 1st April 2018 and they are as follows;

- o The standard rate of VAT will change from 14% to 15%,
- o Electricity rate increases from 5% to 8%, and
- o Telecommunications rate increases from 5% to 9%.

Important Aspects to Note

Time of Supply

It is important to establish when the taxable supply is made as that is the time on which VAT should be accounted for (i.e. point at which VAT becomes payable to Lesotho Revenue Authority (LRA)). In simple terms, time of supply is the date on which the transaction occurs or is deemed to occur and that in turn determines the applicable VAT rate.

The general time of supply rule is the earlier of the date on which –

- o The goods are delivered or made available or the performance of the service is completed;
- o An invoice for the supply is issued; or
- o Payment (including part-payment) for the supply is made.

This note applies to most transactions that fall within the general time of supply rule. The note does not deal with special time of supply rules which apply on some transactions like; supplies made under rental agreements, hire purchase or finance lease, auctions, own or exempt use.

Prices Quoted or Advertised

All prices advertised or quoted by vendors for taxable supplies must include VAT at the applicable rate (unless the supply is zero-rated). Vendors must state that the price includes VAT in any advertisement or quotation, or the different elements of the total price must be stated i.e. the total amount of VAT, the price excluding VAT and the price inclusive of VAT. Vendors must therefore ensure that all price tickets, labels, quotations, advertisements, etc., reflect the new VAT rates from 1 April 2018.

Accounting Systems

From 1 April 2018, vendors must ensure that their accounting systems including sales and billing systems are updated to reflect VAT at all applicable rates. Vendors should test their systems for errors, and check that transactions are processed and reflected at the correct VAT rates.

In some instances, transactions processed after 1st April 2018 may be subject to the old VAT rate e.g. 14%. This, as previously indicated will depend on the applicable time of supply rule. This therefore means that it must be ensured that accounting systems are able to accommodate the different VAT rates.

Documents: Quotations, Cash Register Slips, Tax Invoices, Debit and Credit Notes

Vendors must ensure that any quotes received on or after 1st April 2018 correctly reflect the new VAT rates. On the other hand, cash register slips and tax invoices issued must reflect the correct VAT rate in order to avoid disputes with consumers and additional taxes and penalties where the output tax is under declared as a result of the incorrect VAT rate used.

Supplier must be contacted if an incorrect VAT rate is reflected on a document, or the amount is incorrectly calculated.

Vat Returns

The correct VAT rates must be used when calculating the input tax on goods or services acquired during the tax periods before and on or after 1st April 2018. Vendors must also ensure that adjustments reflected on the VAT returns in respect of debit or credit notes, are made at the correct VAT rates.

The VAT Return has been updated to reflect the new VAT rates.

Importation of Goods

Registered importers or clearing agents must take note that Customs declarations reflect the new VAT rates, generally 15% in respect of goods entered for home consumption on or after 1st April 2018. Invoices issued by the clearing agent for their services of clearing the goods must reflect the correct standard VAT rate. The rate will depend on the general time of supply rules (that is, the earlier of when an invoice was issued, the performance of a service was completed or payment/part-payment was made).

Notes

- This NOTICE mainly deals with the transitional aspects and does not cover all other aspects of VAT.
- The normal requirements for a tax invoice and all other documents have not changed.
- VAT registration and other requirements, including thresholds for registration, have not changed.
- Care must be taken in filing VAT returns for periods after 1 April to ensure that there is no overstatement of input tax claimed.

Further Information

NB. *This is just a guide and is not intended to be used as legal reference. Enquiries could be made via email: taxpayereducation@lra.org.ls and or channel them through LRA social media accounts (Facebook & Twitter).*