

VATR 108

Facts

A is a VAT registered private company operating in the retail and wholesale sector. A deals in goods and services in relation to home decoration, sanitary wares, tiles, paving and gardening.

A deals in products which are both taxable and exempt from payment of VAT.

A also accepts different modes of payment namely, cash, cheques, credit/debit cards, bank transfers, vouchers and deposits.

Some potential clients often make a down-payment/deposit with A for the following reasons -

- They have the adequate means to pay but have not decided on which product to buy;
- The product which they intend to buy is temporarily out of stock.

A accepts the down-payment/deposit.

A VAT invoice is being issued once the client finalises his choice of product and the quantity of the product to be purchased.

Point at issue

Whether A should raise a VAT invoice for the down-payment/deposit received from clients despite there has not been any exchange of goods and services?

Ruling

On the basis of the facts mentioned above, it is ruled that in accordance with section 5(1) of the VAT Act, VAT should be charged at the point the down-payment/deposit is made by the clients and a VAT invoice should be raised. The VAT so charged should be properly accounted for in the VAT return for the taxable period in which the down-payment/deposit is accepted.

However, where the client finally decides to purchase a product which is exempted, an adjustment should be made by A in its VAT account and reported at line 13 of the VAT return for the taxable period in which the final sale is made.