

VAT deregistration can trigger output VAT

Businesses often think that once they cancel their VAT registration, their VAT obligations come to an end. This is not necessarily the case. The VAT Act (VATA) provides for a final VAT adjustment when a person is deregistered. In particular, section 21 provides that certain goods and services held by the business at the time of deregistration are treated as having been supplied by the business immediately before its registration is cancelled. This results in output VAT becoming payable even though the business would have stopped making taxable supplies. We will analyse this matter in detail below. In this article, words importing the masculine shall be deemed to include the feminine.

When does this apply?

The rule applies when a person's VAT registration is cancelled under section 18 or 19 of the VATA. Cancellation can occur, among other circumstances, where a person ceases to make taxable supplies or where the value of its taxable supplies falls below the registration threshold. The Act also requires a person whose registration is cancelled to submit a final VAT return and pay all VAT due.

What happens on deregistration?

Section 21 treats certain goods or services still held by the business at the date of deregistration as if the business had made a taxable supply (sale) immediately before its VAT registration was cancelled. This applies where the business was previously allowed an input tax deduction when it acquired or imported those goods, or where input tax was allowed on inputs incorporated into the goods or services. In simple terms, if a business claimed VAT back when it bought an asset and still has that asset when it deregisters, the VATA may require the business to effectively give back some of that VAT through output VAT.

For example, a business buys equipment for P114,000 including VAT, and claims the input VAT when it purchases the equipment. The business later deregisters while the equipment is still on hand. If the equipment has a fair market value of P80,000 at deregistration, the business may be treated as having made a taxable supply of the equipment immediately before deregistration. Output VAT would then be calculated on the value determined under section 21, which is the lesser of the consideration paid or payable by the person for the acquisition of the goods or services and the fair market value of the goods or services at the time of cancellation of the person's registration.

Conclusion

VAT deregistration should therefore be treated as a process that requires a final review of the business' VAT position, rather than simply ending its VAT registration. Businesses should

identify any assets or other items affected by section 21 and determine whether an output VAT adjustment is required. This helps ensure that the final VAT return accurately reflects the business' position at the date of deregistration.

Tax hint: If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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