

VATR 1

Facts

A VAT registered company is engaged in the construction industry.

With respect to building and civil engineering contract works entered into with its clients, provision is made in the contracts for an advance payment to be effected by the client. This payment is usually secured by a bank guarantee given to the client.

The advance payment is subsequently recouped, in installments, by direct deduction from the progress payments made to the company according to the degree of the work completed as certified by the Quantity Surveyor.

Point at issue

Whether advance payment in the construction industry amounts to a supply and is subject to VAT where the supply is taxable.

Ruling

A supply is deemed to take place at the time an advance payment is made. Where the supply made by a VAT-Registered person is taxable, the advance payment in respect of that supply is subject to VAT.

A VAT invoice or invoice, depending upon the status of the recipient of the supply may therefore be issued in connection with a claim for advance payment.