Can I deduct trading stock at year end for tax purposes? The answer to this question depends on the nature of the stock.

The definition of Trading Stock in section 1 of the Income Tax Act: “includes anything produced, manufactured, purchased or in any other manner acquired by a taxpayer for purpose of manufacture, sale or exchange by him or on his behalf or the proceeds from the disposal of which forms, or will form, part of his gross income”.

Therefore, items purchased not for resale, but for own use, fall outside the definition of trading stock and can be classified as consumables.

The acquisition cost of consumables is deductible as expenses actually incurred in the production of income and accordingly the full amount can be deducted for income tax purposes in terms of section 17(1)(a). The amount deducted in the current year should be added back on the tax calculation in the following year to avoid double deduction of the amounts when the amounts clear to the income statement.

Let’s apply the above theory to an example of cleaning supplies for your office. The cleaning supplies are not held for resale, in other words, you are not in the business of buying and selling cleaning supplies. These supplies are purchased by you for your own use to clean your office building. At year-end you may still have items in stock, which will be classified as closing stock on your balance sheet.

For tax purposes you can deduct the balance at year end. The amount deducted in this year’s tax calculation should be added back on the next year’s tax calculation.

Also note that this will create a timing difference for deferred tax.

Normal stock items (i.e not consumables) does not need to be adjusted for on the tax calculation.
When Do I Declare Output Tax?

In Namibia, the liability for output tax arises at the 'time of supply' of goods or services. With that said, establishment of the time of supply is important as it will have an impact on when output tax on the transaction should be declared to NamRA.

In general, the 'Time of Supply' rule states that a supply of goods or services is deemed to take place at the earlier of:

a) The time an invoice (which relates to that supply) is issued by the seller; or
b) The time any payment in respect of that supply is received.

An invoice is defined as a document which gives notification of a payment obligation. This obligation should be without any conditions. This definition stems from Section 1 of the VAT Act of Namibia, 2000 (“The VAT Act”). An important note here is that the meaning of the word “invoice” is not interchangeable with “tax invoice”, as the latter is required by a registered person to claim an input tax credit.

Taking the above definition into consideration, a contract, delivery note or detailed statement could constitute an invoice if it stipulates an amount payable for the supply of goods or services. In that instance, the time of supply only occurs on the date an invoice is issued.

The ‘Time of Supply’ rule makes further reference to any payment received. This would mean that the date on which any upfront partial payments are received (before or upon delivery of goods or services), in the absence of an issued invoice, will be deemed as the time that the supply took place. A VAT registered supplier will then be obligated to declare Output tax on the partial payment received.

Practically, the distinction between partial payments for services rendered and deposits (non-refundable deposits specifically) can be challenging. Deposits are not regularly used in the day-to-day operations of the business but would be kept as collateral in the event that the payment is defaulted as and when it is due.

In closing, a taxpayer is required to account for output VAT on income received in advance, if that income is to be applied as payment in relating to a specific supply yet to be delivered.

One last element to consider would be when a sale is made or a service is rendered between two related or connected parties, as defined per the VAT Act. A typical example would be services rendered by a Holding company to a group subsidiary. Another example would be the sale of goods between two subsidiaries. Special time of supply rules apply to related party transactions where consideration must be given to when the immovable property is made available, the goods are delivered or the service is being rendered as these are practical considerations to ensure the Output tax is declared on time.

If the nature of the services are management services, or related services, the time of the supply is every calendar month.

It is therefore important to know these rules and ask yourself whether to declare Output tax now or at a later stage.

PwC's Indirect Tax Team can be contacted for assistance if you are unsure of when to declare your Output tax.

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**PwC Business School | Upcoming Training Dates**

**5 August 2022**

Webinar: Webshop Launch
1 Hour Virtual Session

Click here to register: [https://www.pwc.com/na/en/events/webinar-webshop-launch.html](https://www.pwc.com/na/en/events/webinar-webshop-launch.html)

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**11 August 2022**

Webinar: Cyber Mindset - Part 3
2 Hour Virtual Session

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Interested in attending?
Contact the PwC Namibia Business School at:
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Namibian Income Tax & Navigating VAT in Namibia Handbooks

Our aim with the income tax handbook is to assist accountants, business owners and students to obtain a better understanding of the tax environment in Namibia. The Navigating VAT in Namibia handbook was compiled as a practical and easy to follow guide, with the aim to help build the necessary knowledge and encourage compliance with the Namibian VAT Legislation.

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Tax Calendar | August 2022

Important Submission dates for August 2022

Monday, 22nd of August 2022

- VET Levy return;
- Import VAT return;
- PAYE return;
- Withholding Tax returns: Services, Royalties, Interest; NRST

Thursday, 25th of August 2022

- $ Value Added Tax Return

Wednesday, 31st of August 2022

- Social Security return
- 1st provisional for taxpayers with a February 2023 year-end;
- 2nd provisional for taxpayers with a August 2022 year-end;
- Tax return for companies with a January 2022 year-end;

Orders can be placed with PwC Business School - na_busschool@pwc.com

N$350 per copy (VAT inclusive)

Our second edition of the Namibian Income Tax Handbook was produced by the Income Tax team at PwC Namibia, and is based on published legislation and regulations as at 31 March 2021.

This fourth edition, “Navigating VAT in Namibia”, was based on the law as at 31 May 2020. The handbook has now been updated to include changes in legislation.

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