

2.6. Value-Added Tax (VAT)

Introduction/Idea

The value-added tax (VAT) is an indirect tax and one of the most important taxes in many countries. Whenever goods are consumed or services are used, VAT is due. There are four different value-added tax rates in Switzerland.

- 8.1% for most goods and services which are not on a special list
- 2.6% for goods of daily needs (food, drugs, newspapers, books, etc.)
- 3.8% for bed & breakfast arrangements
- 0.0% (tax exempt list) for medical services, schools, cinemas, sports, banks, insurances
- 0.0% (tax-free list) for the export of goods and services

Exemptions are intended to relieve the tax burden on essentials while placing the full tax on luxuries.

For obvious reasons, a deduction of the input tax is not possible for tax-exempt goods.

The input tax is that part of the sales tax which has already been paid by your supplier. A buyer of a good is allowed to deduct it as long as he is not the last person in the supply chain. If you subtract the input tax from the sales tax, you get the VAT.

The value-added tax on input is booked in the «input tax receivable» account. The sales tax is booked in the «sales tax owed» account. The difference between sales tax and input tax is the value-added tax and has to be paid to the government.

The VAT is very low in Switzerland compared to, for example, Great Britain (20% / 5%), Germany (19% / 7%), France (20.0% / 5.5%), or Austria (20% / 10%).

Methods of booking the VAT

a) Net method of booking the VAT

Every transaction (buying or selling goods and services) is divided in price (100%) and VAT (8.1%). There usually are two entries per transaction during the year. At the end of the quarterly fiscal period sales tax owed and input tax receivable are deducted from each other, and the difference has to be paid to the government or to be refunded by the government.

b) Gross method of booking the VAT

Every transaction (buying or selling goods and services) is booked in one entry during the year (108.1%). At the end of the quarterly fiscal period all input taxes and sales taxes have to be booked and in every single account 100% (=net price) is left now. Then sales tax owed and input tax receivable are deducted from each other, and the difference has to be paid to the government or to be refunded by the government.

c) Balance method of booking the VAT

This method combines the advantages of the two methods above. Every transaction (buying or selling goods and services) is booked in one entry during the year (108.1%). At the end of the half-year fiscal period the VAT has to be paid to the government. Depending on the sector of business, a different tax rate between 0.1% and 6.8% will be imposed (e.g. bakery 0.6%, architecture office and consulting 6.2%). The calculation of the VAT is simple as sales (108.1%) are defined as a basis for the calculation (100%), and the tax will be calculated on that basis.

Look at an example: If all sales of a bakery including VAT amount of 100,000 then 0.6% of 100,000 is the VAT (= 600).

The company has to have a permission from the government to use this balance method. A company can change back to the ordinary system after three years at the earliest. The advantage of this system is that you do not have to bring all the invoices and receipts of your purchases. If a company does not have to buy a lot (e.g. a consultancy firm needs a computer, a desk and some stationery) it is usually cheaper to use the balance method.

Clearing system to settle the VAT

a) Basis is the invoice = agreed fee

The VAT is imposed as soon as the invoice is sent to the customer. The reclaim of the input tax will be done on the basis of the invoice sent by the deliverer. This method is favoured by the government as revenues from the VAT are immediate after delivery.

b) Basis is the payment = paid fee

The VAT is imposed as soon as the invoice has been settled by the customer. The reclaim of the input tax will be done on the basis of the payments to the deliverer. This method is only possible with a special permission from the government.

Task 1 (net method)

Book the following transactions in the table underneath by using the accounts «input tax receivable» and «sales tax owed», and complete the accounts.

1. Purchase of clothes by a merchant CHF 10,810 inclusive of 8.1% VAT through bank
2. Sale of clothes CHF 32,430 inclusive of 8.1% VAT through bank
3. Billing of the VAT
4. Payment of the VAT by bank

Number	Entry	Amount
1	cost of materials/bank	10,000
1	input tax receivable/bank	810
2	bank/sales	30,000
2	bank/sales tax owed	2,430
3	sales tax owed/input tax receivable	810
4	sales tax owed /bank	1,620

Input tax receivable	Sales tax owed
810	2,430
810	810
1,620	1,620
810	2,430
810	2,430

Task 2 (gross method)

Book the following transactions in the table underneath by using the accounts «input tax receivable» and «sales tax owed», and complete the accounts.

1. Purchase of clothes by a merchant CHF 10,810 inclusive of 8.1% VAT through bank
2. Sale of clothes CHF 32,430 inclusive of 8.1% VAT through bank
3. Billing of the VAT
4. Payment of the VAT by bank

Number	Entry	Amount
1	cost of materials/bank	10,810
2	bank/sales	32,430
3	sales/sales tax owed	2,430
3	input tax receivable/ cost of materials	810
3	sales tax owed/input tax receivable	810
4	sales tax owed /bank	1,620

Input tax receivable	Sales tax owed
810	2,430
810	810
810	1,620
810	2,430
810	2,430

Task 3 (balance method)

Book the following transactions in the table underneath by using the account «sales» and «sales tax owed», and complete the accounts. The tax rate is 3.7%.

1. Purchase of clothes by a merchant CHF 10,810 inclusive of 8.1% VAT through bank
2. Sale of clothes CHF 32,430 inclusive of 8.1% VAT through bank
3. Billing of the VAT
4. Payment of the VAT by bank

Number	Entry	Amount
1	cost of materials /bank	10,810
2	bank/sales	32,430
3	sales/sales tax owed	1,199.90 ①
4	sales tax owed /bank	1,199.90

① 3.7% of 32,430

Sales tax owed		Sales	
	1,199.90		32,430
1,199.90		1,199.90	
		B 31,230.10	
1,199.90	1,199.90	32,430	32,430

Task 4 – Key vocabulary

Please write the German expression on the line on the right.

value-added tax (VAT)	Mehrwertsteuer (MWSt)
sales tax	Umsatzsteuer
input tax	Vorsteuer
sales tax owed	Geschuldete Mehrwertsteuer (Umsatzsteuer)
input tax receivable	Vorsteuer Material, Waren, Dienstleistungen etc.
deduction of input tax	Vorsteuerabzug
to settle an account	ein Konto ausgleichen
agreed fee	vereinbartes Entgelt
paid fee	vereinnahmtes Entgelt
clearing system	Abrechnungsart
essentials	lebenswichtige Güter = Grundbedürfnisse
tax exempt	steuerfrei (von der Besteuerung ausgenommen)
balance method	Saldomethode