



Unit 1-Annex

Introduction to business

Subject: Business I

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Business as a BLACK BOX

How do I compute the Value-Added Tax?

Case Study 1

Ana has a clothing store. Her supplier is Luis, a clothing manufacturer.

What type of VAT will both have and who pays the VAT..

a) ... if Ana buys cloth to resell it in her store?



As the product is cloth, the VAT applied is the **General VAT= 21%**

Luis sells the product, so he charges VAT (**Output VAT**).

Ana buys the product for her company so she deducts the VAT (**Input VAT**).

Luis will pay to the Treasury the Output VAT and Ana will ask the Treasury for a refund of the Input VAT.

Ana and Luis are businesses so they are not impacted by VAT, they just gather the VAT for the Treasury.

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How do I compute the Value-Added Tax?

Case Study 1

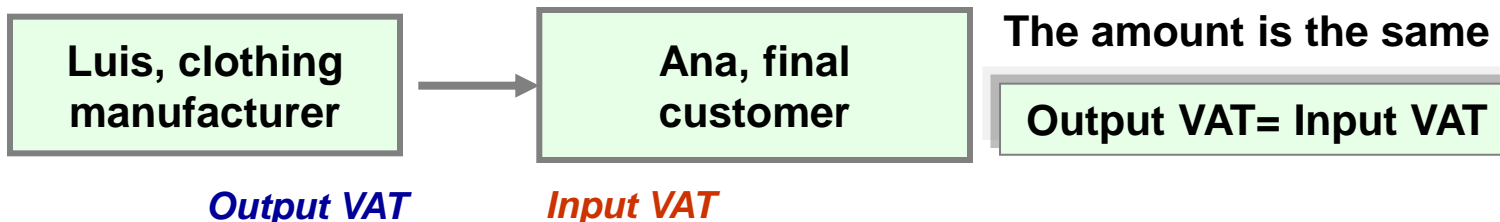
Ana has a clothing store. Her supplier is Luis, a clothing manufacturer.

What type of VAT will both have and who pays the VAT..

b) ... if Ana buys cloth for herself, as a final customer?

Luis sells the product, so he charges VAT (Output VAT).

Ana buys the product for herself and as a final customer, she CAN'T DEDUCT VAT(Input VAT).



Ana pays the VAT for the operation to Luis that will give it to the Treasury,

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Case Study 2

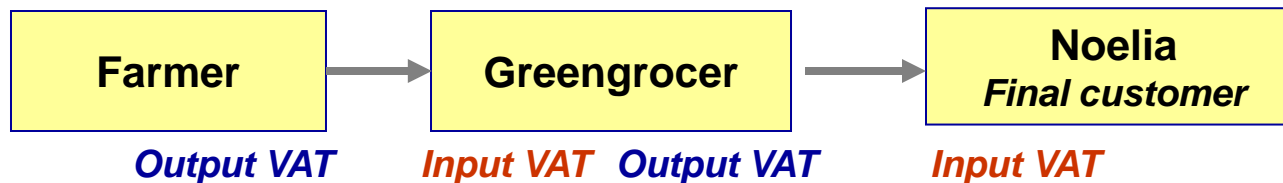
Noelia, a saleswoman for an office equipment store, decides to buy from the grocery man 10 Kg of oranges at a price of 2,08 € per kilogram. During the buying process, the greengrocer told her that he bought them from the farmer at 1,04 € per kilogram, so he is making a good deal.

- a) What % of VAT is applied to these operations?
- b) What type of VAT has Noelia? And the greengrocer? And the farmer?
- c) Compute the input and output VAT of all operations.
- d) How much money goes for the Treasury and who pays it?

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How do I compute the Value-Added Tax?

- a) The fruit has an extra-reduced VAT = 4%



- b) The farmer charges the VAT (Output VAT)

The greengrocer pays for the VAT of the farmer and charges Noelia in the Sale, so he has both types of VAT (Input VAT and Output VAT)

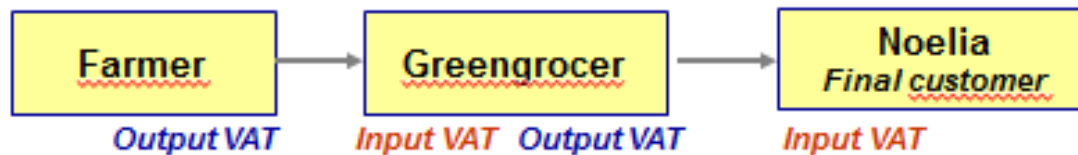
Noelia bears the VAT. (Input VAT)

- b) There are two operations:

1. The farmer sells to the greengrocer 10 kg at 1,04 €: same Input and Output VAT
2. The greengrocer sells to Noelia 10 kg at 2,08 €: same Input and Output VAT

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b) There are two operations:

1. The farmer sells to the greengrocer 10 kg at 1,04 €: Input VAT = Output VAT

Selling Price: 10 Kg x 1,04 € = 10,40 € (VAT is included in the price)

Taxable Amount = Price without VAT of the product

Taxable Amount + Taxable Amount x % VAT = 10,40 €

Taxable Amount (1 + % VAT) = 10,40 €

Taxable Amount = 10,40 / (1+4%) = 10 €

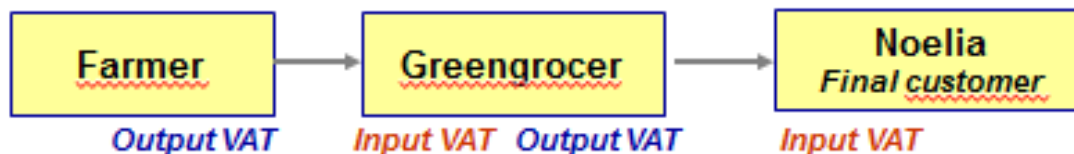
VAT = 10,40 € (Price with VAT) – 10 € (Price without VAT) = 0,40 €

The farmer gains 10 € has to pay to the Treasury 0,40 € (output VAT)

El greengrocer has to pay 10,40 € and he will ask the Treasury for 0,40 €(input VAT)

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b) There are two operations:

2. The greengrocer sell to Noelia 10 kg at 2,08 €: Input VAT = Output VAT

Sale Price: 10 Kg x 2,08€ = 20,80 € (Price includes VAT)

Taxable Amount = Price of the product without VAT

Taxable Amount + Taxable Amount x %VAT = 20,80 €

Taxable Amount (1 + %VAT) = 20,80 €

Taxable Amount = 20,80 / (1+4%) = 20 €

VAT = 20,80 € (Price with VAT) – 20 € (Price without VAT) = 0,80 €

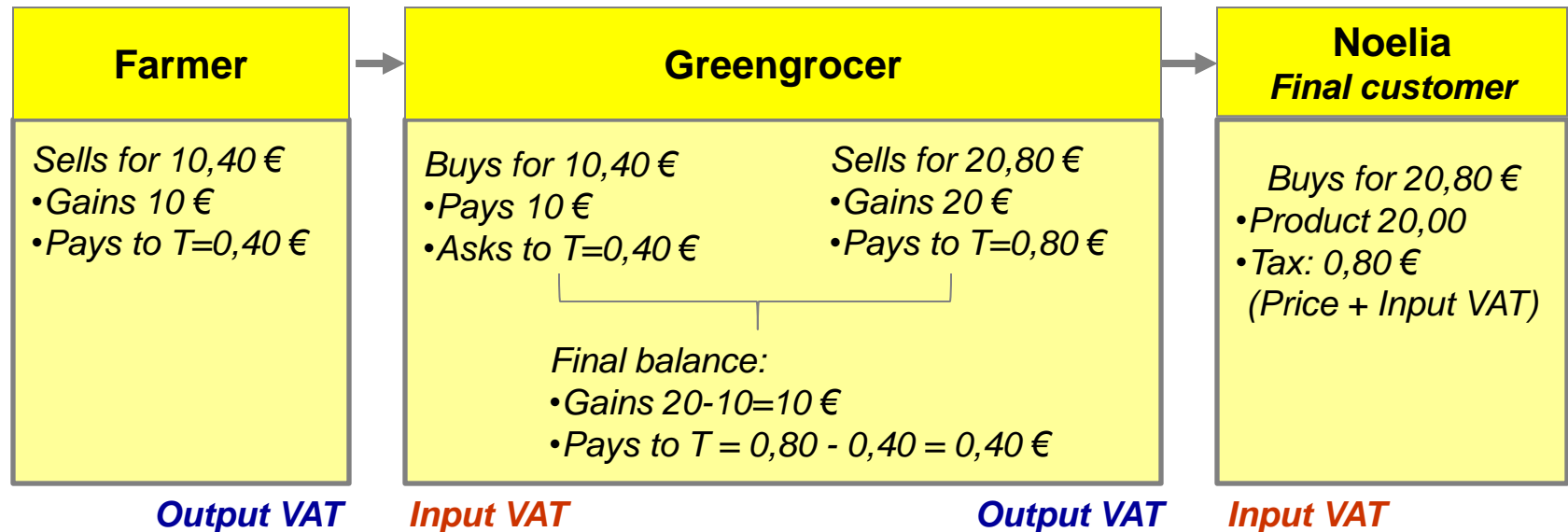
The greengrocer gains with this operation 20 € and he has to pay to the Treasury 0,80 € (output VAT). Noelia pays 20,80 € (Taxable Amount + input VAT) She can't ask for anything to the Treasury

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d) And the Treasury?



Treasury Balance	= + 0,40 € - 0,40 €	+0,80 €	= 0,80 €
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The Treasury gains 0,80 € from the final customer, collects the VAT from the farmer and the greengrocer as the product is advancing through its value chain.

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How do I compute the **Value-Added Tax**?

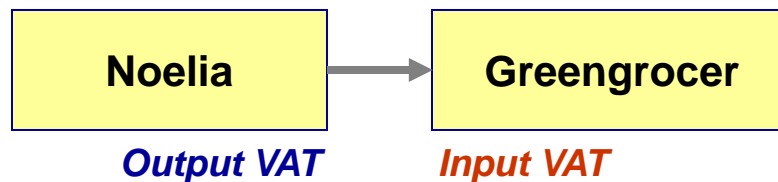
Case Study 3

In addition, the greengrocer buys from Noelia 2 folders at 1,5 € each one, 5 pens that cost 5,07 € all and a paper box who has 5 packs of 500 sheets at 2,5€ each pack so that his daughter could use them at school.

- What % of VAT is applied to these operations?
- What type of VAT has the greengrocer? And Noelia?
- Compute the input and output VAT of all operations.
- How much money goes for the Treasury and who pays it?

Business as a **BLACK BOX**

How do I compute the **Value-Added Tax?**



- a) General VAT=21%
- b) The greengrocer has Input VAT and Noelia Output VAT
- c) Input VAT = Output VAT

$$\text{Sale Price} = 2 \times 1,50 + 5,07 + 5 \times 2,5 = 20,57 \text{ €}$$

$$\text{Taxable Amount} = \text{Sale Price without VAT} = 20,57\text{€} / (1+21\%) = 17 \text{ €}$$

$$\text{VAT} = 20,57 - 17 = 3,57$$

- d) The Treasury receives 3,57 paid by the greengrocer (here the greengrocer buys the material for his daughter and not for his company, so he can't deduct the VAT, he can't ask the Treasury for his VAT).