A Value Added Tax (VAT) rate increase has been expected in South Africa for many years. The Government has not previously taken this action due to the impact of a rate increase on the lower economic levels of the population. However, the country’s current budget deficit requires action to be taken as a VAT rate increase will generate significant revenue. The 1% rate increase from 14% to 15%, effective from 1 April 2018, is expected to generate an additional ZAR22b (approx. US$1.89b) for the Government. The increase was announced on 21 February 2018 in the Government’s 2018 Budget review.¹

The last VAT rate increase was in 1993. It should be noted that even after the VAT rate increase, the South African VAT rate will remain one of the lowest rates globally. However, as VAT vendors in South Africa have not been subject to a VAT rate increase for over 25 years, this will likely create certain challenges for many vendors. In light of the short time frame before the rate increase, VAT vendors have a limited number of days to prepare.

The rate increase will have a major administrative impact and vendors will in the short term need to assess the impact and make the necessary changes. The most important changes that need to be considered are:

- Changes to accounting systems, including considering new tax codes
- Changes to tax invoices, debit and credit notes
Changes to product labelling and price lists
Retailers consider displaying a notice that prices will be adjusted at point of payment
Impact on planned marketing campaigns
Treatment of returns, discounts, rebates and bad debt in respect of pre-1 April 2018 transactions
Impact on internal processes (i.e., update internal tools)
Impact on the process to account for VAT on imported services
Impact on the process to account for VAT on imported goods
Process and controls to ensure that pre-1 April 2018 AP invoices are posted at correct VAT rate
Process and controls to ensure that post-1 April 2018 AP invoices are posted at the correct VAT rate as displayed on the invoice
The impact on existing contracts
VAT treatment of supplies that span the effective date of the increase, such as rental agreements, insurance contracts, cleaning contracts, building contracts, security services and subscription services. In certain cases an apportionment of services rendered pre- and post-1 April 2018 may be required
Invoicing of goods or services delivered pre-1 April 2018 on or before 31 March 2018 to avoid adjustments after that date
Impact on fixed property transactions, specifically residential property
Impact on VAT treatment of consignment stock and lay-buys
Treatment of advance payments
Treatment of advance invoicing
Impact on VAT treatment of vouchers
Impact on connected party transactions
Impact on agent-principal agreements
Impact on self-invoicing arrangements
If registered on the payments basis, the process and controls to ensure that the correct amount of VAT is accounted for on payments made or received on or after 1 April 2018
Impact of VAT rounding
Need for internal training

Furthermore, even small businesses not registered for VAT or businesses making exempt supplies would need to consider the impact of the rate increase on their expenses. These businesses may increase their prices to cover the additional costs that they will incur.

**Endnotes**

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Indirect Tax

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EYG no. 01090-181Gbl
1508-1600216 NY
ED None

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