



2018 BUDGET- VAT RATE UP

Johannesburg, 21 February 2018 - The Minister of Finance's major announcement in the 2018 budget speech was that the VAT rate would be increased to 15% with effect from 1 April 2018. It is widely accepted that it was only a matter of time. This results in the largest contribution of R22,9 Billion to alleviate the fiscus' budget deficit. Previous legislation changes allows for the Minister to increase the VAT during the budget speech and to determine the effective date, i.e. 1 April 2018. This increased rate will apply for a period of 12 months until passed in parliament or announced otherwise.

This means that advertised prices of goods and services will be deemed to include VAT at 15% from 1 April 2018. This increased VAT rate will impact the cost of living of all households! The minister's justification for increasing the VAT rate is based on the limits reached on the medium-term revenue-raising potential of other major tax instruments despite recent increases and also the above inflationary increase in social grants.

Challenges on vendors dealing with the VAT rate increase by 1 April are immense. Most notably, ERP systems will need to be configured timeously. Other pitfalls to look out for are anti-avoidance measures - any invoices issued or payment made prematurely to trigger the time of supply before the date of rate increase are deemed to be taxable at the new rate, unless it is customary for invoices or payments to be issued or made in advance.

Fortunately, the Minister steered clear from introducing multiple VAT rates, e.g. separate VAT rates for luxury goods. Maybe 2019?

Further VAT highlights mentioned in the budget were as follows:

- E-services – the scope of services regarded as electronic-services will be widened to further include cloud computing and other online services thus widening the scope for foreign suppliers to be registered for VAT in South Africa and to charge and collect VAT at the standard rate, 15% from 1 April.
- Zero rating of brown bread - clarity will be provided on the classification of brown bread and only brown bread and whole wheat brown bread will be subject

to VAT at the zero rate. Breads such as Rye bread and low GI will be taxable at the standard rate.

- Face-value of debt transferred - the term will be added to the definitions in the VAT Act to prevent vendors such as book collectors and banks from claiming an additional input tax deduction as a result of bad debts written off on books purchased and to prevent these transactions resulting in a double VAT deduction.
- National Housing programme – the abolishment of the provisions relating to the zero rating on the supply of goods and services for the National Housing programme are now postponed indefinitely.
- Cryptocurrencies - the VAT Act will be amended to address the issues of the supplies of cryptocurrencies.

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