Readying your business for a VAT rate change

Johannesburg, 19 February 2018 – The last time the Value Added Tax (VAT) rate was increased, was 24 years ago. Most Chief Financial Officers (CFOs) today were in their teens back then. There is little institutional and practical knowledge to plan for the changes necessary to ensure VAT compliance.

"Cyril Ramaphosa, the newly elected President of the Republic, is to many a (super)hero in a multi-coloured cape," says Pierre Moolman and Anzuette Bezuidenhout, members of the SAICA Value Added Tax Sub-Committee. "However, South Africa's economic reality may be his kryptonite. His sidekick, the Minister of Finance (MinFin), is under ever more pressure to find money to curb not only the recent downgrades but also the extremely low economic growth and the country's estimated R70 billion budget deficit.

Add the well-known recent financial and political issues, the pressure from international markets and our superhero's urgency to most likely move in a completely new direction in almost all areas, South Africa is on the brink of a shake-up of fiscal policies. It is now more likely than ever that the MinFin will announce a rate increase – a view shared by several commentators. Their focus generally stops at the possibility for a rate increase. However, have you considered what the impact would be from a business perspective?

As the MinFin can be expected to have urgency to address the above, and if history should be anything to go by – both with regards to the former General Sales Tax system and the last increase in the VAT rate – very little grace time is likely to be allowed until the effective date. The previous increase in the VAT rate was effective merely 3 weeks after its announcement.

We should therefore expect the effective date of the change to follow quite quickly, leaving very little time for Those Charged with Governance (TCWG) to plan for, and implement, strategies to ensure that the organisation firstly meets its obligations and secondly mitigates its exposures to the risks a rate change will have.

Strategies should not be limited to the obvious, such as system changes and dealing with the plethora of sections in the VAT Act. It should also focus on other areas such as reviewing and amending existing contracts, the improvement or implementation of internal VAT processes and controls to ensure transactions pre and post the rate change are correctly captured and that there are no additional and unnecessary VAT costs.

To further complicate matters, IFRS15, effective 1 January 2018, introduces a significant number of complexities to the manner in which revenue is recognised, including, inter alia, timing rules, value rules, and different treatments to apply to agency arrangements going forward. In this regard, it should be noted that the VAT legislation dealing with a VAT rate change have specific timing rules that also need to be taken into account. All of this exacerbate the differences between VAT and accounting treatments of many types of contracts, and the VAT consequences would therefore need to be considered very carefully and timeously. VAT consequences would therefore need to be considered very carefully and timeously.

Getting anything wrong will have financial implications ranging from loss of profits to liabilities in the form of tax, penalties, interest and possibly understatement penalties.

Inadequate planning and knowledge of the impact of these changes to business and transactions in general, and more specifically in relation to VAT, could therefore easily have undesired effects.

Against this background, business will be unusual unless implications are fully understood and properly planned for. TCWG must find it an urgent necessity to assess the implications of a rate increase (either in combination with changes to accounting policies, or in isolation), to identify changes required and the time frame within which such changes should be implemented," concluded Moolman and Bezuidenhout.

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