South Africa - In the Budget Speech delivered on 21 February 2018, Minister Malusi Gigaba announced the controversial increase in the VAT rate from 14% to 15% with effect from 1 April 2018. This is the first VAT increase in 25 years and is expected to raise approximately ZAR22.9 billion more for the fiscus.

Since the announcement, there has been some debate regarding both the social and practical implications of such increase. There has been a call for an increase in the basket of goods that are currently zero-rated to mitigate the effects of the increase in the VAT rate, and suggestions that the VAT rate increase should not be implemented in its entirety.

The VAT Act prescribes that if the Minister makes an announcement in the Budget Speech to increase the VAT rate, then the increase will be effective from the date stated and continues to apply for a period of 12 months subject to parliament passing the required legislation to give effect to the announcement. Although the parliamentary process needs to be completed, it is likely that the VAT rate will still be increased as announced.

It will be interesting to see if there are any changes in the basket of zero-rated foodstuffs going forward. The more immediate concern, however, is how can business prepare for the looming deadline of 1 April.

All companies will need to update their systems, train their staff and communicate to customers to ensure the smooth transition in the increase in the VAT rate.

Some questions that business may face are:

**Which VAT rate must be charged on goods or services that are provided before 31 March 2018?**

14% - All work performed before 1 April 2018 and that is completed before 31 March 2018 is subject to the current VAT rate of 14%.

**What happens if some services are rendered prior to 31 March 2018 and the balance of the services are rendered after 1 April 2018?**
The VAT cannot be consolidated and it will be necessary to confirm the time of supply of the relevant services to determine which VAT rate will apply.

**What happens if a contract has been concluded prior to 31 March 2018 and there are monthly payments? For example, a cell phone contract or short-term insurance premiums?**

Any payments that are made for services rendered before 31 March 2018 will be subject to the 14% rate and any payments made for services rendered after 1 April 2018 will be subject to the 15% rate. It is possible that a monthly billing cycle will run from, for example, the 15th of any month and in this case, the VAT will have to be separately determined for the different periods before 31 March 2018 and after 1 April 2018.

**If a contract was concluded prior to 31 March 2018 and the stipulated VAT rate is 14%, can this automatically be adjusted to 15%?**

Yes, the VAT Act allows for the adjusted VAT rate of 15% to be recovered automatically.

**What happens if a customer requests a credit note in respect of an invoice dated before 31 March 2018?**

The credit note will be issued with the VAT amount reflected at 14%.

**Which VAT rate must be charged on goods or services provided after 1 April 2018?**

15% - All work which is performed after 1 April 2018 will be subject to the new VAT rate of 15%.

**What is the applicable VAT rate if the seller of a residential property is a VAT vendor and the transfer of the residential property takes place after 1 April 2018?**

The VAT rate will be determined with reference to the date on which the agreement to dispose of the relevant property is signed.

**What is the applicable VAT rate if there is a disposal of a commercial property?**

The VAT rate will be determined with reference to the normal time of supply rules i.e. the earlier of the date of registration of transfer with the deeds registry or the date on which any payment is made.

The VAT Act contains certain anti-avoidance provisions that prevents the charge of VAT at 14% if the time of supply for goods or services is prior to 31 March 2018 but are only provided 21 days after 1 April 2018. In such a case, the VAT rate will be 15%.

It is important to take cognisance of the applicable VAT rate and ensure that there is compliance with the revised VAT rate increase to ensure that the correct quantum of VAT is collected and paid over to SARS.

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