

## VAT rate increase

Government proposes to increase the VAT rate by 0.5% to 15.5% with effect from 1 May 2025 and by 0.5% to 16% with effect from 1 April 2026.

Although we understand the need for the VAT rate increase to grow revenue collection and reduce the budget deficit, we do not welcome the two-tiered VAT rate increase that Government proposed.

Given the significant administrative burden and tight deadline of the first change, vendors would find it extremely difficult to update the new VAT rate in their ERP systems.

In addition, there are specific time of supply rules that need to be adhered to with the change in the VAT rate. Based on the transitional time of supply rules of the previous VAT rate increase in 2018, there are various matters that need to be considered before vendors can decide whether their supply is subject to the old or the new rate. Specific service performance and goods delivery dates need to be considered to determine the correct VAT rate applicable to a supply. It is highly likely that most vendors would require the services of VAT specialists to ensure compliance and to avoid incurring unnecessary SARS penalties and interest.

Vendors would then be faced with the same burdens and risks next year for the second 0.5% VAT rate increase.

It is questionable whether Government considered the costs for vendors of this double rate change in terms of consulting services and software support.

One single VAT rate increase would have been more palatable from an implementation cost and compliance risk perspective.

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