



Value-Added Tax

Frequently Asked Questions Increase in the VAT rate



South African Revenue Service

In the Minister's Budget speech on 21 February 2018, an increase in the standard rate of VAT was announced. The rate increase applies from 1 April 2018. The Frequently Asked Questions (FAQs) in this document have been compiled on the basis of questions that vendors and the public at large are likely to have about the implications of the rate increase.

These FAQs have been drafted on the basis of information which was available at the time of announcement and will be updated from time to time as new information comes to light or arrangements are made regarding some of the common practical and administrative challenges.

The FAQs are drafted purely to assist vendors and the public at large to obtain clarity and to ensure consistency on certain practical and technical aspects of implementing the change to the VAT rate. The FAQs are therefore not intended to be used as legal reference. You can find more information about some of the aspects discussed in this document in the ***VAT 404 - Guide for Vendors*** which is available on the SARS website.

Should your particular question not be answered below, you can direct further questions to **VATRateEnquiries@sars.gov.za**.

**Issued by: Legal Counsel
SOUTH AFRICAN REVENUE SERVICE**

Date of issue: 21 February 2018

| Question | | Answer |
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| 1. | When was the increase in the VAT rate announced and when will it take effect? | <p>The increase was announced in the Minister of Finance's Budget Speech on 21 February 2018.</p> <p>The standard rate of VAT will change from 14% to 15% on 1 April 2018 (the effective date).</p> |
| 2. | What is the new tax fraction that applies on or after 1 April 2018? | <p>The new tax fraction is calculated as follows:</p> $\frac{\text{Rate of tax}}{100 + \text{rate of tax}} = \frac{15}{115}$ <p>For example, if the VAT-inclusive price (final consideration) is R1 150, the VAT amount is calculated as follows based on the new tax fraction:</p> $R1\ 150 \times 15/115 = \underline{R150\ \text{VAT}}$ |
| 3. | How will the increase affect me if I am a VAT vendor? | <p>Generally, the change should be fairly neutral if you only make taxable supplies as the increased rate of VAT will be charged to your customer and your additional VAT expenses can generally be claimed as input tax. However, if you also make exempt or other non-taxable supplies, the increased VAT may become a cost to your business if it cannot be claimed as input tax or the VAT charged is specifically denied as input tax.</p> <p>Some of the more specific practical and administrative issues faced by vendors will be dealt with in the FAQs below.</p> |
| 4. | How will the increase affect me if I am an ordinary consumer or my business is not registered for VAT? | <p>Refer to Question 3. Businesses and consumers that are not registered for VAT will be charged an additional 1% VAT from 1 April 2018. The increased rate will be reflected on tax invoices that must be issued by the vendor to the customer/purchaser.</p> |
| 5. | How will the increase affect me if I am registered for VAT and I am using the invoice basis of accounting? | <p>You must charge VAT at the rate of 15% instead of 14% on any taxable supplies that you make on or after 1 April 2018 and account for the VAT charged on invoices issued in your VAT201 return. Similarly, you will be able to claim input tax at the increased rate on any taxable supplies made to you on or after 1 April 2018, provided that you meet the normal rules for claiming input tax (that is, you have the tax invoices and other required documents, etc.).</p> <p>You must claim input tax at the old VAT rate on supplies that took place before 1 April 2018, subject to certain exceptions. You will therefore need to carefully check the tax invoices that you receive after 1 April 2018 before completing and submitting your VAT201 return and payment.</p> |

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| 6. | How will the increase affect me if I am registered for VAT on the payments basis of accounting? | <p>The same answer mentioned in Question 5 above will apply, but you must remember to check the rate at which VAT was charged based on the original time of supply when making or receiving payments. If the time of supply for a supply you have made or received was before 1 April 2018, then you must continue to declare output tax or claim input tax based on the VAT rate of 14% that applied at the time the original supply was made.</p> <p>See, for example, Question 43.</p> |
| 7. | How do I know which date to use as the transaction date for purposes of determining the VAT rate to be charged? | <p>The transaction date is referred to as the “time of supply”. It is very important to understand the time of supply rules relating to various transactions as the prevailing rate of VAT on that date will apply to the transaction concerned.</p> <p>The general rule is dealt with in Question 8 below and will have the effect that if either the invoicing or any payment of any part of the purchase price for a supply occurs –</p> <ul style="list-style-type: none"> • before 1 April 2018 – a VAT rate of 14% will apply; • on or after 1 April 2018 – a VAT rate of 15% will apply. <p>There are, however, some special time of supply rules and rate specific rules that apply for certain types of supplies when the VAT rate increases. These are discussed in Questions 9 to 21.</p> |
| 8. | What is the general time of supply which applies to most transactions? | <p>The general time of supply is the date that any payment of the VAT-inclusive price (consideration) for the supply is made, or an invoice is issued in respect of the supply – whichever event occurs first.</p> <p>Example <i>A vendor issues an invoice to a customer for a supply of goods on Day 1, delivers the goods on Day 2, and receives payment on Day 3. The time of supply in this case has been triggered on Day 1, as it was the first of the relevant events to occur. The VAT rate on Day 1 will therefore apply in this case – even if payment was only made later.</i></p> <p>The general time of supply rule applies in the case of supplies that do not have a special time of supply rule. Some examples of the special time of supply rules are dealt with in Questions 9 to 12 below.</p> |
| 9. | What are some examples of supplies that have special time of supply rules? | <p>Some examples are as follows:</p> <ul style="list-style-type: none"> • Supplies between connected persons (See Question 10) • Ongoing, continuous, progressive, successive and periodic supplies such as rental agreements, insurance contracts, cleaning contracts, building contracts, security services and subscription services. (See Question 11. See also Questions 18 to 21 for rate specific rules.) • Instalment credit agreements (ICAs) – this includes instalment sale agreements and financial leases entered into to acquire vehicles and equipment. (See Question 12) • Lay-by agreements (see Question 13) • Fixed property transactions (see Questions 14 and 15) <p>You can refer to <i>Chapter 5 of the VAT 404 - Guide for Vendors</i> for more information in this regard as well as some further examples.</p> |

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| <p>10.</p> | <p>How will the increase work for supplies between connected persons?</p> | <p>The VAT rate that applies for connected persons depends on whether it is a supply of goods or services, as follows:</p> <ul style="list-style-type: none"> • <i>Goods which are to be removed</i> – the VAT rate on the day the goods are removed must be charged. • <i>Goods that are not to be removed</i> – the VAT rate on the day the goods are made available must be charged. • <i>Services</i> – the prevailing rate of VAT on the day the services are performed must be charged. <p>However, in some cases, the VAT rate will be determined according to the normal time of supply rules. Also refer to <i>Chapter 5 of the VAT 404 - Guide for Vendors</i> for more information in this regard.</p> |
| <p>11.</p> | <p>How will the increase work for ongoing contracts such as supplies made under rental agreements, construction and cleaning contracts, insurance and subscription services?</p> | <p><i>Successive, periodic or continuous supplies</i> – The VAT rate is determined based on the earlier of the date when payment is due or is received. Some examples include property, equipment, car rentals and on-going contracts for maintenance, management, insurance, subscription or cleaning services. These supplies are typically invoiced or paid for in advance on a monthly basis. The increased rate will apply to any payment that becomes due or is received on or after 1 April 2018.</p> <p><i>Progressive supplies</i> – The VAT rate is determined based on the earliest of the date when payment is due or is received, or any invoice for payment is issued. Examples include construction, manufacture or assembly of goods where the agreement provides for the purchase price to become due and payable according to the progress made. The increased rate will apply if the earliest of any payment that becomes due or is received or any invoice is issued in respect thereof is on or after 1 April 2018.</p> <p>Refer to Questions 16 and 17 regarding whether or not the stated price in the ongoing contract may be increased as a result of an increase in the VAT rate. See also Questions 18 to 21.</p> |
| <p>12.</p> | <p>How will the increase work for ICAs such as instalment sale agreements and financial leases?</p> | <p>Supplies made under an ICA are not regarded as being supplied successively, periodically, continuously or progressively as discussed in Question 11.</p> <p>The time of supply for goods supplied under an ICA is the earlier of the date of delivery of the goods, or when payment of any part of the purchase price is made. The increase in the VAT rate will not affect the contract price or the agreed instalment amounts payable for those goods under an ICA if the actual time of supply was before 1 April 2018, as the output tax and input tax is accounted for upfront regardless of the vendor's accounting basis for VAT.</p> <p>Note, however, that ongoing monthly service fees charged under the ICA by your financier may be subject to the increase in VAT. In that case, your instalments may increase to that extent.</p> |

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| <p>13.</p> | <p>How will the increase work for lay-by agreements?</p> | <p>If a lay-by agreement is concluded before 1 April 2018 and the payment required to reserve the goods was made to the supplier before 1 April 2018, the old VAT rate of 14% will apply even if the goods are delivered on or after 1 April 2018. If such a lay-by agreement is cancelled and any part of the amount paid to the seller is retained, the seller must declare output tax using the old tax fraction of 14/114. This is also true if a lay-by agreement is cancelled before 1 April 2018.</p> <p>If delivery occurs on or after 1 April 2018 in circumstances that are not covered above, the supply of goods under the lay-by agreement will be subject to VAT at 15%. If the agreement is cancelled on or after 1 April 2018 in circumstances that are not covered above, the seller must declare output tax using the new tax fraction of 15/115.</p> |
| <p>14.</p> | <p>How will the rate increase work generally for fixed property transactions?</p> | <p>The rate of VAT for fixed property transactions will be the rate that applies on the date of registration of transfer of the property in a Deeds Registry, or the date that any payment of the purchase price is made to the seller – whichever event occurs first. (See, however, the exception in Question 15 where registration (delivery) of the fixed property occurs on or before 23 April 2018.)</p> <p>If a “deposit” is paid and held in trust by the transferring attorney, this payment will not trigger the time of supply as it is not regarded as payment of the purchase price at that point in time.</p> <p>Normally the sale price of a property is paid to the seller in full by the purchaser’s bank (for example, if a bond is granted) or by the purchaser’s transferring attorney. However, if the seller allows the purchaser to pay the purchase price off over a period of time, the output tax and input tax of the parties is calculated by multiplying the tax fraction at the original time of supply by the amount of each subsequent payment, as and when those payments are made. In other words, if the time of supply was triggered before 1 April 2018, your agreed payments to the seller over time will not increase because of the increase in the VAT rate on 1 April 2018.</p> <p>Example</p> <p><i>A vendor sells a commercial building and issues a tax invoice to the purchaser on 10 January 2018. If the property will only be registered in the Deeds Registry on or after 1 April 2018 and payment will be made by the purchaser’s bank or transferring attorneys on the same date, then the time of supply will only be triggered at that later date. In this case, VAT must be charged at 15% as the rate increased on 1 April 2018 which would be before the time of supply. It does not matter that an invoice or a tax invoice was issued before the time of supply and before the VAT rate increased. The tax invoice in this case would also have to be corrected as it would have indicated VAT charged at the incorrect rate of 14%.</i></p> <p>See also Question 15 below for the rate specific rule that provides an exception for the purchase of “residential property” or land on which a dwelling is included as part of the deal.</p> |

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| <p>15.</p> | <p>Is there a rate specific rule which is applicable to me if I signed the contract to buy residential property (for example, a dwelling) before the rate of VAT increased, but payment of the purchase price and registration will only take place on or after 1 April 2018?</p> | <p>Yes. You will pay VAT based on the rate that applied before the increase on 1 April 2018 (that is 14% VAT and not 15% VAT). This rate specific rule overrides the rules as discussed in Question 14 which applies for non-residential fixed property.</p> <p>This rate specific rule applies only if –</p> <ul style="list-style-type: none"> • you entered into a written agreement to buy the dwelling (that is “residential property”) before 1 April 2018; • both the payment of the purchase price and the registration of the property in your name will only occur on or after 1 April 2018; and • the VAT-inclusive purchase price was determined and stated as such in the agreement. <p>For purposes of this rule, “residential property” includes –</p> <ul style="list-style-type: none"> • an existing dwelling, together with the land on which it is erected or any other real rights associated with that property; • so-called plot-and-plan deals where the land is bought together with a building package for a dwelling to be erected on the land; or • the construction of a new dwelling by any vendor carrying on a construction business. <p>See also Question 11 for construction services and Question 14 if you bought residential property, but do not meet the above requirements.</p> |
| <p>16.</p> | <p>Will I be able to increase the price that I charge under existing ongoing contracts concluded before the increase in the VAT rate?</p> | <p><i>Contract prices agreed by the parties</i> – Generally, the supplier (being a vendor) may increase the contract price and recover the additional VAT from the customer under an existing contract concluded before 1 April 2018 if the supplies will continue after that date. This rule applies even if any other law states otherwise. The supplier will, however, not be able to increase the price or recover the increase from the customer if the parties have specifically agreed in writing in the contract that it may not be increased.</p> <p>Whether the additional amount is recoverable from the customer or not, the supplier must account for VAT on any supplies made on or after 1 April 2018 at the increased VAT rate.</p> <p><i>Prices set under an Act or regulation</i> – As mentioned above, the supplier may increase the contract price even if any other law states otherwise. However, if the Act or regulation concerned actually sets the price and contains an explicit statement that the amount may not be increased, then the price will stay the same and may not be increased until that other Act or regulation that sets the price is amended accordingly. (See also Question 17).</p> <p>The supplier will not be able to increase the price or recover the increase from the customer if the parties have specifically agreed in writing in the contract that it may not be increased.</p> <p>Whether the additional amount is recoverable from the customer or not, the supplier must account for VAT on any supplies made on or after 1 April 2018 at the increased VAT rate.</p> |

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| <p>17.</p> | <p>What is the position when fees or charges are calculated with reference to another amount (the base amount)?</p> | <p>You must first establish if the base amount is expressed as a VAT-inclusive or VAT-exclusive amount.</p> <ul style="list-style-type: none"> • <i>VAT-inclusive base amount</i> – the calculated fee or charge will automatically include VAT at the increased rate of 15% if the supply took place on or after 1 April 2018. The VAT amount is calculated by multiplying the new tax fraction 15/115 by the final purchase price. • <i>VAT-exclusive base amount</i> – VAT at the increased rate of 15% must be added to the calculated fee or charge to determine the final VAT-inclusive purchase price if the supply took place on or after 1 April 2018. <p>If the base amount is prescribed in another Act or regulation, then as explained above, it must be established if that base amount is expressed as a VAT-inclusive or VAT-exclusive amount. The base amount will also increase as a result of the increase in the VAT rate unless that Act or regulation contains an explicit statement to the contrary. (See also Question 16.)</p> <p>Vendors need to pay attention to how the base amount is calculated, as well as the method upon which the formula is based that is applied to the base amount. This is especially important if you are using a VAT-inclusive base amount or a VAT-inclusive formula to calculate the fee or charges, as the calculated fees in that case are likely to be based on the incorrect assumption that VAT is included at 14%. In order to avoid commercial disputes, vendors should be clear in their agreements regarding how the base amount is calculated as well as the methods that are used for calculating the fees or charges based thereon. The formulae used should clearly demonstrate how the new VAT rate of 15% features in those calculations.</p> |
| <p>18.</p> | <p>Are there any rate specific rules regarding the application of the increased VAT rate for supplies that span the date of the VAT rate increase?</p> | <p>Yes, although the time of supply rules normally fix the date upon which the liability for VAT in respect of a transaction arises, including the VAT rate (see Questions 11 to 15), rate specific rules may apply when the VAT rate increases.</p> <p>The general effect of these rate specific rules is that if a transaction was entered into before 1 April 2018, but delivery of the goods or performance of the services only takes place on or after 1 April 2018, the following rules apply:</p> <ul style="list-style-type: none"> • <i>In the case of goods</i> – use the VAT rate that applies on the date that the goods are actually delivered or made available for collection; and • <i>In the case of services</i> – use the VAT rate that applies on the date the services are physically performed or actually rendered. <p>These rules are explained further in Questions 19 to 21.</p> <p>Regardless of any rate specific rule which applies in relation to the increase in VAT rate, vendors must still account for VAT on the transactions concerned in the relevant tax periods under the normal time of supply rules (see Questions 7 and 8).</p> |

FAQs: Increase in the VAT rate from 1 April 2018

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| 19. | <p>What happens if I have actually delivered the goods or performed the services before 1 April 2018, but the invoicing or payment only occurs after that date?</p> | <p>The VAT Act provides that you must charge VAT at 14% even if the normal time of supply for those supplies (invoicing or payment) occurs after the increase in the VAT rate. This is explained by way of the example below.</p> <p>Example <i>If a firm of auditors (being a vendor) has actually supplied auditing services to a customer before 1 April 2018, but the invoicing and payment only occurs after 1 April 2018, the auditing firm must charge VAT at 14% for those services and not 15%.</i></p> |
| 20. | <p>What happens when goods are delivered or services are performed during a period starting before and ending on or after 1 April 2018?</p> | <p>An apportionment must be made on a fair and reasonable basis for the value of goods delivered or services performed before and after 1 April 2018. The value of that part which falls before 1 April 2018 will be taxed at 14% and the part that falls on or after 1 April 2018 will be taxed at 15%.</p> <p>The supplies to which this provision applies are –</p> <ul style="list-style-type: none"> • rental agreements; • progressive or periodic supplies of the goods; • construction activities; • services actually rendered over the period concerned. <p>These rules do not apply to supplies of fixed property, including “residential property”, as discussed in Questions 14 and 15 respectively.</p> |
| 21. | <p>What happens if goods are delivered or services are performed on or after 1 April 2018, but an invoice was issued or payment was received between 21 February and 31 March 2018?</p> <p>(That is, between the date that the increase was announced and when the increase became effective.)</p> | <p>The supply is taxed at the increased rate of 15% if the following conditions are evident:</p> <ul style="list-style-type: none"> • <i>Goods</i> – if the goods are delivered more than 21 days after 1 April 2018 (that is, on or after 23 April 2018, being the first day after the expiry of the 21 days); • <i>Services</i> – to the extent that the services are actually rendered on or after 1 April 2018 as explained in Questions 16 to 18. <p>This rule applies, for example, when a vendor issues invoices or requests advance payments from customers to purposefully bring the time of supply forward to a date before 1 April 2018 when that would not be a normal business practice.</p> <p>This rate specific rule does not apply when the normal time of supply occurs before 1 April 2018 and where it is a general business practice for payments or invoices to be issued before the supplies are made. For example, a supplier may have a long established practice of requiring an advance payment before rendering building alterations or installation services.</p> <p>This rule does not apply in the case of residential property (see Question 15).</p> |

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| 22. | Can I get an additional input tax adjustment for the trading stock on hand that I bought at the previous VAT rate of 14%? | No. Input tax is claimed based on the VAT rate that applied when you acquired the goods or services (that is, based on the time of supply of the acquisition). The law does not make provision for any input tax adjustments for trading stock on hand if the VAT rate increases. |
| 23. | How will the VAT rate increase work for the importation of goods or services? | <p><i>Importation of goods</i> – the date of importation is the date that Customs clears the goods for home consumption. If the clearance date is on or after 1 April 2018, the new rate of VAT will apply, even if the goods arrived in the country earlier or if the documents in connection with the importation were prepared before the clearance date.</p> <p><i>Imported services</i> – the time of supply for imported services is the earlier of the time that –</p> <ul style="list-style-type: none"> • an invoice is issued by the supplier or the recipient in respect of the supply; or • the time any payment is made by the recipient in respect of that supply. <p>VAT must therefore be charged on imported services at the applicable rate on the earlier of the above dates.</p> |
| 24. | Must I increase the price of products in my shop and in any pricelist before the VAT rate increase on 1 April 2018? | <p>The VAT Act provides that when there is an increase in the VAT rate, the supplier (being a vendor) may increase the price and the increased tax may be recovered from the customer. Therefore, it will be up to you, the vendor, whether or not you are going to increase the prices of products in your shop from 1 April 2018.</p> <p>Customers will only pay the price they see advertised, quoted or displayed and therefore it is important for you to include VAT at the correct rate. It is also important to note that whether you increase your price or not, your point of sale and accounting systems must nevertheless be set up to charge and declare VAT on the final price at the increased rate for supplies made on or after 1 April 2018.</p> <p>Similarly, if you have previously entered into any agreement in terms of which an offer was accepted before 1 April 2018, then the additional amount of VAT may be recovered from the customer (see also Questions 16 and 17).</p> <p>Please note that if you decide not to increase your prices you will still be required to declare output tax on your sales on or after 1 April 2018 at the new rate of 15%. Further, you may not state or imply in any notice that you are providing some form of trade, cash or other form of discount or refund by not charging the increased amount of tax which would otherwise be payable.</p> |

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| <p>25.</p> | <p>Can I increase the price of products in my store to include the new rate of VAT without having to change all the individual price tickets?</p> | <p>The Commissioner has a discretion to approve another method of displaying prices of goods or services by vendors where the rate of tax is increased.</p> <p>In the current situation, permission is hereby given under proviso (iii) in section 65 of the VAT Act for a vendor to display a notice to inform customers that the price does not include VAT at the new rate of 15% and prices will be adjusted at the point of payment at which the vendor accepts the client's offer to purchase. The notice should be removed by no later than the end of May 2018.</p> <p>It is also advisable to include in the notice, showing with equal prominence, an example of the old and new prices of one of your products and how the adjustments will be made at the point of sale.</p> <p>The notice should be prominently displayed –</p> <ul style="list-style-type: none"> • at all entrances to the premises where the goods or services are displayed for sale; • at all points of sale where payments are effected; • at all other places at the business premises where contracts for the supply of goods or services may be concluded; • in all forms of print and electronic advertising media and on all websites. |
| <p>26.</p> | <p>What happens if a customer accepts a quote which I issued before the VAT rate increased?</p> | <p>Refer to Questions 16 to 18 and 24 and 25.</p> <p>You may increase the price to take into account the increased VAT rate if you choose. The same applies if you tendered for a contract at the old rate of 14%.</p> <p>You must therefore be aware that if you tendered for a government or other contract and you choose not to increase your price, you will still have to charge output tax at the new standard rate of 15% unless any of the exceptions apply as discussed in these FAQs.</p> |
| <p>27.</p> | <p>What are my responsibilities if I do not have enough time to change my business systems to accommodate the increased VAT rate?</p> | <p>You will have to manually recalculate your systems generated amounts to take into account the difference when you close off the VAT reporting period (tax period), and declare the VAT reflecting the increased VAT rate in the VAT201 return concerned.</p> <p>If you have under declared the VAT payable in your VAT201 return, you must make a request for correction (RFC) on eFiling if you file your returns electronically. If you are not registered on eFiling, then you must request your local branch office to process an RFC for you to correct the amount(s). In either case, penalties and interest may apply in respect of any shortfall. For more information on how to apply for a request for a correction, see the Request for Correction webpage.</p> |

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| 28. | Which rate of VAT do I use to calculate notional input tax on ordinary second-hand goods acquired under a non-taxable supply? | This will be determined according to the time of supply rules (earlier of payment or invoicing) – refer, for example, to Questions 7 and 8 . Therefore, if the time of supply is on or after 1 April 2018, then the new tax fraction, namely 15/115 must be used to calculate the notional input tax claim. If the time of supply was before 1 April 2018, then you will use the old tax fraction 14/114 (even if you make any payments to the seller for those goods after 1 April 2018). |
| 29. | Which rate of VAT do I use to calculate notional input tax on any second-hand fixed property acquired under a non-taxable supply? | The same rules as per Question 28 above apply in respect of a non-taxable supply of fixed property. Note, however, that the time of supply for fixed property is based on a special time of supply rule, being the earlier of the date of registration in a Deeds Registry (if required) or the date that any part of the purchase price is paid. |
| 30. | What happens if I incorrectly charged the old rate of VAT on a supply instead of the increased rate? | <p>You should try and correct the error by engaging with your customer as soon as possible – preferably before you have to submit your VAT201 return and payment for the tax period concerned. In this regard, you may issue a debit note to correct the VAT charged on the previously issued tax invoice. Alternatively, if you choose not to follow this up with your customer, or you are unable to recover the amount from your customer, you will have to bear the difference as a business cost.</p> <p>If you are only able to correct the error after submitting your VAT201 return for the tax period concerned, then you may be liable for penalty and interest on the difference between what you have declared and the correct amount.</p> <p>Refer to Question 27 for more detail on RFCs.</p> |
| 31. | What happens if the tax invoice from my supplier incorrectly reflects the old rate of VAT instead of the new rate? | See Question 30 . If the tax invoice is not corrected by the supplier before you have to submit your VAT201 return for that tax period, your input tax will be limited to the VAT indicated on the tax invoice. If the supplier corrects the purchase price and the VAT in a subsequent tax period, then you may claim the difference in input tax in the subsequent tax period. |
| 32. | If my contract is a bit vague, or if I have a dispute with my supplier or customer regarding an increase in the agreed price, can we approach SARS for a ruling to settle the dispute? | <p>No. SARS may not get involved in resolving contractual disputes between parties. This includes interpreting –</p> <ul style="list-style-type: none"> • the meaning of the words in a contract; • whether a particular party is principal or agent; • what the parties to that contract may, or may not have agreed upon; • what the facts of the dispute are; • what the intention of the parties were. |

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| 33. | Will the VAT201 returns be amended in time so that vendors can correctly report for the first period after the increase? | <p>Yes. The returns will be amended on time.</p> <p>The VAT201 return will be updated to reflect the new VAT rate of 15% in time for VAT reporting periods ending in or after April 2018. Furthermore, the VAT201 return and related systems will be updated to process the relevant calculations at the new rate of 15%.</p> <p>More details in this regard will be communicated to vendors once the VAT201 and related systems adjustments are made.</p> |
| 34. | What happens if the new VAT rate applies in the middle of my tax period? (e.g. Category B or D tax period) | <p>Regardless of your VAT reporting period, you must still charge VAT at the increased rate of 15% from 1 April 2018. Details of how to complete your VAT201 return when you have charged two different rates of VAT in one VAT reporting period will be communicated to vendors once the changes to the VAT201 and related systems have been made</p> <p>Also refer to Question 33 above.</p> |
| 35. | What rate must be charged on the sale of face value vouchers which are sold before the increase in the VAT rate, but exchanged for goods after the rate change? | <p>The sale of the face value vouchers is disregarded for VAT purposes. There is therefore no VAT implication at the point at which the voucher is sold. When the customer later redeems the voucher on or after 1 April 2018 as payment for specific goods or services, the supplier will merely charge VAT at the increased rate of 15%, as that is the VAT rate that applies at the time of supply of the goods.</p> <p>If the voucher was redeemed before 1 April 2018, the supplier would have charged VAT at the rate of 14%.</p> |
| 36. | What VAT rate applies if vouchers for specified goods or services are sold before the increase in the rate of VAT, but the supplies are only rendered after the rate change? | <p>Vouchers for specified goods or services are not disregarded for VAT as in Question 35. As the voucher was sold before 1 April 2018, the tax rate of 14% must be applied. If the vouchers were sold on or after 1 April 2018, the tax rate of 15% applies. No VAT is payable on the redemption of the vouchers, as the VAT consequences are triggered on the sale of the voucher.</p> <p>Example <i>A customer purchases a voucher for a massage treatment at R570 on 10 February 2018. The price includes VAT at the rate of 14%. The client books into the spa for the treatment on 4 April 2018. What rate must be charged?</i></p> <p><i>Although the services are actually only rendered on 4 April 2018, VAT must be charged at the rate of 14% as the voucher was sold before the increase in the VAT rate. The rate specific rule as explained in Question 21 will not apply in this case, as it is normal business practice in this situation for an advance payment to be made in the form of a voucher purchase before the services are rendered.</i></p> |

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| 37. | What VAT rate do I apply when issuing debit and credit notes for any subsequent price adjustments or returned sales? | <p>When making any subsequent adjustment to the previously agreed price for supplies made before 1 April 2018, the debit or credit notes must be issued using the tax fraction 14/114. You must, however, keep in mind that there are special time of supply rules for certain supplies (see Questions 9 to 12) and other rate specific rules may have applied regarding the VAT rate charged on the original supply (see, for example, Questions 13, 15 and 18 to 21).</p> <p>If VAT was charged at the increased VAT rate of 15% and not 14% because of the application of a rate specific rule, then any debit or credit notes issued in respect of subsequent price adjustments must also be made using the same VAT rate that was charged on the original supply (that is, use the tax fraction 15/115 and not 14/114).</p> <p>Debit or credit notes relating to price adjustments for supplies made on or after 1 April 2018 must be made using the new tax fraction 15/115.</p> |
| 38. | What VAT rate do I apply when I write off any irrecoverable debts? | <p>In line with the rule in Question 37, any subsequent write-off of irrecoverable debts must be made using the tax fraction that applied at the time the original supply was made. That is, multiply the old tax fraction 14/114 by the VAT-inclusive amount written off as irrecoverable if the original supply was made before 1 April 2018. The new tax fraction 15/115 must be used if the original supply was made on or after 1 April 2018.</p> <p>Example – A photocopier machine is supplied under a one year rental agreement commencing on 1 March 2018, with monthly rentals becoming due at the end of each month. If the lessee took possession of the machine on 1 March 2018, and no invoice was issued or payment received, then VAT must be charged at 14% for the March 2018 rental. For periods from April 2018 onwards, VAT must be charged at 15%. If the lessee fails to pay any of the rental charges and such amounts are subsequently written off as irrecoverable by the supplier, then the tax fraction 14/114 will be used to calculate the input tax claim for the March 2018 rental. The tax fraction 15/115 is used in respect of any irrecoverable debts written off relating to periods from April 2018 onwards.</p> |
| 39. | I provide monthly consulting services to a client for a fixed fee. Which tax rate must I apply? | <p>The answer is shown by way of the following two examples:</p> <p>Example 1 – If the invoice is issued in arrears on the first of the month for services supplied during the previous month, the supply is taxed at 14% even though the invoice is issued on 1 April 2018. This is because the services were rendered before 1 April 2018. The services supplied on or after 1 April 2018 are taxable at 15%. (See also Questions 18 and 19.)</p> <p>Example 2 – I am paid a retainer fee of R100 000 (exclusive of VAT) to provide taxable consulting services for 6 months over the period 15 March 2018 to 14 September 2018. I commence providing the services from 15 March 2018 and issue an invoice for the full amount on 1 April 2018. In this case, the rendering of the actual services commences on 15 March 2018 which is before the effective date of the VAT rate change.</p> <p>A fair and reasonable basis must therefore be used to apportion the value of the supply (that is R100 000) over the period 15 March 2018 to 14 September 2018. In other words, the value of services supplied before and on or after 1 April 2018 must be determined as follows:</p> <ul style="list-style-type: none"> • Value of services supplied before 1 April 2018 = $R100\ 000 / 6 \times 0.5\ \text{months} = R8\ 333.33$ Therefore VAT @ 14% on R8 333.33 = <u>R1 166.67</u> • Value of services supplied on or after 1 April 2018 = $R100\ 000 / 6 \times 5.5\ \text{months} = R91\ 666.67$ Therefore VAT @ 15% on R91 666.67 = <u>R13 750</u>. |

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| | | Unless otherwise agreed in writing, you may recover the additional tax amount relating to the rate change, from the client. |
| 40. | What VAT rate applies if I supply building services over the period February to April 2018 and I am paid as the building work progresses? | <p>The answer is shown by way of the following example:</p> <p>Example <i>Assume a builder agrees to carry out building alterations for a client for R100 000 excluding VAT (or R114 000 including VAT at 14%). Payment in terms of the contract is as follows:</i></p> <ul style="list-style-type: none"> • 50% of the price is paid upfront at the beginning of February 2018 before commencing the job; • 40% of the price is paid at the end of March 2018, provided sufficient progress on the work is completed as agreed; and • 10% is paid at the end of April 2018 once the job is completed. <p><i>The supplies in this example are invoiced and paid for on a progressive basis. These types of supplies are dealt with in Question 11. In this example, VAT will be paid at 14% on the payments for the work done during February and March 2018. ($R100\ 000 \times 14\% \times 90\% = \underline{R12\ 600\ VAT.}$)</i></p> <p><i>The remaining payment of 10% will be subject to VAT at 15% and not 14% as the services were rendered on or after 1 April 2018. The builder will, however, be able to recover the additional VAT unless the parties have specifically agreed in writing that the original price could not be increased in the event of an increase in the VAT rate. (See also Questions 16 and 17.) Assuming that the contract allowed the supplier to recover the additional VAT charge, the final contract price and VAT is calculated as follows:</i></p> <p><u>Total VAT</u></p> <p><i>$R100\ 000 \times 50\% \times 14\% = R7\ 000$</i> <i>$R100\ 000 \times 40\% \times 14\% = R5\ 600$</i> <i>$R100\ 000 \times 10\% \times 15\% = R1\ 500$</i> <i style="text-align: right;"><u>R14 100</u></i></p> <p><u>Total VAT-inclusive contract price</u></p> <p><i>$100\ 000 + R14\ 100 = \underline{R114\ 100}$ (an overall increase of R100)</i></p> |
| 41. | I received a bill for my television licence fees for the 2018 calendar year in December 2017. However, I still haven't paid it yet. If I pay the bill in April 2018, will I have to pay VAT at 15%? | <p>No. Although the bill relates to the 2018 calendar year, the invoicing for television licences is done in advance. Since the invoice was issued in December 2017, the normal time of supply rules were triggered in December 2017, at which time the VAT rate of 14% applied.</p> <p>If you paid the bill late, there may be interest charges, but there is no VAT payable on interest charges.</p> |
| 42. | What sort of VAT issues should I look out for if I regularly import goods or use a clearing agent to process the documentation relating to my imports? | <p>There are a number of administrative issues which you should be aware of, for example:</p> <ul style="list-style-type: none"> • You need to inform your staff of the VAT rate increase and that they should be vigilant in checking any calculations or documentation in relation to imports in progress or any future imports; • Invoicing needs to be checked that the correct rate of VAT has been charged for the clearing services, especially if services are rendered over the period commencing before and ending on or after 1 April 2018; • Most importantly, if documentation was incorrectly issued on the assumption that VAT at the rate of 14% applies instead of 15%, that documentation will need to be corrected. You |

FAQs: Increase in the VAT rate from 1 April 2018

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| | | <p>may therefore need to consult with your clients regarding your contracts to determine if the price of services can be increased (see Questions 16 and 17) and to collect any shortfall of VAT on importation. Also, whether new bills of entry need to be framed or corrected on the basis that the date of entry of goods for home use may be later than originally anticipated. Remember that goods entered for home consumption by Customs on or after 1 April 2018 will be subject to the new VAT rate of 15%.</p> |
| 43. | <p>From when will the new VAT rate of 15% be charged on municipal services?</p> | <p>Invoices for municipal services are usually issued after the services have already been rendered by the municipality. (See Questions 18 and 19.) Therefore, if invoices for services actually rendered during March 2018 are issued for payment on or after 1 April 2018, then VAT will be charged at the rate of 14%. VAT on services rendered on or after 1 April 2018 will be charged at the rate of 15%.</p> <p>Charges for property rates will not be affected as these charges are subject to VAT at the zero rate.</p> <p>Municipalities should therefore take care to ensure that their billing systems are able to distinguish the different VAT rates which may be applicable to one billing period. It should be noted that the VAT must be accounted for at the applicable rate, based on the relevant time of supply or rate specific rule, even if payment for those supplies is received later.</p> <p>See also Question 6.</p> |
| 44. | <p>What happens if I have paid in advance for goods early in February 2018, but the goods will only be delivered to me in April 2018?</p> | <p>The normal time of supply rules (earlier of payment being made or an invoice being issued) would have triggered the time of supply in February 2018. The supplies will therefore be charged with VAT at the rate of 14% and no adjustment to the price is applicable unless you have agreed otherwise with the supplier.</p> |