

Is another VAT increase looming?

It has been two years since the Minister of Finance announced a 1% increase of value-added tax (VAT) as part of government's efforts to contain a budget deficit. However, in light of the current financial demands, has this VAT rate increase made a big enough financial impact or is a big deficit once again on the cards?

We will not be surprised if another VAT rate hike is announced. For obvious socio-economic reasons a rate increase would need to go hand in hand with VAT relief for poorer households such as, an expanded list of zero-rated food items and other necessities as well as an increase in the social grant. As it stands, public transport by road and rail, education and residential accommodation is exempt from VAT and therefore a rate increase will have minimal impact on those items.

We also expect guidelines to be issued on certain topical areas of VAT such as;

- Electronic invoicing;
- Foreign donor funded projects;
- The VAT treatment of partnerships and joint ventures; as well as
- Transitional rules concerning existing section 72 rulings (special arrangements for taxpayers approved by the South Africa Revenue Service) in view of the recent changes to this provision.

Whilst the VAT rate increase may be welcomed by some with the view of improving our economy, the overwhelming majority will experience the hardship of having to pay more for basic necessities. Also, businesses will once again need to amend systems and review contracts.



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