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No surprise that VAT was increased, but that is not the full story

The rate of VAT was last increased from 10% to 14% on 7 April 1993 and will increase by one percentage point to 15% with effect from 1 April 2018. This should yield approximately R22 900million for government which will be used to meet new spending commitments and to prevent further erosion of public finances. In taking this decision, National Treasury considered the potential impact on the poor and noted that they '*will receive further assistance through an above-inflation increase in social grants*' and that the '*wealthiest 30 percent of households contribute 85 percent of VAT revenue*'.

It had been widely speculated that the current list of zero-rated food items would be expanded and that a luxury rate of VAT would be introduced to make it more progressive. Both of these were shelved in favour of introducing other ways to achieve redistributive objectives. For example, the rate of *ad valorem* excise duties on so-called luxury goods (imported and locally manufactured), such as cosmetics, electronics and golf balls, will be increased from the current 5% and 7% to 7% and 9%, since these goods are mainly consumed or used by wealthier households. In addition, the maximum *ad valorem* excise duty for motor vehicles will be increased from 25% to 30%, again targeting the wealthy.

At present, it is only '*telephones for cellular networks or for other wireless networks designed for use when carried in the hand or on the person'* which are subject to a 7% *ad valorem* excise duty. This will be broadened to include 'smart phones' so that they also attract *ad valorem* excise duties. All these changes are expected to take effect from 1 April 2018.

In last year's Budget it was mentioned that government would investigate the removal of the zero-rating of fuel in 2018/19. This was not referred to again in this year's Budget. However, from 4 April 2018 the general fuel levy will increase by 22c/litre and the Road Accident Fund levy by 30c/litre.

If one adds the above to this year's, above inflationary increases in the excise duties on tobacco products and alcohol, the message is clear – the more you spend, the more you will be taxed.

Businesses planning for the VAT rate increase should consider the following:

- All vendors must be in a position to levy 15% VAT on all supplies from 1 April 2018. Even if there is difficulty in changing its system and the vendor inadvertently charges 14% VAT, he will still be required to account for 15% VAT by applying the tax fraction (15/115) to the consideration charged for the supply.
- To determine whether the supply will attract 14% or 15% VAT, the general and specific time of supply rules must be applied. However, there are transitional rules that apply where, for example, certain supplies commence before and are completed after 1 April, in which case both rates could apply.

- The general time of supply rule is the date an invoice is issued, or any payment is received, whichever is earlier. Special time of supply rules apply to fixed property, instalment credit agreements, progressive, successive and periodic supplies (e.g. insurance, rental, construction, cleaning contracts) and supplies between connected persons.
- Generally, for existing contracts spanning 1 April 2018 the supplier will be able to increase the contract price to recover the additional VAT unless the parties have specifically agreed in writing in the contract that the price may not be increased.
- For supplies between connected parties, the VAT rate depends on whether it is a supply of goods or services. For goods that are to be removed, the rate on the day the goods are removed must be charged. For goods that are not to be removed, the rate on the day that the goods are made available must be charged. For services, the prevailing rate of VAT on the day the services are physically performed must be charged.
- Where you pay for goods before 1 April 2018, but delivery of the goods only takes place after this date, the supply will generally be charged with VAT at the rate of 14% and no adjustment will be required unless you have agreed otherwise with the supplier. However, we anticipate the introduction of an anti-avoidance rule to require the rate of 15% to be charged for goods delivered more than 21 days after 1 April 2018 i.e. on or after 23 April 2018.
- Prices that are advertised for example on a menu, catalogue or website should be changed with effect from 1 April 2018. Regardless of whether these changes are made, the vendor will be required to account for 15% VAT on all transactions after 1 April 2018. A concession will be granted that allows vendors to display a notice in a store to inform customers that the prices do not include VAT at the new rate of 15% and that the prices will be adjusted at the point of payment. These notices would need to be displayed in a prominent manner and removed by 31 May 2018.
- Changes or disputes between parties to any contract will have to be resolved by the parties concerned and SARS will not get involved or rule on issues such as the terms of a contract, the intention of the parties or whether an agency relationship is present.
- Vendors that use different cut-off dates or tax periods that span the increase date will need to account for 15% VAT from 1 April 2018.
- Face value vouchers are disregarded for VAT purposes when they are sold to customers. Where the voucher is redeemed on or after 1 April 2018, 15% VAT will apply to the underling supply. Vouchers for specified goods attract VAT and will be subject to 14% VAT when they are sold before 1 April 2018.
- Debit and credit notes issued after 1 April 2018 will be subject to the VAT rate that applies in respect of the underlying supply. The same principle applies to bad debt write-offs.
- The date of importation of goods is the date that Customs clears the goods for home consumption. If the import clearance is on or after 1 April 2018, 15% VAT will apply.
- For imported services, the time of supply is the earlier of an invoice issued by the supplier (or recipient) and the time any payment is received by the supplier in respect of the imported services. The rate of VAT to apply will be the rate on the earlier of these dates.

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