

## VALUE-ADDED TAX

### Pocket Guide on the VAT rate increase on 1 April 2018

#### RATE CHANGE

The Minister of Finance announced the value-added tax (VAT) rate increase in his budget speech on 21 February 2018. The standard rate of VAT will change from 14% to 15% with effect from 1 April 2018. This means that from 1 April 2018, all taxable goods or services supplied by vendors, goods imported, as well as certain services supplied by non-residents to residents for non-taxable or private use (imported services), are subject to the VAT rate of 15%.

Some of the most important aspects to consider as a result of the increase in the VAT rate are briefly discussed below. This pocket guide is not intended to be used as legal reference. For more information, refer to the FAQs published on the SARS website.

#### TRANSACTION DATE

The VAT rate to apply depends on the time of supply rules. In simple terms, this is the date on which the transaction is deemed to occur according to the VAT Act. The general time of supply rule is the earlier of when –

- an invoice is issued; or
- payment is received.

For most transactions the general time of supply rule will apply. However, some transactions have special time of supply rules. Some examples include supplies between connected persons, fixed property transactions and supplies made under instalment credit agreements. In addition, some rate specific rules could apply when there is a change in the VAT rate. Most transactions which occur on or after 1 April 2018 will be subject to VAT at the new rate of 15% unless a special time of supply rule or a rate specific rule applies. Refer to the heading “Rate Specific Rules” in this pocket guide where some of these rules are discussed.

#### PRICES QUOTED OR ADVERTISED

All prices advertised or quoted by vendors for taxable supplies must include VAT at the standard rate (unless the supply is zero-rated). Vendors must state that the price includes VAT in any advertisement or quotation, or the different elements of the total price must be stated. That is, the total amount of VAT, the price excluding VAT and the price inclusive of VAT.

Vendors must therefore check that all price tickets, labels, quotations, advertisements, etc., reflect the new VAT rate of 15% from 1 April 2018. As a practical arrangement, the Commissioner for SARS has granted permission under proviso (iii) in section 65 of the VAT Act for a vendor to display a notice that the price does not include VAT at the new rate of 15% and prices will be adjusted at the point of payment. The notice must be prominently displayed at all entrances to the business premises and at all points where payments are effected. The notice should be removed by no later than the end of May 2018.

#### AGREEMENTS

Vendors may generally recover the price increase as a result of the increase in VAT rate from their customers. However, the increase cannot be recovered if there is a specific agreement with the customer in writing that the price cannot be increased as a result of a VAT increase. Vendors must therefore review existing agreements and those relating to offers accepted before 1 April 2018. Customers and potential customers should be informed of the increase in the total contract price as a result of the increase in the VAT rate (where applicable). Take care that all new agreements entered into from 1 April 2018 reflect the new VAT rate of 15%.

#### SALES AND BILLING SYSTEMS, ISSUING OF CASH REGISTER SLIPS, TAX INVOICES, DEBIT AND CREDIT NOTES

Vendors must ensure that sales and billing systems are updated to include VAT at 15% from 1 April 2018. Vendors should test the systems for errors, and check that transactions are processed and reflected at the correct VAT rate, in order to avoid disputes with customers. Remember that prices are deemed to include VAT at 15%, so a vendor may incur penalties and interest where the output tax is under declared as a result of the incorrect VAT rate used.

Take care that cash register slips and tax invoices issued from 1 April 2018 reflect the correct VAT rate. This will generally be 15% unless a specific time of supply rule or a rate specific rule applies. Tax invoices in respect of supplies exceeding R50 must contain the following:

- The price excluding VAT, the amount of VAT charged, and the total price including VAT; or
- Where VAT charged is calculated by applying the tax fraction to the total price (that is 15/115), the total price including VAT must be shown as well as –
  - the amount of VAT charged; or
  - a statement that the price includes VAT and the rate of 15%.

Vendors issuing debit or credit notes from 1 April 2018 must ascertain that the correct VAT rate is reflected and applied when determining the VAT amount. Debit or credit notes will generally reflect the old VAT rate of 14% where it relates to supplies of goods or services before 1 April 2018, subject to certain exceptions (refer to the heading “Rate Specific Rules” in this pocket guide). Similarly, debit or credit notes relating to supplies made after 1 April 2018 must reflect the new rate of 15%.

#### RECEIPT OF QUOTES, TAX INVOICES, CASH REGISTER SLIPS DEBIT OR CREDIT NOTES

Check that any quote received on or after 1 April 2018 correctly reflects the new VAT rate of 15%, and that the total price (including VAT) is correctly calculated before accepting the quote. Remember that an input tax claim must be supported by documentary evidence, so you should check that the amounts on cash register slips and tax invoices received on or after 1 April 2018 have been correctly calculated based on the VAT rate of 15% (subject to certain exceptions) before claiming the VAT on your VAT201 return.

In cases where tax invoices issued on or after the rate change show VAT charged at 14%, you can only claim input tax at that rate. You therefore need to contact the supplier if an incorrect VAT rate is reflected on a document, or the amount is incorrectly calculated.

Your accounting and other administrative systems must be updated to correctly reflect the VAT amount when capturing any document on the system to safeguard against an over or under claim of the VAT amount on your VAT201 return.

Confirm adjustments reflected on your VAT201 return on debit or credit notes received, are made at the correct VAT rate. This will depend on when the original goods or services were supplied (that is generally the earlier of when an invoice was issued, or payment was made). Generally, debit notes or credit notes relating to supplies made before 1 April 2018 will reflect the VAT rate of 14%, whereas debit or credit notes relating to supplies made on or after 1 April 2018 will reflect the VAT rate of 15%.

#### IMPORTATION OF GOODS

Registered importers or clearing agents must take care that the customs declarations reflect the new VAT rate of 15% in respect of goods entered for home consumption on or after 1 April 2018. Invoices issued by the clearing agent for their services in clearing the goods must reflect the correct VAT rate. The rate will depend on the time of supply rules (that is generally, the earlier of when an invoice was issued,

or payment was made), unless a special time of supply or rate specific rule applies. Refer to the heading "Rate Specific Rules" in this pocket guide.

### ACCOUNTING SYSTEMS

Vendors must ensure that accounting systems are set up to process transactions at the new VAT rate of 15% from 1 April 2018. This is to avoid any penalties or interest due to an under declaration or an over claim on your VAT201 return. In some instances, transactions processed after 1 April 2018 may be subject to the VAT rate of 14%. Alert accounting resources to certain rules and exceptions and confirm that the accounting system is able to accommodate the different rates.

### VAT201 RETURNS

Vendors under Category B (March/April), Category E (annual return) and most farmers registered under Category D VAT reporting periods, will have transactions subject to the VAT rate of 14% and 15% which must be correctly reflected on the VAT201 return.

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 VAT 201 return and related systems will be updated to process the relevant calculations at the new rate of 15%. More details in this regard will be communicated in due course.

You must make sure that you apply the correct VAT rate when calculating the input tax on goods or services acquired, or adjustments before and on or after 1 April 2018 respectively. Also take note of the rate specific rules which may apply to certain transactions.

### RATE SPECIFIC RULES

The VAT Act contains rate specific rules that apply to certain transactions when the VAT rate is increased. If a rate specific rule applies, you must still account for output tax according to the normal time of supply rules, but the VAT rate to be used will be determined under the rate specific rule. Some of these rules are addressed below.

*Goods delivered or services performed before 1 April 2018* – VAT at the rate of 14% applies to goods (excluding non-residential fixed property) delivered, or services actually performed before 1 April 2018, even though the time of supply is triggered on or after 1 April 2018. This rate specific rule, however, does not apply if the time of supply has been triggered (for example, by the issuing of an invoice or payment being made) before 1 April 2018.

*Supplies starting before and ending on or after 1 April 2018* – Where goods are delivered or services are performed during a period commencing before 1 April 2018 and ending on or after 1 April 2018, the VAT-exclusive price of the supply must be apportioned on a fair and reasonable basis and allocated to the respective periods. The VAT rate is then applied accordingly. That is, the rate of 14% is applied to the value of supplies before 1 April 2018 and the rate of 15% is applied to the value of supplies from 1 April 2018 onwards. This rule does not apply if the time of supply is triggered before 1 April 2018.

This rate specific rule applies to –

- goods supplied under rental agreements;
  - goods supplied progressively or periodically;
  - goods or services supplied in construction activities; and
  - services rendered over the period concerned,
- but does not apply to supplies of fixed property (including residential fixed property).

*Goods delivered or services actually performed on or after 1 April 2018 where the time of supply is triggered between 21 February 2018 and 31 March 2018* – Rate specific rules also apply where the time of supply occurs between 21 February and 31 March 2018 (that is, on or after the date of the announcement of the increased VAT rate, but before the effective date of the increased rate). Under this rule, when goods are delivered on or after 23 April 2018, or services are performed on or after 1 April 2018, but the time of supply is triggered between 21 February and 31 March 2018 as a result of any invoicing or payment in relation to the supply, then VAT at the rate of 15% applies. However, if the goods are delivered before 23 April 2018 (that is, within 21 days after 1 April 2018), or the services are rendered before 1 April 2018, then the supplies concerned will be subject to VAT at 14%.

These rate specific rules do not apply –

- where it is an established business practice for payments to be made, or invoices to be issued before the supplies are made;
- in respect of the sale of residential property, certain real rights in residential property and shares in residential share block companies;
- to the construction of a new dwelling by a construction enterprise.

The rate specific rules do, however, apply to non-residential fixed property.

### Supply of residential fixed property

Even if the time of supply is triggered after 1 April 2018 due to payment or registration of the property in the purchaser's name in a Deeds Registry taking place, the supply of residential fixed property could be subject to VAT at 14%.

This rate specific rule only applies if –

- the contract for the supply was concluded before 1 April 2018; and
- both the payment of the purchase price and the registration of the property will occur on or after 1 April 2018; and
- the VAT-inclusive purchase price was determined and stated as such in the agreement.

For purposes of this rule, "residential property" includes a dwelling and certain real rights and shares in share block companies relating to a right of occupation of or interest in a dwelling. The construction of a new dwelling by a construction enterprise is also included.

### Lay-by agreements

The VAT rate of 14% applies in the case of goods supplied under a lay-by agreement if that agreement was concluded before 1 April 2018 and the lay-by amount to set aside the goods was also paid by that date. The supply of goods under lay-by agreements concluded on or after 1 April 2018 is subject to VAT at 15%.

If the lay-by agreement is later cancelled or terminated, the supplier must account for VAT on any amount retained in the VAT reporting period concerned. The old tax fraction of 14/114 must be used where the agreement was concluded and the amount to set aside the goods was paid before 1 April 2018. Otherwise the new tax fraction of 15/115 must be used.

### FURTHER INFORMATION

For more information refer to the FAQs that are available on the SARS website [www.sars.gov.za](http://www.sars.gov.za). Should you have an enquiry which is not addressed in this pocket guide or in the FAQs, you can send your enquiry to [VATRateEnquiries@sars.gov.za](mailto:VATRateEnquiries@sars.gov.za).

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