Budget 2025

Tax Alert

Responsible growth for a sustainable future

VAT rate increase

14 March 2025

In brief

The Minister of Finance (the "Minister") announced the various tax proposals in the 2025 Budget Review on Wednesday 12 March 2025.

In detail

VAT rate increase to 15.5%

As part of the Budget proposals, the VAT rate is to be increased by 0.5% to 15.5% with effect from 1 May 2025, and further increased by 0.5% to 16% effective from 1 April 2026.

The VAT Act permits for the increase in the VAT rate to 15.5% to become effective from the "effective date" (i.e. 1 May 2025) as announced by the Minister of Finance and must be applied by vendors from this date. The legislation to give effect to this VAT rate change need only be passed within 12 months from the announcement date.

As the effective date of the first VAT rate increase is quite soon (a short implementation timeline) we encourage vendors to act quickly to ensure compliance. It is important for vendors to be aware of the transitional rules applicable when the VAT rate increases. These rules must be carefully considered and implemented.

It should also be noted that the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill ("Bill") contains an amendment for the next increase in the VAT rate from 15.5% to 16%.

To alleviate the burden of the increased tax on consumers, additional zero-rated food items will be added to the existing 21 essential food items. These food items will include more meat, vegetable products and dairy liquid blend.

The Bill contains the proposed specific items to be included in Schedule 2 as follows:

Item 22: Edible offal, being the offal of domesticated cattle and the species gallus domesticus, ovine, porcine and caprine, that are fit for human consumption, excluding raw processed meat products, being–

(a) in relation to domesticated cattle and the species ovine, porcine and caprine: Livers, hearts, kidneys, soup and marrow bones, tails, ears, tongues, intestines, cleaned tripe, heads and trotters; and

(b) in relation to the species gallus domesticus: Heads, feet, giblets and cleaned intestines.

Item 23: Dairy liquid blend, unflavoured, which falls under the following classifications determined by the Minister of Agriculture under the Agricultural Product Standards Act, 1990 (Act No. 119 of 1990), or any Regulation under that Act:

- High-fat dairy liquid blend
- Full-fat dairy liquid blend
- Medium-fat dairy liquid blend
- Low-fat dairy liquid blend
- Fat-free dairy liquid blend

Item 24: Canned vegetables, as determined by the Minister of Agriculture under the Agricultural Product Standards Act, 1990 (Act No. 119 of 1990), in the Regulations in terms of Government Notice No. R.2826 published in Government Gazette No. 47634 of 2 December 2022, being:

- Beans, dried, tinned
- Beans, green, tinned
- Peas, fresh, tinned
- Peas, dried, tinned

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The additional zero-rated items amendment is indicated to come into effect on **1 May 2025** although it is uncertain as to whether the Bill will in fact be enacted by 1 May 2025. Note that vendors should carefully consider this before starting to apply the zero-rating to the newly listed items.

We have summarised below some of the general considerations that vendors will have to focus on to plan, process and implement to ensure compliance by the effective date.

System updates

An important consideration is how vendors will configure systems to implement the new VAT rate with an effective date of 1 May 2025 (and potentially a second increase on 1 April 2026). This includes understanding your VAT accounting systems and any secondary systems that may have an impact on the VAT accounting (for example billing, point-of-sale and other systems).

VAT accounting systems and potentially the secondary systems will need to be reconfigured to cater for the transitional rules to ensure that VAT at the correct rate is charged and for the deduction of input tax on purchases at different rates.

Further to the above, due to the staggered increase over the course of two years, it is likely that vendors' systems will need to be able to account for VAT at three different rates for a period of time.

Transitional provisions and anti-avoidance

There are several transitional rules which are generally anti-avoidance measures that must be taken into account for all supplies made on or after the announcement date (12 March 2025) of the VAT rate increase.

An understanding of these rules is essential to ensure that the correct VAT rate is applied to supplies and purchases made. Where the incorrect VAT rate is charged, it can have a detrimental impact on the vendor, especially where it is not entitled to a full recovery of the VAT paid.

An important consideration in the transitional rules to determine the correct VAT rate applicable is the date of delivery of the goods or the performance of the service. Continuous supplies, for example progressive supplies which span across the implementation date (1 May 2025), might need to be apportioned which can also cause complexities. In addition, there are certain special rules that apply to residential property and lay-by agreements.

Practical matters

Vendors will have to update their processes and procedures to account for VAT being disclosed at different rates, i.e. 15%, 15.5% and 16%. This includes VAT return templates and schedules, as well as reconciliations. In addition, the following should also be considered:

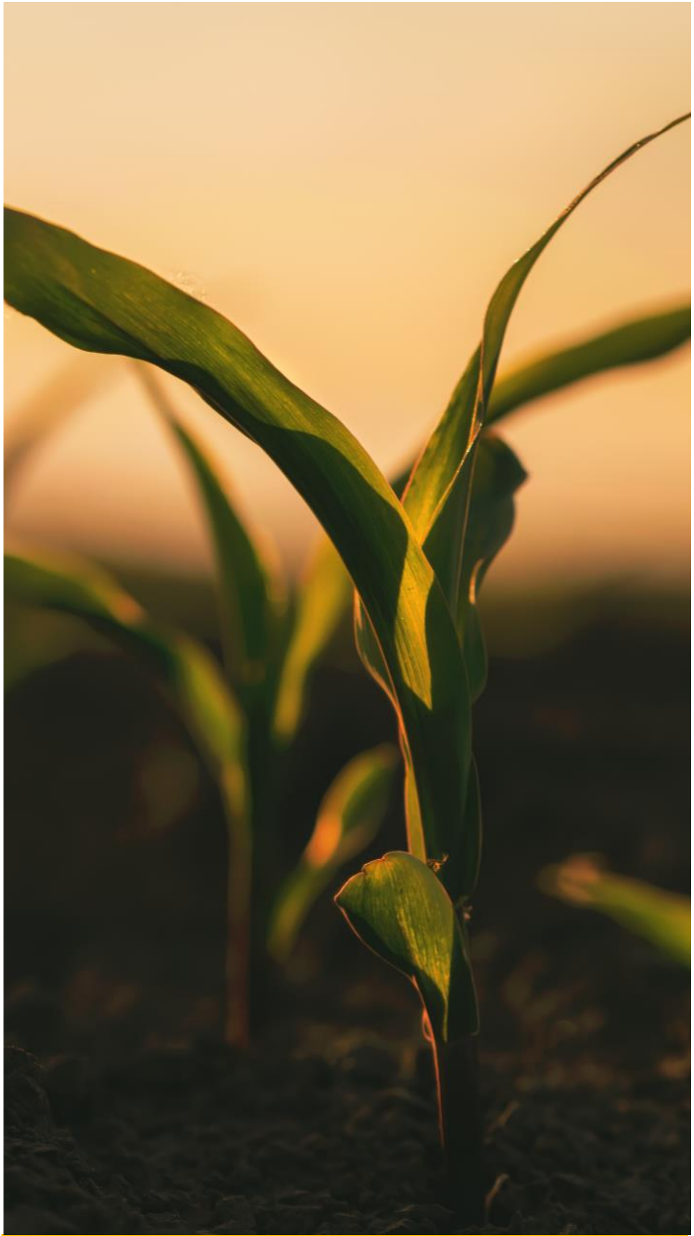
- Budgeting processes
- Reviewing or negotiating new/existing contracts
- Prices displayed
- Prices advertised/quoted
- Catalogues and marketing materials
- Apportionment of input tax and the corresponding annual adjustments
- Adjustment events like bad debt write offs, debit and credit notes, insurance proceeds received and fixed asset adjustments

Risk of non-compliance

Vendors who have not implemented the change in the VAT rate are at risk of being non-compliant which may lead to unnecessary penalties and interest becoming applicable. The required changes and actions to be taken by vendors may be different for each organisation based on its system requirements, type of business etc.

Takeaway

As mentioned, attention should be given to the various practical measures and implications of the intended increase in the VAT rate with effect from 1 May 2025. The implementation period is short, and we urge vendors to be proactive and start implementing the necessary changes to accommodate the increased rate. There is much uncertainty experienced at the moment as to whether the increase in the rate will be passed in law and whether the Bill will be passed on time to give vendors comfort on the zero-rated items. We therefore recommend you contact your tax advisors for any clarification and support needed.



Let’s talk

For a deeper discussion of how this issue might affect your business, please contact:

Matthew Besanko

Indirect Tax Leader
m.besanko@pwc.com

Rodney Govender

Partner: Value-Added Tax
rodney.govender@pwc.com

Joandri Fourie

Senior Manager: Value-Added Tax
joandri.fourie@pwc.com