

# Tax Alert

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## Reversal of VAT rate increase

25 April 2025

### In brief

The Minister of Finance ("the Minister") issued a Media Statement on 24 April 2025 indicating the intention to maintain the VAT rate at 15%. In addition, the Rates and Monetary Amounts and Amendment of Revenue Laws Bill ("the Bill") was tabled confirming this intention.

### In detail

#### VAT rate increase to be reversed

As part of the 2025 Budget, it was proposed by the Minister that the VAT rate would 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.

In addition to this, to alleviate the burden of the proposed increased tax on consumers, especially low-income households, it was further proposed that certain additional zero-rated food items be added to the existing list of essential food items.

The above-mentioned changes, that is both the increase in the rate and the additional zero-rated items, were included in the initial draft Bill issued by National Treasury in March 2025.

The 2025 Budget, especially the proposed VAT rate increase, had been subjected to much scrutiny, political debate and court processes, all of which created a high level of uncertainty as to whether to prepare for the implementation of the rate increase or not.

The Ministry of Finance published a media statement on 24 April 2025 indicating that the Bill will be introduced retaining the VAT rate at the current rate of 15%.

In other words, an increase in the rate is no longer proposed by the Minister.

The Bill was tabled by National Treasury today and contains a proposed amendment that indicates that despite the operation of section 7(4) of the VAT Act and the previous announcement by the Minister on 12 March 2025, the rate increase **will not come into effect** (that is, it remains at 15%). This proposed amendment is intended to become effective from 1 May 2025.

As no increase in the rate is intended to take place, the proposed additional zero-rated food items will also no longer be needed and were removed from the amended Bill.

### Practicalities

As much as the Bill retaining the rate at 15% has been tabled by the Minister, it is unlikely that this Bill will be approved by Parliament and promulgated before 1 May 2025. The original announcement therefore remains in force in terms of section 7(4) of the VAT Act until the promulgation of the Bill withdrawing it. Therefore, as it stands, the VAT rate will increase on 1 May 2025 and will be undone when the Bill is promulgated.

Increasing the rate in practice from 1 May 2025 to 15.5% will result in substantial practical difficulties as it is intended to retain the rate at 15% by backdating it to 1 May 2025 once the Bill is promulgated. In other words, if the higher rate is now levied from 1 May 2025 and the Bill passed into law, the additional 0.5% levied will have to be refunded to vendors and to consumers resulting in substantial administrative and compliance burdens. Levying VAT at the higher rate is also likely to result in significant public discontent in light of the announcement.

It should be further noted that the VAT rate increase is subject to a legal challenge in the Western Cape High Court in respect of which a decision is expected to be issued by 29 April 2025. It is also understood that government has proposed a settlement in relation to this matter. Accordingly, it may well happen that a settlement is reached to set aside the VAT increase and that this is made an order of court before 1 May 2025 and which will give legal effect to the stated intent.

## SARS media release

Subsequently, SARS published a media release to provide the following measures applicable to all VAT vendors with effect from 1 May 2025:

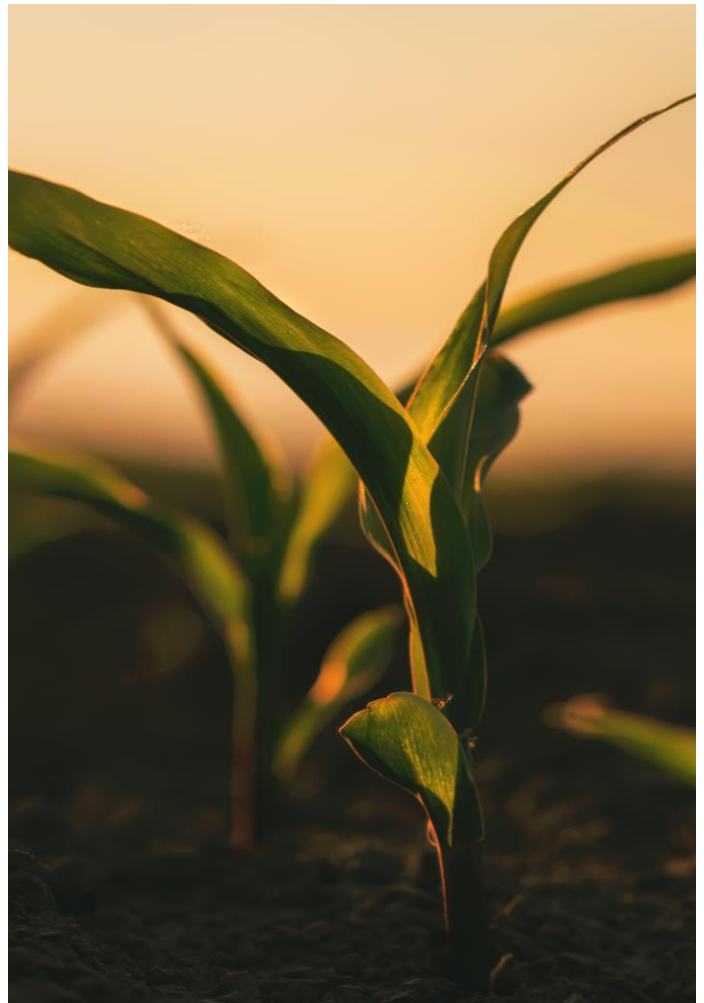
- *VAT vendors who have not implemented the change in rate, stop all development in this regard.*
- *Vendors are expected to charge VAT at the rate of 15% and not 15.5% for the relevant goods and services as per the VAT Act. Vendors may use limited time to adjust their systems accordingly and report and pay the VAT.*
- *Should a vendor not be able to revert to the 15% rate, due to complex system changes that may be needed, such supplies and purchases must be reported and accounted for at the 15.5% rate until such time that you are able to make the necessary system adjustments which should be completed by no later than 15 May 2025.*
- *VAT transactions which were charged at 15.5% must be reported in field 12 (for output tax) and field 18 (for input tax) of the VAT return.*
- *Adjustments in the form of refunds of the 0.5% rate to customers and from suppliers must equally be reported in fields 12 and 18 respectively.*
- *The VAT return declarations made will be taken into consideration when verifications and/or audits on the affected VAT tax periods are conducted.*
- *The VAT returns that are to be submitted will continue to calculate the VAT auto calculation using the 15% rate from tax periods or months commencing 1 May 2025.*
- *Vendors who have already implemented both the rate changes and the zero-rating are encouraged to reverse those changes before 1 May 2025.*

## Takeaway

The Minister's intention has been clearly indicated not to pursue the proposed VAT rate increase.

Vendors should continue to monitor developments in this regard and take into account the SARS guidance regarding the VAT rate change.

Should you have questions or continue to experience uncertainty, we recommend that you contact your tax advisors for clarification and support needed.



## Let's talk

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

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