

# Tax Alert



## Tax amendments: Electronically supplied services

18 March 2025

### In brief

The scope of electronic services has undergone significant changes since its introduction, impacting the VAT registration obligations of foreign electronic services suppliers ("ESS").

The latest amended ESS regulations were published in **Government Gazette No. 52293 of 14 March 2025**. The latest regulations add a further exclusion to the definition of "electronic services" relating to business-to-business ("B2B") supplies. We summarize the proposed changes and their potential impact below.

### In detail

#### Background

Foreign suppliers of electronic services to recipients in South Africa ("SA") are required to register and account for VAT subject to certain requirements.

The first regulations which defined the ambit of electronic services were introduced in March 2014 and contained specific categories of services which constituted ESS.

While the 2014 regulations did not expressly distinguish between business-to-consumer ("B2C") and B2B supplies, the categories of services introduced at the time primarily consisted of services which would ordinarily have been acquired by private individuals, as opposed to businesses.

With effect from 1 April 2019, the regulations were amended to significantly broaden the scope of electronic services and made no distinction between B2B and B2C supplies. Effectively, all services *"supplied by means of an electronic agent, electronic communication or the internet for any consideration"* were deemed to be electronic services with just a few exceptions, being:

- Educational services (by a registered institution)
- Telecommunication services
- Groups of companies in certain circumstances.

The ESS regulations have once again been updated with an additional exclusion of certain B2B supplies which can have a major impact on the VAT requirements for foreign ESS suppliers.

## What's changed?

Among the amended regulations, the most significant change is found in regulation 2(d), which now excludes the following from the definition of "electronic services":

*Services supplied from a place in an export country by a person that is not a resident of SA, where such services are supplied solely to registered vendors.*

## What does this mean?

Foreign suppliers making only (solely) B2B supplies are now out of the scope for VAT purposes in South Africa.

Importantly, the exclusion only applies to suppliers solely making B2B supplies to registered vendors. Therefore, foreign electronic service suppliers who **solely** supply such services to VAT vendors will no longer be required to register or remain registered as a vendor. Such vendors can now apply for deregistration with effect from 1 April 2025.

Note that if the ESS supplier has mainly B2B supplies with one non-vendor customer(s) in SA, it will have to remain registered and continue to levy and account for VAT on **all** supplies made, that is, all its B2C and B2B supplies.

As such, it is important to note that the newly added exclusion is not a blanket exclusion for all B2B supplies. There is a condition that the supplier must **only** supply electronic services to registered vendors, and it cannot have any B2C supplies.

The South African customer should also pay attention to this change as it can have an effect on their VAT obligations. For example, if the supplier deregisters for VAT, the SA customer will have to assess their use of this service and determine whether it will be required to account for VAT on this imported service.

## What is next?

Vendors who supply electronic services to SA customers must consider the following carefully:

- Are the amended regulations applicable to you?
- What is the makeup of your customer base? That is, do you make supplies to both vendors and non-vendors?
- Whether you are required to de-register for VAT in SA.
- What does the de-registration process entail?
- When do you need to stop accounting for VAT on the relevant supplies, if you are required to deregister?
- If you are required to deregister, what system changes would need to be implemented to facilitate the deregistration?
- If you qualify for the exclusion, you should ensure that your business collects the VAT numbers of recipients and you should keep updated information to prove that your customer base only consists of VAT registered businesses.



## Takeaway

We encourage ESS suppliers to be proactive and start evaluating and considering the application of the changes to your business as soon as possible.

The implementation period is short, as the amended regulations will come into effect on 1 April 2025.

There may be some uncertainty in understanding whether your business falls within the ambit of electronic services going forward. We therefore recommend you contact your tax advisors for any clarification and support needed in processing these changes.



## Let's talk

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

### Subject matter experts

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