

# Tax & Legal News Alert

**March 2025**

## **Value-Added Tax: VAT Rate Increase**

The Minister of Finance announced a VAT rate increase in the Budget Speech on 12 March 2025. While Parliament must still pass the relevant legislation, it is important to prepare for a potential 0.5 percentage point increase, which could take effect on 1 May 2025, with a further increase of 0.5 percentage points expected on 1 April 2026.

Many vendors may not have needed to consider transitional provisions in recent years, as the last VAT rate increase occurred in 2018. However, these provisions are now critical and provide specific rules on whether the old or new VAT rate applies to transactions. It's important to note that these provisions do not replace the time-of-supply rules in section 9 of the VAT Act, which govern VAT liability but are separate from the transitional rules.

Transitional provisions primarily determine which VAT rate applies to transactions based on their timing relative to the effective date of the increase. Vendors should understand that the time of supply does not necessarily dictate which VAT rate applies — rather, the transitional provisions provide rules for applying the correct rate in the event of a rate change. They also include an anti-avoidance provision to prevent vendors from pre-invoicing for goods or services to be supplied after the rate increase to take advantage of the lower rate.

Key trigger points under the transitional provisions include:

- *Goods* (excluding fixed property): Date of delivery.
- *Sale of fixed property*: Date of registration in the deeds registry.
- *Goods under rental agreements*: Date the lessee takes possession.
- *Services*: Date the service is performed.

For fixed property to be used as a dwelling, a special rule applies, i.e. if a written agreement is concluded before the effective date, the old VAT rate applies. For price adjustments such as discounts, rebates, or returns, the VAT rate applied to the original supply will be used for subsequent changes.

It is essential to recognise that ERP/accounting systems may not automatically track the necessary details, and manual record-keeping could be required to ensure the correct VAT rate is applied. Even though there is still uncertainty regarding the VAT rate change, given the limited time before 1 May 2025, vendors are urged to familiarize themselves with the transitional

provisions, assess required changes to their systems, and implement processes to monitor VAT rates on a transaction-by-transaction basis.

Vendors should not assume that they are entitled to claim the 15.5% VAT charged by suppliers based solely on the tax invoice. According to section 21 of the VAT Act, if a vendor receives an invoice showing VAT charged in excess of the proper amount, they are only entitled to claim the correct VAT as input tax.

SARS has issued a guidance document titled "Frequently Asked Questions," published on 13 March 2025, which further clarifies the transitional provisions.

**For more information and assistance, please contact:**



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