

**A31 of 2018**

**VALUE ADDED TAX (VAT) INCREASE ON TARIFFS FOR THE 2017/18.**  
**(EXECUTIVE MAYOR) (6/5)**

**PURPOSE**

To request Council for the approval of the increase in VAT from 14% to 15% with effect from 1 April 2018.

**BACKGROUND**

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 per cent to 15 per cent with effect from 1 April 2018 all taxable goods or service supplied by vendors are subject to the VAT rate of 15%.

**DISCUSSIONS**

VAT will increase from 14 per cent to 15 per cent from April 2018. In terms of Section 7(4) of Value-Added Tax Act (No. 89 of 1991), the VAT increase takes effect on 1 April. It is a tax increase as result of tax legislation that municipalities must implement and not an increase of tariffs by the municipalities. Therefore Section 28(6) of the Municipal Finance Management Act, 2003 (No. 56 of 2003) (MFMA), is not applicable in this regard.

Whether the additional amount is recoverable from the customer or not, the supplier must account for VAT on any supplies made on or after 1 April 2018 at the increased VAT rate.

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.

**FINANCIAL IMPLICATIONS**

Billing system to include VAT at 15% from 1 April 2018.

**LEGAL IMPLICATIONS**

Section 7(4) of Value Added Tax Act No. 89 of 1991  
Municipal Finance Management Act, Budget Circular 91

**SUBMITTED FOR APPROVAL**