

## South Africa proposes to postpone implementation of expanded E-services VAT regulations to 1 April 2019

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South Africa's National Treasury has proposed the postponement of the implementation date for the Draft Regulations expanding the definition of "electronic services" (E-services) for value added tax (VAT) purposes to 1 April 2019 to allow sufficient time for businesses to make the required adjustments under the new regulations. The initial date proposed for implementation was 1 October 2018.

### Background

In South Africa's 2018 National Budget Speech, released on 21 February 2018, the Minister of Finance stated that the regulations defining E-services for VAT purposes would be updated and on the same date released amended draft regulations.

As of 1 June 2014, foreign suppliers of E-services into South Africa are required to register and account for VAT in South Africa. The current regulations defining E-services, include a very specific list of services and only foreign suppliers of these services are subject to South African VAT.

In the 2018 draft regulations, the Minister of Finance intends to delete the specific types of services currently regarded as E-services and to include any type of service supplied electronically. The only exclusions under the draft regulations are for educational services supplied by a person regulated by an educational authority in an export country and telecommunications services.

The impact of this proposed amendment stretches widely and any multinational group of companies with a cost sharing structure will need to analyze whether its intergroup transactions subjects a nonresident supplier to South African VAT.

Subsequent to the release of the draft regulations, the National Treasury and South African Revenue Service held workshops with stakeholders to discuss their comments on the *2018 Draft Regulations Prescribing Electronic Services*.

## Next steps

National Treasury released its response document to the 2018 Draft Rates Bill and has also proposed postponing the implementation date for the Draft Regulations defining E-Services to 1 April 2019 to allow sufficient time for businesses to make the required adjustments. The initial date proposed for implementation was 1 October 2018.

In the response document, National Treasury also proposes that changes be made in the 2018 Draft Rates Bill to increase the registration threshold for the purposes of E-services providers to R1 million.

Note that the final regulations must however still be issued by National Treasury.

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