

Foreign suppliers of electronic services must register with SARS



By [Graeme Palmer](#)

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Advances in technology have seen a significant increase in e-commerce transactions where goods and services are supplied to South African consumers through the medium of the internet. The Value Added Tax Act requires VAT to be charged on these transactions at the standard rate of 14%.



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A South African supplier of e-commerce services would therefore register as a VAT vendor, submit returns, and pay over the tax collected to the South African Revenue Services (SARS).

However, local and foreign suppliers of e-commerce services have not been competing with each other in the South African market on a level playing field. Local suppliers were obliged to include VAT on their sales while their foreign counterparts were not, allowing them to sell to South African consumers at lower prices. Previously an onus was placed on the consumer to pay the VAT on imported e-commerce goods and services from abroad. But enforcing compliance with this system was impossible.

Implementation date

The VAT Act was thus amended to compel suppliers of electronic services to South African residents where payment for such services originates from a South African bank to register as VAT vendors. On 28 March 2014 the Minister of Finance published the final Regulations to give effect to these amendments. These Regulations will be implemented on 1 June this year to give foreign based suppliers of electronic services time to get their systems ready and register with SARS.

According to the Regulations electronic services include the supply of:

- internet-based auction services;
- games and games of chance, including electronic betting or wagering;
- e-books, music, audio visual content and still images;
- subscription services, such as magazines, newspapers, journals, social networking services, websites, and blogs; and
- educational services, such as internet-based courses or education programmes. But excluded are educational services where the service provider is registered with an educational authority in the 'export' country.

The new Regulations are not without problems. It is not clear how SARS will enforce the Regulations against foreign suppliers of electronic services who do not comply. Further, foreign suppliers will be obliged to register for VAT at the end of the month where the total value of taxable supplies made exceeds R50,000. This is a low registration threshold which will draw many smaller foreign suppliers into the net, many of whom will not be aware of the changes to South African legislation.

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