

As of 1 April 2018, the effective VAT rate will rise from 14% to 15%. There are important aspects to consider as a result of the increase. The VAT rate to apply to transactions depends on the "time of supply rules". This is the date on which the transaction is deemed to occur according to the VAT Act. The general time of supply rule is the "earlier" of when (a) an invoice is issued or (b) payment is received.

Accounting Systems

Accounting systems must be updated to process transactions at the new VAT rate of 15% from 1 April 2018. However, in some instances, transactions processed after 1 April 2018 may be subject to the VAT rate of **14%**. It must therefore be ensured that the accounting system is able to accommodate the different rates. The following are examples of such transactions:

- *Goods delivered or services performed before 1 April 2018* – VAT at the rate of 14% applies to goods (excluding non-residential fixed property) delivered, or services actually performed before 1 April 2018, even though the time of supply is triggered on or after 1 April 2018. This rate specific rule, however, does not apply if the time of supply has been triggered (for example, by the issuing of an invoice or payment being made) before 1 April 2018.
- *Supplies starting before and ending on or after 1 April 2018* – Where goods are delivered or services are performed during a period commencing before 1 April 2018 and ending on or after 1 April 2018, the VAT-exclusive price of the supply must be apportioned on a fair and reasonable basis and allocated to the respective periods. The VAT rate is then applied accordingly. That is, the rate of 14% is applied to the value of supplies before 1 April 2018 and the rate of 15% is applied to the value of supplies from 1 April 2018 onwards. This rule does not apply if the time of supply is triggered before 1 April 2018.

This rate specific rule applies to – goods supplied under rental agreements; goods supplied progressively or periodically; goods or services supplied in construction activities; and services rendered over the period concerned, but does not apply to supplies of fixed property (including residential fixed property).

- *Goods delivered or services actually performed on or after 1 April 2018 where the time of supply is triggered between 21 February 2018 and 31 March 2018* – Rate specific rules also apply where the time of supply occurs between 21 February and 31 March 2018 (that is, on or after the date of the announcement of the increased VAT rate, but before the effective date of the increased rate). Under this rule, when goods are delivered on or after 23 April 2018, or services are performed on or after 1 April 2018, but the time of supply is triggered between 21 February and 31 March 2018 as a result of any invoicing or payment in relation to the supply, then VAT at the rate of 15% applies. However, if the goods are delivered before 23 April 2018 (that is, within 21

days after 1 April 2018), or the services are rendered before 1 April 2018, then the supplies concerned will be subject to VAT at 14%. These rate specific rules do not apply –

- where it is an established business practice for payments to be made, or invoices to be issued before the supplies are made;
- in respect of the sale of residential property, certain real rights in residential property and shares in residential share block companies;
- to the construction of a new dwelling by a construction enterprise.
The rate specific rules do, however, apply to non-residential fixed property.

▪ *Supply of residential fixed property*

Even if the time of supply is triggered after 1 April 2018 due to payment or registration of the property in the purchaser's name in a Deeds Registry taking place, the supply of residential fixed property could be subject to VAT at 14%. This rate specific rule only applies if –

- the contract for the supply was concluded before 1 April 2018; and
- both the payment of the purchase price and the registration of the property will occur on or after 1 April 2018; and
- the VAT-inclusive purchase price was determined and stated as such in the agreement.

For purposes of this rule, "residential property" includes a dwelling and certain real rights and shares in share block companies relating to a right of occupation of or interest in a dwelling. The construction of a new dwelling by a construction enterprise is also included.

▪ *Lay-by agreements*

The VAT rate of 14% applies in the case of goods supplied under a lay-by agreement if that agreement was concluded before 1 April 2018 and the lay-by amount to set aside the goods was also paid by that date. The supply of goods under lay-by agreements concluded on or after 1 April 2018 is subject to VAT at 15%.

If the lay-by agreement is later cancelled or terminated, the supplier must account for VAT on any amount retained in the VAT reporting period concerned. The old tax fraction of 14/114 must be used where the agreement was concluded and the amount to set aside the goods was paid before 1 April 2018. Otherwise the new tax fraction of 15/115 must be used.

Review existing agreements

Existing agreements and those relating to offers accepted before 1 April 2018 must be reviewed and the other parties to the agreement should be informed of the increase in the total contract price as a result of the increase in the VAT rate. All new agreements entered into from 1 April 2018 should reflect the new VAT rate of 15%.