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In this edition, we talk about the Reversal of the VAT Increase: Implications for the Public Sector, Auditors, Accountants, and Citizens of South Africa.

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REVERSAL OF THE VAT INCREASE: IMPLICATIONS FOR THE PUBLIC SECTOR, AUDITORS, ACCOUNTANTS, AND CITIZENS OF SOUTH AFRICA

Introduction: A Turning Point in Fiscal Planning

In a significant policy shift, the South African Minister of Finance has announced the reversal of the proposed increase in the Value-Added Tax (VAT) rate, opting instead to maintain it at 15% from 1 May 2025.

Initially tabled in the Budget earlier this year, the increase was meant to strengthen public finances and fund essential services. The decision to forego this adjustment is not only a fiscal recalibration—it reflects a deeper balancing act between safeguarding household welfare and maintaining the health of the national budget. While this offers welcome relief for many South Africans grappling with high living costs, it also introduces fiscal trade-offs that will profoundly affect the public sector and the professionals who manage its finances.

Understanding the Fiscal Context

The proposed VAT increase was primarily driven by the need to restore funding to critical frontline services such as health care, education, and policing—services that have borne the brunt of fiscal austerity. South Africa's constrained public finances left few alternatives for boosting revenue, and VAT, as a consumption-based tax, is typically one of the more stable sources of income for government.

However, extensive consultations with political stakeholders and parliamentary committees led to a decision to maintain the current rate. This is expected to create a revenue shortfall of approximately R75 billion over the medium term. To address this gap, the Minister of Finance has initiated the withdrawal of the Appropriation Bill and the Division of Revenue Bill, with a commitment to present revised versions that reflect expenditure cuts and adjustments.

Implications for Citizens of South Africa

For the average South African, particularly those in low- to middle-income households, the decision not to raise VAT comes as a crucial reprieve amid persistent economic pressures. Here's how:

1. Cost-of-Living Relief

VAT affects all consumers, especially those who spend a large portion of their income on goods and services. By keeping VAT at 15%, government avoids placing additional strain on households already grappling with food price inflation, fuel costs, and high unemployment.

2. Access to Basic Goods and Services

Many essential items, such as basic foodstuffs, are zero-rated. However, non-zero-rated goods and services make up a significant portion of household expenditure. Holding the VAT rate steady preserves some purchasing power for ordinary citizens, helping to maintain living standards.

3. Social Protection and Stability

Had the VAT increase gone ahead, the government had planned to implement targeted cushioning measures for poorer households. With the increase shelved, those mitigation measures may no longer be necessary—but at the cost of having less room in the budget for social grants, healthcare, and education. Citizens may thus face trade-offs in the quantity and quality of public services delivered.

4. Increased Fiscal Scrutiny

Citizens will likely become more engaged in monitoring how government manages the reduced fiscal space. Transparency, accountability, and good governance will become even more critical to ensure that spending cuts do not disproportionately affect vulnerable groups.

Implications for the Public Sector

This fiscal shift will reshape how government departments plan, spend, and account for their resources:

1. Reprioritisation of Expenditure

Government departments will have to cut or delay projects and reallocate funds more strategically. This will test their planning frameworks and capacity to deliver services efficiently.

2. Increased Pressure on Financial Managers

Public sector accountants and financial officers will be expected to do more with less—requiring innovative cost containment, greater efficiency, and prudent fiscal planning.

3. Tighter Audit and Oversight Mandates

Auditors will need to intensify their focus on whether reduced budgets compromise service delivery mandates or create new risks, such as the under-provision of services or non-compliance with performance targets.

4. Renewed Focus on Value for Money

With less revenue to work with, public sector entities must ensure that every rand is spent effectively. Auditors, particularly those conducting performance audits, will play a key role in assessing whether budget cuts still lead to impactful outcomes.

Relevance for Public Sector Auditors and Accountants

The reversal of the VAT increase reinforces the strategic importance of financial professionals in the public sector. Their roles are central to:

- **Maintaining Fiscal Discipline:** Ensuring that departments stick to revised ceilings and avoid unauthorized or wasteful expenditure.
- **Financial Reforecasting:** Recalculating revenue and expenditure projections in light of new fiscal assumptions.
- **Advisory and Compliance:** Supporting decision-makers in understanding the financial implications of policy decisions and ensuring legal compliance.
- **Enhancing Public Confidence:** Transparent financial reporting and robust audit findings can build citizen trust in the government's ability to manage public funds responsibly.

Conclusion: Building Resilience Through Fiscal Stewardship

The decision to halt the VAT increase is a short-term relief for South African citizens, and a politically sensitive yet socially conscious move. However, it does not eliminate the underlying challenges in public finance management. Instead, it shifts the burden from tax policy to expenditure control, placing a spotlight on the integrity, efficiency, and resilience of the public sector.

Auditors and accountants now become key actors in ensuring that the state's response is not reactive, but strategic—anchored in fiscal responsibility, transparent governance, and an unwavering commitment to public value. Likewise, citizens must remain engaged and informed, demanding both accountability and equity as government navigates this complex fiscal terrain.

South Africa's ability to emerge stronger from this decision will depend on how well the public sector, guided by its financial professionals, manages limited resources without compromising service delivery or long-term sustainability. In this regard, the reversal of the VAT hike is not an end, but the beginning of a more challenging chapter in the country's fiscal journey.

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Issued by the Southern African Institute of Government Auditors

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The Southern African Institute of Government Auditors is a non-profit professional body that certifies and develops finance and auditing professionals in the public sector. SAIGA represents a unique brand of professionals, the Registered Government Auditors (RGA) in the public sector and academia. SAIGA is the sole provider of the RGA, which is regarded as the highest professional qualification in public sector auditing.

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