

Change in VAT has retailers scrambling

By [Nick Hedley](#)

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A month before higher value added tax (VAT) rates take effect, retailers are scrambling to adjust their systems and ensure compliance.



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Former finance minister Malusi Gigaba announced an increase in VAT from 14% to 15%. The hike would be effective from 1 April.

In addition to the need for systems upgrades, retailers must contend with a number of complexities. One conundrum is whether to abandon psychological pricing points - or prices that are not whole numbers. For instance, a retailer may have to either absorb the VAT hike on a product priced at R99.99 or pass it on to consumers by raising the price to over R100.

"I think retailers now have to consider whether they take the hit and keep those psychological barriers, how much are they worth, and [whether] they are even real," said Gareth Hawkey, CEO of enterprise retail software firm RedPanda Software.

But Daniel Isaacs, an analyst at 36One Asset Management, expects retailers to hang on to psychological pricing strategies. "I don't think they will abandon those price points - it will be made up in the margin either by de-engineering the product or taking out some fixed costs," Isaacs said.

Hawkey said many retailers would also have to contend with accounting issues, as their financial month ends and year ends did not usually fall on the first of the month. This meant they would have to combine two VAT rates in March/April.

Hawkey said RedPanda Software was working with all retail clients on system upgrades. "In fact, on the night of the [budget], as soon as minister Gigaba stopped speaking, I already had a few communications from customers. Obviously, it is a tight timeline and is far more complex than just doing a simple price increase ... I think most companies are going to find it a fair sized project."

The software upgrade process would be easy in some cases, though "certainly there will be some legacy systems where [VAT] is hard-coded in areas - where it's built into the price of something", as opposed to being an addition on the selling price.



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Bigger organisations with multiple stores and suppliers, and which had to deal with cross-border stock flows, would likely find the process more difficult than their smaller peers, Hawkey said.

According to Lucy Mathosa, managing executive at BCX's UCS Solutions business, the fact that the change would occur over the busy Easter weekend made the task more difficult. "Fortunately from a systems perspective, the configuration changes are possible [within the short timeframe]," Mathosa said.

Yolanda Louw, financial director at the Food Lover's Market group, said: "The VAT change required software updates to all pay-points in stores, while on-shelf price labels would be replaced."

Source: Business Day

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