

Tax & Exchange Control

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South Africa

VAT threshold increased:
Should SMEs remain registered?



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VAT threshold increased: Should SMEs remain registered?

In the 2026 Budget Proposals, the Minister of Finance (Minister) announced a long-awaited increase to South Africa's value-added tax (VAT) registration thresholds. The compulsory registration threshold, which has remained unchanged for the past 17 years, is proposed to increase from R1 million to R2,3 million with effect from 1 April 2026.

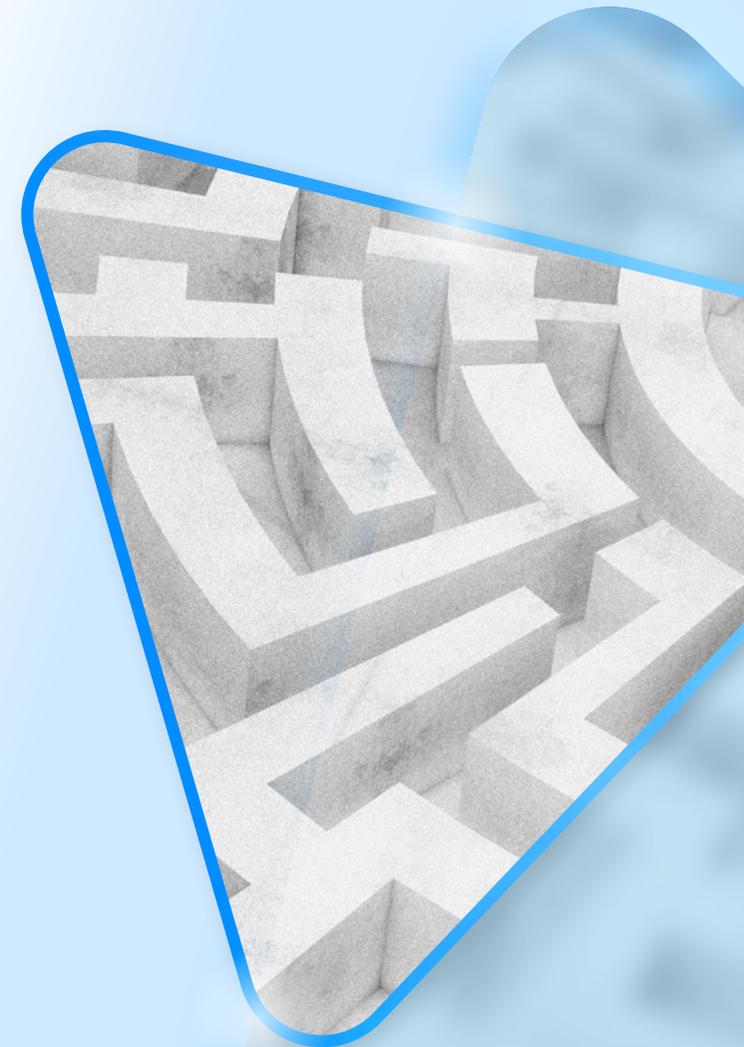
While the amendment is widely welcomed as a measure aimed at easing the compliance burden on small and medium enterprises (SMEs), it raises an important practical question for many existing SME VAT vendors: should they remain registered for VAT, or should they consider cancelling their VAT registration?

Currently, a person is obliged to register as a VAT vendor where they make taxable supplies (being standard-rated and zero-rated supplies) in excess of R1 million in any consecutive period of 12 months. This compulsory VAT registration threshold will increase to R2,3 million from 1 April 2026.

A person who has not exceeded the compulsory VAT registration threshold may currently voluntarily register for VAT where they have already made taxable supplies exceeding R50,000 in a 12-month period, or where they carry on an enterprise and have not yet exceeded the R50,000 threshold but reasonably expect that the threshold will be exceeded within 12 months from the date of registration. As part of the proposed amendments, the voluntary registration threshold will also increase from R50,000 to R130,000 from 1 April 2026.

Registration as a vendor comes with certain onerous compliance requirements that can be administratively burdensome, time consuming and costly for small or start-up businesses that do not have sufficient administration resources. Such businesses may incur costs associated with acquiring the services of an accountant and implementing accounting systems to ensure accurate VAT reporting.

If the cost and administrative burden associated with VAT registration is weighed against the monetary benefit obtained from claiming input tax deductions upon registration, a business may decide that it is more beneficial to cancel its VAT registration.



This will particularly apply to businesses providing personal services, such as consultancy and medical services practitioners, where minimal input tax deductions are claimable, and where customers are not entitled to deduct the VAT charged by the service provider.

The increase in the VAT registration threshold, which has now finally been adjusted for inflation, therefore comes as a welcome reprieve for many SMEs who previously found themselves obliged to register under the current threshold of R1 million, a figure that in today's economic context, could easily be reached by growing SMEs. Many VAT registered SMEs may now find that they are no longer obliged to remain registered as vendors on the basis that the value of their taxable supplies falls below the new R2,3 million threshold.

By way of a simple example, consider a consulting business generating annual taxable income of approximately R1,5 million. Under the current threshold, the business would be obliged to register as a VAT vendor and account for output tax on its supplies. Under the increased threshold of R2,3 million, however, the business may elect to cancel its VAT registration.

Implications and process

The increase in the compulsory VAT registration threshold will only take effect from 1 April 2026. Accordingly, SMEs that have exceeded the current VAT registration threshold of R1 million (but not the new R2,3 million threshold) and who are not registered for VAT, may still be required to register and to account for VAT on their supplies until 31 March 2026, retrospectively from the date this threshold was exceeded.

In terms of section 24 of the Value-Added Tax Act 89 of 1991 (VAT Act), a registered vendor may apply to the Commissioner to cancel its VAT registration if the value of its taxable supplies will be less than the compulsory registration threshold in any consecutive period of 12 months. Furthermore, the Commissioner may cancel the VAT registration of a vendor that no longer meets the requirements for compulsory or voluntary registration.

Consequently, many SMEs currently registered on a compulsory basis that no longer meet the increased R2,3 million threshold may elect either to cancel their VAT registration or to remain registered on a voluntary basis.



Vendors that are registered on a voluntary basis, but that no longer meet the increased voluntary registration threshold of R130,000, will not be able to elect to remain registered and will instead be required to deregister for VAT purposes.

In order to deregister as a VAT vendor, an application in writing must be made to the South African Revenue Service (SARS) requesting the cancellation of VAT registration in accordance with section 24 of the VAT Act. A form VAT123e, available on the SARS website, must be completed and submitted to SARS. The circumstances under which the cancellation is requested must be clearly stated on the form or in a separate letter.

Upon application for cancellation of registration, SARS will respond with an acknowledgment letter and will advise on the vendor's final tax periods. SARS will also provide further instructions regarding the deregistration process. Importantly, the vendor must continue to charge and declare VAT on supplies made, and deduct any input tax, up to the last day of its final tax period, as advised by SARS.

The cancellation of a vendor's VAT registration is not merely an administrative action, but it also comes at a VAT cost. When a person ceases to be a vendor, section 8(2) of the VAT Act deems the assets of the person to have been supplied immediately before the person ceased to be a vendor. These assets include any capital goods, consumables and trading stock (other than goods in respect of which an input tax deduction was denied under section 17(2)) and any rights capable of assignment, cession or surrender forming part of the assets of the person's enterprise.

VAT must therefore be accounted for on the lesser of the cost or open market value of all enterprise assets still on hand in the tax period in which the vendor's registration is cancelled. In other words, the vendor will be required to account for output tax in respect of the deemed disposal of all enterprise assets on hand immediately prior to the cessation of its vendor status in its final VAT return submitted to SARS.

It should be noted that the VAT Act makes provision for the Minister to issue regulations prescribing the tax period in which such deemed output tax is payable. To date, no such regulations have been issued. However, following the previous increase in the VAT registration threshold in 2009, taxpayers deregistering as a result of the threshold increase were permitted to pay the deemed output tax in instalments over a period of six months. It is expected that similar measures could be introduced in due course.

Conclusion

Although the proposed increase in the VAT registration threshold is a welcome amendment to the VAT legislation, vendors considering deregistration should remain mindful of the potential consequences that may arise. In particular, the immediate tax cost that may arise from any deemed output tax liability upon deregistration should be carefully evaluated against any anticipated benefits from reduced VAT compliance obligations.

Ultimately, whether deregistration is beneficial will depend on the particular circumstances of each enterprise, including its pricing structure, client base and input tax position. SMEs that now fall below the new R2,3 million threshold are therefore advised to carefully assess these factors before making a decision to deregister.

It is hoped that the increase in the VAT registration threshold will have the desired effect of enabling SMEs to participate more robustly in the economy without the reluctance often associated with the administrative and compliance burden of VAT registration.

Varusha Moodaley



OUR TEAM

For more information about our Tax & Exchange Control practice and services in South Africa, Kenya and Namibia, please contact:



Emil Brincker

Practice Head & Director:
Tax & Exchange Control
T +27 (0)11 562 1063
E emil.brincker@cdhlegal.com



Patrick Kauta

Managing Partner | Namibia
T +264 833 730 100
M +264 811 447 777
E patrick.kauta@cdhlegal.com



Gerhard Badenhorst

Director:
Tax & Exchange Control
T +27 (0)11 562 1870
E gerhard.badenhorst@cdhlegal.com



Jerome Brink

Director:
Tax & Exchange Control
T +27 (0)11 562 1484
E jerome.brink@cdhlegal.com



Petr Erasmus

Director:
Tax & Exchange Control
T +27 (0)11 562 1450
E petr.erasmus@cdhlegal.com



Dries Hoek

Director:
Tax & Exchange Control
T +27 (0)11 562 1425
E dries.hoek@cdhlegal.com



Alex Kanyi

Partner | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E alex.kanyi@cdhlegal.com



Heinrich Louw

Director:
Tax & Exchange Control
T +27 (0)11 562 1187
E heinrich.louw@cdhlegal.com



Howmera Parak

Director:
Tax & Exchange Control
T +27 (0)11 562 1467
E howmera.parak@cdhlegal.com



Stephan Spamer

Director:
Tax & Exchange Control
T +27 (0)11 562 1294
E stephan.spamer@cdhlegal.com



Tersia van Schalkwyk

Tax Consultant:
Tax & Exchange Control
T +27 (0)21 481 6404
E tersia.vanschalkwyk@cdhlegal.com



Varusha Moodaley

Senior Associate:
Tax & Exchange Control
T +27 (0)21 481 6392
E varusha.moodaley@cdhlegal.com



Nicholas Carroll

Associate:
Tax & Exchange Control
T +27 (0)21 481 6433
E nicholas.carroll@cdhlegal.com



Mariska Delpoort

Associate:
Tax & Exchange Control
T +27 (0)11 562 1574
E mariska.delpoort@cdhlegal.com



Denis Maina

Associate | Kenya
T +254 731 086 649
+254 204 409 918
+254 710 560 114
E denis.maina@cdhlegal.com



Puleng Mothabeng

Associate:
Tax & Exchange Control
T +27 (0)11 562 1355
E puleng.mothabeng@cdhlegal.com



Charity Muindi

Associate | Kenya
T +254 731 086 649
+254 708 562 546
+254 710 560 114
E charity.muindi@cdhlegal.com



Savera Singh

Associate:
Tax & Exchange Control
T +27 (0)11 562 1575
E savera.singh@cdhlegal.com

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JOHANNESBURG

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.
Dx 154 Randburg and Dx 42 Johannesburg.
T +27 (0)11 562 1000 F +27 (0)11 562 1111 E jhb@cdhlegal.com

CAPE TOWN

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.
T +27 (0)21 481 6300 F +27 (0)21 481 6388 E ctn@cdhlegal.com

NAIROBI

Merchant Square, 3rd floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.
T +254 731 086 649 | +254 204 409 918 | +254 710 560 114
E cdhkenya@cdhlegal.com

ONGWEDIVA

Shop No A7, Oshana Regional Mall, Ongwediva, Namibia.
T +264 (0) 81 287 8330 E cdhnamibia@cdhlegal.com

STELLENBOSCH

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.
T +27 (0)21 481 6400 E cdh Stellenbosch@cdhlegal.com

WINDHOEK

1st Floor Maerua Office Tower, Cnr Robert Mugabe Avenue and Jan Jonker Street, Windhoek 10005, Namibia.
PO Box 97115, Maerua Mall, Windhoek, Namibia, 10020
T +264 833 730 100 E cdhnamibia@cdhlegal.com

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