MEDIA RELEASE

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Electronic services: Foreign is not always cheaper - PwC Tax

The provision of foreign online services to businesses and other consumers is not always the cheapest option. “In the digital space there is a perception among consumers that the provision of certain electronic services is cheaper when purchased from foreign service providers,” says Charles de Wet, Head of Indirect Tax for PwC Africa. This perception often stems from the fact that these services fall outside the scope of South Africa’s tax system and are not subject to Value Added Tax (VAT) like other local supplies.

The types of services include, for example, software, online advertising services, IT related services and network services.

“This perception may have a detrimental impact on the longevity of local service providers competing with foreign service providers of the same or similar services,” says de Wet. Typically, local service providers charge VAT on their services to local consumers and also pay corporate income tax to the South African Revenue Service (SARS).

Foreign service providers of electronic services typically do not have a permanent establishment in South Africa and thus pay no corporate income tax to SARS. In some instances they pay taxes in low tax jurisdictions and may not even be required to register for VAT in South Africa.

Where these foreign service providers are not required to charge VAT on their services, the SA VAT Act nevertheless requires the South African consumer of certain electronic content to report and pay VAT of 14% directly to SARS. That is, the onus is actually on the consumer in South Africa to self-account to SARS for the VAT on the relevant services. This would require the consumer to complete a VAT215 form, and submit this, together with payment at a local SARS branch for each and every download. However, it is not often that consumers actually self-account for this VAT, adds de Wet.

However, there is no requirement to self-account for the supply of electronic services, by foreign service providers to local businesses where the SA business would be entitled to recover a full input VAT credit for VAT charged, (as it would otherwise be able to claim a VAT credit).

However in instances where the business is not entitled to a full VAT credit (such as a bank, university or life insurer for example) thereby resulting in a net collection by SARS, the SA business is required to self-account for VAT on the purchase of foreign electronic services to the extent that it would not be entitled to recover a VAT credit. This is then done through its VAT return.

It is clear, in the eyes of the law, that foreign electronic services are not VAT-free regardless of whether the supplier has charged VAT.

Following the amendments last year the supply of ebooks, music, subscription services, social networking services and web applications are subject to VAT, and many foreign suppliers have registered as VAT vendors and are charging and paying over the VAT collected to SARS. In these circumstances there is no additional burden, or cost, for the consumer in South Africa.

"While South Africa has been proactive in terms of seeking to tax the online economy, more work needs to be done to eliminate the gaps, create consistency of treatment and to address the perceptions that foreign is not always cheaper," concludes de Wet.

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