UNIVERSITY OF THE WITWATERSRAND

A RESEARCH REPORT SUBMITTED TO THE FACULTY OF COMMERCE, LAW AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF COMMERCE (SPECIALISING IN TAXATION)

A comparative analysis of the VAT threshold of South Africa and certain other countries

Abstract

The value-added tax threshold is a threshold that determines which businesses are exempt from the obligation to register for and collect value-added tax on their sales. It is important to set the threshold at the appropriate level, as value-added tax carries compliance and administrative costs. The registered taxpayer must charge output tax for taxable supplies and claim input value-added tax on taxable purchases. The value-added tax threshold is an important consideration for small businesses due to the compliance and administrative costs associated with complying with the provisions of the value-added tax legislation.

South Africa’s value-added tax threshold is R1 000 000, and implemented more than fourteen years ago (Bell, Schoeman, and Nienaber 2018). As the backbone of the economy, the South African government must develop tax policies that’s support small businesses to promote economic growth and prosperity. With a cumulative inflation of 91.19% between 2009 and 2023, this research report argues that the value-added tax threshold provisions require re-examination. Where the research report’s objective is to answer the following research question: how does the value-added tax threshold of South Africa compare to those of certain other countries, and what improvements can be made to the value-added tax threshold of South Africa?

This research report is a comparative study of the South African value-added tax threshold with certain other countries to determine how South Africa’s value-added tax threshold compares to those of other countries towards proposing improvements that may be made to the value-added tax threshold of South Africa.

Key Words: Value-added tax threshold, South Africa, Kenya, China, The United Kingdom, India, Australia, New Zealand

Declaration

I declare that this research report is my own unaided work. It is submitted in partial fulfilment for the degree of Master of Commerce (specialising in Taxation) at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree of examination in any other university.

Moipone Ditaole

30 June 2023

Dedication

I dedicate this research report to the love of my life, Donald Ntuli. Your unwavering support made this all possible. To my biggest blessings from God, Buhle and Zipho, I hope you one day see this and know that you can do anything. To my lovely parents, thank you for always believing in me.

To my Lord and Saviour, Jesus Christ, thank you for giving me strength on my weakest days. Asante.

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Glossary of Terms and Abbreviations

China	The People's Republic of China
GST	Goods and Services Tax
JSCOF	Joint Standing Committee on Finance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SARS	South African Revenue Service
UK	The United Kingdom
VAT	Value-Added Tax

Table of contents

Table of contents

Chapter 1- Introduction

1.1. Background

As Benjamin Franklin once said, 'In this world, nothing is certain except death and taxes.' Certain things in life are unavoidable and cannot be evaded, one of those things are taxes.

The historical roots of taxation can be traced back to biblical times, ancient civilizations like Egypt and Greece, and the implementation of income taxes to finance wars, leading to a long-standing relationship between governments and the collection of remuneration from their citizens. According to the Bible, Matthew was a tax collector (Matthew 9:9) and one of Jesus' disciples. Additionally, Marsot (1985:9) documents the role tax collectors had in the history of Egypt post-639 AD. Furthermore, as early as 1453, there was a tax in Greece under Ottoman rule (Clogg 1986:20). According to Vivian (2006:81), the first comprehensive income tax was enacted in 1799 by William Pitt the Younger, the British Prime Minister; this was likely done to pay for the Napoleonic Wars. A lengthy history of introducing taxes to finance wars and conflicts, funding budget deficits, and experiencing numerous tax uprisings followed (Vivian 2006:82). For this reason, it is submitted that this longstanding relationship between governments and the collection of remuneration from citizens has shaped the trajectory of taxation, leading to its continued significance in financing budgets, and addressing deficits.

Although William Pitt Younger is accredited for the first comprehensive tax, value-added tax is generally credited to Wilhem von Siemens, although Thomas S. Adams had a similar idea (Slemrod & Velayudhan 2022:5). It was adopted in France in 1948, where the adoption of value-added tax accelerated in Europe and Latin America, followed by Asia and Africa in the 1980s. In Africa, Cote d'Ivoire and Senegal both introduced value-added tax in the 1960s, and the state of Michigan in the US did so in 1953 (Slemrod & Velayudhan 2022:5). Therefore, the widespread adoption and revenue-generating success of value-added tax across continents, from Europe and Latin America to Africa and Asia, can be attributed to its origins in France in 1948 and its subsequent implementation in various countries, including Cote d'Ivoire, Senegal, and even the state of Michigan in the United States.

Value-added tax, also known as goods and services tax (SARS 2021) (OECD 2017:4), is an important source of revenue for all governments that impose is (van Brederode 2021:149). According to the OECD (2020), over 170 countries levy value-added tax, also known as goods and services tax in some countries (SARS 2021). In fact, all OECD countries, excluding the USA, levy value-added tax (OECD 2020). In addition, in 2018, three-quarters of the global population resided in countries where sales of products and services are subject to a value-added tax (Satterthwaite 2018:179). Furthermore, value-added tax contributes an average of 30 percent of total tax revenue collected by countries who levy value-added tax (Mascangni, Dom, Santoro & Mukama 2023:1). Undoubtedly, value-added tax has become a tremendous success in terms of ubiquity of adoption and revenue raised (Slemrod & Velayudhan 2022:5).

Value-added tax is a consumption-based indirect tax. A proportion of the value-added tax is collected at each of the production and distribution stages where value is added by registered taxpayers or taxpayers making taxable supplies (Bell, Schoeman & Nienaber 2018:3), where a taxpayer is a person who is registered or is required to be registered for VAT' (SARS 2022:1). Being a value-added tax taxpayer means that value-added tax will have to be charged or added to any supplies made by the taxpayer, whether they are goods or services (SARS 2022:1). The taxpayer will subsequently need to submit returns to the revenue authority, which in the case of South Africa is SARS (SARS 2022:2). Therefore, value-added tax imposes compliance costs for registered taxpayers (Mascangni, Dom, Santoro & Mukama 2023:530). In particularly, registered taxpayers must record each transaction, aggregate the transactions monthly or quarterly, and transmit a summary of the transactions to the tax administration, with supporting paperwork (Mascangni, Dom, Santoro & Mukama 2023:530). Costs of value-added tax compliance are typically higher per unit of revenue for smaller businesses than for larger businesses (Satterthwaite 2018:216). It is therefore submitted that the revenue authorities would need to apply measures to assist small businesses with this cost. According to Zu (2018:346) the most effective way to address the compliance costs for small businesses is to have the appropriate value-added tax threshold. Consequently, as noted value-added tax imposes compliance costs on registered taxpayers, with smaller businesses facing relatively higher costs per unit of revenue. Addressing these costs, particularly for small businesses, necessitates the implementation of appropriate value-added tax thresholds, as suggested by Zu (2018:346), to alleviate the burden of compliance and support government revenue authorities in assisting smaller enterprises.

The value-added tax threshold determines which businesses are exempt from the obligation to register for and collect value-added tax on their sales, typically based on their annual revenue (Satterthwaite 2018:177) and also aims to assist small businesses with the compliance burdens of value-added tax (Zu 2018:346). Therefore, for this research report, the value-added tax threshold provisions that determine which taxpayers must register for value-added tax, will be referred to as the 'value-added tax registration threshold.' Other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold.' The term ‘value-added tax threshold’ can be understood to refer in the context of this research report to 'value-added tax registration threshold’ and 'other value-added tax threshold’.

The value-added tax threshold is one of the key elements of value-added tax, though it may at times be disputatious (Keen & Mintz 2004:559). This is supported by Satterthwaite (2018:190), who states that aside from the value-added tax rate, the value-added tax threshold is one of the vital elements that policymakers need to consider. Therefore, it is submitted that given its significance, policymakers should regularly assess the value-added tax threshold.

In South Africa value-added tax was introduced in 1991 to replace the general sales tax (GST) (Bell, Schoeman & Nienaber 2018). The Value-Added Tax Act 89 of 1991 is the legislation that sets the rules and regulations of value-added tax for South Africa. The value-added tax registration threshold of South Africa was set at R150 000 in 1991 (s 23 (1) of the Value-Added Tax Act), which was adjusted to R300 000 in 1999 (s 92 (a) of the Revenue Laws Amendment Act. 53 of 1999) and again to R1 000 000 in 2009 (s23 of the Value-Added Tax). This was the last adjustment made to the value-added tax registration threshold. This report examines whether, based on global patterns of other countries, it is reasonable that the last adjustment, to the South African value-added tax threshold, was in 2009.

1.2. Problem statement and purpose of study

The South African value-added tax threshold has not been adjusted in over 14 years. The value-added tax threshold is a mechanism that revenue authorities use to exclude or exempt certain businesses from registering for value-added tax (Mascangni, Dom, Santoro & Mukama 2023:530). Importantly, the value-added tax threshold is primarily set to assist small business owners with the tax compliance burden that comes from being liable to register for value-added tax (Satterthwaite 2018:177). Small businesses are the backbone of the economy, and the South African government needs to assist them in ensuring a strong economy. The above opinion is supported by Naicker and Rajaram (2018:95) who argue that one of the most effective ways to promote economic growth and prosperity is through small businesses. According to Inflation Tool (2023) the cumulative inflation between 2009 and 2023 is 91.19%. With the value-added tax threshold not being adjusted for over 14 years whilst the cumulative inflation is 91.19 percent and more small businesses surpassing the R1 000 000 value-added tax threshold due to inflation, the value-added tax threshold provisions need to be examined. Thus, this research report seeks to answer the following question: How does the value-added tax threshold of South Africa compare to those of certain other countries, and what improvements can be made to the value-added tax threshold of South Africa?

This research report seeks to do a comparative analysis of the value-added tax provisions of South Africa and certain other countries (part 1.3) and determine what improvements ought to be made to the South African value-added tax provisions, in respect of possible amendments to the value-added tax threshold.

In order to answer the research question, the following research sub-questions need to be answered.

1.2.1 Research sub-questions

i. What is the meaning and importance of the concept of the value-added tax threshold?
ii. What are the value-added tax threshold provisions in South Africa?
iii. What are the value-added tax threshold provisions for certain other countries?
iv. How does the South African value-added tax threshold compare to those of certain other countries?
v. What improvements can be made to the South African value-added tax threshold?

1.3. Reasons for comparing South Africa with certain other countries.

The following countries were selected for the comparative analysis:

i. The UK
ii. India
iii. China
iv. Australia
v. New Zealand
vi. Kenya

The UK, India, China, Australia, and New Zealand are Organisation for Economic Co-operation and Development (OECD) member countries or partner countries (OECD no datea). One of the OECD's objectives is to reduce variances in the administration of value-added tax across various countries and international trade (OECD 2017). South Africa, as an OECD partner country, should have an interest in seeing how South Africa's value-added tax threshold compares to certain other countries (OECD member countries and partner countries). This research report will give an indication of how South Africa's value-added tax threshold provisions compare to those of other countries. The comparisons will indicate to us if the value-added tax threshold is set in line with other countries and what other adjustments can be made to the value-added tax threshold.

Kenya and South Africa are both African countries belonging to The Commonwealth. Similar to South Africa, Kenya implemented value-added tax in 1990. Comparing the value-added tax threshold provisions of South Africa to that of Kenya may help address the research question.

The OECD has noted that:

> 'The term value-added tax refers to any national tax, such as the Goods and Services Tax (GST), that embodies the fundamental characteristics of a value-added tax, i.e., a broad-based tax on final consumption collected from, but in theory not borne by, businesses through a staged collection process, regardless of the method used to calculate the tax liability (for example, the invoice-credit method or the subtraction method)' (OECD 2017:4).

This research report will use the term 'value-added tax' throughout; it will, however, still use the term 'goods and services tax' for countries that refer to it as 'goods and services tax.' This is mainly applicable to Chapter 4, where the value-added tax provisions of certain other countries will be examined, and the legislation refers to it as 'goods and services tax.'

1.4. Research methodology

A literature review will be undertaken to determine the meaning and importance of the concept of the value-added tax threshold, so as to evaluate the value-added tax provisions of South Africa and certain other countries. A comparative analysis will be undertaken in order to determine how does the South African value-added tax threshold compare to those of the certain countries listed in the previous section. This will be done through an analysis of legislation, government publications, OECD publications, books and other credible sources such as accredited journals and articles.

South Africa and certain other countries listed in section 1.3 of the report all have different functional currencies. It would be challenging to effectively compare these currencies. Therefore, to ensure comparability, all the currencies will be translated into a single currency. The US dollar will be used as the comparison currency for this research report. Instead of using the currency exchange rate, cited by the banks, this research report uses the conversion into US dollars using Purchasing Power Parities (PPP). Purchasing power parities (PPPs) are the exchange rates that attempt to equalise the purchasing power of different currencies by eradicating differences in price levels between nations (OECD no dateb). PPP exchange rates are stable over time, whereas market exchange rates are more volatile, potentially causing significant shifts in aggregate growth, and are only relevant for products that are traded internationally (Callen no date). This is the main reason why the PPP conversion method is preferred over the exchange rates provided by the banks. To ensure effective comparison between South Africa and certain other countries, a steady conversion method proves suitable. However, calculating the PPP is a massive undertaking in terms of statistics, and fresh price comparisons are only available at irregular intervals (Callen no date). This implies that PPP rates are mainly available annually, where the conversion rate for a specific date might not be available. Therefore, this research report will use the annual PPP rate to convert currencies to US dollars. Additionally, the OECD also uses the PPP as a conversion rate for translating the threshold of OECD member countries (OECD 2022), this strengthens the argument for using the PPP.

1.5. Scope and limitation

This research report will focus on the value-added tax threshold and closely related matters. Other value-added tax provisions lie outside the scope of this research report.

Chapter 2 - The meaning and importance of the value-added tax threshold

2.1 Introduction

To establish a foundation for this research report, it is important to examine the meaning and importance of the value-added tax threshold. When it comes to the economics of taxes, and specifically the value-added tax, there are many parties to consider, including the revenue authorities, taxpayers (both individuals and businesses), as well as end-consumers. In this chapter, the meaning and importance of the value-added tax threshold for revenue authorities and taxpayers will be examined.

2.2 The meaning of the value-added tax threshold

As discussed in section 1.1, the threshold amount of turnover at which businesses must register for value-added tax is one of the main characteristics of value-added tax (Keen & Mintz 2004:559). Value-added tax systems commonly incorporate a value-added tax threshold, which exempts firms from the obligation of registering for value-added tax if their turnover falls below a certain limit, this is the value-added tax threshold (Mascangni, Dom, Santoro & Mukama 2023:530). This is further supported by Satterthwaite (2018:177) who states that value-added tax threshold determines which businesses are exempt from the obligation to register for and collect value-added tax on their sales, typically based on their annual turnover (Satterthwaite 2018:177). The value-added tax threshold also aims to assist small businesses with the compliance burdens of value-added tax, for example small business that are below a certain value-added tax turnover threshold, must file value-added tax returns less frequently (Zu 2018:346). Thus, the inclusion of a value-added tax threshold, determining the turnover at which businesses are required to register for value-added tax, emerges as a significant characteristic in value-added tax systems.

As discussed in section 1.1, for this research report, the value-added tax threshold provisions that determine which taxpayers must register for value-added tax, will be referred to as the 'value-added tax registration threshold.' Whilst other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold.' The term ‘value-added tax threshold’ will include both 'value-added tax registration threshold’ and 'other value-added tax threshold’.

2.3 The importance of the value-added tax threshold for the fiscus

Fiscal policy typically refers to the utilisation of government revenue, namely taxes, and government spending as a means of exerting influence on the market or economy (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:1). Taxation has emerged as the primary means of generating government revenue in the majority countries at a swift pace (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:1). Thus, it is submitted that to pay for the budgetary obligations, the government requires money from individuals and businesses. The revenue authority will need to raise taxes to fund the fiscal policy of the government. Pistone, Roeleveld, Hattingh, Nogueir and West (2019:9) discuss the four essential characteristics of a 'good' tax system, namely:

i. 'equity within the tax system,
ii. economic efficiency of the tax system,
iii. administrability of the tax system, and
iv. coherence of the tax system.'

As discussed in section 1.1, value-added tax contributes an average of 30 percent of total tax revenue collected by countries that levy value-added tax (Mascangni, Dom, Santoro & Mukama 2023:1). Therefore, fiscal policy relies on value-added tax as a means of generating government revenue, emphasising the importance of designing a value-added tax system that possesses the essential characteristics of equity, economic efficiency, administrability, and coherence. Although the above details the characteristics of a good tax and is not specific to the value-added tax, it can be reasonably expected that the value-added tax would follow the same essential characteristics of a 'good' tax system.

Equity within the value-added tax system will now be evaluated. Fundamentally, the idea of 'equity' in the context of taxation is related to the idea of 'fairness' of the tax system (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:10). One of the most common concepts for evaluating the fairness of a taxation policy is the ability-to-pay principle (Kim 2020:111). According to the ability to pay principle, people who can afford to pay more in taxes should do so (Kim 2020:111). Moreover, the allocation of tax burden to a taxpayer ought to be consistent with their economic capacity to bear such burden in comparison to other taxpayers (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:10). Additionally, the ability to pay should be taken into account in relation to two crucial components, namely horizontal and vertical equity (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:10). Horizontal equity can be summarised as that the same amount of income should be taxed the same way for all taxpayers and vertical equity can be summarized as taxes on higher-income earners ought to be higher (Pistone, Roeleveld, Hating, Nogueira & West 2019:11). As stated in section 2.1, it is again expected that the value-added tax threshold should follow the above concepts of equity. Thus, the evaluation of equity within the value-added tax system is crucial, with the concept of fairness and the ability-to-pay principle serving as key considerations in determining the allocation of the value-added tax burden and ensuring horizontal and vertical equity. This will assist revenue authorities in ensuring that value-added tax system is ‘good’.

Setting the value-added tax threshold to the appropriate amount is important for the design of legislation (Van Brederode 2021:141). Additionally, the compliance and administrative costs of the revenue authorities ought to be considered. If all businesses were subject to VAT, the revenue authorities would be responsible for disproportionate collection expenses in relation to the revenue collected (Zu 2018:311). This is further supported by Alavuotunki, Haapanen, and Pirttilä (2019:317), who state that revenue authorities would assume disproportionate costs of collection if the value-added tax were imposed on all enterprises. An efficient and fair value-added tax system should incorporate a value-added tax threshold that strikes a balance between revenue goals and the costs associated with the administration and compliance of value-added tax (Zu 2018:331).

2.4 The importance of the value-added tax threshold for businesses

Firstly, it is important that value-added tax threshold is set at the appropriate level as value-added tax has compliance and administrative costs. Value-added tax is a self-enforcement tax (Mascangni, Dom, Santoro & Mukama 2023:525). The taxpayer will charge output tax for taxable supplies made and claim input value-added tax on taxable purchases made in making taxable supplies, this is referred to as the ‘invoice-based credit method’ (SARS 2022:2). As discussed in section 1.2, being a value-added tax taxpayer means that value-added tax will have to be charged or added to any supplies made by the taxpayer, whether these are goods or services (SARS 2022:1). The taxpayer will subsequently need to submit returns to the revenue authority, which is SARS for South Africa (SARS 2022:2). This administrative process must be followed for each submission period of the taxpayer (SARS 2022:2). Therefore, value-added tax imposes compliance costs and administrative costs for registered taxpayers (Mascangni, Dom, Santoro & Mukama 2023:530). Expenditures associated with taxes include labour and time spent on tax-related operations, knowledge acquired for tax compliance, and ancillary expenditures such as computer gear, software, mail, and transportation. These expenses cover learning new information, compiling data internally, processing tax returns, and expert fees. Postage and travel costs are examples of incidental costs that might be incurred (Van Brederode 2021:126). For this research report, the compliance costs and administrative costs include the money spent for all the costs to comply with the value-added tax provisions. It is therefore submitted that the value-added tax is a burdensome tax. This is supported by Zu, Evans and Krever (2020:355) who state that the value-added tax has conventionally been acknowledged as a burdensome tax in terms of business taxpayer compliance. Consequently, costs of value-added tax compliance are typically higher per unit of revenue for smaller businesses than for larger businesses (Satterthwaite 2018:216). In summary, the implementation of value-added tax imposes compliance and administrative costs on registered taxpayers, encompassing expenditures related to tax-related operations, knowledge acquisition, equipment, transportation, and professional fees, and the value-added tax threshold needs to be considered to assist small businesses.

The primary objective of the value-added tax threshold is to streamline tax-related procedures by granting exemption to businesses falling below the specified value-added tax threshold from the obligation of registering and maintaining records of value-added tax (Muthitacharoen, Wanichthaworn & Burong 2021:1243). It is submitted that without the implementation of the value-added tax threshold, all taxpayers of value-added tax would have the same tax burden, even though they have different abilities to pay for the value-added tax compliance and administrative costs. For example, a small business with a turnover of R250 0000 and another business with a turnover of R15 000 000 would both have to record each transaction, aggregate the transactions monthly or quarterly, transmit a summary of the transactions to the tax administration, with supporting paperwork to the revenue authority. Due to the fact that compliance costs are fixed, they are regressive, with bigger taxpayers having a relative advantage over other taxpayers (Mahangile 2017:61). The tax burden to the value-added tax taxpayers is not consistent with their economic capacity to bear such burden in comparison to other taxpayers. Consequently, this affects the equity, and more specifically vertical equity of the value-added tax threshold. Implementing a value-added threshold will therefore assist with ensuring the equity and fairness, specifically the vertical equity, of the value-added tax system. In summary, the implementation of a value-added tax threshold serves as a means to streamline tax procedures and promote equity by exempting businesses below the threshold from tax obligations, thereby addressing the regressive nature of compliance costs and ensuring consistency with taxpayers' economic capacity.

For small businesses, exceeding the value-added tax threshold is a significant consideration as the compliance and administrative costs associated with adhering to regulations increases the actual expenses of the business (Zu 2018:332). Gale, Gelfond and Krupkin (2016:3) argue that, as a proportion to revenue, small businesses face relatively elevated compliance and administrative costs owing to the substantial fixed costs associated with tax preparation. Consequently, this indicates that value-added tax is regressive with respect to compliance and administrative costs (Satterthwaite 2018:196-197; Kim 2020:117). Thomas (2020:3) examined the regressivity of the value-added tax to find that it is 'either proportional or slightly progressive when measured as a percentage of current expenditure,' however the research was primarily concerned with household expenditure microdata. It, however, still found that the value-added tax appears to be 'regressive when measured as a percentage of current income' (Thomas 2020:3). The regressivity of value-added tax with regards to the compliance and administrative costs is supported by various authors including the following: van Brederode (2021:13), Satterthwaite (2018:216), Brashares, Knittel, Silverstein and Yuskavage (2014:9), as well as Slemrod and Velayudhan (2022:17). van Brederode (2021:131) further states that tax compliance expenses are as follows: firstly, they are substantial in nature; secondly, they exhibit a regressive pattern; and thirdly, they do not lessen with time. The implementation of a value-added tax threshold has the potential to alleviate the relatively elevated expenses associated with compliance that small businesses would encounter. It is therefore submitted that the value-added tax has compliance and administrative costs that may be substantial for small business and are regressive. The value-added tax threshold is therefore important as it seeks to exclude small enterprises from having the obligation to register for value-added tax and having additional administrative costs from levying value-added tax (Muthitacharoen, Wanichthaworn & Burong 2021:1243).

Secondly, it is important that the value-added tax threshold is set at the appropriate level as research has found that value-added tax threshold has the potential to create a bunching effect near the value-added tax threshold itself (Satterthwaite 2018:202). Substantial compliance and administrative costs may lead to bunching for small businesses (Zu 2018:332). A recent study by Lui, Lockwood and Tam (2022:13), indicates that as small businesses from the UK progress and approach the value-added tax threshold, many of them slow their growth to avoid exceeding it; this is referred to as bunching. Muthitacharoen, Wanichthaworn and Burong (2021:1244) in Thailand identified bunching for small businesses based in Thailand. The above research supported that of Harju, Matikka and Rauhanen (2019:160), and, Liu, Lockwood, Almunia, and Tam (2019:38) where bunching of small businesses was found, respectively, in Finland and the UK, respectively. Bunching may also have a negative impact on production efficiency (Satterthwaite 2018:183). This research report, therefore, argues that the value-added tax threshold is important as the appropriate value-added tax threshold level can assist with the avoidance of bunching of small businesses to improve production efficiency. Therefore, the appropriate setting of the value-added tax threshold is crucial to preventing bunching effects and enhancing production efficiency for small businesses, as evidenced by research conducted by Satterthwaite (2018:202), Lui, Lockwood, and Tam (2022:13), Muthitacharoen, Wanichthaworn, and Burong (2021:1244), Harju, Matikka, and Rauhanen (2019:160), and Liu, Lockwood, Almunia, and Tam (2019:38), highlighting the significance of the value-added tax threshold in mitigating the adverse consequences of bunching on business growth.

Thirdly, it is important that the value-added threshold is set at an appropriate level as the act of categorising enterprises into those that are subject to value-added taxation obligations and those that are not may potentially create a distortion in competition among small businesses (Muthitacharoen, Wanichthaworn & Burong 2021:1243). Furthermore, it may pose a challenge for small enterprises that are registered for value-added tax to compete with non-registered entities that operate in a similar capacity and have the advantage of not levying value-added tax on their quotations and invoices (Muthitacharoen, Wanichthaworn & Burong 2021:1243). Small businesses that have a higher output-to-input ratio and those small businesses that focus on selling to the final consumers will likely benefit more, from a competitive advantage, from not registering for value-added tax (Zu 2018:318). This is because small businesses that are not registered bear reduced tax and compliance obligations compared to moderately larger firms that face elevated liabilities and compliance expenses (Zu 2018:318). However, businesses that are not registered and selling to registered taxpayers may be disadvantaged as registered taxpayers might prefer to only trade with other registered taxpayers (Zu 2018:318). In summary, the appropriate setting of the value-added tax threshold is essential to mitigate distortions in competition among small businesses, as failing to establish a balanced threshold level may create an uneven playing field where registered businesses face disadvantages competing against non-registered entities that do not levy value-added tax on their quotations and invoices. It is therefore submitted that; the value-added tax threshold is important as the appropriate value-added tax threshold level can assist with managing the competitive distortions discussed above.

2.5 Conclusion

To conclude Chapter 2, the value-added tax threshold has significance and meaning for tax authorities and taxpayers alike. The value-added tax threshold, which determines the level of turnover at which businesses must register for value-added tax, is a crucial aspect of value-added tax systems. As discussed in section 2.3, value-added taxes play a role in fiscal policy for revenue authorities, as it determines the level of taxation required to fund government obligations (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:1). In addition, the threshold influences the tax system's equity (fairness), efficiency, and administrability, which are essential characteristics of a ‘good’ tax system (Pistone, Roeleveld, Hattingh, Nogueira & West 2019:1). Developing a ‘good’ value-added tax requires careful consideration of the value- added tax threshold (Van Brederode 2021:141). Higher value-added tax thresholds can assist businesses reduce their compliance and administration costs (Muthitacharoen, Wanichthaworn & Burong 2021:1243). Increased thresholds can enhance the efficiency and equity of the value-added tax (Satterthwaite 2018:212).

As discussed in section 2.4, the establishment of a value-added tax threshold is also essential for businesses. It facilitates the simplification of the value-added tax procedures and reduces compliance and administrative costs for smaller businesses tax (Muthitacharoen, Wanichthaworn & Burong 2021:1243). Exceeding the value-added tax threshold can substantially increase the cost of complying with tax regulations, especially for small businesses (Zu 2018:332). In addition, the threshold prohibits a bunching effect near the threshold, in which businesses slow their development to avoid exceeding it, resulting in a decrease in production efficiency (Satterthwaite 2018:183). Therefore, by establishing an appropriate threshold, the negative effects of bunching can be mitigated, allowing businesses to operate more efficiently.

Additionally, the value-added tax threshold influences corporate competition. Categorising businesses into those subject to value-added tax obligations and those exempt from them can distort competition, particularly if unregistered businesses have a pricing advantage (Muthitacharoen, Wanichthaworn & Burong 2021:1243). To guarantee equitable competition and prevent disadvantages for registered businesses, balancing the threshold level is essential.

The value-added tax threshold is significant for revenue authorities, taxpayers, and the overall operation of value-added tax systems. It influences fiscal policy, equity, productivity, administration, and business competition. Policymakers can design effective value-added tax systems that promote economic growth, equity, and compliance by contemplating the significance and meaning of the value-added tax threshold.

Chapter 3 – South African Value-Added Tax Threshold Provisions

3.1 Introduction

This research report seeks addresses the question of how the value-added tax threshold provisions of South Africa compares to those of certain other countries, and what improvements can be made to the value-added tax threshold of South Africa. In order to answer this research question. this research report will now examine the value-added tax threshold provisions of South Africa. Firstly, the history of the value-added tax threshold in South Africa will be examined. This will indicate to us how often the value-added tax threshold is amended in South Africa. Secondly, the current value-added tax threshold provisions in South Africa will be examined. For the current provisions, the following value-added tax thresholds will be examined: the compulsory registration value-added tax threshold and the voluntary registration value-added tax threshold. Lastly, other value-added tax thresholds applicable to value-added tax will be examined such as taxpayers that may be registered in the payment basis.

As discussed in section 1.1, of this research report, the value-added tax threshold provisions that determine which taxpayers must register for value-added tax, will be referred to as the 'value-added tax registration threshold.' Whilst other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold.' The term ‘value-added tax threshold’ will include both 'value-added tax registration threshold’ and 'other value-added tax threshold’.

Additionally, as discussed in section 1.4, instead of using the currency exchange rate, as quoted by banks, we will use the conversion into US dollars using Purchasing Power Parities(PPP). Furthermore, conversion calculations are contained in Appendix B of this research report. Additionally, the most recent value-added tax threshold, of South Africa in this research report, will be converted to US dollar using the 2022 PPP rates. The 2022 PPP are the most recent PPP rates available for South Africa. This is done to ensure comparability between the value-added threshold of South Africa and certain other countries in this research report.

3.2 History of the value-added tax threshold in South Africa

Value-added tax is levied, in South Africa, using the Value-Added Tax Act 89 of 1991. In South Africa value-added tax was introduced in 1991 to replace the general sales tax (Bell, Schoeman & Nienaber 2018). When the value-added tax threshold was implemented on 30 September 1991, the value-added tax compulsory registration threshold for South Africa was set at R150 000 (s 23 of the Value-Added Tax Act). All businesses above the R150 000 value-added tax registration threshold were required to register for value-added tax, this is therefore the compulsory registration threshold. No evidence could be found on why the value-added tax registration threshold of R150 000 was selected by the revenue authorities of South Africa. However, because the threshold was only set as R150 000 it is assumed that the threshold was set low as a way to introduce value-added tax to South Africa.

The value-added tax compulsory registration threshold was subsequently increased to R300 000 (s 92 of the Revenue Laws Amendment Act 53 1999). The primary objective that confronted the newly elected Government in April 1994 was to establish a contemporary and dynamic economy that could rightfully integrate into the worldwide economic network (Manuel 2002:1). To assist with tax reforms, a special tax committee was commissioned. On 22 June 1994, the Katz Commission was tasked with conducting a comprehensive investigation into the South African tax system that was bequeathed by the prior administration, while considering the political, social, and economic objectives of the current government (Manuel 2002:2). The Katz Commission's report was reviewed by Joint Standing Committee on Finance (JSCOF), who recommended enhancing progressivity in the value-added tax system by raising the value-added registration tax threshold (National Treasury no date:10). Consequently, the value-added tax compulsory registration threshold was amended based on this recommendation.

The value-added tax compulsory registration threshold was, lastly, increased to R1 000 000 (s 113 of the Revenue Laws Amendment Act 60 of 2008). The primary objectives of the 2008 Budget were to provide assistance to small businesses, minimise regulatory expenses, and formalize unregistered commercial activities (Manuel 2008:13). Various measures on the supply side were proposed to foster sustainable economic growth and improve employment prospects (Manuel 2008:13). Thus, the proposed budget entails a net tax relief of R10.5 billion, which encompassed a rise in the mandatory value-added tax compulsory registration threshold from R300 000 to R1 million (Manuel 2008:21). The increase of the value-added tax compulsory registration threshold therefore served to assist small businesses.

Below is the table detailing the summary of the value-added tax registration threshold of South Africa.

Table 1: A summary of the value-added tax compulsory registration threshold history in South Africa

No.	Year	Threshold (Rands)	Threshold (US $) ™	Source
1.	1991	150 000	231 481®	s 1 of the Value-Added Tax Act. 89 of 1991.
2.	1999	300 000	413 223#	s 92 of the Revenue Laws Amendment Act. No 53 1999.
3.	2009	1 000 000	226 989©	s 23 of the Revenue Laws Amendment Act 60 of 2008.
3	2023	1 000 000	143 245*	s 23 of the Revenue Laws Amendment Act 60 of 2008.

® Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for GDP 1991

Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for GDP 1999

© Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for GDP 2009

* Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for GDP 2022 to ensure comparability. Even though the value-added threshold was adjusted in the year 2009, the 2022 PPP rate will be used to ensure comparability.

™ Calculations contained in Appendix B

3.3 Current value-added tax registration threshold provisions in South Africa

In terms of s 23(1) of the Value-Added Tax Act, every person, who carries on any enterprise, is required to register for value-added tax when the total taxable supplies made by the person exceeds R1 million a 12-month period. The R1 million threshold converted into US $ using PPP rate would be $ 143 245. This is currently the value-added tax compulsory registration threshold for South Africa.

In terms of s 23(3) of the Value-Added Tax Act, every person who carries on any enterprise, where the total supplies have exceeded or are expected to exceed R50 000, may voluntarily register for value-added tax. The R50 000 threshold converted into US $ using PPP rate would be $ 7 162. This is currently the value-added tax voluntary registration threshold for South Africa.

3.4 Other value-added tax thresholds in South Africa

The following other value-added tax threshold provisions, that aim to assist taxpayers that are already required to register for value-added tax, are available in South Africa:

i. Registered taxpayers with value-added tax threshold of R2 500 000 (US$ 358 113) or less, may file on the payment basis. The payment basis allows taxpayers to account for value-added tax when the actual payments are received, and the actual payments made (SARS 2022:27). This gives a cash flow relief to the individuals as they are only liable to account for the value-added tax when the cash is received.
ii. Micro-businesses, that is businesses with annual turnover less than R1 000 000 (US$ 143 245), have to file value-added tax returns twice a year (SARS 2022:155)

3.5 Conclusion

The government's primary objective was to establish a dynamic economy that could integrate into the global economic network and to support small businesses in South Africa. A special tax committee was commissioned to assist with tax reforms, and the Joint Standing Committee on Finance recommended enhancing progressivity in the value-added tax system by raising the threshold.

The South African value-added tax threshold provisions are a tax administered under the Value-Added Tax Act 89 of 1991. The value-added tax compulsory registration threshold was initially set at R150 000 in 1991 but was later increased to R300 000 in 1999 and R1 000 000 in 2009. The current threshold provisions include registering for value-added tax when the total taxable supplies made by a taxpayer exceeds R1 000 000 within a 12-month period and voluntarily registering when the total supplies exceed or are expected to exceed R50 000 within a 12-month period.

With the value-added tax threshold of South Africa only being adjusted twice since its implementation in 1991 and the last adjustment made in 2009, which is over 14 years ago, there is a need to reexamine the value-added tax threshold provisions of certain other countries to assist in the comparison of the South African value-added tax threshold provisions to those of certain other countries.

Chapter 4- Value-Added Tax Threshold Provisions for Certain Other Countries

4.1 Introduction

Now that we have examined the value-added tac threshold provisions for South Africa, the research report will now examine the value-added tax threshold provisions of certain other countries, namely,

i. The UK
ii. India
iii. China
iv. Australia
v. New Zealand
vi. Kenya

Firstly, the history of the value-added tax threshold of these countries will be examined. This will indicate to us how often the value-added tax threshold of these countries has been amended. Secondly, the current value-added tax threshold provisions in these countries will be examined. For the current provisions, the following value-added tax thresholds will be examined: the compulsory registration value-added tax threshold and the voluntary registration value-added tax threshold. Lastly, where applicable, other value-added tax thresholds applicable to value-added tax will be examined. The above examination should assist in understanding the value-added tax provisions of these countries.

As discussed in section 1.1, for this research report, the value-added tax threshold provisions that determine which taxpayers must register for value-added tax, will be referred to as the 'value-added tax registration threshold.' Whilst other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold.' The term ‘value-added tax threshold’ will include both 'value-added tax registration threshold’ and 'other value-added tax threshold’.

Furthermore, ss discussed in section 1.4, instead of using the currency exchange rate, as quoted by banks, this research report coverts currencies into US dollars using Purchasing Power Parities (PPP). Furthermore, conversion calculations are contained in Appendix B of this research report. Additionally, the most recent value-added tax threshold, of each country in this research report excluding Kenya, will be converted to US dollar using the 2022 PPP rates. The 2022 PPP rates are the most recent PPP rates available for South Africa and the certain other countries. For Kenya, the 2021 PPP rates will be used as the PPP rates for 2022 have not been updated. This is done to ensure comparability between the value-added threshold of South Africa and the certain other countries in this research report.

Lastly, as discussed in section 1.3:

> ‘The term value-added tax refers to any national tax, such as the Goods and Services Tax (GST), that embodies the fundamental characteristics of a value-added tax, i.e., a broad-based tax on final consumption collected from, but in theory not borne by, businesses through a staged collection process, regardless of the method used to calculate the tax liability (for example, the invoice-credit method or the subtraction method)’ (OECD 2017:4).

For this research report, the terms ‘value-added tax’ and ‘goods and services tax’ will be used interchangeably.

4.2 Kenya

4.2.1 History of the Value-added Tax Threshold in Kenya

Value-added tax was implemented in Kenya on January 1, 1990, replacing sales tax, which had been in existence since 1973 (Kiprotich, Gideon & Nyandusi 2012:3). Value-added tax was introduced in 1990 as a means of broadening the tax base and raising revenue for the government (Mugushu, Wawire & Wambugu 2020:21). The VAT Act, Chapter 476 of the Kenyan Laws, read in conjunction with the Regulations resulting from the Act, contained the fundamental law. A new VAT Act took effect on September 1st, 2013, replacing the VAT Act, Cap. 476 (PwC 2022:103).

The value-added tax compulsory registration threshold was adjusted from KES 3 000 000 to KES 5 000 000 in 2007 (Kimunya 2006:39). During the speech delivered to the National Assembly by the Minister of Finance Amos Muhinga Kimunya, for the 2006/2007 budget, the value-added tax compulsory registration threshold was adjusted to KES 5 000 000. In order to assist the taxpayers with the 'considerable' compliance costs and the excessive costs incurred by the Kenya Revenue authority, the value-added tax compulsory registration threshold was raised (Kimunya 2006:39). Below is the table detailing the summary of the value-added tax threshold of Kenya.

Limited information is available of when the KES 3 000 000 was implemented, even after numerous literature reviews. It is, therefore, assumed that the KES 3 000 000 has been in implementation since 1990 and no other adjustments were made between 1990 and 2007.

Table 2: A summary of the value-added tax compulsory registration threshold history in

Kenya

No.	Year	Threshold (Kenyan Shilling)	Threshold (USD $) ™	Source
1.	1990	3 000 000	354 610 ®	s 27 and the sixth schedule of the Value-Added Tax (Tribunal) Rules, 1990
2.	2007	5 000 000	191 498#	s 34(1) of the Value-Added Tax Act, 35 of 2013
3.	2023	5 000 000	107 735*	s 34(1) of the Value-Added Tax Act, 35 of 2013

® Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 1990
Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2007
* Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2021 as that is the most recent PPP available.
™ Calculations contained in Appendix B

4.2.2 Current value-added tax registration threshold provisions in Kenya

In terms of s 34(1) of the Value-Added Tax Act 35 of 2013, a person is required to collect value-added tax if they make taxable supplies totaling at least KES 5 000 000 (USD $ 107 759*) in any 12-month period (KRA no date). The KES 5 000 000 threshold converted into US $ using PPP rate would be US $ 107 735. This is the value-added tax compulsory registration threshold for Kenya.

In terms of s34(4) of the Value-Added Tax 35 of 2013, the value-added tax legislation allows for a person to register voluntarily for value-added tax if they make or intend to make taxable supplies. Registration is at the discretion of the Commissioner. The Commissioner shall register a person if the following is met:

i. the person is making or will make taxable supplies;
ii. the person has a fixed place of business;
iii. if the person has begun carrying on a business, the person has kept records of his business and complied with obligations under the revenue laws;
iv. there are reasonable expectations that the person will maintain accurate records and file reliable tax returns.

There is, therefore, no minimum value-added tax voluntary registration threshold for Kenya, the taxpayer just has to be making taxable supplies.

(KRA no date)

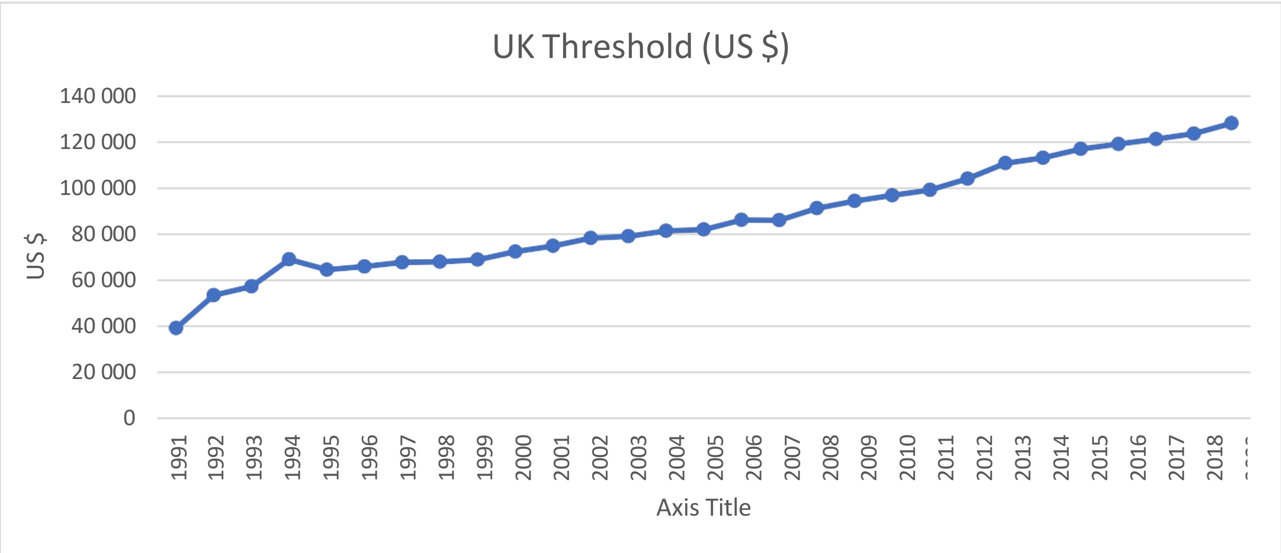
4.3 The UK

4.3.1 History of the Value-added Tax Threshold in the UK

In 1973, the UK first implemented a standard rate of 10% for value-added tax. (James 2000:73) (Zu 2022:2). In 1974, this was reduced to 8%, but beginning in 1975, a 25% 'luxury rate' was imposed on a variety of products (James 2000:73). Below is the graph detailing the value-added tax compulsory registration history of the UK.

On 21 March 1990, the first annual value-added tax compulsory registration threshold of £25 400 was implemented (GovUK 2022). Earlier than March 21, 1990, there were various other rules and there was a 3-monthly limit and a yearly limit applicable for value-added tax thresholds (GovUK 2022). The value-added tax compulsory registration threshold has been adjusted a total of 28 times since 1990 and increased from £25 400 to £85 000. The most recent adjustment of £85 000 was made at the UK's Spring Budget 2017. The adjustment of £85 000 will ensure that the value-added tax compulsory registered threshold is increased in line with inflation (GovUK 2022).

Figure 1: A summary of the value-added tax compulsory registration threshold history in the UK.



For the year 2023, exchange rates for conversion into USD are Purchasing Power Parities (PPPs) for 2022 to ensure comparability. For a breakdown of the above figure, refer to Appendix A.

4.3.2 Current value-added tax registered threshold provisions in the UK

In terms of s1 of Schedule 1 of the Value-Added Tax Act 1994, a person who makes taxable supplies is required to register for value-added tax if he is established in the United Kingdom and the total value of his taxable supplies in the preceding 12-month period exceeds £85 000 (Legislation UK no date). The £85 000 threshold converted into US $ using PPP rate would be US $ 128 090. This is the value-added tax compulsory registration threshold of the UK.

All persons below the value-added tax compulsory registration threshold are allowed to register for value-added tax (GovUK 2022). There is, therefore, no minimum threshold to voluntarily register for value-added tax.

4.3.3 Other value-added tax thresholds in the UK

The UK has various value-added tax schemes that have thresholds to assist small businesses:

i. Value-added tax flat rate scheme: The UK has three value-added tax rates, 20%, 5%, and 0% that are applicable to the supply of goods and services (GovUK 2022e). With the flat rate scheme, the taxpayer pays a flat rate to the revenue authority which is HM Revenue and Customs (HMRC) in the UK. The flat rate is determined by the taxpayer's type of business. Only small businesses with an annual taxable turnover of £150 000 (USD $ 226 041) or less, are eligible for the flat rate scheme.' (GovUK 2022a)
ii. Value-added tax retail scheme: The value-added tax retail scheme aims to simplify the calculation of value-added tax. With each value-added tax return, the taxpayer computes the value-added tax once rather than for each sale you make. This is meant to simplify the administration that comes with value-added tax. This initiative is only available to small businesses selling goods with an annual taxable turnover of £130,000 (USD $ 195 903) or less, exclusive of value-added tax. (GovUK 2022b)
iii. Value-added tax annual accounting scheme: 'With the Annual Accounting Scheme, the taxpayer pays their VAT bill in advance based on your most recent return (or an estimate if you're new to VAT) one VAT Return each year. The taxpayer would need to make a final payment of the difference between your advance payments and the final VAT bill when you file your VAT Return or seek for a refund - if you have overpaid your VAT bill. This scheme is only available for taxpayers with a value-added tax turnover of £1 350 000 ($ 2 034 373).' (GovUK 2022c)
iv. Value-added tax cash accounting scheme: Taxpayers only needs to pay value-added tax when the customer pays, but taxpayers are also only able to claim value-added tax inputs when they make payments to their creditors. This scheme is only

available for taxpayers with a value-added tax turnover of £1 350 000 ($ 2 034 373). (GovUK 2022d)

The above threshold gives an indication of how the value-added tax policy of the UK seeks to assist small businesses.

4.4 New Zealand

4.4.1 History of the Value-added Tax Threshold in New Zealand

As discussed in section 1.3 the terms ‘value added tax’ and ‘VAT’ refer to any national tax, such as the Goods and Services Tax, that embodies the fundamental characteristics of a value-added tax. New Zealand is one of the countries that has the goods and services tax, however the term value-added tax will still be used for New Zealand. The value-added tax was implemented in 1986 in New Zealand (James & Alley 2008:36). Below is the table detailing the summary of the goods and services tax history of New Zealand.

Table 3: A summary of the value-added tax compulsory registration threshold history in New Zealand.

No.	**Year**	**Threshold (New Zealand Dollar)**	**Threshold (USD $)** ™	**Source**
1.	1986	24 000	17 938®	s 51(1) Goods and Services Tax Act, No 141, 1985
2.	1990	30 000	19 468©	s 9 of the Goods and Services Tax Amendment 2 of 1990
3.	2000	40 000	27 687ø	s 109 of the Taxation (GST and Miscellaneous Provisions) Act 2000 Public Act 2000 No 39
4.	2009	60 000	40 760#	s 51(1) Goods and Services Tax Act 1985 Public Act 1985 No 141 (as at 1 April 2023)

5.	2023	60 000	41 600*	s 51(1) Goods and Services Tax Act 1985 Public Act 1985 No 141 (as at 1 April 2023)

® Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 1986
© Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 1990
Ø Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2000
Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2009
* Exchange rates for conversion into USD are Purchasing Power Parities (PPPs) for 2022 to ensure comparability.
™ Calculations contained in Appendix B

4.4.2 Current value-added tax registration threshold provisions in New Zealand

In terms of s51(1) of Goods and Services Tax Act 1985 every person, including foreign suppliers, making more than NZ $ 60 000 in taxable supplies should register for goods and services tax in New Zealand (New Zealand Legislation 2023). The threshold converted into US $ using PPP rate would be US $ 41 600. This is the compulsory registration threshold for New Zealand.

In terms of s51(3) of the Goods and Services Tax Act 1985 every person, even though they are making less than $ 60 000 (USD $ 41 600) in taxable supplies, may voluntarily register for the value-added tax. (New Zealand Legislation 2023)

4.4.3 Other value-added tax threshold in New Zealand

In terms of 19A(1)(b) of Goods and Services Tax Act, registered taxpayers with a value-added tax turnover below NZ$ 2 000 000 (US$ 1 386 668), may register on the payment basis (New Zealand Legislation 2023).

Additionally, according to Ernst&Young (2023:1346), taxpayers making less than NZ$ 500 000 (US$ 346 667) can submit their returns twice a year (New Zealand Legislation 2023).

4.5 India

4.5.1 History of the Value-added Tax Threshold in India

India, as a confederation of states, is a sovereign, secular, democratic, and parliamentary republic. Constitutionally, the President is the executive leader of the united states (Know India no date). As the President's representative in the states, the Governor is the executive chief. The provincial governments closely resemble the federal government (Know India no date). There are 28 states and 8 territories in the united states (Saha & Sakib 2021:22). The President administers Union Territories through an Administrator appointed by him or her. (Know India no date).

The tax system in India is extremely complex, and each state has its own legislature. Value-added tax was first introduced in 1986 but was replaced by the goods and services tax on 1 July 2017 (Saha & Sakib 2021:22). Goods and Services Tax was instituted to assure the existence of a single tax and to unify the total indirect tax structure in India (Saha & Sakib 2021:22). This research report will only focus on the goods and services tax that is currently legislated in India.

The Goods and Services Tax is broken down into four separate legislations to assist with the governing of the goods and services tax for the different states and territories in India:

i. Central Goods and Services Tax Act (CGST) used for intra-state supply.
ii. State Goods and Services Tax Act (SGST) used for intra-state supply.
iii. Union Territory Goods and Services Tax Act (UTGST) used for intra-state supply.
iv. Integrated Goods and Services Tax Act (IGST) used for inter-state supply.
v. (Saha & Sakib 2021:22).

Below is the table detailing the summary of the goods and services tax history of India.

Table 4: A summary of the value-added tax compulsory registration threshold history in India.

No.	**Year**	**Threshold (INR)**	**Threshold (USD $) ™**	**Source**
1.	2017: ‘Other than special category states’	INR 2 000 000 (20 lakh rupees)	96 863#	s 22(1) of The Central Goods and Services Tax Act, 2017

2.	2017: 'Special category states'	INR 1 000 000 (10 lakh rupees)	48 431#	s 22(1) of The Central Goods and Services Tax Act, 2017
3.	2023: 'Other than special category states'	INR 2 000 000 (20 lakh rupees)	83 127*	s 22(1) of The Central Goods and Services Tax Act, 2017
4.	2023: 'Special category states'	INR 1 000 000 (10 lakh rupees)	41 564*	s 22(1) of The Central Goods and Services Tax Act, 2017

Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2017
***** Exchange rates for conversion into USD are Purchasing Power Parities (PPPs) for GDP 2022 to ensure comparability.
™ Calculations contained in Appendix B

4.5.2 Current value-added tax registration threshold provisions in India

In accordance with s 22(1) of the Central Goods and Services Tax Act, 2017, every supplier with an aggregated annual turnover exceeding 20 lakhs rupees (USD $ 83 127) is required to register for goods and services tax (India Code. No date). However, also in terms of s 22(1) of the Central Goods and Services Tax Act, a resident of one of the states in the special category must register for goods and services tax if their aggregate revenue exceeds 10 lakh rupees (USD $ 41 564) (India Code. No date). This is the compulsory registration threshold of India. Only the following states are still considered special category States: Manipur, Mizoram, Nagaland, and Tripura. (India Code. No date). Lastly, according to Ernst&Young (2023:837), there is also an additional goods and services tax compulsory threshold for taxpayers of INR 4 000 000 applicable to taxpayers that exclusively supply goods.

Additionally, India has provisions in s 24 of the Central Goods and Services Tax Act, 2017, for suppliers that should register for goods and services tax (India Code no date) this in addition to the provisions in s 22(1). According to s24 the following categories of suppliers should register for goods and services tax:

> '(*i*) persons making any inter-State taxable supply;
> (ii) casual taxable persons making taxable supply;
> (iii) persons who are required to pay tax under reverse charge;

(iv) persons who are required to pay tax under sub-section (*5*) of section 9;

(v) non-resident taxable persons making taxable supply;

(vi) persons who are required to deduct tax under section 51, whether or not separately registered under this Act;

(vii) persons who make taxable supply of goods or services or both on behalf of other taxable persons whether as an agent or otherwise;

(viii) Input Service Distributor, whether or not separately registered under this Act;

(ix) persons who supply goods or services or both, other than supplies specified under sub-section (*5*) of section 9, through such electronic commerce operator who is required to collect tax at source under section 52;

(x) every electronic commerce operator;

(xi) every person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered person; and

(xii) such other person or class of persons as may be notified by the Government.'

The above list is for suppliers that are required to register for goods and services tax even if they do not meet the threshold specified in s 22(1).

Furthermore, in terms of s 25(3) even if a person is not required to register under s 22 or s 24, he may register himself voluntarily (India Code no date). There is no value-added tax voluntary registration threshold for the voluntary registration.

4.5.3 Other value-added tax threshold in India

Taxable individuals with annual revenues of up to INR 50 000 000 (US$ 2 078 182) may file quarterly tax reports beginning January 1, 2021, and make monthly tax payments (Ernst&Young 2023:848). Filing value-added tax returns less frequently might assist taxpayers with their administrative and compliance costs. However, the monthly. payment requirement might affect the cash flows of businesses, especially small businesses.

4.6 China

4.6.1 History of the Value-added Tax Threshold in China

China's value-added tax was implemented in 1994 (Li & Wang 2020:283). The service sector was subject to business tax, whereas the commodities sector was subject to value-added tax (Karpova & Mayburov 2018:1115) (Li & Wang 2020:283) (Xu & Krever 2021:331). From 2012, China started merging business tax into the value-added tax system and business tax was eliminated in the year 2016 (Li & Wang 2020:283) (Karpova & Mayburov 2018:1115). In 2016 the value-added tax had three value-added tax thresholds for the following industries: the manufacturing industry, the trading industry, and the services industry (OECD no date:1). Additionally in 2018, the value-added tax thresholds that were established for various industries in China were also combined into two primary categories as part of the country's continuing tax reform: ‘general taxpayers’ and ‘small-scale taxpayers’ (OECD no date:1), where 'small scale taxpayers' are categorised as businesses with annual sales turnover of less than RMB 5 million. This research report will focus on the value-added tax threshold from the year 2016 when business tax was eliminated, and China had one consolidated value- added tax system.

The VAT system in China is constantly evolving due to the differences between regulations and law in action and the government's use of the system as an economic management instrument (Xu & Krever 2021:338). The regulations consist of 28 articles and are supplemented by operational directives and circulars issued by the State Taxation Administration of the People’s Republic of China and the Ministry of Finance (Xu & Krever 2021:338). These circulars often make significant changes to the VAT system, sometimes piloting in specific industries or geographic areas (Xu & Krever 2021:338). China’s amendments can be seen as an effort of China to align with other OECD member countries. It is therefore submitted that the below regulations might be adjusted by China to ensure alignment with other OECD member countries.

Below is the table detailing the value-added tax history of China.

Table 5: A summary of the value-added tax compulsory registration threshold history in China.

No.	Year	Details	Threshold (RMB)	Threshold (USD $) ™	Source
1.	2016	Manufacturing industry taxpayers	500 000#	125 350	OECD no date:1
2.	2016	Trading industry taxpayers	800 000#	200 560	OECD no date:1
3.	2016	Services industry taxpayers	5 000 000#	1 253 498	OECD no date:1
4.	2018	Small scale taxpayers: sales turnover of not more than RMB 5 million.	5 000 000*	1 182 257	OECD no date:1

		General taxpayers: sales turnover over RMB 5 million.			
5.	2023	Small scale taxpayers: sales turnover of not more than RMB 5 million. General taxpayers: sales turnover over RMB 5 million.	5 000 000*	1 243 204	OECD no date:1

Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2016

* Exchange rates for conversion into USD are Purchasing Power Parities (PPPs) for GDP 2022 to ensure comparability.

™ Calculations contained in Appendix B

4.6.2 Current value-added tax registration threshold provisions in China

China has two distinct classifications of value-added taxpayers, general taxpayers, and small-scale taxpayers, which are determined by their respective annual turnover figures (Zhao 2022:2). The current value-added tax registration threshold for taxpayers has been standardised to RMB 5 000 000 (USD $1 243 204) in yearly sales. According to the stipulated criterion, businesses that generate yearly revenue surpassing RMB 5 000 000 (USD $1 243 204) will be categorised as general taxpayers, while those that fall below the value-added tax threshold will be classified as small scale taxpayers (Xu & Krever 2021:332) (OECD no date:1). Small scale taxpayers get to charge a reduced rate of value-added tax. Small scale taxpayers get to charge value-added tax at a rate of 3 percent but are not permitted to export goods and services (Karpova & Mayburov 2018:1117). General taxpayers have multiple rates applicable ranging from 0%-13%, namely, the following rates are applicable:

i. 6 percent – applicable to ‘modern services’ such as research and development
ii. 9 percent – transportation services, postal services, etc.
iii. Zero-rated – exported goods; etc.

(KPMG 2021:7-8)

Table 6: A summary of the current value-added tax thresholds of China

No.		Small scale taxpayers	General taxpayers
1.	Value-added tax registration threshold	Less than RMB 5 000 000	Equal to or more than RMB 5 000 000
2.	Rates	3%	Standard rate: 13%

			Other rates: 9%, 6%, 0%

4.7 Australia

4.7.1 History of the Value-added Tax Threshold in Australia

The goods and services tax was implemented in 2000 (Lymer & Salter 2016:69). The introduction of the Goods and Services Tax is considered one of Australia's major tax reforms (Lymer & Salter 2016:69). The Wholesale Sales Tax was replaced by the goods and services tax (Lymer & Salter 2016:69).

Below is the table detailing the value-added tax history of Australia.

Table 7: A summary of the value-added tax compulsory registration history in Australia

No.	Year	Threshold (Australian Dollar)	Threshold (USD $) ™	Source
1.	2000	50 000	38 107#	S 23-15 A New Tax System (Goods and Services Tax) Act 1999
2.	2007/2008	75 000	50 707®	Ernst & Young. (2008:92)
3.	2023	75 000	51 855*	Ernst & Young. (2008:92), ATO. 2023

Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2000

® Exchange rates for conversion into US $ are Purchasing Power Parities (PPPs) for 2008

* Exchange rates for conversion into USD are Purchasing Power Parities (PPPs) for GDP 2022 to ensure comparability.

™ Calculations contained in Appendix B

4.7.2 Current value-added tax threshold in Australia

Taxpayers making more than AU$ 75 000 in taxable supplied should register for goods and services tax (Ernst & Young 2008:92). The AU$ 75 000 threshold converted into US $ using PPP rate would be US $ 51 855.

Non-profit organisation taxpayers making more than AU$ 150 000 should register for the goods and services tax (Ernst & Young 2008:92). The AU$ 150 000 threshold converted into

US $ using PPP rate would be US $ 103 711.

4.7.3 Other value-added tax thresholds in Australia

The following other value-added tax threshold provisions, that aim to assist taxpayers that are already required to register for value-added tax are available in Australia. Instead of submitting goods and services tax returns monthly, the following other value-added tax thresholds are available in Australia:

i. Taxpayers with an annual value-added tax turnover of below AU$ 2 000 000 (US$ 1 382 808) may file value-added tax returns on a quarterly basis (Ernst&Young 2023:102).
ii. Taxpayers with an annual value-added tax turnover of below AU$ 75 000 (US$ 51 855) may file value-added tax returns on an annual basis (Ernst&Young 2023:102).

4.8 Conclusion

In conclusion, Chapter 4 of the research report examined the value-added tax threshold provisions of certain other countries, namely,

i. Kenya,
ii. The UK,
iii. New Zealand,
iv. India,
v. China, and
vi. Australia.

The history of the value-added tax compulsory registration threshold in Kenya revealed that it was implemented in 1990 and later adjusted from KES 3 000 000 to KES 5 000 000 in 2007. The current value-added tax compulsory registration in Kenya requires registration if taxable supplies reach at least KES 5 000 000 in a 12-month period.

Moving on to the UK, its value-added tax history showed that it first implemented a standard rate of 10% in 1973. The value-added tax compulsory registration threshold of £25 400 was introduced in 1990 and has since been adjusted multiple times, with the most recent value-added tax compulsory registration threshold set at £85 000. Registration for value-added tax in the UK is mandatory if taxable supplies exceed £85 000 in the preceding 12-month period.

Now with New Zealand, New Zealand introduced its goods and services tax, which is the same as value-added tax, in 1986. The threshold for registration has gone through several changes, and the current threshold is set at NZ$ 60 000.

For this research report, the examination of the certain other countries' value-added tax threshold provisions sheds light on the different approaches and policies adopted by each country. It offers insights into how value-added tax thresholds have been adjusted over time and the criteria for value-added tax compulsory and voluntary registration. This will assist in answering the research question of how does the value-added tax threshold of South Africa compare to those of certain other countries, and what improvements can be made to the value-added tax threshold of South Africa?

Chapter 5- Comparative Analysis

5.1 Introduction

In this chapter, the South African value-added tax threshold provisions, from Chapter 3, will be compared against the value-added tax threshold of each of the certain other countries in Chapter 4 research report.

Firstly, an overall comparison of the value-added tax registrations will be performed. This will be followed by an overall comparison between the value-added tax compulsory registration threshold provisions of South and each of the certain other countries examined in this research report. This analysis will examine the following:

i. Frequency of adjustments of the value-added tax compulsory registration thresholds.
ii. Percentage increase in the value-added tax compulsory registration threshold.
iii. Analysis of the current value-added tax compulsory registration threshold
iv. Analysis of the current value-added tax voluntary registration threshold
v. Analysis of the other value-added tax threshold

As discussed in section 1.1, for this research report, the value-added tax threshold provisions that determine which taxpayers must register for value-added tax, will be referred to as the 'value-added tax registration threshold.' Whilst other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold.' The term ‘value-added tax threshold’ will include both 'value-added tax registration threshold’ and 'other value-added tax threshold’.

Additionally, as discussed in section 4.1, instead of using the currency exchange rate, as quoted by banks, we will use the conversion into US dollars using Purchasing Power Parities (PPP). Furthermore, conversion calculations are contained in Appendix B of this research report. Additionally, the most recent value-added tax threshold, of each country in this research report excluding Kenya, will be converted to US dollar using the 2022 PPP rates. The 2022 PPP are the most recent PPP rates available for South Africa and the certain other countries. For Kenya, the 2021 PPP rates will be used as the PPP rates for 2022 have not been updated. This is done to ensure comparability between the value-added threshold of South Africa and the certain other countries in this research report.

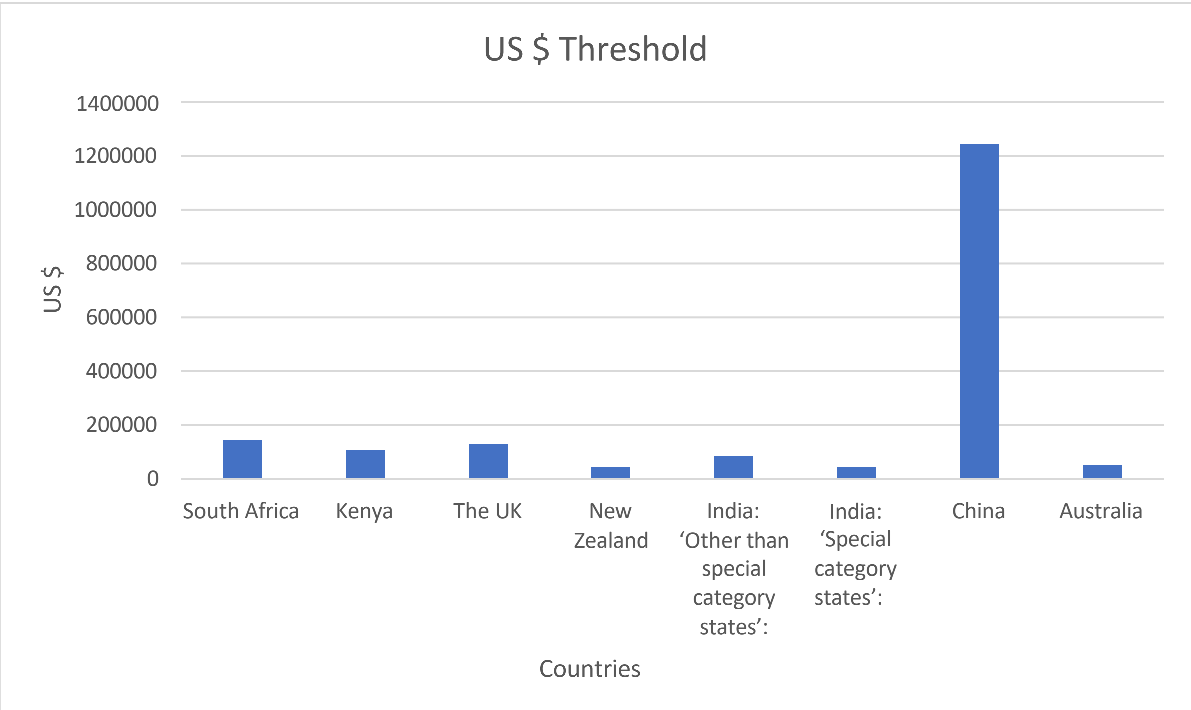
Lastly, as discussed in section 1.3:

> 'The term value-added tax refers to any national tax, such as the Goods and Services Tax (GST), that embodies the fundamental characteristics of a value-added tax, i.e., a broad-based tax on final consumption collected from, but in theory not borne by, businesses through a staged collection process, regardless of the method used to calculate the tax liability (for example, the invoice-credit method or the subtraction method)' (OECD 2017:4).

Chapter 5 will use the term 'value-added tax.' It will, however, still use the term 'goods and services tax' for countries that refer to it as 'goods and services tax,'.

5.2 Overall view

Figure 2: Comparison of the value-added tax compulsory registration thresholds



Looking at the above Figure 2, it is evident that China's value-added tax registration threshold is significantly higher than that of South Africa. China further has the highest value-added tax registration threshold at US $ 1 243 204. This should not be viewed as an indication that China has the most favourable value-added tax registration threshold compared to South Africa. In China, all businesses will essentially have to register for value-added tax as taxpayers have an obligation to register as either small scale taxpayers, threshold below US$ 1 243 204, or general taxpayers, threshold US$ 1 243 204 and above. This effectively makes all business liable for value-added tax and there. South Africa’s value-added tax registration threshold comes in as the second highest threshold. This gives us an overall view indication that South Africa’s threshold is competitively placed in comparison to that of the other certain countries in this research report.

5.3 Frequency of adjustments of the value-added tax compulsory registration thresholds

Table 8: A summary of the frequency of the adjustments to the value-added tax registration thresholds.

Criteria:	South Africa	Kenya	The UK	New Zealand	India	China	Australia
Year value-added tax was implemented	1991	1990	1973	1986	2017	1994	2000
Number of times the value-added tax compulsory registration threshold has been adjusted	Adjusted twice since implementation	Adjusted once since implementation	Adjusted 27 times since 1991	Adjusted 3 times since implementation	No adjustments.	Adjusted once since 2016	Adjusted once since implementation
Last year where the value-added tax compulsory registration threshold was adjusted	2009	2007	2018	2009	Not applicable as there have been no adjustments	2018	2007

Firstly, South Africa’s value-added threshold was implemented in 1991 and, similarly, the value-added tax of Kenya was implemented in 1990. However, looking at the frequency of the adjustments it can be seen that South Africa has increased its value-added tax twice with its last value-adjustment being in the year 2009 whilst Kenya has only increased their value-added tax threshold once with the last increase being in 2007. Both countries made an adjustment between the years 2007-2009, the difference in adjustments between South Africa and Kenya is, therefore, one additional adjustment that South Africa made in 1999. The adjustment made in 1999 can be traced back to The Katz Commission. The Katz Commission was tasked with evaluating the tax system of South Africa, including value-added tax. The Katz Commission's report was reviewed by Joint Standing Committee on Finance (JSCOF), who recommended enhancing progressivity in the value-added tax system by raising the value-added registration tax threshold (National Treasury no date:10). After the Katz Commission and the JSCOF's recommendation, the value-added tax registration threshold was adjusted in 1999. Therefore, the establishment of The Katz Commissions in South Africa impacted the value-added tax threshold adjustment made by South Africa. No special tax committee has been mentioned in any of the literature reviewed for Kenya. Furthermore, Kenya has a large informal sector (Eissa & Jack 2009:1,7), and it might therefore be challenging to raise the value-added tax registration threshold often as more business will be excluded from value-added tax and that might compromise the revenue collected from value-added tax.

Secondly, the UK's value-added tax threshold has been adjusted 27 times since 1991 whilst South Africa has only been adjusted twice since 1991. Although the UK's value-added tax system was implemented in 1973, to ensure comparability, the research study only evaluates the frequency of adjustments from 1991 to current. Undoubtedly, there is a significant difference between the frequency at which UK adjusts its value-added tax registration threshold to the frequency that South Africa adjusts its value-added tax registration threshold. The UK has a policy of adjusting the value-added tax threshold to keep it 'updated in line with inflation' (HMRC 2017:2). Although South Africa increased the threshold in 2009 to assist small businesses (Manuel 2008:13), there is no policy to adjust the value-added tax registration threshold with inflation. It is therefore argued that, a similar policy to that of the UK could assist South Africa in ensuring that the South African value-added tax registration threshold is updated regularly.

Thirdly, the goods and services tax registration threshold of New-Zealand has been adjusted three times since it was implemented in 1986. However, from 1991, which is the year that South Africa's value-added tax was implemented, New Zealand's goods and services tax has only been adjusted twice. This is similar to the number of times that the value-added tax registration threshold of South Africa has been adjusted. It should also be noted that, subsequent to 1991, New Zealand's goods and services tax registration threshold was adjusted in 2000 and 2009. Similarly, South Africa's value-added tax compulsory registration threshold was also adjusted in 1999 and 2009. The above similarities in the frequency are consistent with expectations as South Africa's value-added tax is largely based on the New Zealand's Goods and Services Act (Bell, Schoeman & Nienaber 2018:177).

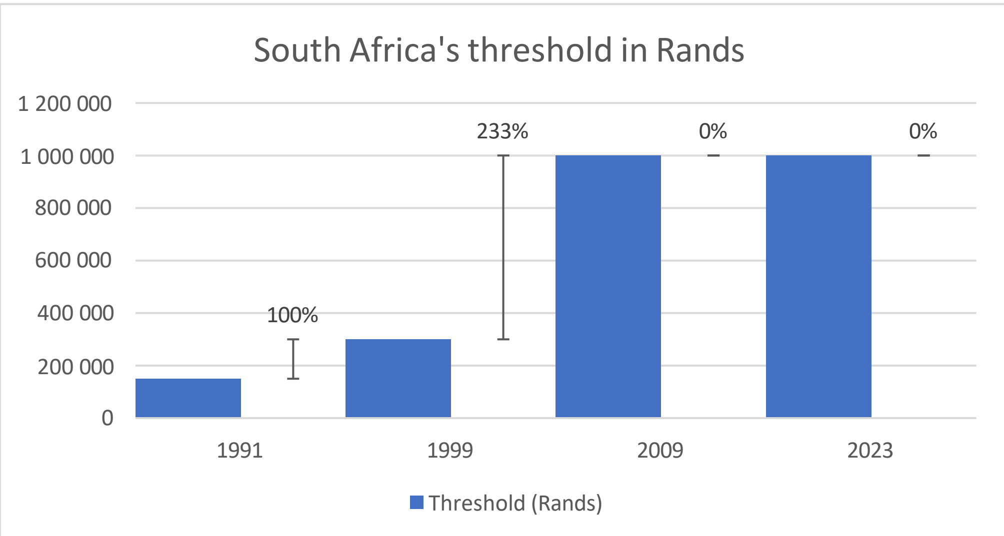
Furthermore, China’s value-added tax registration threshold has been amended only once since 2016 when business tax was eliminated, and China had value-added tax. That is one adjustment less than the number of adjustments that South Africa’s value-added tax registration threshold had. As discussed in section 4.6.2, from 2012, China started merging business tax into the value-added tax system and business tax was eliminated in the year 2016. Then again, in 2018, the RMB 500 000 and RMB 800 000 annual turnover requirements for small-scale VAT payers working in manufacturing and trading, respectively, were combined and raised to a single RMB 5 000 000 (OECD no date f:1). These are two major value-added tax reforms from China with regards to the value-added tax threshold of South Africa and there will probably more adjustments as China aligns its value-added tax policies to that of OECD (no date f:1). These adjustments are necessary for the value-added tax threshold of China as China had multiple value-added tax registration thresholds. These levels of adjustments are not necessary for South Africa as it has a single value-added tax compulsory registration threshold.

5.4 Percentage increase in the value-added tax compulsory registration threshold

An analysis of the percentage increase in the value-added tax threshold might assist in examining if South Africa’s value-added tax registration threshold compares to those of certain other countries in this research report. The percentage increase will be measured in the individual currencies of the counties in this research report to ensure that the increase is not distorted by changes in PPP rates. The figures and tables below provide an analysis of the increase in the value-added tax compulsory registration.

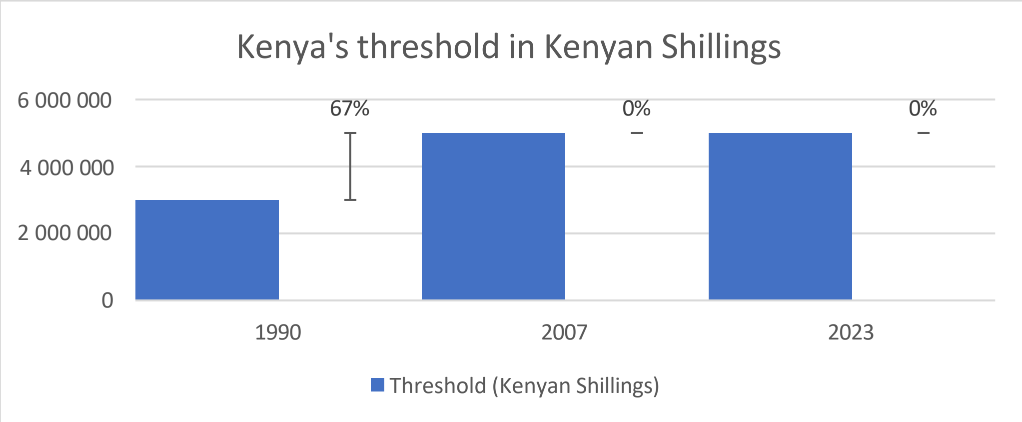
South Africa

Figure 3: Analysis of increases in the vale-added tax compulsory registration threshold in South Africa analysis of South Africa



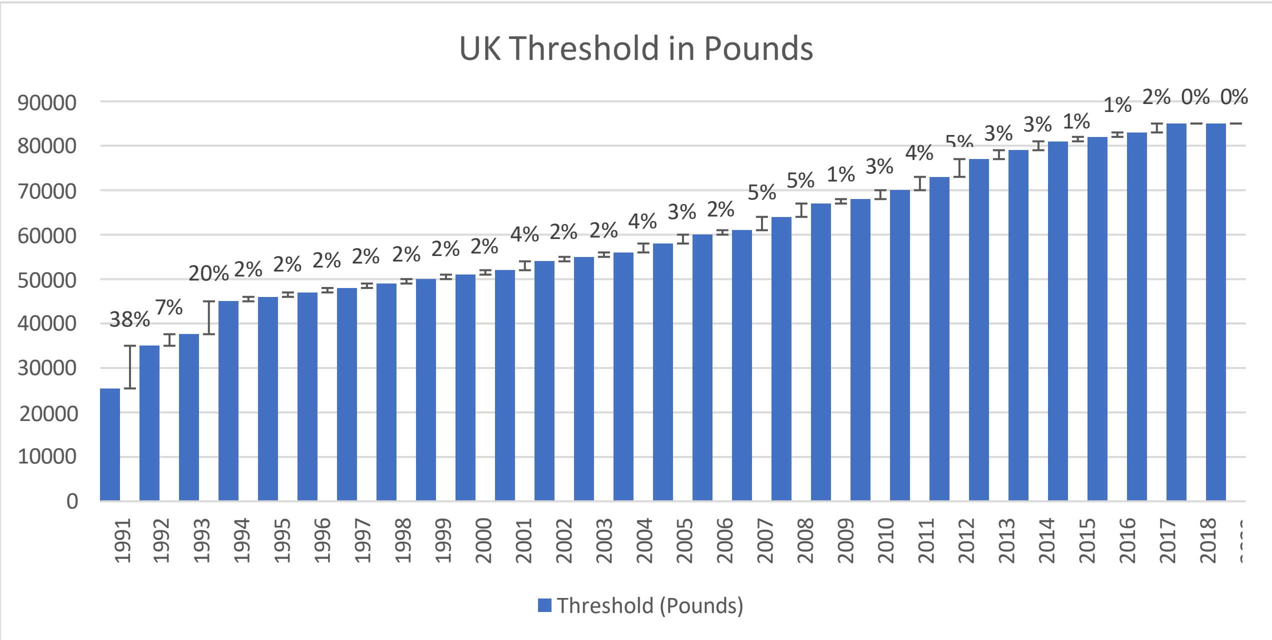
Kenya

Figure 4: Analysis of increases in the vale-added tax compulsory registration threshold in Kenya



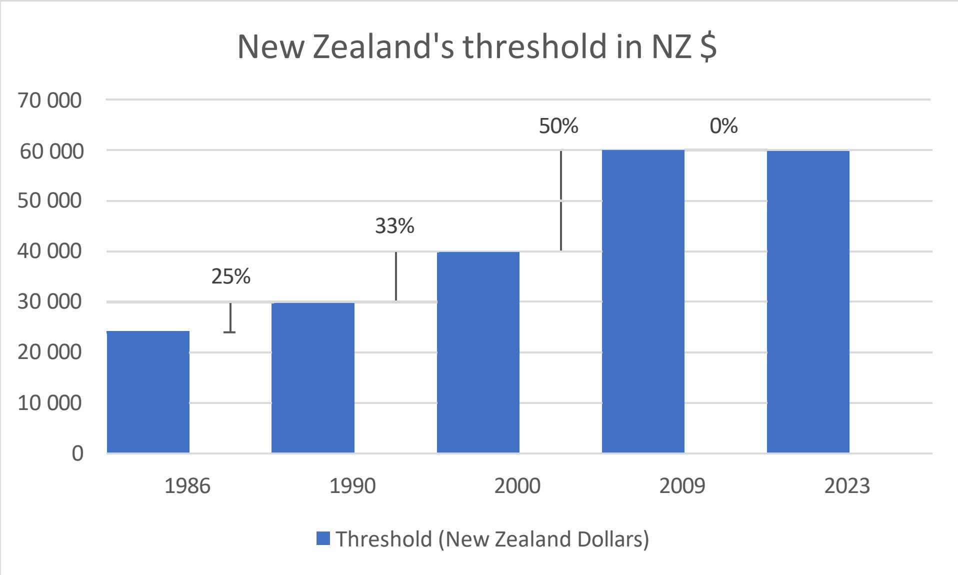
UK

Figure 5: Analysis of increases in the vale-added tax compulsory registration threshold in the UK



New Zealand

Figure 6: Analysis of increases in the vale-added tax threshold in New Zealand



China

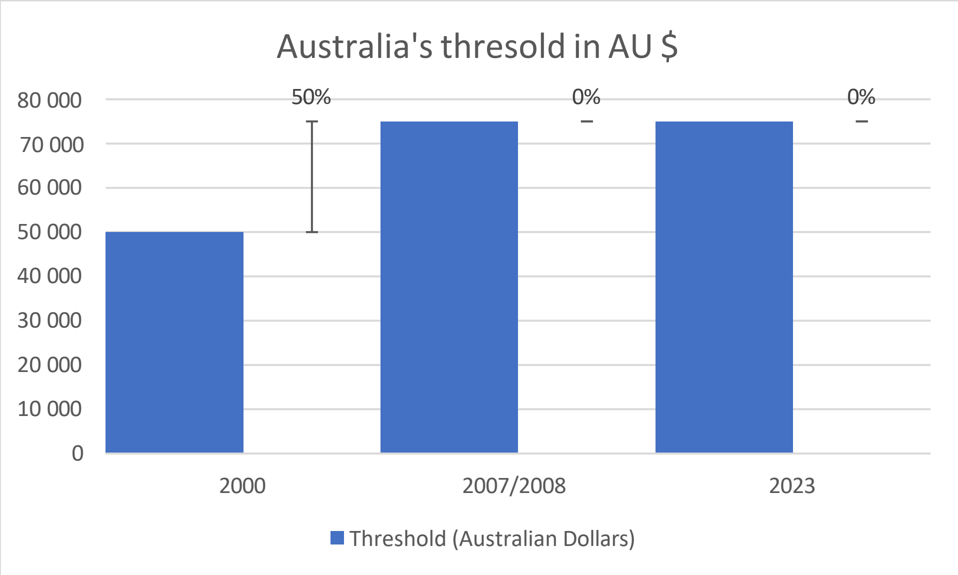
Table 9: Analysis of increases in the value-added tax threshold in China

No.	Industry	2016 Threshold (RMB)	2018 Threshold* (RMB)	Increase
1	Manufacturing industry	500 000	5000000	900%
2	Trading industry	800 000	5000000	525%
3	Services industry	5 000 000	5000000	0%

* In the year 2018, the RMB 500 000 and RMB 800 000 annual turnover requirements for small scale VAT payers working in manufacturing and trading, respectively, were combined and raised to a single RMB 5 000 000 (OECD no date f:1).

Australia

Figure 7: Analysis of increases in the vale-added tax threshold in the Australia



South Africa has had two percentage increases of 100% and 233% in 1999 and 2009, respectively. On the other hand, the UK has had 27 percentage increases ranging from 2% to 38%. The highest increase of 38% was in 1992, the rest of the increases were between 1%-7%. This further highlights the policy of the UK which is to keep the value-added tax registration threshold 'updated in line with inflation'. According to the Inflation Tool (2023) the average annual inflation of the UK is between 1991 and 2022 is 2.32%. This is in-line with the majority of the annual adjustments made by the UK. According to the Inflation Tool, South Africa's average annual inflation from 1991 to 2022 is 6.1% (Inflation Tool 2023). Thus, to keep up with inflation, South Africa's threshold should have been increased by an average of 6.1% per year. The increase percentages between 1991 and 2009 more than cover the annual inflation of 6.1%. However, there has not been any increase between years in the value-added tax compulsory registration of South Africa between the years 2009 and 2023, and the inflation of 6.1% has not been accounted for since 2009.

Similarly, New Zealand's goods and services tax compulsory registration threshold, like that of South Africa, has not been increased since 2009. The highest percentage increase of New Zealand's goods and services tax compulsory registration threshold is the 50% percentage increase from 2009, the other percentage increases is 25% and 33% from 1986 and 1990, respectively. The increase of New Zealand's value-added tax compulsory registration threshold in 2009, served to assist small business during the global financial crisis (Zu 2018:317). South Africa's percentage increases 100% and 233%, are significantly higher than that of New Zealand. This is contrary to common knowledge and the statement made by Bell, Schoeman & Nienaber (2018:177), that South Africa's value-added tax is largely based on the New Zealand's Goods and Services Act. This indicates that the policy of South Africa might differ from that of New Zealand when it comes to value-added tax reliefs to be given to small businesses. As discussed in section 5.3, the 233% increase was made by the finance minister, Manuel (2008:21), when the net tax relief of R10.5 billion was announced, which encompassed a rise in the mandatory value-added tax registration threshold.

Australia's goods and services tax is relatively new, having been implemented in 2000. It is therefore not surprising that the goods and services tax threshold has been adjusted once, by 50%, since it was implemented. This is not in line with South Africa's value-added tax increase of 233%.

Whilst South Africa has been higher in percentage increase for the above discussed countries, China has had a higher percentage increase to that of South Africa with the highest percentage increase being 900%, followed by an increase of 525%. This was the increase of the value-added tax compulsory registration threshold for the manufacturing industry that increased from RMB 500 000 TO RMB 5 000 000, leading to the 900% increase. Although this increase is significant, this magnitude of increase is an outlier. This is because the increase was largely due to the ongoing tax reform by China and China unifying the separate industry thresholds into one uniform threshold for small scale taxpayers and general taxpayers. Thus, based on South Africa's current value-added tax threshold provisions, it is not expected that South Africa would need to increase its value-added tax compulsory registration by 900% or 525%.

5.5 Analysis of the current value-added tax compulsory registration threshold

Below is the table that summarises the current value-added tax compulsory registration threshold of South Africa.

Table 10: Comparison of the value-added tax compulsory registration threshold in US$

Criteria:	**South Africa**	**Kenya**	**The UK**	**New Zealand**	**India**	**China**	**Australia**
Current compulsory registration value-added tax threshold (US $) ®	143 245	107 759	128 090	41 600	'Other than special category states': 83 127 'Special	Small scale taxpayers: more than 1 243 204. General	51 855

					category states’: 41 564	taxpayers: over 1 243 204	

® Exchange rates for conversion into US $ are Purchase Parity Rates (PPPs) using the most recent PPP available: 2021 PPP for Kenya and 2022 PPP for all other countries listed in the table.

South Africa’s current value-added tax threshold is currently US$ 143 245 and is lower than the value-added tax threshold of China of US$ 1 243 204. China increased the value-added tax threshold in 2018 as part of their tax reform (OECD no date:1). In terms of the increase in the value-added tax threshold was to promote the fairness principle; businesses of similar sizes can now have similar value-added tax implications (OECD no date:1). As discussed in section 4.6, businesses that generate yearly turnover surpassing RMB 5 000 000 (US $1 243 204) will be classified as general taxpayers, while those that fall below the value-added tax threshold will be classified as small-scale taxpayers (Xu & Krever 2021:332) (OECD no date:1). This is because small scale business below the RMB 5 000 000 will all have to charge value-added tax at a rate of 3%, whilst general taxpayers, businesses equal to or above the RMB 5 000 000, have to charge multiple rates based on the supply of goods and services. The multiple value-added tax rates increase the compliance costs for businesses (Agarwal 2019:9). Implementing China’s value-added tax threshold and having a value-added tax compulsory registration threshold for small scale taxpayers and general taxpayers would result in South Africa having high compliance costs and effectively all businesses in South Africa would have to register for value-added tax. This would likely increase compliance and administrative costs for small businesses and SARS would have more businesses to audit, this will result in compliance costs for SARS. According to Xu and Krever (2021:329), value-added tax has continuously generated more government income in China than any other OECD country since it was implemented, which may also result in additional revenue for SARS.

South Africa’s value-added tax compulsory registration threshold is set at US$ 143 245. This is higher than the goods and services tax compulsory registration threshold for the UK, which is US$ 128 090. The analysis from section 4.3 and 4.4 indicates that South Africa’s value-added tax compulsory registration threshold was amended twice at a percentage of 100% and 233% respectively. The two large percentage increases have led to the current value-added tax compulsory registration threshold level of US$ 143 245 for South Africa. Whilst the 27 increases of smaller percentages of the UK value-added tax compulsory value-added tax threshold have led to the UK having the current value-added tax compulsory threshold at US$ 128 090. Interestingly, according to the Inflation Tool (2023), £25 400 pounds in 1991 is equivalent to £51 701 in 2022. Whilst R150 000 in 1991 is equal to R939 356 in 2022 (Inflation Tool 2023). This indicates that the UK's current value-added tax compulsory registration threshold of £85 000 is above the inflation adjusted value of the £51 701 and, similarly, South Africa's current value-added tax compulsory registration threshold of R1 000 000 is above the inflation adjusted value of R939 356. For the UK, this might be due to the increase of 38% that took place in 1992 and the increase of 20% that took place in 1994. These two percentage increases were significantly above the percentage of the average annual inflation of 2.32%. For South Africa, this might be due to the significant percentage increases of 100% and 233%.

Based on the converted US dollar value-added tax thresholds, South Africa's value-added tax threshold is 344% higher than the goods and services threshold of New Zealand. The South African value-added tax is largely based on the goods and services tax in New Zealand (Bell, Schoeman, & Nienaber 2018: 177), it is therefore surprising that there is such a big difference between the two value-added tax thresholds. The value-added tax threshold of South Africa is also 276% higher than the goods and services tax threshold of Australia. Zu, Evans, and Krever (2020:360) state that New Zealand and Australia were identified as having the least onerous compliance burdens compared to other OECD member countries. It is a question as to whether this could be the reason New Zealand and Australia's goods and services tax thresholds are lower than those of South Africa. According to Smulders and Stiglingh (2007:22), small businesses in South Africa have high compliance burdens, as noted elsewhere by Smulders and Naidoo (2013:264). With high compliance burdens, South Africa should not set as low threshold as that of New Zealand and Australia. This would place a greater burden on small businesses in South Africa.

India's current goods and services tax system has two current value-added tax compulsory registration threshold one for 'other than special category', which is US$ 83 127, and one for 'special category states, which is US$41 564. Whilst South Africa only has one current value-added tax compulsory registration threshold of US$ 143 245 for all 9 provinces. South Africa's current value-added tax compulsory registration threshold is, therefore, higher than that of India. Additionally, India has 28 states and 8 territories, and it has history of each state having different goods and services tax regulations. The goods and services tax in India, is also broken down into 4 separate legislations to assist with the governing of the goods and services tax for the different states and territories in India. Thus, making the goods and services tax act of India more complicated and most likely more challenging to administer. This would not be a desirable value-added tax system for South Africa, furthermore it will probably lead to an increase in compliance administrative costs for South Africa. Moreover, according to s24, India has categories of suppliers that should register for goods and services tax even if they are below the current goods and services tax compulsory registration threshold of India. This is another value-added tax threshold provision that might lead to high compliance and administrative costs and would not be suitable for South Africa.

Lastly, Kenya's current value-added tax compulsory registration threshold of US$ 107 759 is lower than South Africa's current value-added tax compulsory registration threshold of US$ 143 245. Kenya and South Africa are both African countries and are both members of The Commonwealth. Similarly, Kenya and South Africa are both classified as developing countries (World Data no date). Additionally, South Africa's value-added tax was implemented in 1991 and Kenya's value-added tax was implemented in 1990. Thus, there are several similarities between Kenya and South Africa. This being said, the value-added tax is a 33% ((143 245-107 759/107 759)*100) difference between the current value-added tax compulsory registration thresholds of Kenya and South Africa. As discussed in section 5.3, one of the contributing factors could be that the value-added tax registration threshold of South Africa was adjusted in 1999 and Kenya did not have any increase in the 1990s. The other contributing factor is that whilst South Africa increased its value-added tax compulsory registration threshold twice by 100% and 233%, respectively, Kenya only had one percentage increase of 67%.

Lastly, Australia has a separate goods and services tax threshold for non-profit organisations of US$ 103 711 whilst the goods and services tax compulsory registration threshold of US$51 855. There is currently no set value-added tax threshold for non-profit organisations in South Africa. There is, however, a regulation that says donated goods or services sold by non-profit bodies will be considered exempt supplies (SARS 2022). Making the supply of donated goods or services exempt will result in no value-added tax being levied on the sale of the donated goods and services, therefore making the selling price lower. However, even though the supply of donated goods and services is exempted, non-profit organisations would still be obligated to register for value-added tax if the value-added tax surpasses the R1 000 000 value-added tax compulsory registration threshold. Having a higher value-added tax compulsory registration for non-profit organisations in South Africa may assist non-profit organisations with their compliance and administrative costs.

5.6 Analysis of the current value-added tax voluntary registration threshold

Table 11: A summary of the value-added tax voluntary registration thresholds

Criteria:	South Africa	Kenya	The UK	New Zealand	India	China	Australia
Current voluntary registration value-added tax threshold (US $) ®	7 162	Allowed to register if making taxable supplies.	Allowed to register even if below the value-added tax threshold of 128 090	Allowed to register even if below the value-added tax threshold of 41 600	Allowed to register even if below the value-added tax threshold of 83 127 or 41 564	No voluntary value-added tax threshold. Taxpayer will have to register as a small-scale taxpayer	Allowed to register even if below the value-added tax threshold of 51 855

® Exchange rates for conversion into US $ are Purchase Parity Rates (PPPs) using the most recent PPP available: 2021 PPP for Kenya and 2022 PPP for all other countries listed in the table.

South Africa's current value-added tax voluntary registration threshold is US $ 7 162; none of the other countries included in the research report have any current value-added tax voluntary registration threshold. In Kenya, taxpayers are allowed to register if they are making taxable supplies, therefore all taxpayers below US$ 107 759 are able to apply for value-added tax as long as they are making table supplies. Therefore, it appears that Kenya wants to include as many taxpayers into the value-added tax system as possible. Kenya has a large informal sector (Eissa & Jack 2009:1,7), and having no value-added tax voluntary registration threshold might assist Kenya in reducing the informal sector.

For the UK, New Zealand, Australia, and India, you are allowed to register even if you are below the value-added tax threshold of the respective countries. There is therefore no quantitative voluntary value-added tax threshold that needs to be met before businesses can register for value-added tax. This could be a way for the UK, New Zealand, Australia, and India, to assist with the competitive distortions that come with implementing value-added tax. Competitive distortion is one of the issues that comes from setting the value-added tax compulsory registration thresholds (Zu 2018:312). The businesses above the value-added tax compliance threshold would be able to claim input value-added tax whilst those that are below the value-added tax compulsory threshold are unable to (Zu 2018:312). Since unregistered enterprises would suffer from their exclusion from the value-added tax system, UK, New Zealand, Australia, and India, might have permitted businesses with turnovers below the threshold to voluntarily register for the value-added tax in order to address this issue.

As mentioned above in section 5.5, all businesses in China are required to register for value-added tax. There is therefore no value-added tax voluntary registration threshold. On the other hand, South Africa has a value-added tax voluntary registration threshold of US$ 7 162.

Overall South Africa seems to be the only country that has a value-added tax voluntary registration threshold. This could be an indication that South Africa needs to examine the value-added tax voluntary registration threshold and allow all businesses below the value-added tax compulsory registration threshold able to register for value-added tax.

5.7 Analysis of the other value-added tax threshold

Other value-added tax threshold provisions that only aim to assist taxpayers that are already required to register for value-added tax, will be referred to as 'other value-added tax threshold' and will be analysed using the below tables.

Table 12: Analysis of other value-added tax thresholds (South Africa and the UK)

	Other value-added tax thresholds		
	South Africa (US$)	**The UK (US$)**	**Difference/Similarities**
1. Register on payment Basis: Only account for value-added tax when you make payments to creditors or receive payment from debtors	- 358 113	- 2 034 373	The UK's value-added tax threshold is significantly higher than that of South Africa. More UK businesses get to having access to the benefit from using the payment. This will assist businesses with cash flows as the obligation to account for value-added tax is matched to the payment of the value-added tax.
2. Frequency of Filing tax returns: How often is the taxpayer obliged to submit a	- 143 245 - Every 6 months	- 2 034 373 - Annual	The UK's value-added tax threshold is significantly higher than that of South Africa. Again, more businesses get to benefit from having the opportunity

value-added tax return			to file less for value-added tax. This might assist businesses with reducing the compliance and administrative costs for small businesses.
3. Value-added tax flat rate scheme: Calculating the value-added tax using a singe rate based on the taxpayer’s industry.	Not applicable	226 042	South Africa only has a standard rate of 15%, on the other hand, the UK that has a standard rate of 20% and a reduced rate of 5% (GovUK 2022f). Having the flat rate for South Africa would not be effective as they do not have a multiple rates value-added tax system. This might also further complicate the value-added tax administration for SARS and the taxpayers, especially for business providing more industry of goods or services.
4. Value-added tax retail scheme: ‘Instead of calculating the VAT for each sale you make, you do it once with each VAT return.’ (GovUK 2022b)	Not applicable	195 903	South Africa might benefit from implementing the value-added tax retail scheme as some small business that trade with unregistered taxpayers, can only account for value-added tax when they need to file their returns.

Table 13: Analysis of other value-added tax thresholds (South Africa and New Zealand)

	Other value-added tax thresholds		
	South Africa (US$)	**New Zealand (US$)**	**Difference/Similarities**
5. Register on payment Basis: Only account for value-added tax when you make payments to creditors or receive payment from debtors	- 358 113	- 1 386 688	Again, as it was for the UK, South Africa's other value-added tax threshold is lower than that of New Zealand's. The significance difference indicates that, for South Africa, less small businesses have the payment basis available to them. Cash Flows are important to small businesses and South Africa might benefit from increasing their other value-added added tax to assist small businesses with their cash flows.
6. Frequency of Filing tax returns: How often is the taxpayer obliged to submit a value-added tax return	- 143 245 - Every 6 months	- 346 667 - Every 6 months	New Zealand's other goods and services tax threshold for the frequency of filing value-added tax returns is higher than that of South Africa. Again, for South Africa, less businesses are able to enjoy the benefit of having the lower Filing frequent of 6 moths. Increasing the other value-added tax threshold might assist reduce the compliance and administration costs of businesses.

Table 14: Analysis of other value-added tax thresholds (South Africa and Australia)

	Other value-added tax thresholds		
	South Africa (US$)	**Australia (US$)**	**Difference/Similarities**
7. Frequency of Filing tax returns: How often is the taxpayer obliged to submit a value-added tax return	- Less than 143 245 - Every 6 months	- Less than 1 382 808 - Every 3 months Or - Less than 51 855 - Once a year/annually	South Africa's other value-added tax threshold is again lower than the US$1 382 808 other goods and services tax threshold of Australia. However, South Africa has a more favourable Filing frequency of 6 months compared to that of 3 months of Australia. Australia further gives more smaller businesses an opportunity to only file once a year. Thus, Australia gives taxpayers who are below the goods and services tax compulsory registrations an opportunity to only file once a year. This will most likely encourage voluntary registrations and might increase the revenue collected from goods and services tax. This is not available in South Africa, but a similar policy might encourage voluntary registrations from small businesses.

5.8 Conclusion

In conclusion, this chapter has provided a comprehensive analysis of the South African value-added tax threshold provisions compared to those of certain other countries. The comparison focused on the following:

i. the frequency of adjustments of the value-added tax compulsory threshold adjustments,
ii. percentage increases in the value-added tax compulsory registration thresholds,
iii. analysis of the current value-added tax compulsory registration thresholds
iv. analysis of the current value-added tax voluntary registration threshold
v. analysis of the other value-added tax thresholds.

The above comparison will assist in answering the research question of how the value-added tax threshold of South Africa compares to those of certain other countries.

The overall view indicates that South Africa's value-added tax registration threshold is competitively placed, this is due to South Africa's threshold being the second highest value-added tax compulsory registration threshold when compared to the other certain countries in this research report. While China has the highest value-added tax compulsory registration threshold, it is important to note that all businesses in China are essentially required to register for VAT, either as a general taxpayer or as a small scale taxpayer, making it different from South Africa's value-added tax compulsory registration threshold.

In terms of the frequency of adjustments to the value-added tax compulsory registration threshold, South Africa has adjusted its value-added tax compulsory registration threshold twice since its implementation in 1991. Comparatively, Kenya has adjusted its value-added tax compulsory registration threshold once, while the UK has adjusted it 27 times since 1991. The UK's policy of adjusting the value-added tax compulsory registration threshold to keep it in line with inflation stands out, highlighting a potential approach that South Africa could consider ensuring regular updates.

The percentage increase analysis reveals that South Africa has had significant percentage increases of 100% and 233% in 1999 and 2009, respectively. However, since 2009, there have been no increases in the VAT compulsory registration threshold, which has not accounted for the average annual inflation rate of 6.1%. This differs from countries like the UK, which has implemented periodic increases to address inflation and provide relief to small businesses.

China's value-added tax compulsory registration threshold experienced a substantial increase due to ongoing tax reforms, with a 900% increase for the manufacturing industry. However, such a big magnitude of increase is considered an outlier, and it is not expected for South Africa to require similar adjustments.

Furthermore, South Africa is the only country with a value-added tax voluntary registration threshold set, all other countries allow all businesses that are below the value-added tax compulsory registration threshold to register for value-added tax.

Additionally, the UK has four other value-added tax thresholds that are available to their small businesses as compared to the two available to South Africa’s businesses. The threshold of these other value-added tax thresholds is also higher in value to the one implemented in South Africa.

In conclusion, this chapter sheds light on the South African value-added tax threshold provisions in comparison to certain other countries from this research report. The findings suggest that South Africa's current value-added tax compulsory registration threshold is competitively placed, but there is room for considering adjustments to keep up with inflation and provide support to small businesses.

Chapter 6- Improvements for South Africa's value-added tax threshold

6.1 Introduction

This chapter will examine possible improvements that can be made to South Africa's value-added tax threshold provisions. The following sub-headings are included in Chapter 6:

i. Frequency of adjustments of the value-added tax compulsory registration thresholds.
ii. Percentage increase in the value-added tax compulsory registration threshold.
iii. Analysis of the current value-added tax compulsory registration threshold
iv. Analysis of the current value-added tax voluntary registration threshold
v. Analysis of the other value-added tax threshold

6.2 Frequency of the adjustments of the value-added tax compulsory registration thresholds

South Africa's value-added tax threshold was implemented in 1991 and has only been adjusted twice since it was implemented. On the other hand, The UK has a policy of keeping the value-added tax threshold in-line with inflation (HMRC 2017:2). This is further supported by Zu (2018:317), who states that in the UK, the threshold for value-added tax has traditionally been raised yearly to keep pace with inflation. However, Zu (2018:317), further argues that the UK value-added tax adjustments are an extreme example and that a 'more reasonable strategy' would be to regularly modify the value-added tax threshold and adapt it to account for changes in compliance and administrative costs as well as changes in the real worth of money. According to analysis in section 5.3, it can also be seen that, out of six countries that South Africa was compared with, the UK is the only country that had an increase annually, indicating that the UK is on the extreme side when it comes to adjusting the value-added tax threshold. It is, therefore recommended that South Africa's value-added tax compulsory threshold be adjusted at a regular interval, for example every three to five years. This will give small businesses regularly relief by raising the threshold and would also not over burden the revenue authorities with the administrative costs of amending the value-added tax threshold every year.

6.3 Percentage increase in the value-added tax compulsory registration threshold.

Since value-added tax was implemented in South Africa, South Africa has had two percentage increases of 100% and 233% in 1999 and 2009, respectively. This is the second highest increases evaluated in section 5.4, second only to the increase of 900% and 525% observed from China. Therefore, the percentage increases of South Africa were higher than that of five of the certain other countries evaluated in section 5.4. One of the factors that should be evaluated by South Africa when determining the percentage increases in the value-added tax threshold is the inflation for the period under review. According to the inflation tool, South Africa's average annual inflation from 1991 to 2022 is 6.1% (Inflation Tool 2023). Thus, to keep up with inflation, South Africa's threshold should have been increased by an average of 6.1% per year. The other factor that should be considered when determining the percentage increase in the value-added tax threshold should be the increase in compliance and administrative costs for businesses and for the revenue authority. Therefore, it is recommended that South Africa has a percentage increase that considers the inflation rate for the period and also takes into account the compliance and administrative costs of businesses and the revenue authority. This will assist South Africa to have lower percentage increases more frequently and have the value-added tax compulsory registration threshold set at the appropriate.

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6.4 Analysis of the current value-added tax compulsory registration threshold

South Africa's value-added tax compulsory registration threshold is currently set at US$ 143 245 and is the second highest value-added tax compulsory registration threshold when compared to the six certain other countries included in this research report. Even higher than the value-added tax compulsory threshold of the UK which is considered to have the highest value-added tax compulsory threshold of the surveyed countries of the research report by Zu, Evans and Krever (2020:369). Moreover, the initial threshold of R150 000 set by South Africa in 1991 is equal to R939 356 in 2022 (Inflation Tool 2023). This close to South Africa's actual current value-added tax compulsory registration of R1 000 000 and indicates that the current value has factored in inflation from 1991. On the other hand, since the most recent adjustment was made in 2009 and there has been no adjustments since 2009, consideration also needs to be given to that fact that the R1 000 000 from the year 2009 has not been adjusted for inflation.

Using the Inflation Tool, between 2009 and 2022, South Africa's inflation rate was 91.19 percent, resulting in an overall increase of R911,948.59. The inflation adjusted value-added tax compulsory threshold should then be R1 911 949. Consideration would still need to be taken for the compliance and administrative costs of businesses and tax authorities. This would result in an even higher threshold than the R1 911 949. Therefore, even though the initial R150 000 value-added tax compulsory registration threshold has adjusted well to inflation. The most recent threshold of R1 000 000 has not been adjusted for inflation in over 14 years. There, therefore, needs to be an adjustment to the current R1 000 000 value-added tax compulsory registration threshold that takes into account the inflation rate and also takes into account the compliance and administrative costs of businesses and tax authorities.

As discussed in section 5.4, although there is a value-added tax current threshold of US$ 143 245, South Africa should implement a separate and higher threshold for non-profit organisations in South Africa to reduce the value-added tax obligations for non-profit organisations in South Africa. The South African government is struggling with various social issues and lessening the value-added tax burden of non-profit organisations might encourage further investment by non-profit organisations.

6.5 Analysis of the current value-added tax voluntary registration threshold

South Africa's current value-added tax voluntary registration threshold is US $ 7 162; none of the other countries included in this research report have a current value-added tax voluntary registration threshold. For all of the certain other countries in this research report, excluding China, all businesses that are below the value-added tax compulsory registration threshold are allowed to voluntarily register for value-added tax. This assists small businesses by giving them an opportunity to register for value-added tax and be able to claim inputs (Zu 2018:312). The fact that voluntary registrations may make up a sizable portion of all registrations is particularly intriguing; in several OECD nations, well over a third of all VAT registrants are voluntary registrants (Zu 2018:319). It is therefore recommended that South Africa should remove the value-added tax voluntary registration threshold of US$ 7 162 and allow all businesses below the value-added tax compulsory registration threshold a chance to register. More anti-avoidance regulations might need to be drafted to ensure that the value-added tax refunds are not abused by voluntary registered value-added tax taxpayers.

6.6 Analysis of the other value-added tax threshold

Based on the analysis provided in section 5.6, South Africa should increase the value-added tax threshold for businesses that can opt to use the payment basis for value-added tax. This might assist businesses with cash flows related to value-added tax obligations as the obligation to account for value-added tax is matched to the payment of the value-added tax. Furthermore, South Africa should increase the value-added threshold for businesses that can submit returns every 6 months. This might assist businesses with reducing the compliance and administrative costs for small businesses.

6.7 Conclusion

In conclusion, this chapter has examined various aspects related to South Africa's value-added tax threshold provisions. The analysis reveals several areas where improvements can be made. Firstly, it is recommended that the frequency of adjustments to the value-added tax compulsory registration thresholds be increased, preferably every three to five years. This approach strikes a balance between providing relief to small businesses by raising the threshold regularly and avoiding excessive administrative costs for revenue authorities.

Secondly, when determining the percentage increase in the value-added tax threshold, it is important to consider both the inflation rate and the increase in compliance and administrative costs for businesses and the revenue authority. By taking these factors into account, South Africa can establish percentage increases that are more aligned with the economic context and avoid excessive jumps in the threshold.

Furthermore, the current value-added tax compulsory registration threshold in South Africa is relatively high compared to other countries analysed. While it has adjusted reasonably well to inflation since its initial implementation, the absence of adjustments since 2009 necessitates a review. It is recommended that the current value-added tax compulsory registration threshold of R1 000 000 be adjusted to account for inflation and consider the compliance and administrative costs, ensuring an appropriate threshold that reflects the economic realities of the country.

Regarding the value-added tax voluntary registration threshold, it is advisable for South Africa to remove the threshold entirely and allow all businesses below the compulsory registration threshold to register voluntarily. This approach aligns with practices in other countries and provides small businesses with the opportunity to claim inputs and participate in the value-added tax system.

Finally, it is suggested that South Africa increase the value-added tax threshold for businesses eligible to use the payment basis and those permitted to submit returns every six months. These adjustments can assist businesses in managing their cash flows and reduce compliance and administrative costs, particularly for small businesses.

Overall, implementing these recommended improvements to South Africa's value-added tax threshold provisions would contribute to a more effective and fair tax system, supporting small businesses and encouraging investment by non-profit organizations, while maintaining necessary anti-avoidance measures. It might also further ensure that South Africa remains competitive, in terms of its value-added tax threshold provisions, with the certain other countries in this research report.

Chapter 7- Conclusion

South Africa introduced value-added tax in 1991, with the Value-Added Tax Act 89 of 1991 establishing its rules. The registration threshold was R150 000 in 1991, R300 000 in 1999, and R1 000 000 in 2009. Therefore, the South African value-added tax threshold has not been adjusted in over 14 years. As the backbone of the economy, the South African government must support small businesses to promote economic growth and prosperity. With cumulative inflation at 91.19% between 2009 and 2023, the value-added tax threshold provisions need examination.

A literature review was undertaken to determine the meaning and importance of the concept of the value-added tax threshold, evaluate the value-added tax provisions of South Africa and other certain countries, and compare the South African value-added tax threshold to those of certain other countries. This was done through an analysis of legislation, government publications, OECD publications, books, and other credible sources such as accredited journals and articles.

The value-added tax threshold plays a role in fiscal policy for revenue authorities, as it determines the level of taxation required to fund government obligations. It influences the tax system's equity (fairness), efficiency, and administrability, which are essential characteristics of a ‘good’ tax system. Higher value-added tax thresholds can assist businesses reduce their compliance and administration costs, while increased thresholds can enhance the efficiency and equity of the value-added tax.

The value-added tax threshold also influences corporate competition. Categorizing businesses into those subject to value-added tax obligations and those exempt from them can distort competition, particularly if unregistered businesses have a pricing advantage. Balancing the threshold level is essential to guarantee equitable competition and prevent disadvantages for registered businesses.

With the value-added tax threshold of South Africa only being adjusted twice since its implementation in 1991 and the last adjustment made in 2009, there is a need to examine the value-added tax threshold provisions of certain other countries to assist in the comparison of the South African value-added tax threshold provisions to those of certain other countries. South Africa's value-added tax registration threshold is competitively placed, with the country being the second highest in countries examined in this research report. This is due to the fact that all businesses in China are required to register for VAT, either as a general taxpayer or as a small scale taxpayer. South Africa has adjusted its value-added tax compulsory registration threshold twice since its implementation in 1991, compared to Kenya's once and the UK's 27 times since 1991. The UK's policy of adjusting the threshold to keep it in line with inflation is a potential approach that South Africa could consider ensuring regular updates.

South Africa has experienced significant percentage increases of 100% and 233% in 1999 and 2009, respectively. However, since 2009, there have been no increases in the VAT compulsory registration threshold, which has not accounted for the average annual inflation rate of 6.1%. This differs from countries like the UK, which has implemented periodic increases to address inflation and provide relief to small businesses. China's value-added tax compulsory registration threshold experienced a substantial increase due to ongoing tax reforms, with a 900% increase for the manufacturing industry. However, such a big magnitude of increase is considered an outlier and it is not expected for South Africa to require similar adjustments.

South Africa is the only country with a value-added tax voluntary registration threshold set, and all other countries allow all businesses below the vale-added tax compulsory registration threshold to register for value-added tax. The UK has four other value-added tax thresholds available to their small businesses, which are also higher in value to the one implemented in South Africa.

In conclusion, South Africa's value-added tax threshold provisions can be improved by increasing the frequency of adjustments, considering inflation rates and compliance and administrative costs, and removing the value-added tax voluntary registration threshold entirely. This approach aligns with practices in other countries and provides small businesses with the opportunity to claim inputs and participate in the value-added tax system. Implementing these recommended improvements to South Africa's value-added tax threshold provisions would contribute to a more effective and fair tax system, supporting small businesses and encouraging investment by non-profit organizations while maintaining necessary anti-avoidance measures.

Appendix A: Table and Figure Listing

List of Tables

List of Figures

Appendix B: Calculation Schedule

PPP rates for South Africa, the UK, New Zealand, India, China and Australia obtained from:

OECD. 2023. Purchasing power parities (PPP) (indicator), viewed on 30 May 2023, from https://www.oecd-ilibrary.org/finance-and-investment/purchasing-power-parities-ppp/indicator/english_1290ee5a-en.

PPP rates for Kenya obtained from:

Index mundi. no date. Kenya- PPP conversion factor, viewed 12 June 2023, from https://www.indexmundi.com/facts/kenya/ppp-conversion-factor#:~:text=The%20value%20for%20PPP%20conversion%20factor%2C%20private%20consumption,and%20a%20minimum%20value%20of%204.66%20in%201990

South Africa

Purchasing Power Parity Calculations

No.	Year	PPP Rate	Threshold (Rands)	Calculation	Threshold (USD)
1.	1991	1,407964	150 000	150 000/1,407964	106 537
2.	1999	2,584119	300 000	300 000/2,584119	116 094
3.	2009	4,405504	1 000 000	1 000 000/4,405504	226 989
4.	2023	6,981046	1 000 000	1 000 000/6,981046	143 245

Source for PPP rates: Index mundi no date

Kenya

Purchasing Power Parity Calculations

No.	Year	PPP Rate	Threshold (KES)	Calculation	Threshold (USD)
1.	1990	8,46	3 000 000	3000000/8.46	354 610
2.	2007	26,11	5 000 000	5 000 000/26,08	191 498
3.	2023	46,41	5 000 000	5 000 000/46.41	107 735

Source for PPP rates: Index mundi no date

The UK

Purchasing Power Parity Calculations

Year	Threshold (Pounds)	PPP Rates	Calculation	Threshold (US $)
1991	25400	0,647729	25400/0,647729	39 214
1992	35000	0,654329	35000/0,654329	53 490
1993	37600	0,656647	37600/0,656647	57 261
1994	45000	0,651878	45000/0,651878	69 031
1995	46000	0,712875	46000/0,712875	64 527
1996	47000	0,71286	47000/0,71286	65 932
1997	48000	0,708674	48000/0,708674	67 732
1998	49000	0,720697	49000/0,720697	67 990
1999	50000	0,725819	50000/0,725819	68 888
2000	51000	0,704476	51000/0,704476	72 394
2001	52000	0,694549	52000/0,694549	74 869
2002	54000	0,689877	54000/0,689877	78 275
2003	55000	0,695843	55000/0,695843	79 041
2004	56000	0,687835	56000/0,687835	81 415
2005	58000	0,707619	58000/0,707619	81 965
2006	60000	0,696532	60000/0,696532	86 141
2007	61000	0,709149	61000/0,709149	86 019
2008	64000	0,701691	64000/0,701691	91 208
2009	67000	0,710066	67000/0,710066	94 357
2010	68000	0,702279	68000/0,702279	96 828
2011	70000	0,706052	70000/0,706052	99 143
2012	73000	0,701634	73000/0,701634	104 043
2013	77000	0,695248	77000/0,695248	110 752
2014	79000	0,698444	79000/0,698444	113 109
2015	81000	0,692551	81000/0,692551	116 959
2016	82000	0,688603	82000/0,688603	119 082
2017	83000	0,684601	83000/0,684601	121 239
2018	85000	0,687714	85000/0,687714	123 598
2023	85000	0,663595	85000/0,663595	128 090

Source for PPP rates: OECD. no dateb

Other thresholds

Value-added tax Scheme	Threshold (Pounds)	2023 PPP Rate	Calculation	Threshold (UD $)
Flat Rate Scheme	150 000	0,663595	150000/0,663595	226 041
Retail Scheme	130 000	0,663595	1300000/0,663595	195 903
Annual Accounting Scheme	1 350 000	0,663595	1350000/0,663595	2 034 373

Cash Accounting Scheme	1 350 000	0,663595	1350000/0,663595	2 034 373

Source for PPP rates: OECD. no dateb

New Zealand

Purchasing Power Parity Calculations

No.	Year	Threshold (New Zealand $)	PPP Rate	Calculation	Threshold (US $)
1	1986	24 000	1,33795	24000/1,337954	17 938
2	1990	30 000	1,54097	30000/1,540969	19 468
3	2000	40 000	1,44474	40000/1,444744	27 687
4	2009	60 000	1,47203	60000/1,472027	40 760
5	2023	60 000	1,442306	60000/1,442306	41 600

Source for PPP rates: OECD. no dateb

India

Purchasing Power Parity Calculations

No.	Year	Threshold (INR)	PPP Rate	Calculation	Threshold (USD $)
1	2017	2 000 000	20,647793	2000000/20,647793	96 863
2		1 000 000	20,647793	1000000/20,647793	48 431
3	2022	2 000 000	24,059486	2000000/24,059486	83 127
4		1 000 000	24,059486	1000000/24,059486	41 564

Source for PPP rates: OECD. no dateb

China

Purchasing Power Parity Calculations

No.	Year	Details	Threshold (RMB)	PPP Rate	Calculation	Threshold (USD $)
1	2016	Manufacturing industry taxpayers	500 000	3,988837	500000/3,988837	125 350
2	2016	Trading industry taxpayers	800 000	3,988837	800000/3,988837	200 560

3	2016	Services industry taxpayers	5 000 000	3,988837	5000000/3,988837	1 253 498
4	2018	Small scale taxpayers: sales turnover of not more than RMB 5 million. General taxpayers: sales turnover over RMB 5 million.	5 000 000	4,229198	5000000/4,229198	1 182 257
5	2023	Small scale taxpayers: sales turnover of not more than RMB 5 million. General taxpayers: sales turnover over RMB 5 million.	5 000 000	4,021865	5000000/4,021865	1 243 204

Source for PPP rates: (OECD. no dateb)

Appendix C: Comparative Analysis

Comparative Analysis Summary

Criteria:	South Africa	Kenya	The UK	New Zealand	India	China	Australia
Year implemented	1991	1990	1973	1986	2017*	1994	2000
Number of times the value-added tax threshold has been adjusted	Adjusted twice since implementation	Adjusted once since implementation	Adjusted 27 times since 1991	Adjusted 3 times since implementation	No adjustment *	Adjusted once #	Adjusted once since implementation
Last year where the registration threshold was adjusted	2009	2007	2018	2009	Not applicable	2018	2007
Current compulsory registration value-added tax threshold (US $) ®	143 245	107 759	128 090	41 600	'Other than special category states': 83 127 'Special category states': 41 564	Small scale taxpayers: more than 1 243 204. General taxpayers: over 1 243 204	51 855
Current voluntary registration value-added tax threshold (US $)®	7 162	Allowed to register if making taxable supplies.	Allowed to register even if below the value-added tax threshold of 128 090	Allowed to register even if below the value-added tax threshold of 41 600	Allowed to register even if below the value-added tax threshold of 83 127	No voluntary value-added tax threshold. Taxpayer will have to register as a small-scale taxpayer	Allowed to register even if below the value-added tax threshold of 51 855 Non-profit organisation taxpayers making more than 103 711
Other value-added tax thresholds (US $)®	Registered taxpayers with value-added tax threshold of US$ 358 113 or less, may file on the payment basis.	Not applicable	Value-added tax flat rate scheme: 226 042 Value-added tax retail scheme:	Registered taxpayers with a value-added tax turnover below US$ 1 386 668 can register on the payment basis.	Taxable individuals with annual revenues of up to US$ 2 078 182 may file quarterly tax	Not applicable	Taxpayers with an annual value-added tax turnover of below US$ 1 382 808 may file value-added tax returns on a quarterly basis.

	Registered taxpayers with an annual turnover less than US$ 143 245, have to file value-added tax returns twice a year		195 903 Value-added tax annual accounting scheme: 2 034 373 Value-added tax cash accounting scheme: 2 034 373	Registered taxpayers with a value-added turnover less than US$ 346 667 can submit their returns twice a year	reports		Taxpayers with an annual value-added tax turnover of below US$ 51 855 may file value-added tax returns on an annual basis.

* This is for the new goods and services tax implemented in India

® Exchange rates for conversion into US $ are Purchase Parity Rates (PPPs) for 2022 as that is the most recent PPP available.

This is since the implementation of the value-added tax, after business tax was eliminate

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