

African Bank Limited press release

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How will a 1% point increase in VAT impact the cost of credit for the average South African household?

With 1 April just around the corner, many South African households are concerned about the impact of the 1% increase in Value added tax (VAT) on their standard of living and their ability to save and transact freely.

Neil Thompson, Head of Product at African Bank, says that the 1% VAT increase on the cost of credit should be marginal since the increase only applies to once-off initiation fee on a credit agreement and the monthly administration fee thereafter, as well as the transaction fees on transactional cards.

“In reality however the real impact on the consumer will depend on each and every customer’s unique circumstances when it comes to the number of credit agreements or cards they hold versus their income and how tight their budget already is.”

Thompson says it is important that consumers understand what components of their credit will be impacted.

Take a credit card for example. VAT is not charged on the original capital, which is the total credit limit on the card, or the interest which is charged on the outstanding balance on the card. “Consumers do need to understand however that VAT is charged on both the initiation fee as well as the monthly service fee so there will be a slight increase here,” he says. For card products VAT is also charged on the following account and transaction fees:

- **Card replacement fees**
- **Transfer fees**
- **SMS notifications, if not free**
- **Statement fees, if not free**
- **Point of sale transactions, if not free**

- **Payment fees**
- **ATM fees**
- **International transaction fees**

“What this means effectively is that the more cards a person has, the more they will logically transact and therefore the bigger the impact on monthly fees and transaction fees could be,” notes Thompson.

When it comes to loans the capital (the loan amount) is not subject to VAT, nor is the interest which is capitalised on the loan amount for the term. But, as with credit cards, VAT is charged on the fees on a loan. “So of course the more loans a person has, the bigger the impact on monthly fees could be,” he says.

Here are four useful budget tips to follow which will help see you through the increase:

- Work out your expenses versus your income taking into account the extra 1%

Remember certain basic food stuffs are tax exempt but transport, electricity and water still have VAT. Being proactive and self-disciplined with your money is an essential stepping stone to financial empowerment. Openly evaluate your expenses and have candid discussions with your family about money management.

- Deal with debt. It is always better to pay off the smallest amount of your short-term debt first like credit cards and store cards as these have a higher interest rate than your long-term debt. Ideally you should keep the number of transactional cards to a minimum, since each card will attract monthly fees.
- Be careful of cash withdrawals. Remember even if you use cash to transact it can be expensive since cash withdrawal charges are usually high, unless you get free ATM withdrawals. Rather consider swiping your card for purchases, particularly if you receive free POS transactions on your transactional card. This will end us saving you on transaction fees.
- Consider consolidating debt. You may want to consolidate this debt to avoid

duplication of fees. This means you will only have one monthly fee, instead of multiple monthly fees on multiple loans.

“The implications of the VAT increase can be confusing to fully understand. But, as long as you keep yourself informed throughout the process and make a conscious effort to change habits, modify your household budget and re-think your grocery list and credit habits, you can avoid any financial blunders that can occur as a result of this change,” Thompson concludes.

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PREPARED ON BEHALF OF AFRICAN BANK BY CATHY FINDLEY PR. CONTACT JACQUI RORKE ON JACQUI@FINDLEYPR.CO.ZA OR (011) 463-6372 WITH ANY CONSUMER PR QUERIES.