Higher VAT challenges car buyers

Cyril Zhungu, head: dealer automotive retail at Standard Bank Vehicle and Asset Finance (VAF) says while the increased VAT rate will have an impact on pricing, it will vary depending on purchase value.

Image via 123RF

Monthly payments on financed amounts over 60 months for entry-level vehicles, for instance, are likely to rise by R35, for medium to premium cars about R108, and around R210 at the top end.

While very little time was given for vendors to update their systems and procedures following the decision in the February Budget to increase the VAT rate from 14% to 15%, many companies have been working hard to ensure they are able to meet the deadline and inform customers of the potential impact. From a vehicle and asset perspective, the change means the financed amount needs to include the higher VAT charge as of this month (April).

"The expected increases given above are only guidelines as actual charges will vary based on overall purchase values and the individual amounts financed. Each person needs to check their new statements carefully and talk to us if they are unsure," says Zhungu.

It is also important to distinguish between business to business (B2B) and business to consumer (B2C) contracts and transactions.

“It is important to understand you cannot look at VAT in isolation, especially when looking at the impact on consumers or businesses. Businesses, for instance, can claim back input VAT they may have paid, while for consumers VAT is an up-front payment and does not have a delayed tax impact,” says Zhungu.

The change does raise the importance of ensuring instalments can be afforded as this VAT increase is one among many other tax increases, like the 52 cents per litre in fuel and higher ad valorem taxes for luxury goods from 25% to 30%, which includes some of the premium vehicle segments.

Consider affordability before making large purchase decisions

“We operate in a regulated environment and must continue to lend responsibility within the parameters of what customers can afford. It all boils down to affordability,” says Zhungu. Customers need to look at their own budgets “very closely” before making any large purchase decisions.

Tighter economic conditions have already led to a slowdown in new vehicle sales at the beginning of the year, but Standard Bank does not expect this to persist for the remainder of the year as the economy begins to turn the corner.

“Some may, for instance, decide to hang on to their cars a bit longer or shift towards used cars. However, I don’t see any major decline in overall demand for vehicles as customers will still want to buy cars. After all, people still need to get to work and businesses still need transport goods and so these tax increases will not put a brake on the increasing mobility needs of our economy,” says Zhungu.

Customers may just change behaviour here and there, but demand should remain “fairly steady.” The main driver for economic growth is set to hinge on accelerated consumer spending growth, underpinned by real wage growth.

The key issue for Standard Bank VAF, however, is to continue providing sage advice so their customers can stay within their budgets and still get the car they desire.

“The right advice will be to ensure customers continue to buy within their limits so that they can afford the cars they want. It also requires us to come up with more innovative financing tools to ensure customers can still get into cars,” says Zhungu.