



NATIONAL YOUTH DEVELOPMENT AGENCY
OUR YOUTH. OUR FUTURE.



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SUBMISSION ON THE SARS VAT MODERNISATION CONSULTATION PAPER

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1. Introduction and Agency's overall position

The National Youth Development Agency (NYDA) welcomes the opportunity to provide comments on the South African Revenue Service's (SARS) Consultation Paper on VAT Modernisation. The Agency recognises the importance of modernising South Africa's tax administration system to improve efficiency, strengthen compliance, reduce fraud and enhance the taxpayer experience. The proposed introduction of electronic invoicing (e-Invoicing), an Interoperability Framework and electronic reporting (e-Reporting) represents an important step towards a more integrated and efficient tax administration system.

From a developmental perspective, the NYDA supports reforms that improve the efficiency of the economy, reduce unnecessary administrative costs and strengthen the capacity of government to mobilise domestic revenue. However, the design and implementation of these reforms must take account of South Africa's structural economic challenges, particularly high youth unemployment, enterprise informality, unequal access to digital infrastructure and the limited financial and administrative capacity of emerging enterprises.

Young entrepreneurs face significant barriers to establishing, sustaining and growing businesses. These include limited access to finance, weak market access, inadequate business infrastructure, insufficient managerial and financial capabilities, and the high costs associated with regulatory compliance. For many youth-owned enterprises, the transition to digital tax administration will introduce additional requirements for technology, accounting systems, record-keeping and technical expertise.

The NYDA's central position is that VAT modernisation should reduce the cost of formalisation and compliance for youth-owned enterprises rather than introduce additional barriers to their participation in the formal economy. Accordingly, the Agency supports the proposed modernisation programme, subject to the adoption of a differentiated, affordable and developmentally responsive implementation framework.

The Agency recommends that SARS explicitly incorporate youth-owned enterprises, township businesses, rural enterprises and emerging microenterprises into its readiness assessments, pilot programmes, implementation arrangements and taxpayer support mechanisms.

2. Current adoption of accounting software, invoicing systems and digital platforms among SMMEs

The NYDA recognises that digital adoption among South African small, medium and micro enterprises (SMMEs) is highly uneven. Business size, turnover, sector, geographical location and

access to financial resources influence the extent to which enterprises adopt accounting software and digital business systems.

Established small and medium enterprises are generally better positioned to adopt digital accounting and invoicing systems, particularly those already operating within formal supply chains and maintaining regular relationships with corporate customers or government institutions. In contrast, many emerging and youth-owned microenterprises rely on manual record-keeping, spreadsheets, mobile banking applications, electronic payment platforms and basic invoicing tools. These arrangements may support everyday business operations without meeting the technical requirements of structured, machine-readable e-Invoicing. The distinction between basic digital participation and readiness for the proposed VAT system is particularly important. An enterprise using a smartphone to receive payments, communicate with customers or issue PDF invoices should not automatically be classified as ready to participate in a system requiring structured electronic invoices, accredited service providers and near real-time transmission of transaction data.

The NYDA proposes that SARS distinguish between four levels of digital maturity:

- **Digitally excluded enterprises:** Businesses relying predominantly on cash transactions, paper records and manual administrative processes.
- **Basic digital users:** Enterprises using smartphones, electronic payments, spreadsheets or basic digital invoicing tools.
- **Digitally enabled enterprises:** Businesses using accounting software, point-of-sale systems or integrated business management applications.
- **Digitally integrated enterprises:** Businesses operating systems capable of structured e-Invoicing, automated reporting and interoperability with external platforms.

This classification should inform implementation sequencing and the design of targeted support programmes.

The NYDA further recommends that SARS undertake a nationally representative SMME digital readiness assessment, with specific disaggregation by age of business ownership, enterprise size, turnover, sector, province, township or rural location, and VAT registration status.

The assessment should establish the actual prevalence of compatible accounting software, internet connectivity, digital record-keeping, electronic invoicing and the affordability of digital business solutions.

At present, the NYDA does not have a verified, nationally representative estimate of the proportion of youth-owned SMMEs using accounting software compatible with the proposed Digital VAT Model. Accordingly, the Agency recommends that baseline adoption rates be established before mandatory requirements are finalised.

3. Key barriers to adoption

3.1 Affordability and financial constraints

Affordability represents one of the most significant risks associated with mandatory e-Invoicing. The youth-owned enterprises supported by the NYDA frequently operate with limited working capital and face competing demands for resources, including stock purchases, equipment, transport, wages and business premises. The introduction of mandatory digital invoicing may require expenditure on accounting software, internet connectivity, compatible devices, service-provider subscriptions, system integration and professional accounting support.

Although individual subscription fees may appear relatively modest, their cumulative impact on low-turnover enterprises may be significant. The Agency recommends that SARS undertake a comprehensive regulatory and economic impact assessment to establish the direct and indirect costs of adoption across different categories of SMMEs. This assessment should distinguish between once-off implementation costs and recurring operating costs. The NYDA further proposes the introduction of free or subsidised basic e-Invoicing solutions for qualifying micro and youth-owned enterprises.

3.2 Digital and financial literacy

Digital literacy and financial management capabilities remain important constraints among emerging enterprises. In the Agency's experience, youth entrepreneurs possess practical business skills but have limited exposure to formal accounting systems, VAT administration and digital record-keeping.

We are concerned that a technically sophisticated invoicing system may increase compliance errors if users lack the necessary financial and digital capabilities. Therefore, training should extend beyond demonstrating how to operate software. It should cover basic bookkeeping, VAT obligations, invoice management, transaction reconciliation, cybersecurity and digital financial management. Training should be accessible in multiple South African languages and delivered through practical, business-oriented programmes.

3.3 Connectivity and digital infrastructure

Reliable internet connectivity remains uneven across geographical areas, particularly in rural communities and underserved townships. Youth-owned enterprises operating in areas with unstable connectivity or electricity supply may experience difficulties transmitting invoices and accessing digital platforms consistently. The requirement for near real-time transmission of transactional information creates additional operational risks for enterprises operating under these conditions. Accordingly, the NYDA recommends that the proposed framework provide for offline invoice generation, secure storage and delayed synchronisation when connectivity is restored. Appropriate provisions should protect businesses from penalties where non-compliance results from verified infrastructure failures beyond their control.

3.4 Cybersecurity and data protection

The transition towards continuous digital reporting introduces risks relating to cybersecurity, data breaches, unauthorised access and the misuse of commercially sensitive information. Small enterprises may lack the resources required to implement sophisticated cybersecurity systems. The NYDA recommends that SARS establish clear minimum security standards, transparent data governance arrangements and appropriate safeguards under the Protection of Personal Information Act. Accredited service providers should be subject to enforceable security, confidentiality, service continuity and accountability requirements.

4. Potential impact on compliance costs, administrative burden, business sustainability and taxpayer experience

The NYDA recognises that e-Invoicing has the potential to generate substantial long-term benefits for businesses. These include improved record-keeping, fewer manual errors, more efficient invoice processing, simplified VAT reporting and faster reconciliation of business transactions. The proposed transition towards pre-filled VAT returns and progressively automated assessments may reduce the time businesses spend preparing tax submissions. Improved visibility of transactions may also support more efficient VAT refund administration, which is particularly important for smaller enterprises experiencing cash-flow constraints.

Nevertheless, the distribution of these benefits will depend on implementation design. For larger businesses with established accounting systems, modernisation may primarily involve upgrading existing capabilities. For youth-owned microenterprises, the same reform may require investment in entirely new systems, staff training and recurring service-provider costs. The NYDA is concerned that the short-term costs of compliance may outweigh the immediate benefits for

some youth-owned enterprises. This risk is particularly pronounced among businesses operating with low turnover, narrow profit margins and limited access to finance.

The Agency recommends that SARS assess the impact of the proposed model on enterprise sustainability using the following indicators:

- Once-off digital adoption cost per enterprise.
- Annual recurring compliance costs.
- Time spent on invoicing and VAT administration.
- Cost of accounting and professional support.
- Frequency of invoice rejection and system failures.
- Time taken to process VAT refunds.
- Changes in business cash flow and administrative productivity.
- Business survival, formalisation and participation in supply chains.

The NYDA further recommends that the reform be evaluated against a clear principle: the introduction of digital VAT administration should produce a measurable net reduction in the compliance burden on small enterprises over time. Where businesses incur additional costs without corresponding administrative savings, SARS should reconsider the relevant implementation requirements or introduce targeted support.

5. Readiness of different SMME segments

The NYDA strongly supports differentiated implementation arrangements that recognise variations in enterprise capacity. A uniform implementation model risks placing disproportionate compliance obligations on businesses with the least resources.

Microenterprises	<p>Microenterprises should receive the highest level of implementation support. Many operate with limited administrative capacity and lack dedicated accounting personnel.</p> <p>SARS should provide simplified digital tools, practical training and extended transition periods.</p> <p>Mandatory adoption should follow demonstrated readiness rather than rely</p>
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	exclusively on predetermined implementation dates.
Informal enterprises	<p>Informal enterprises require a distinct policy approach. Many informal businesses fall outside the VAT registration system and should not be subjected to inappropriate compliance obligations merely because digital reporting infrastructure becomes available.</p> <p>The NYDA recommends that SARS clearly distinguish between VAT-registered enterprises, businesses eligible for voluntary registration and enterprises operating outside the VAT system.</p> <p>The introduction of e-Invoicing should not automatically create new VAT registration obligations for enterprises that do not meet the applicable statutory requirements.</p> <p>Instead, digitalisation should support gradual formalisation by making record-keeping, registration and tax administration easier and more affordable.</p>
Township enterprises	<p>Township enterprises frequently face constraints relating to business infrastructure, access to finance, market concentration and the cost of operating formal businesses.</p> <p>The NYDA recommends targeted implementation support through township enterprise development programmes, local</p>

	<p>business support centres and partnerships with relevant government institutions.</p>
<p>Rural enterprises</p>	<p>Rural businesses face additional challenges associated with geographical distance, connectivity limitations and restricted access to professional business services.</p> <p>The NYDA proposes mobile training programmes, assisted registration facilities, offline functionality and partnerships with local government and community-based enterprise support institutions.</p>
<p>Youth-owned enterprises</p>	<p>Youth-owned enterprises require explicit recognition as a priority group within the implementation framework. Young entrepreneurs may possess strong digital capabilities but still lack access to capital, accounting expertise and formal business management systems.</p> <p>Digital familiarity should not be equated with institutional or financial readiness.</p> <p>The NYDA recommends that youth-owned enterprises be included as a distinct analytical category in all SARS readiness assessments and implementation evaluations.</p>

6. Risks associated with implementation

The NYDA identifies several risks requiring specific mitigation measures.

6.1 Exclusion from formal markets

Large businesses and government institutions may adopt mandatory e-Invoicing before smaller suppliers. Where procurement and payment systems become dependent on structured electronic invoices, digitally excluded youth-owned enterprises may face difficulties supplying these customers. This presents a significant risk to enterprise development and economic inclusion. SARS should ensure that early adoption by large businesses does not indirectly impose unfunded digital compliance requirements on smaller suppliers before the relevant mandatory implementation phase.

6.2 Increased cost of doing business

Mandatory subscriptions, integration fees and technical support costs may increase operating expenses for small businesses. The NYDA recommends safeguards against excessive pricing and restrictive contractual practices by accredited service providers.

6.3 Market concentration among technology providers

The proposed decentralised model relies on accredited service providers to facilitate invoice exchange, validation and reporting. Without appropriate market governance, the system may create opportunities for concentration among a limited number of established technology providers. This may increase costs, restrict consumer choice and create barriers for emerging South African technology enterprises. The NYDA recommends transparent accreditation requirements, open technical standards, fair access to the interoperability network and competition safeguards. Accreditation should also provide opportunities for capable youth-owned digital enterprises to participate as software developers, implementation partners and service providers.

6.4 Business disruption

System failures, rejected invoices or delayed transaction validation may interrupt normal commercial activities. The framework should include contingency procedures allowing businesses to continue trading during verified system outages.

6.5 Premature enforcement

Introducing penalties before businesses have access to affordable systems, training and technical assistance may discourage formalisation. The NYDA recommends an initial

compliance-support period for qualifying micro and small enterprises, with education and corrective assistance taking precedence over punitive enforcement for genuine first-time errors.

6.6 Risks to business confidentiality

Continuous transaction reporting will increase the volume of commercially sensitive information processed within the VAT ecosystem. The framework should specify what information SARS requires, how the information will be protected and the responsibilities of accredited intermediaries.

7. Recommended government support mechanisms

The NYDA proposes the establishment of a coordinated SMME Digital VAT Transition Support Programme. This programme should involve SARS, the Department of Small Business Development, the Small Enterprise Development and Finance Agency, the NYDA, relevant industry associations and accredited technology providers. The programme should incorporate the following interventions.

7.1 Free or affordable digital invoicing solutions

SARS should facilitate access to a free basic e-Invoicing platform for qualifying microenterprises and low-turnover VAT vendors. The platform should support invoice creation, validation, transmission, record storage and basic reporting. A mobile-first design would improve accessibility for entrepreneurs operating without desktop computers or sophisticated accounting systems. Any free solution should remain interoperable with accredited commercial systems.

7.2 Targeted financial assistance

Government should explore once-off digital adoption grants, vouchers or subsidies to assist eligible enterprises with software, devices, training and implementation costs. Support should prioritise youth-owned enterprises, businesses owned by women and persons with disabilities, and enterprises operating in underserved areas. Financial assistance should be subject to clear eligibility requirements and appropriate accountability mechanisms.

7.3 Digital and tax compliance training

SARS should develop practical training programmes covering VAT compliance, bookkeeping, e-Invoicing, digital record management and cybersecurity. The NYDA is willing to explore opportunities to incorporate relevant digital tax readiness training into its existing enterprise development and business support interventions, subject to institutional arrangements and

available resources. Training should include practical demonstrations and continued assistance after initial onboarding.

7.4 Phased implementation

The NYDA supports the phased approach outlined in Chapter 8 of the Consultation Paper. The proposed implementation journey, beginning with preparation and consultation, followed by solution development, validation, piloting and phased adoption, provides an appropriate foundation. However, the Agency recommends that mandatory adoption be conditional on independently assessed readiness within each enterprise segment. Implementation thresholds should consider turnover, transaction volumes, digital maturity and sector-specific circumstances.

7.5 Dedicated SMME support channels

SARS should establish dedicated support arrangements for micro and small enterprises, including assisted onboarding, multilingual guidance, technical helpdesks and accessible dispute resolution mechanisms. Support should extend beyond initial registration and remain available during normal business operations.

7.6 Incentives for early adoption

Voluntary adoption should be encouraged through positive incentives rather than reliance on enforcement. Potential incentives include subsidised software, technical assistance, simplified reporting arrangements and recognition of compliant businesses within enterprise development programmes. These incentives should be designed to avoid unfairly disadvantaging enterprises that face structural barriers to early adoption.

8. Additional strategic recommendations

8.1 Integrate VAT modernisation with the national youth enterprise development agenda

The NYDA recommends that VAT modernisation be aligned with government's broader efforts to expand youth entrepreneurship, enterprise formalisation, access to markets and productive economic participation. Digital tax administration should support enterprise growth rather than function exclusively as a revenue collection instrument. Improved digital records may strengthen the ability of youth-owned enterprises to demonstrate turnover, maintain financial statements, apply for financing and establish commercial relationships. SARS should explore opportunities

for voluntary, consent-based integration between digital business records and enterprise support services, with appropriate safeguards for confidentiality and data protection.

8.2 Protect youth-owned enterprises in public procurement

Chapter 8 of the Consultation Paper identifies business-to-government transactions as an early implementation priority. The NYDA supports the modernisation of public procurement systems but recommends specific safeguards for emerging suppliers.

Government departments and public entities should be required to establish accessible arrangements for assisting smaller suppliers with the submission and processing of electronic invoices. Importantly, the transition should not create additional barriers to participation in public procurement by youth-owned enterprises.

The NYDA recommends that National Treasury and SARS develop transitional procurement guidance addressing electronic invoicing, supplier onboarding, payment processing and the treatment of small suppliers during implementation. Digital invoice validation should also be integrated with efforts to improve payment efficiency and reduce delays in settling valid invoices.

8.3 Introduce a Youth Enterprise Impact Assessment

The NYDA recommends that SARS undertake a dedicated Youth Enterprise Impact Assessment before mandatory implementation. The assessment should examine the likely effects of e-Invoicing on:

1. Enterprise formation and formalisation.
2. Business operating and compliance costs.
3. Access to public and private procurement opportunities.
4. Enterprise survival and growth.
5. Youth employment creation.
6. Digital inclusion and participation in the formal economy.

The assessment should include consultations with youth entrepreneurs across provinces and sectors.

8.4 Establish a Youth and SMME Advisory Mechanism

The NYDA proposes that SARS establish a dedicated youth and SMME advisory mechanism within the broader VAT modernisation stakeholder engagement process. This mechanism should include representatives from youth enterprise development institutions, small business organisations, technology providers and relevant government departments. Its responsibilities

should include reviewing implementation requirements, identifying barriers, assessing pilot results and recommending corrective interventions.

8.5 Promote youth participation in the digital economy

VAT modernisation presents an opportunity to stimulate demand for digital services and support the development of South Africa's domestic technology industry. The NYDA recommends that the implementation framework actively consider opportunities for youth-owned technology enterprises in software development, cybersecurity, digital training, systems integration and technical support. These opportunities should be pursued through transparent procurement, fair competition and appropriate technical accreditation standards.

8.6 Establish a monitoring and evaluation framework

SARS should establish measurable indicators to assess the developmental impact of VAT modernisation. These should include the number of youth-owned enterprises adopting e-Invoicing, changes in compliance costs, digital readiness, system accessibility, business continuity and the extent of participation in formal supply chains. Reporting should distinguish between enterprise categories and geographical locations. The NYDA recommends periodic publication of implementation progress and impact assessments, including findings on whether the reform has reduced or increased barriers for emerging enterprises.

9. Specific recommendations on the proposed implementation roadmap

The NYDA welcomes the Consultation Paper's proposed implementation sequence, which anticipates preparation during 2026/27, solution development during 2027/28, validation during 2028/29, piloting during 2029/30 and phased implementation commencing in 2030.

The proposed roadmap provides sufficient scope for meaningful stakeholder engagement and policy refinement. The Agency recommends the following adjustments.

1. Digital readiness assessments should be completed during the preparation phase, with specific consideration of youth-owned, township and rural enterprises.
2. Simplified and affordable solutions for smaller enterprises should be developed and tested alongside the broader technical architecture rather than introduced only after systems for large businesses have been finalised.
3. The pilot phase should include a representative sample of youth-owned and microenterprises across different levels of digital maturity.
4. The implementation of business-to-government e-Invoicing should incorporate safeguards against the exclusion of smaller suppliers.

5. Mandatory implementation for micro and small enterprises should proceed only after the availability, affordability and reliability of supporting systems have been demonstrated.
6. SARS should establish a formal review mechanism to adjust implementation requirements where evidence indicates disproportionate costs, exclusion or business disruption.

10. Proposed Areas of Collaboration Between SARS and the NYDA

The NYDA is willing to explore a structured partnership with SARS to support the inclusive implementation of VAT modernisation. Potential areas of collaboration include:

Youth enterprise consultations: Facilitating engagement with youth-owned enterprises to understand their digital readiness, compliance challenges and support requirements.

Research and evidence generation: Collaborating on targeted surveys and assessments of the implications of e-Invoicing for youth entrepreneurship and enterprise sustainability.

Training and capacity development: Exploring the integration of basic digital financial management and tax compliance training into appropriate NYDA enterprise support programmes.

Pilot participation: Identifying suitable youth-owned enterprises for voluntary participation in pilot programmes, subject to informed consent and appropriate selection criteria.

Monitoring and evaluation: Supporting the development of indicators to assess digital inclusion, compliance costs and enterprise development outcomes.

Any formal collaboration should be supported by clearly defined institutional responsibilities, implementation arrangements and resource commitments.

11. Conclusion

The NYDA supports the strategic objectives of SARS's VAT Modernisation Programme and recognises the potential contribution of e-Invoicing, interoperability and e-Reporting to improved tax administration, greater transparency and economic efficiency. Nevertheless, the success of the proposed reform should be assessed against broader developmental outcomes, including its implications for enterprise sustainability, economic inclusion and the participation of young people in productive economic activity.

South Africa's SMME sector is characterised by substantial differences in enterprise size, financial capacity, digital maturity and access to economic opportunities. These differences require a carefully sequenced implementation approach supported by appropriate financial, technical and institutional assistance. The NYDA maintains that the costs of digital

transformation should not fall disproportionately on the smallest and most vulnerable enterprises.

The Agency accordingly recommends a differentiated implementation framework, affordable digital solutions, targeted support for youth-owned enterprises, appropriate safeguards for informal and emerging businesses, and a clear mechanism for monitoring developmental outcomes.

The NYDA further recommends that SARS adopt an explicit principle of inclusive digital tax administration, ensuring that modernisation contributes to lower compliance costs, improved business capabilities, greater enterprise formalisation and expanded economic opportunities.

The Agency welcomes continued engagement with SARS and other relevant stakeholders to ensure that the proposed VAT modernisation framework advances both effective tax administration and South Africa's broader objectives of inclusive economic transformation and youth development.