

Should you deregister for VAT? A break-even model for South African small businesses

From 1 April 2026 many South African businesses can leave Value-Added Tax (VAT) if they wish. We derive a one-line break-even rule for whether they should, test it on three cases, and say plainly where it may be wrong.

Working paper v0.1

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9 min read

IN SHORT

- Under stated assumptions, deregistering raises annual profit only if sales to consumers exceed your VAT-bearing costs: $(1 - b) \times S > C$.
- The annual profit change is $0.15 \times [(1 - b) \times S - C]$, where S is taxable sales, C is VAT-bearing costs before VAT and b is the share of sales to VAT-registered customers.
- A mostly business-to-business firm with light VAT-bearing costs can still gain, which is the opposite of the common rule of thumb.
- The rule leaves out the one-off exit VAT, admin savings and customer loss. We show how to add them, and we want your challenge.

The question

The compulsory VAT registration threshold rose to R2.3 million on 1 April 2026. A business with taxable supplies between R120,000 and R2.3 million may now choose to stay registered or apply to cancel. Advice on that choice is usually a list of things to consider. We ask a narrower question: **is there a single number that tells a small business which way the decision leans before the detail is added?**

The model

We compare annual profit when registered with annual profit after deregistering, holding everything else the same.

Symbols

- **S**: annual taxable sales before VAT.
- **C**: annual costs that carry VAT, before VAT.
- **b**: the share of S sold to VAT-registered customers, from 0 to 1.

Assumptions

1. VAT is 15% on all sales and on all costs in C, and all sales are standard-rated.
2. Registered, VAT is a pass-through. Profit is $S - C$.
3. Deregistered, sales to consumers keep the same shelf price, so revenue on that share is $1.15 \times (1 - b) \times S$.
4. Deregistered, sales to VAT-registered customers keep the same price before VAT, so revenue on that share is $b \times S$. Those customers pay the same net amount as before, because they were claiming the VAT back.
5. Deregistered, you can no longer claim input tax, so costs rise to $C + 0.15 \times C$.

Result

Deregistered profit minus registered profit is:

$$\text{Change in profit} = 0.15 \times [(1 - b) \times S - C]$$

That gives a break-even rule: deregistering raises profit only when $(1 - b) \times S > C$. Put in words, the VAT you stop paying over on consumer sales must exceed the VAT you stop claiming on costs. The break-even share of business customers is $b^* = 1 - C / S$.

Three cases

Case	Sales S	Costs C	Break-even b^*	$b = 0\%$	$b = 25\%$	$b = 50\%$	$b = 75\%$	$b = 100\%$
A	R1.8m	R1.2m	33%	+R90k	+R23k	-R45k	-R113k	-R180k
B	R1.5m	R0.2m	87%	+R195k	+R139k	+R83k	+R26k	-R30k
C	R2.0m	R1.6m	20%	+R60k	-R15k	-R90k	-R165k	-R240k

- **Case A** is a consumer-facing shop with heavy VAT-bearing costs. It gains when fewer than a third of its sales go to VAT vendors.
- **Case B** is an advisory business with light VAT-bearing costs. Even at 75% business customers it comes out ahead, because it has little input VAT to lose.
- **Case C** is a trade counter that buys heavily and sells at thin margins. It loses unless four fifths of its sales are to consumers.

The worked example in our VAT article is Case A at $b = 0\%$ (+R90k) and $b = 100\%$ (-R180k).



What the rule leaves out

The rule gives an annual figure. Three items sit outside it.

1. **Exit VAT (X).** On cancellation you account for VAT on the assets and stock you still hold, at the lesser of cost and open market value. SARS allows the bill to be paid in six equal monthly instalments. This is a one-off cost.
2. **Admin saving (A).** Fewer returns and less reconciliation. This is real but usually modest.
3. **Customer effect (L).** VAT-registered customers may prefer registered suppliers. SARS itself lists this as a consideration.

Adding them: **net annual benefit $N = \text{change in profit} + A - L$** , and **payback = X / N years**.

Deregistering looks attractive when N is positive, payback is short and you are comfortably below R2.3 million (R191,667 a month). Compute X with your accountant, because the value and the treatment of individual assets vary.

Assumptions and limits

- Prices are held at the levels described. Real markets respond, and competitors who stay registered may not.

- Costs that carry no VAT, such as wages, are excluded from C. If your cost base is mostly wages, C is small and the rule favours deregistering.
- Exempt and zero-rated sales are ignored.
- Mixed supplies, capital purchases, apportionment, and the interaction with turnover tax are not modelled.
- This is a first version, based on public SARS rules, and not on client data.

What we would like challenged

- Would VAT-registered customers really accept an unchanged price before VAT in your industry?
- Is a flat 15% on all costs a fair simplification, or does your cost mix change the answer?
- How large is the customer effect L in practice?
- Which assets make exit VAT surprising?

Send your challenge using the link below. We will record accepted corrections in the version history.

Version history

Version	Date	Change
0.1	30 September 2026	First release: model, three cases, limits.

Sources and further reading

- Budget 2026 Frequently Asked Questions (deregistration, exit VAT, six instalments), [South African Revenue Service](#)
- Value-Added Tax, [South African Revenue Service](#)
- VAT registration in South Africa: the new R2.3 million threshold and whether to stay registered, [TBL Accounting](#)

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Challenge this paper

This is a working paper: the method and limits are stated so you can test them. Send corrections or counter-evidence to info@tblaccounting.co.za and we will record them in the version history.

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