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Pre-Budget 2025/2026 Commentary

Forging a unified purpose for relentless growth

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Itireleng Kubeka
Managing Director
Deloitte Africa Tax & Legal

Forging a unified purpose for growth

As we approach the Finance Minister, Enoch Godongwana's National Budget Speech on 19 February 2025, it is critical to reflect on the complexities of South Africa's economic landscape; and we recognise the significance of this moment in addressing high unemployment and infrastructure challenges for business and the society at large.

The formation of our government of national unity (GNU) in 2024, has ushered in a period of renewed optimism, marked by policy continuity and improved international investor sentiment. Yet, recent political and economic developments in major markets cannot be ignored. In these times of geopolitical uncertainty, it is crucial for the minister and the government to assess the potential gaps that may arise particularly in sectors heavily reliant on external funding. This may require revising the budget and reallocating resources to prioritise essential services while alternative sources are being sought.

As Deloitte Africa, our compilation of pre-budget insights by our subject matter experts reveals that we must navigate this period with both pragmatism and vision.

Our economic landscape presents a complex picture. While we have celebrated nearly three quarters without loadshedding and seen our 10-year bond yields drop to their lowest levels in almost three years, our GDP growth remains constrained. The projected growth of 1.7% for 2025, while an improvement, still falls short of the pace needed for meaningful socioeconomic transformation. However, within these challenges lie opportunities for strategic intervention, reform, and purposeful growth.

The government's renewed emphasis on infrastructure investment cannot be overstated. South Africa's gross fixed capital formation stands at only 15% of GDP – half of the National Development Plan target and substantially below most of our emerging market competitors. Attracting private sector investment through improved public-private partnerships and innovative financing mechanisms will be crucial for creating a more resilient economic framework that can withstand future challenges.

Healthcare emerges as a critical focus area, particularly as we approach the implementation of the National Health Insurance. Recent budget allocations indicate a commitment to equitable access to quality healthcare. However, reduced funding in critical areas raises concerns. Our analysis highlights the urgent need for infrastructure investment, from facility maintenance to digital transformation. The success of this ambitious healthcare reform will hinge on our ability to balance infrastructure development with workforce capacity building and public-private collaboration.

In the realm of taxation, we are witnessing significant shifts. The introduction of global minimum tax legislation, while adding complexity for multinational enterprises, aligns South Africa with international best practices. The ongoing discourse around VAT-free food expansion reflects our commitment to addressing food insecurity, though our experts advocate for a more comprehensive, multi-faceted approach to truly support vulnerable households.

Implementing additional sin taxes to boost revenue may be considered. Despite high unemployment and rising costs, we need sustainable financial solutions. However, balancing revenue generation with social protection is crucial. Thoughtfully designed sin taxes can discourage harmful behaviours and fund essential social programmes, potentially addressing fiscal challenges while promoting public health and wellbeing. Meanwhile, the relaxation of exchange control regulations for royalties and fees signals a welcome reduction in the administrative burden for businesses, though maintaining robust compliance frameworks remains essential. Additionally, after years of stagnation, the upcoming budget speech may include an increase in the fuel levy, which has remained unchanged despite rising infrastructure and environmental costs.

The imperative of a climate change response demands more research and stakeholder engagement. Our commitment to a just energy transition, coupled with evolving global environmental standards, requires robust public-private collaboration to drive sustainable solutions. Similarly, our mineral resources sector continues to be a cornerstone of economic development, where strategic partnerships between government and industry can unlock greater value chains and beneficiation opportunities. These parallel priorities require each clear policy frameworks that encourage private sector participation while advancing our national development objectives.

The GNU has identified youth unemployment, which stands at over 40%, as a key priority area. Investing in workforce development, including managerial training and skills development, will be crucial in assisting people to secure employment, create businesses and empower future leaders to address systemic inefficiencies in our economy. The upcoming budget should prioritise initiatives that foster job creation and equip our youth with the skills necessary for the modern economy.

As we anticipate the Finance Minister's address, it's clear that our path forward requires a delicate balance between fiscal prudence and developmental imperatives. The government's commitment to addressing the fiscal deficit while pursuing growth-enhancing infrastructure spending provides a foundation for optimism. However, success will depend on accelerated implementation of reforms and strengthened public-private partnerships.

Our compilation of insights reflects the expertise across our firm, offering perspectives on these critical issues. As we engage with the upcoming budget, we remain committed to contributing meaningfully to the dialogue around South Africa's economic future – one that must be more inclusive, sustainable, and equitable for all our citizens.

We trust that the insights in this booklet will provide valuable context and analysis for our stakeholders as we work towards building a stronger South African economy together.

South African economic outlook

Hannah Marais
Southern Africa Economic Advisory Leader
Chief Economist: Southern Africa
Deloitte Africa

Nikhil Jinabhai
Senior Consultant
Financial Advisory
Deloitte Africa

South African economic outlook

The South African economy has stabilised following the May 2024 elections but is not free from pressures. In the 2024 national elections, the African National Congress, in power since 1994, received only 40.2% of votes[1] Unable to secure a parliamentary majority, it formed a coalition government with the centrist and pro-market Democratic Alliance – its main opposition – as well as other small parties.

Arguably, this could be the best outcome for the economic future of the young democracy.[2] The coalition has ensured policy continuity and boosted international investor sentiment – amid an improved global economic landscape and the start of the global rate-cutting cycle. Furthermore, the country's sovereign risk premium improved,[3] and South Africa's 10-year bond yield dropped to below 10% – its lowest in almost three years. The rand appreciated to its strongest level against the US dollar in almost two years in September 2024 (although it lost some of these gains on account of the US dollar strengthening post US elections),[4] while stocks listed on the Johannesburg Stock Exchange had their strongest third quarter in over a decade. Moreover, South Africans celebrated almost three successive quarters of no loadshedding, following years of intermittent power outages.[5]
Even though investor sentiment and domestic confidence have improved, structural reforms and growing fixed investments are still imperative for South Africa's long-term prosperity and key to achieving sufficient GDP growth to support the economy. This takes time. Unexpectedly, real GDP growth fell by 0.3% in the third quarter of 2024, which also lowers the expected growth outcomes for 2024 to less than 1%.

South Africa began 2024 on a weak front, with no growth in the first quarter. Thereafter, growth improved to 0.3% in the second quarter. Recent data from the third quarter has shown real GDP growth dipping to 0.3% despite cautious optimism.

Real GDP contraction was driven by a decline in the agricultural sector, which fell 29.6% year on year in the third quarter of 2024. Drought plagued the production of field crops (maize, soybeans, wheat, and sunflower). Adverse weather conditions also hindered the production of subtropical fruits, deciduous fruits, and vegetables. The electricity, gas, and water sector has been the fastest-growing industry at 1.6%, followed by finance, real estate, and business services at 1.3%.[6]

Forecasts for 2025 remain somewhat more optimistic. Inflation has eased to levels firmly within the inflation target range set by the central bank and together with further expected interest rate cuts in 2025 could boost consumer activity. Real GDP growth is expected to be approximately 1.7% in 2025, and to average only 1.8% per year from 2025 through 2027.[7] This does not compare well with the International Monetary Fund's 4% 2025 projection for emerging and developing economies, and even falls below the outlook for advanced economies of 1.8%.[8]

The new coalition government has confirmed its commitment to tackle the fiscal deficit, which is expected to widen over the current fiscal year (2024 to 2025) to 5% of GDP, and also see debt as a share of GDP stabilize in the next fiscal year at a ratio of 75.5%. Further, the GNU is continuing to address supply-side constraints via its reform program, Operation Vulindlela.[9] Initiatives in energy, logistics, water, data, and e-visas continue with further focus areas aimed at enhancing local government capacity, tackling spatial inequality, and investing in digital public infrastructure,[10] with the inclusion of youth unemployment (more than 43.2% of those between 15 and 34 years of age are unemployed, higher than the country's official unemployment of 32.1%) as a priority area.[11]

Infrastructure investment through capital-based expenditure has recently been emphasised by government. Over the past two decades, gross fixed capital formation as a share of GDP in South Africa has trended below required levels. Most recently, the percentage stands at approximately 15% of GDP (2023) – equating to half of the 30% National Development Plan target.[12]

While faster implementation of such reforms will contribute to boosting confidence and unlocking fixed investment, government is also looking at new ways to attract private sector investment for public sector projects. Focus is on project preparation and creating a pipeline of bankable projects (a long-standing challenge in South Africa), strengthening public-private partnerships through reforming their frameworks, as well as using risk-sharing initiatives and financial instruments to unlock greater private funding. Legislative reforms to public-private partnerships and the creation of new infrastructure-financing mechanisms are other areas of focus. Yet, these will need to be accompanied by a focus on increasing the quality of governance, building a more capable state while addressing the leadership vacuum at various levels of government.

Nevertheless, after underperforming for more than a decade, South Africa has a window of opportunity. By utilising the foundation stone of reforms, better governance, and growth-enhancing infrastructure spending, a society that is more inclusive, job-creating, and sustainable can be built.[13]

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[1] *Economic Intelligence Unit, "South Africa's election heralds major realignments," June 3, 2024.*

[2] *Velani Ludidi, "Then there were 10–unity government hits double digits while talks continue over Cabinet posts," The Daily Maverick, June 23, 2024.*

[3] *National Treasury, "Medium-term budget policy statement," Oct. 30, 2024.*

[4] *Economic Intelligence Unit, "South Africa's election heralds major realignments," June 3, 2024.*

[5] *Eskom, "Loadshedding suspension continues after 191 days of uninterrupted power supply, achieving R11.51 billion in diesel savings year on year," press release, Oct. 4, 2024.*

[6] *Statistics South Africa, "Gross domestic product–Third quarter 2024," Dec. 3, 2024.*

[7] *South African Reserve Bank, "Quarterly bulletin–December 2024," Dec.13, 2024.*

[8] *Deloitte calculations based on: International Monetary Fund, "World economic outlook database," accessed Jan. 3, 2025.*

[9] *Republic of South Africa, "Operation Vulindlela," accessed Nov. 14, 2024.*

[10] *Ibid.*

[11] *Bureau for Economic Research, "Impumelelo Economic Growth Lab," Oct. 2, 2024.*

[12] *Statistics South Africa, "Gross domestic product–Third quarter 2024."*

[13] *National Treasury, "Medium-Term Budget Policy Statement 2024."*

The promise of private-public partnerships: Are we turning the corner on South Africa's infrastructure gap?

Gregory Rammego
Government and Public Services Leader
Deloitte Africa

Simon Schaefer
Senior Manager: Africa Insights
Deloitte Africa

It is no secret that well-developed infrastructure is critical for economic growth and prosperity. Good roads, efficient ports, well-run rail networks as well as reliable electricity and water supply create an enabling environment in which businesses can thrive, create jobs, and grow the economy. Adequate infrastructure also allows governments to carry out efficient service delivery.

As much as the arresting of loadshedding in early 2024 was met with a huge collective sigh of relief by companies and consumers, South Africa continues to be hamstrung by its large infrastructure challenges. Years of underinvestment in economic infrastructure have led to a massive infrastructure gap. According to a joint report by the Development Bank of South Africa and the World Bank, South Africa needs to spend between R1 trillion and R1.5 trillion on transport infrastructure between 2022 and 2030, to close its Sustainable Development Goal gap in the sector.

Given the current high government debt levels amounting to about 75% of GDP and limited fiscal wiggle room, the government is keen to attract private sector funding and expertise through private-public partnerships (PPPs) to boost infrastructure investments.

PPPs are not a new approach to roping in private sector funding and expertise for infrastructure developments. In the late 1990s, the South African government set up a multidisciplinary team to explore the viability of partnering with the private sector to enhance infrastructure development and reduce infrastructure backlogs. However, an erosion in trust between the government and the private sector in subsequent years reduced the latter's willingness to invest in public infrastructure, further tightening infrastructure bottlenecks.

Fortunately, we have seen a change in sentiment, among businesses in recent years and there seems to be an increased willingness to participate in public-private partnerships again. This change in sentiment has been driven by various factors including changes in regulation and a harder stance against corruption and fraud. Furthermore, measures taken to have the Financial Action Task Force's greylisting lifted and return South Africa to an investment grade rating are seen as steps in the right direction that have increased the attractiveness and viability of PPPs.

The government's active engagement with organised business through bodies such as Business Unity of South Africa and Business Leadership South Africa through Operation Vulindlela is also a welcomed change that is starting to yield positive results. The establishment of the **National Energy Crisis Committee (Necom)** which relies on the collaboration between public and private sector stakeholders has led to the suspension of loadshedding in March 2024. Necom serves as an example of how strengthened collaboration between public and private sector players can assist in addressing the country's infrastructure challenges.

Given the importance of infrastructure for economic development and poverty alleviation, it is encouraging that government sees PPPs as a strategic vehicle to address infrastructure backlogs and is making strides towards creating a favourable regulatory environment for private sector's involvement in PPPs as seen in the recent review of Regulation 16 and Municipal Regulation 309.

Through the G20 presidency, South Africa has been presented with an opportunity to fast track efforts in infrastructure development by leveraging the G20 and B20 collaboration which covers finance and infrastructure as one of the focus areas.

Going forward, to extract maximum value from initiatives such as the G20 and B20 and to ensure PPPs are successful, government needs to also focus on the efficient and timely implementation of its plans. Such successful implementation will, however, depend on political stability and the commitment of the GNU to collaborate with private sector stakeholders.

Tax overview: Increasing tax revenue collection without crippling the economy or taxpayers

Mamohlwa Mohlola
Associate Director: Business Tax
Deloitte Africa Tax & Legal

Minister of Finance, Enoch Godongwana, will deliver his fourth Budget Speech of his term on 19 February 2025. The budget is expected to focus on tax reforms, sustainable development, job creation, healthcare funding, infrastructure investments, and support for agriculture. Despite these positive strides, it is clear that South Africans will have to navigate financial pressures for a while longer. When delivering the 2024 Medium-Term Budget Policy Statement (MTBPS), the Minister of Finance indicated that economic reforms are starting to yield results, noting improvements in electricity supply, stabilised logistics, and reduced business costs.

A hoped-for increase in the growth forecast for this year did not materialise, with National Treasury penciling in a disappointing expansion of 1,1% in 2024 and an average of 1,8% over the medium term. However, there is hope that the economy might over deliver. Considering the real improvements in the business operating environment and positive investor sentiment, South Africa's economic outlook is the best it has been for many years.

Setting out the government's tax and spending plans for the year ahead, Minister Godongwana said his plans were focused on policies that accelerate economic growth, spur job creation and promote a broad improvement in livelihoods of others. The Minister of Finance also indicated during the MTBPS that gross tax revenue for the year is projected to fall R22.3 billion short of February's estimates, primarily driven by declines in import duties and fuel levies. However, corporate profits are expected to rebound over the medium term, strengthening corporate tax collection alongside ongoing enhancements in tax compliance and administration. With economic growth being strained and the taxpayers' purse stretched, the South African Revenue Service (SARS) together with National Treasury have to balance increasing tax revenue collection without crippling the economy or taxpayers.

While lower diesel usage by Eskom has contributed to a lower collection in fuel levies, a significant R9 billion diesel rebate was the main contributor. Lower imported value-added tax (VAT) collections were associated with energy supply improvements leading to reduced imports of alternative energy components (e.g. solar panels). In our view, corporate income tax could get a boost before end of February 2025, a seasonally strong month related to company reporting cycles, while personal income tax could jump due to 2024 implementation of the two-pot retirement reform. The carbon tax rate is expected to be 19% higher than the previous Budget, at R236 per ton CO_2 equivalent. This is also the last year the basic tax-free threshold, below which the tax is not payable will remain at 60%. It is expected to drop to 50% in 2026 and will continue to drop by 2.5% until 2030, to introduce a higher effective tax rate for greenhouse gas emissions. The current tax allowance for taxpayers that have introduced energy efficiencies in their businesses that have resulted in improvements in energy efficiencies terminates at the end of December 2025, it is hoped that Treasury will extend this sunset clause as incentives of this nature will become more important at the carbon tax rate increases.

National Treasury announced a 150% investment allowance for the local manufacture of electric and hydrogen vehicles which will be effective from March 2026. With the continued importance of the manufacturing sector for the South African economy, it is expected that the budget for the Department of Trade and Industry to support manufacturing incentives and transformation, will be increased over the medium-term expenditure framework to support programmes such as the Automotive Investment Scheme and the Black Industrialist Scheme.

Government's long-term tax policy strategy remains focused on broadening the tax base while improving tax compliance and administrative efficiency. The tax strategy described in the budget review is consistent with the message expressed by the SARS Commissioner throughout his tenure, being the government's focus is on broadening the tax base, improving tax compliance and making the tax administrative system more efficient by ensuring that there are sufficient operational efficiencies, improved facilities and customer service.

Overall, most will be pleased that there are no anticipated increases to corporate tax, income tax and VAT. The so called sin taxes are expected to increase as normal. Also, fuel levy is also likely to increase this time around. However, in so far as individuals are concerned, no inflationary relief is provided through an adjustment in the personal income tax brackets, which is amount to a rate increase. We are keen to see whether SARS will succeed in exceeding the budgeted revenue due to the implementation of the two-pot retirement reform and stimulate economic growth through the increased tax revenue collections without crippling the economy or taxpayers.

Investing in healthcare infrastructure: A perspective on South Africa's budget priorities

Wesley Solomon
Life Sciences and Healthcare Leader
Deloitte Africa

As the country prepares to roll out its Health sector reform – through the National Health Insurance (NHI) mechanism, strategic investments in infrastructure, workforce development, and service delivery have become urgent priorities. While fiscal constraints remain, there is evidence of a shift in health expenditure that reflects the government's recognition and importance of addressing these critical needs.

Recent budget allocations reflect a renewed focus on areas that support equitable access to quality healthcare, however, reduced funding in certain points of the value chain may impede these efforts. Understanding these key areas, as outlined below, is crucial for shaping future healthcare policies and investments.

1. **Strengthening localised healthcare delivery:** Provincial and district health services are set to receive proportionally higher allocations. This signals a commitment to decentralising care and addressing gaps in rural and underserved areas, ensuring that healthcare reaches those who need it most.
2. **Disease-specific focus:** According to the 2024 National Treasury Report, HIV,TB, Malaria and community outreach received a 10.1% growth in spending in 2020, but has seen negative growth in the 2021-2024 budgets. After years of stagnation, a 7.8% growth in spending is forecasted for grants addressing HIV, TB, malaria, and community outreach in 2025. This shift acknowledges the urgent need to address South Africa's communicable disease burden as well as pandemic preparedness.
3. **Reduced National Health Laboratory Services (NHLS) funding:** The projected decline in NHLS funding is concerning, given its critical role in diagnostics and disease surveillance, especially with the increasing demands of the NHI rollout. Therefore, safeguarding adequate funding for NHLS is essential to maintaining a robust healthcare system.

The case for infrastructure investment

Healthcare infrastructure is the backbone of any successful health system. The budget's increased attention to this area is promising, as modernising and maintaining infrastructure is essential for achieving NHI goals.

- **Facilities management and maintenance:** Many public hospitals and clinics are plagued by ageing and ill-maintained infrastructure. Enhanced investment in maintaining these facilities will improve service delivery and reduce operational inefficiencies.
- **Water and sanitation:** Reliable access to clean water and adequate sanitation in healthcare facilities is critical for infection control and overall public health. Addressing these gaps, particularly in the context of current and future expected water shortages, will enhance patient outcomes and boost public confidence in the health system.
- **Broadband Connectivity:** Digital infrastructure is a key enabler of modern healthcare. Access to connectivity followed by investment in systems and processes will support the effective and efficient implementation of NHI. Investments in broadband will allow for telemedicine, electronic health records, and remote diagnostics, especially in rural areas where access to care is limited.

Opportunities and predictions

Looking ahead, we would like to see the Minister making use of these three key opportunities to shape the success of South Africa's healthcare transformation:

1. **Infrastructure spending growth:** We expect an increased focus on infrastructure spend to accelerate modernisation and create a foundation for more efficient and equitable service delivery. By prioritising infrastructure, South Africa can build a healthcare system that meets the needs of the population.
2. **Workforce development:** We are keen to see what measures are taken in retaining and developing skilled healthcare workers, as this should remain a top priority. Managerial training, skills development, and improving employee wellbeing will empower healthcare leaders to address system inefficiencies through strategic workforce planning.
3. **Public-private collaboration:** Deepening partnerships between the public and private sectors will help alleviate strain on public facilities, while leveraging private expertise to drive innovation and efficiency. Investment in infrastructure together with public-private collaboration will progressively build up the capacity of the public health care system to support universal health in a growing population.

A balanced approach to health system reform

The NHI represents an ambitious vision for South Africa, but its success hinges on smart investments in people, systems, and infrastructure. While the budget highlights promising trends in the 2024 Medium-Term Expenditure Framework, sustained focus is required to address persistent challenges. By prioritising healthcare infrastructure, fostering workforce resilience, and encouraging collaboration, South Africa can build a health system that delivers on its promise of equity and innovation.

As we look to the future, the 2025 National Budget Speech presents an opportunity to take significant steps forward. What is needed is a renewed focus on basic infrastructure investments, and human capital training in order to leverage technological advancements and efficiencies. This the beginning of a long-term commitment to building a healthcare system that serves all South Africans.

From crisis to opportunity: Building South Africa's second chance economy

Ken Afrah
Senior Associate Director
Financial Advisory
Deloitte Africa

South Africa stands at an economic crossroads: to the left lies reform and prosperity, to the right denial and decay. The country's GNU has made strides in addressing long-standing issues, with encouraging signs such as reduced backlogs at the Department of Home Affairs and an extended period without loadshedding. These improvements signal a potential turning point, yet the broader economic picture remains sobering. The 2024 Medium-Term Budget Policy Statement (MTBPS) projected GDP growth of just 1.1% in 2024, with structural issues and high debt-service costs continuing to weigh heavily.

This precarious balance of hope and hardship underscores the urgent need to create what could be termed a 'second chance economy'. In such an economy, distressed businesses are supported to recover and contribute to growth, rather than collapsing under the weight of poor leadership and systemic barriers. Achieving this vision requires two critical shifts; 1) proactive management of financial distress by businesses, and 2) a reimagined insolvency regime that aligns with the South Africa's economic realities.

The cost of late intervention

In South Africa, financial distress often becomes a crisis long before stakeholders take action. The Deloitte Restructuring Survey 2024 (restructuring survey) reveals that companies frequently delay addressing distress until late-stage triggers, such as covenant breaches or missed payments, have already occurred. By then, the scope for recovery narrows sharply, and the social and economic consequences can be far-reaching.

The MTBPS and the restructuring survey identify sectors such as agriculture, retail, and manufacturing as particularly vulnerable. Agriculture, for instance, faces escalating input costs, climate shocks, and disease outbreaks, such as the recent avian flu crisis, which has disrupted food production and fuelled inflation. Meanwhile, logistics inefficiencies at key ports continue to hinder manufacturing and exports, undermining competitiveness and growth.

These challenges underscore the broader cost of delayed intervention. Retail and agriculture are not just economic contributors; they are essential to food security and consumer stability. Similarly, manufacturing and logistics are pillars of trade and industrialisation. Proactively managing distress in these sectors is not merely a corporate concern—it is a national imperative for safeguarding jobs and supporting economic resilience.

Managing distress in the current economic environment

For businesses navigating this complex landscape, the ability to act early and decisively is paramount. The restructuring survey highlights several key strategies that companies can adopt:

1. **Early warning systems:** Boards must prioritise liquidity monitoring, covenant stress testing, and scenario planning to identify distress before it escalates into a crisis.
2. **Stakeholder engagement:** Early, transparent communication with creditors, suppliers, and employees can build trust as well as secure the support needed to stabilise operations.
3. **Operational restructuring:** The most effective tools for recovery include cost reduction, cash flow optimisation, and working capital improvements. Companies must act swiftly to streamline operations, divest non-core assets, and focus on efficiency.
4. **Governance reforms:** Weak governance is a persistent internal driver of distress. Strengthening board oversight and appointing experienced turnaround directors when signs of distress appear can enhance decision making during periods of uncertainty.

These measures provide companies with the best chance of navigating financial difficulties. However, they are not sufficient in isolation. South Africa's insolvency framework must also evolve to provide a supportive environment for recovery, enabling businesses to rebuild and contribute to economic growth.

Reimagining the insolvency regime for a second chance economy

South Africa's insolvency regime, centred on the Insolvency Act and Chapter 6 of the Companies Act, has potential but unnecessary complexities and blind spots exist that make corporate rescue (rather than controlled wind-downs) far less prevalent. The restructuring survey identifies three critical areas for reform:

1. **Post-Commencement Financing (PCF) protections:** Enhanced legal safeguards for lenders wanting to fund companies in business rescue via PCF would encourage greater access to the liquidity distressed companies need to restructure effectively. Without such protections, businesses face liquidity constraints that often lead to premature liquidation.
2. **Specialised insolvency courts:** Prolonged judicial delays undermine the effectiveness of business rescue. Establishing dedicated insolvency courts, staffed with experienced judges, would expedite resolutions and reduce costs, enabling businesses to recover more quickly.
3. **A unified Insolvency Act:** South Africa's outdated insolvency laws, last overhauled in 1936, need modernisation. A consolidated framework would create clarity and predictability for stakeholders, making restructuring processes more efficient and collaborative.

Such reforms would not only improve outcomes for distressed companies but also bolster confidence among creditors and investors. This, in turn, would preserve jobs, stabilise critical industries, and contribute to long-term economic growth.

A resilient economic future

South Africa's economic challenges are substantial, but so too are the opportunities for transformation. By combining proactive corporate intervention with a reimagined insolvency regime, the country can create the conditions for a second chance economy. This is an economy where distressed businesses are not discarded, but given the tools to recover, adapt, and thrive.

The MTBPS' emphasis on structural reform and private-sector collaboration provides a timely backdrop for these changes. With agriculture, retail, and manufacturing at the heart of South Africa's economic engine, preserving these sectors is essential for achieving the modest growth targets outlined in the budget.

What South Africa needs now is action. Policymakers, business leaders, and restructuring professionals must collaborate to drive these changes, recognising that the path to economic resilience begins by giving businesses a second chance. If seized, this moment of opportunity could mark the turning point in South Africa's journey toward inclusive and sustainable growth.

Is VAT-free food easier to contend with?

Severus Smuts
Director: Indirect Tax (VAT)
Deloitte Africa Tax & Legal

Nicole Perumal
Senior Manager: Indirect Tax (VAT)
Deloitte Africa Tax & Legal

The government faces an ongoing challenge to implement measures to provide access to affordable and sufficient food in South Africa. With the most significant impact felt by those vulnerable to food insecurity, there is a dire need for intervention, as food becomes expensive and unattainable to those who need it most. An expansion of government's value-added tax (VAT)-free food plan may be on the horizon again as a temporary dispensation tool to lower food prices. However, given that VAT is usually one of the tax types with the biggest opportunities to increase revenue collection, it brings into question whether an expansion of a VAT-free food plan is an inventive enough solution to rise to the challenge and at what cost to the tax base.

Why could more VAT-free food be an option?

- It involves an immediate response in reducing prices, as other tools may take longer to implement and realise fulfilment.
- It is likely to be administratively less complex and cost effective to implement, as the mechanisms to expand the VAT-free food basket are already in place.
- It offers a widespread benefit to all consumers (i.e. both poor and affluent households), including the large informal sector that other programs may struggle to reach.
- There can be no societal stigma in receiving the benefit, as it is attainable by all.
- Budget constraints may hinder the restructuring or the implementation of new complex food security programmes which require extensive research, oversight, and distribution efforts, with reliance on intermediaries.
- VAT is a regressive tax by nature which means that the rate of tax should decrease as disposable income increases. Therefore, low-income households carry the burden of the regressive tax and VAT-free essential foods may provide a reprieve.
- The public can report any unfair price adjustments to the Competition Commission for those businesses that do not reduce prices.

Nonetheless, expanding the VAT-free food basket results in a loss of revenue to the fiscus that could be spent on other long-term targeted solutions, and carries an inherent risk that the reduction is not sufficient for low-income households with an unintended consequence that the relief also benefits affluent consumers. Given that the primary objective would be to provide relief to the vulnerable, arguably apprehension exists on whether this measure is truly an effective tool in practice, supported by studies to the contrary conducted by the Katz Commission in 1995, and the Davis Tax Committee in 2018 to name but a few. Furthermore, there is no clear indicator that applying the zero rate to more items will achieve the desired result and to what extent National Treasury will toe the line on what constitutes essential foodstuffs.

Yet, the VAT-free basket has continued to expand substantially from two items in 1991 to 21 basic foodstuffs, including items such as eggs, fruit and vegetables. It would therefore appear that the use of this tool by National Treasury has shown some past merit.

South Africa requires an economically sustainable, direct and comprehensive response to food insecurity for the vulnerable.

What other alternatives could still be explored?

- Subsidies or grant support targeted at the vulnerable to provide more substantial assistance than a reduction through VAT-free means, to ensure the benefit is passed directly on to those in need.
- Restructuring and enhancement of feeding schemes to address the quality of meals, inefficiencies with suppliers and nutritional education. Improvements in existing food security frameworks may circumvent former pitfalls.
- Leveraging foreign aid and local partnerships with industries, to weigh in on price reductions, sustainable farming practices and incentivising the consumption of nourishing foods.
- Cohesive practice and policies to apply wider food security initiatives and strategies on education, nutrition and health for the vulnerable.

Notably, although alternatives, such as the above-mentioned, are not without their own complexities, nor quick to implement and produce results, it may offer a more sustainable option in the long term. Essentially, through this approach, the State will protect tax revenue and channel it to those who need it.

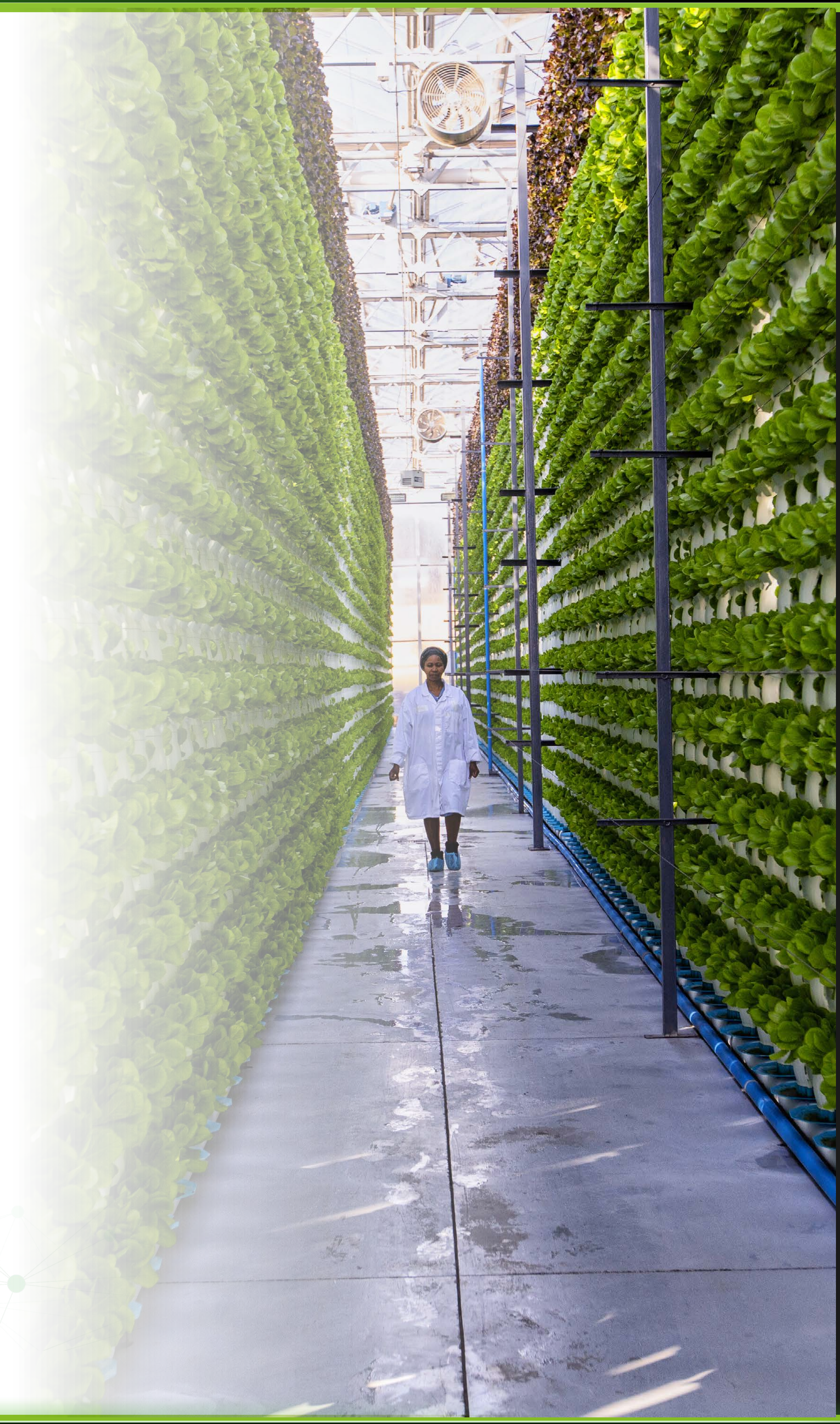
Although expanding VAT-free food may be easier to contend with at this point, in light of budget constraints, it perhaps should not be solely relied upon. Other solutions targeted at the vulnerable may offer an economically sustainable, direct and comprehensive response to food insecurity in South Africa, given that we have already seen the implementation of other financial aid measures, like the Social Relief of Distress grant launched during the COVID-19 pandemic assist those without sufficient means.

Conclusion

In summary, while expanding the VAT-free food basket may exhibit a quick-to-action response, this administrative approach may not effectively address the root causes of food insecurity. A more comprehensive strategy would involve multi-faceted policies designed to generate sustainable, long-term outcomes.

If National Treasury decides to expand the VAT-free essential foods list, it must carefully mitigate potential unintended consequences. Past experiences demonstrate that while the VAT-free food list might seem straightforward, its practical application can be complex. Consequently, it is crucial for National Treasury to precisely define which food items would be zero rated and establish clear boundaries for their inclusion.

National Treasury must also recognise the inherent challenges of modifying such a list. Once food items are added, there will likely be significant political and social pressure to retain them, and removing items will prove difficult. Any expansion should therefore be approached with careful deliberation and a thorough understanding of potential long-term implications.



South Africa's rising gambling phenomenon: Are sin taxes on gambling justifiable?

Kananelo Lethena
Associate Director: Transfer Pricing
Deloitte Africa Tax & Legal

Lerato Mahlafunya
Manager: Transfer Pricing
Deloitte Africa Tax & Legal

South Africa's rising gambling phenomenon: Are sin taxes on gambling justifiable?

As South Africans eagerly await Treasury's 2025/2026 National Budget Speech scheduled for 19 February 2025, the potential expansion of sin taxes to include gambling activities has been a prominent topic of discussion. These conversations are fuelled by the sector's remarkable growth in recent years.

The gambling sector has demonstrated extraordinary expansion in the past year. According to the National Gambling Board, South Africans spent R1.1 trillion in the local gambling industry between April 2023 and March 2024, with gross gambling revenue rising 25.7% to R59.3 billion. Sports betting leads this growth contributing two-thirds of total revenue.[1] This sector saw a surge post the COVID-19 lockdowns, with online platforms remaining popular due to their accessibility and reduced social stigma compared to traditional casinos.

The relationship between gambling and economic hardship has become increasingly apparent. South Africa has one of the highest unemployment levels, with Statistics South Africa reporting a 32.1% unemployment rate for the period of July to September 2024.[2] The youth are significantly more affected by unemployment, with an alarming 45.5% of people aged 15-34 being unemployed in the same period. With these factors in play, the high engagement of young people in online betting becomes more understandable.

Current and proposed tax framework

While gambling operators are already taxed on their revenue, individuals who win large sums remain relatively exempt from tax provided that the winnings are from authorised gambling in the country. Licensed gambling operators pay taxes on gross gambling revenue, contributing to provincial, and indirectly, national budgets. Professional gamblers and highly frequent gamblers are also taxed on the income they earn with the ability to offset their losses. However, occasional gambling winnings for individuals are exempt from income tax as they are classified as windfall gains.

In the 2011 Budget Speech, the then Finance Minister, Pravin Gordhan, proposed implementing a 15% withholding tax on gambling winnings exceeding R25 000, effective from April 2012. However, this proposal has yet to be implemented due to opposition from the industry as well as administrative complexities. With the gambling sector directly employing nearly 35 000 people[3], and supporting numerous indirect jobs. Taxing individual winnings instead of increasing taxes on gambling operators would avoid the risk of job losses (exacerbating an already significant unemployment issue) and reduced investments in the sector.

Is the taxation of individuals justifiable?

The primary motivation to tax individuals' winnings is to curb excessive gambling which has extensive social costs for addiction treatment. **It has been a matter of frequent discussion that the revenue generated from implementing sin taxes would not adequately fund addiction treatment programmes and responsible gaming initiatives.** The legislation proposed a winnings-only tax which may meet some resistance from gamblers as professional and frequent gamblers are allowed to offset losses incurred on gambling activities. The justification is that these losses are incurred in the production of income. It is therefore worth considering whether casual gamblers should be allowed to offset their losses as there is evidence that at least 70%[4] of them use the winnings to supplement their income as opposed to engaging in the activity for leisure or investment purposes.

However, as the motive for this implementation is to curb excessive gambling, allowing losses would have the opposite effect. Individuals may be incentivised to continue gambling in attempts to offset losses with winnings for tax purposes. There are already challenges in tracking winnings, specifically from offshore gambling organisations. Adding the tracking of losses as well would put too much pressure on the capabilities of the South African Revenue Service (SARS) workforce.

Conclusion

The current economic climate, characterised by high unemployment and cost of living, calls for a balance between revenue generation and social protection. A withholding tax on individual winnings may provide this balance if carefully structured. The minimum value for taxation should be reconsidered taking into account inflation over the last 13 years since the first proposal. This will ensure that those gambling to supplement their low income, are kept out of this tax net and do not turn to illegal gambling activities which are completely out of SARS' grasp.

[1] *Gambling Revenue and Taxes in SA – Codera Analytics*
[2] *Statistics South Africa on official unemployment rate in third quarter of 2024 | South African Government*
[3] *https://www.thedtic.gov.za/wp-content/uploads/NGB-AR2024.pdf* *(page 38)*
[4] *Would a gambling sin tax have you rethinking your bets? - Moneyweb*

Strategic energy and resource investments can drive South Africa's economic growth

Stewart Nupen
Technical Mining Advisory Lead
Deloitte Africa

As we approach the upcoming National Budget Speech, the global energy transition stands at a critical crossroads. A looming global supply shortage of strategic metals and minerals threatens to derail the world's energy transition and Africa's industrial development. These minerals are not just resources – they are the foundational building blocks of our collective climate ambition.

Africa stands uniquely positioned as an under-explored reservoir of these critical minerals. **South Africa, in particular, has the opportunity to transform this untapped potential into sustainable industries that can simultaneously drive economic growth, create jobs, and contribute to global climate change goals.**

In light of these evolving dynamics, we anticipate that our budget may begin to reflect some of the strategic investments necessary to position ourselves for the opportunities ahead. These could potentially include:

- Continued support for the **logistics reforms** which have already started taking shape. These could include capital investments, investments in logistics infrastructure and supporting the additional role of the private sector.

Continued support to **attract mergers and acquisition activities** in the exploration industry and investment into grassroots exploration through the implementation of the South Africa online cadastral system and increasing the capacity of the departments involved in exploration and mining license administration.

Continued support for initiatives aimed at the **security of mining and related infrastructure,** and reducing the impacts of unregulated activities, such as illegal mining.

- Investment to enable **access to base geological data** for South Africa, through state-funded mapping, geophysics and a centrally accessible store of public domain exploration data.
- Additional budget for the fund already established to **support the 'missing middle'** between early exploration equity and feasibility study supported bank or debt financing for mining developments.
- Investment or financing of initiatives aimed at **reducing our carbon emissions** while maintaining energy security for large industries.
- Investment in country or regional integration infrastructure that supports **energy security** and advances mineral development, focusing on integrated solutions across transmission infrastructure, and renewables, as well as regional cooperation to unlock mineral investment opportunities, including ports, roads, rail and borders.
- **Investment in skills,** particularly in post-matric education to equip our people to support the mining and metals companies of the future.

The National Budget Speech will be a difficult balancing act as always, but we hope to see investment into the mineral resources and energy sector, which has the potential to be a long-term and sustainable growth engine and is a sector where South Africa still has significant competitive advantages.

South Africa hosting the G20 and B20 in 2025: What does this mean for the country and the continent?

Ashleigh Theophanides
Chief Sustainability Officer
Deloitte Africa

South Africa has assumed the presidency of the Group of Twenty (G20) and will host the annual meeting of these government leaders in November this year. The G20 is a forum which brings together 19 countries plus the European Union and the African Union. It was created to address issues within the global economy such as financial stability and sustainable development, and to jointly find solutions to the world's most pressing problems. The G20 members collectively represent 85% of global GDP, approximately two thirds of the world's population, and more than 75% of global trade.[1] Membership of the G20 has expanded over time from what was originally a Western-focused group to now include many countries of the Global South. This shift has seen a greater emphasis on issues that affect developing countries.

South Africa's presidency marks the first time that the G20 has been held in Africa and hosted by an African country. South Africa is the only African country that is a permanent member of the G20. Given this, South Africa has a critical role to play to advocate for Africa, and to elevate the profile of issues that face the continent. President Cyril Ramaphosa, who will host the forum, has already expressed his determination to put Africa's development and the challenges faced by the Global South on the G20 agenda. Some of these most critical issues are access to financing, cost of finance, infrastructure, debt relief and trade with and within Africa. The imperatives of G20 align closely with aspects of South Africa's transformation agenda, articulated within the 2024 budget speech under 'Economic development'. **In the 2025 National Budget Speech we expect to see ongoing commitment to infrastructure programmes (such as water, energy, transport and logistics), industrialisation, job creation and innovation.** In addition to the G20-related programme spend anticipated this year, government has committed to fund several departments that play a role in the country's hosting of the G20. These include National Treasury and the South African Reserve Bank who will lead the finance track, and the Department of International Relations and Cooperation who are leading the project management function, known as the Sherpa role.

South Africa has chosen three themes for the G20: **Solidarity** (an inclusive future centered on people), **Equality** (striving to ensure fair treatment and equal opportunities for all individuals and nations), and **Sustainability** (meeting the needs of the present without compromising the potential of the future). Addressing these themes with the overlay of an African perspective will be valuable in driving policies that can support the growth and development of the continent and South Africa.

The G20 comprises many sub-forums whose role it is to develop policy recommendations in line with the themes relevant to their sub-forum. The G20 business community is represented by the Business 20 (B20). The B20 2025 is being led by Business Unity South Africa (BUSA) who have outlined multiple themes of relevance to growing business in Africa and beyond. The overarching theme for the B20 this year is "Inclusive Growth and Prosperity through Global Cooperation". Critical business-related issues will be addressed through the B20, such as increasing access to fairly-priced funding for African businesses, improving infrastructure on the continent such as power and water infrastructure, strengthening governance and reducing corruption, to name just a few.

The South African government estimates that hosting the G20 will cost the country close to R700 million. It is important to ensure that this investment is well leveraged. Most notably, this leverage will be achieved by ensuring that the recommendations made through G20, the B20, and the other sub-forums, are implemented as intended. This is not a small matter, when such recommendations will rely on multiple countries, industries, and multiple stakeholders to be rolled out. The B20 leadership has already expressed the importance of building on recommendations of past B20 events. The same commitment to continuity should be adopted by future forums, to ensure the longevity and relevance of the policy outcomes from South Africa 2025.

South Africa's hosting of the G20 rounds off a four-year run in which the presidency was held by Global South countries: Indonesia 2022, India 2023, and Brazil 2024. The United States of America will take on the presidency for 2026 and will in all likelihood pivot the forum towards more Global North-focused issues. For the sake of Africa and the Global South, South Africa should use its influence as the current host to ensure that 2025's policies and recommendations are implemented and continue to be relevant long into the future.

[1] G20 South Africa 2025 website: https://g20.org/

The impact of enacting Pillar Two Legislation in South Africa

Ruben Johannes
Director: Pillar Two
Champion (South Africa)
Deloitte Africa Tax & Legal

Global minimum tax has been introduced in South Africa as part of a global initiative by approximately 140 countries comprising the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting.

The global minimum tax aims to limit the "race to the bottom" (in terms of which jurisdictions compete to attract investment by offering no or low tax rates) by setting a global minimum tax rate or floor (currently 15%) that large multinational enterprises (MNEs), i.e. enterprises with consolidated annual revenue generally exceeding €750 million, are required to pay in respect of income in every jurisdiction in which they operate. If a specific jurisdiction does not impose the minimum level of tax (e.g. Mauritius or the United Arab Emirates), the shortfall, known as top-up tax, will be paid in another jurisdiction (e.g. South Africa).

Top-up tax can be collected through two mechanisms. One mechanism collects top-up tax from an MNE's domestic operations, while the other collects top-up tax from an MNE's operations in no/low tax jurisdictions.

In the 2024 Budget Speech, National Treasury estimated that the introduction of a global minimum tax in South Africa will result in additional tax revenue of R8 billion in 2026/27. This is a fraction of the R2.13 trillion estimated tax revenue collections for 2026/27. On that basis alone, the introduction of a global minimum tax will not significantly impact development goals in South Africa.

The reason global minimum tax is not expected to generate significant additional tax revenue, is partly because MNEs in South Africa are already expected to have relatively high effective tax rates (in excess of 15%), given our current statutory corporate tax rate of 27%. However, the actual effective tax rate for MNEs in South Africa could be less than 15% under certain circumstances because of factors such as tax incentives or concessions for specific industries – this warrants separate discussion.

Global minimum tax legislation was enacted in South Africa on 24 December 2024 and applies retrospectively to fiscal years commencing on or after 1 January 2024. The reason for the retrospective application is presumably to negate the possibility of South Africa losing out on top-up tax due in respect of an MNE's domestic operations that would be collected by another jurisdiction in the absence of South African legislation.

Because global minimum tax is a global initiative that will ultimately result in top-up tax being paid somewhere (whether in the jurisdiction that the operations are based or elsewhere), and because global minimum tax is not expected to result in significant additional tax revenue in South Africa, its introduction is unlikely to deter foreign investment in South Africa.

However, the introduction of a global minimum tax does introduce significant additional complexity for MNEs that are already burdened by various other compliance obligations. The level of information required as well as the level of co-ordination required between taxpayers and tax authorities alike, is unprecedented and will require significant investment to build capabilities and capacity.

Finally, MNEs should be aware of the potentially significant penalties (up to R150 000 per month per entity within the MNE group) that could apply for non-compliance with global minimum tax legislation.

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Exchange control: New rules for royalties and fees paid to non-residents

Billy Joubert
Senior Associate Director: Transfer Pricing
Deloitte Africa Tax & Legal

In the Exchange Control Circular No. 13/2024 issued on 26 November 2024, the South African Reserve Bank (SARB) announced that South African residents would no longer be required to obtain prior approval from the Financial Surveillance Department (FinSurv) of the SARB to remit royalties and fees payable to related non-resident parties.

Previously, South African prior exchange control (EXCON) rules required prior approval for these transactions. Such approval was obtained via Authorised Dealers at local commercial banks.

The new rules apply in addition to the following types of payment:

- Payments for services rendered by non-resident individuals (including associated costs such as airfares and accommodation)
- Advance payments and down payments relating to future royalties or fees payable
- Percentage-based fees which are allowed if they are normal in the trade concerned

These new rules are described in the circular as being part of a continuous effort to reduce red tape. It is noted that these types of payment are covered by the transfer pricing rules in South Africa's tax legislation. Therefore, the following principle is emphasised: "It should be noted that transactions involving related parties must be concluded at arm's length and at fair and market related prices."

From the perspective of multinational enterprises (MNEs) with South African operations – or based in South Africa – any measure which reduces red tape is obviously going to be welcomed.

It is important to note that transfer pricing rules globally have become increasingly stringent over several years, placing a significantly higher compliance burden on MNEs. The Organisation for Economic Co-operation and Development (OECD) is leading developments in this area. MNEs are currently grappling with the realities of implementing and achieving compliance with the new Pillar Two rules.

South Africa's transfer pricing rules and compliance requirements are based on, and closely follow, the OECD models and guidance. They therefore represent global best practice in this area. While compliance with these rules can be onerous and expensive (and is becoming increasingly more so), foreign based MNEs would be familiar with them.

Unlike transfer pricing rules, which have become largely universal and standardised internationally, foreign exchange rules (such as our EXCON regulations) vary significantly across countries and are less widely implemented. These foreign exchange rules are likely viewed as local red tape by prospective investors. Therefore, any initiative to reduce such administrative burden would be considered an investor-friendly measure.

However, it is important to note that while the payment of royalties and management fees to foreign related parties may no longer require prior EXCON approval, they continue to be subject to EXCON rules – including the general requirement that they must be at arm's length. The Circular further stipulates significant EXCON compliance obligations placed on both the company making these payments and the Authorised Dealers processing the payments. These obligations include:

- Senior management of the applicant company must confirm that the company maintains compliant transfer pricing documentation. It seems reasonable to assume that the SARB would require such documentation to cover the transactions in question. Furthermore, it will need to be clarified who qualifies as senior management in this context.
- The payments must be reported by the Authorised Dealer concerned on SARB's FinSurv Reporting System.
- The Authorised Dealer must submit a return to the Financial Surveillance Department on a quarterly basis providing certain prescribed information regarding all related party agreements considered by the Authorised Dealer during the period stated.
- Authorised Dealers are required to view a copy of the agreement entered into in respect of the relevant payment. They should also review and invoice from the relevant non-resident party (in other words, the intended recipient of the payment) verifying the purpose and the amount involved.
- For recurring royalty payments, the applicant must submit an annual letter, on an annual basis, confirming the amount or percentage of such royalties transferred over a 12-month period.

There are certain specific additional rules covering ad hoc services between related parties and extensions and/or addendums to agreements.

The burden of red tape might have been reduced but it has by no means been eliminated. It also seems likely that, because taxpayers will be able to make payments of royalties and intra-group management fees without specific prior approval, the South African Revenue Service will, going forward, focus more intensely on these payments. This probably applies even more so to royalties – since this category of payment has been specifically identified by the OECD as one which can be used to achieve base erosion and profit shifting.

A final point is to note that the new rules, in so far as they apply to royalties, do not apply to those associated with a process of manufacture. There is a separate application process to the Department of Trade Industry and Competition (DTIC) for the approval of such royalties. The DTIC has confirmed that the separate application process for these royalties continues to apply.

Is interest in the current VDP regime prescribing?

Suzanne Holme
Director: Indirect Tax (VAT)
Deloitte Africa Tax & Legal

Nadia Du Buisson
Senior Manager: Indirect Tax (VAT)
Deloitte Africa Tax & Legal

A recent decision by the Constitutional Court dealt with a taxpayer's right to request interest remission post conclusion of a Voluntary Disclosure Agreement (VDA). The Constitutional Court ruled that taxpayers should not be permitted to conclude a VDA and subsequently be allowed to deal with interest separately. Independent to this issue, is the view that the Voluntary Disclosure Programme (VDP) falls outside the ambit of prescription and thus any default has to be declared without taking into account the rules of prescription. The notion is espoused that these two aspects call for an amendment of the current VDP rules. Indeed, the hope is that a review of the VDP will be communicated in the upcoming tax proposals to be announced on 19 February 2025.

The VDP was made permanently available to qualifying taxpayers in 2012 by incorporating the VDP provisions in the Tax Administration Act, 2011 (TAA). The VDP process was intended to be aligned with the South African Revenue Service's (SARS) strategic objective of providing clarity and encouraging taxpayers to voluntarily regularise and comply with their tax obligations.

The legal question, whether a remission of interest could be considered and decided on by SARS in terms of the Value-Added Tax (VAT) Act once a taxpayer has agreed to pay such interest in terms of a VDA, was extensively considered by several of our Courts and most recently by the Constitutional Court in *Commissioner for the South African Revenue Service v Medtronic International Trading S.A.R.L [2024]* ZACC 26.

The Supreme Court of Appeal (SCA), reached a conclusion that SARS has a statutory duty to consider a request for remission of interest where a VDP agreement was concluded. The SCA stated that neither the TAA nor the VAT Act expressly provides for the exclusion of the request for the remission of interest where a successful VDP agreement is concluded through performance of the contractual obligation undertaken; and the refusal of SARS to consider an application is a breach of its constitutional duty. Interestingly, a request for the remission of interest or penalties is not an objection and would arguably not fall foul of s 232 of the TAA. It is only after these requests are denied that the taxpayer may object against the decision not to remit.

The Constitutional Court, on the other hand, upheld SARS' position and concluded that permitting a taxpayer to separately handle issues related to interest after concluding a VDP, would lead to absurd and destabilising outcomes. It emphasised the necessity for agreements to be enforceable on all terms without the possibility of undoing material terms such as interest payable.

With the highest court having the final say, we consider the impact on taxpayers. This inevitably brings us back to the intention of the Legislature when it introduced the VDP in the TAA, which was quoted and referred to by the Constitutional Court in its decision:

Memorandum on the *Objects of the Tax Administration Bill*, 2011, clause 2.2.16.3:

"Voluntary Disclosure Programme (VDP) (clauses 225 to 233):

A permanent legislative framework for voluntary disclosure applicable across all tax types, ..., is included in this Chapter. The main purpose of such a framework will be to enhance voluntary compliance and is in the interest of the good management of the tax system and the best use of SARS' resources..." (our emphasis).

When a taxpayer identifies an issue of non-compliance, particularly concerning VAT, the legislation offers several mechanisms to regularize the position, including remission requests; and requests for reduced assessments for readily apparent undisputed errors. As an alternative to a VDP, for example, a vendor could correct the default by submitting revised VAT returns where SARS did not identify the instance of non-compliance. This could be followed by a request for remission of penalties and interest. Even where SARS identifies non-compliance and raises an assessment, the taxpayer would still be afforded this remedy. These remedies are available to the taxpayer including the rules of prescription, where applicable. However, these remedies seem to fall away under the VDP.

For these reasons, the program in its current format arguably no longer encourages its use to 'enhance voluntary compliance'. In fact, vendors could be in a better position opting to not conclude a VDA and rather request remission of penalties and interest following the submission of a self-correction or an assessment by SARS. This also ensures that the vendor falls within the ambit of the rules of prescription, where applicable.

This would seem to go against the policy intent of the VDP which is to promote the "good management of the tax system and the best use of SARS' resources" as the above remedies are more labour intensive and therefore costly.

While the courts have considered the relevant provisions of the current legislation and the contractual law principles which could be debated at length, the pertinent issue is whether VDAs should include an interest component at all and whether the VDP should do away with the right to invoke prescription. Excluding interest from the VDA negotiations completely and allowing this and the prescription rules to run their normal course as provided for in the VAT Act and TAA, would result in a more equitable resolution. This would ensure VAT vendors using the VDP process and those using alternative means to regularize their affairs are treated equally.

2025: A key moment for South Africa's climate change response

Ashleigh Theopanides
Chief Sustainability Officer
Deloitte Africa

Izak Swart
Director: Global Investment and
Innovation Incentives
Deloitte Africa Tax & Legal

With the transition of South Africa's GNU, the climate change response continues to be centred on three foundational pillars of adaptation, mitigation, and driving an equitable just energy transition to secure inclusive economic growth in a low-carbon economy. Adaptation interventions seek to build climate resilience against extreme weather events and longer-term changing weather patterns. Mitigation measures seek to reduce South Africa's greenhouse gas emissions in line with our global and science-backed commitments i.e. the Paris Agreement. These three foundational pillars support building resilience against the changing climate, decreasing our contribution towards global warming, protecting South Africa against the economic implications of transitioning from a carbon-dependent economy to a low-carbon economy including export carbon taxes, and creating inclusive economic growth.

2024 was an important year for South Africa's climate change response with significant policies and measures that we expect to see components of operationalised over the course of the 2025/26 fiscal year. Examples include signing the **Climate Change Act**, publishing the **Draft Sectoral Emissions Targets**, announcing the **Climate Change Response Fund,** and **Phase Two of the Carbon Tax (2026-2030)** discussion paper. South Africa is a heavily carbon-dependent economy with existing and challenging socio-economic issues and it is also vulnerable to the impact of a changing climate. With this in mind, a coordinated approach that supports **inclusive growth and an equitable just transition** requires multi-stakeholder buy-in and collaboration across all levels of society, business and the government for implementation of the interventions. Dialogues, commentary, consultations and symposiums around various elements of the climate change response were held. With differing viewpoints and vastly different impacts of the climate change response, there is convergence on some matters with the need for future work to be done. As such, progress has been delayed to some of the expected deadlines which were initially indicated as the end of the 2024/25 fiscal year.

The **Climate Change Act (CCA)** is a step in the right direction towards an environmentally sustainable future for the country by laying out the legislative foundation to achieve its climate commitments. It also provides a framework to build resilience against the impact of climate change and drive an equitable just transition. Whilst the Act was signed in July 2024, it is yet to be operationalised. The CCA gives significant responsibilities to the respective government departments and municipalities for implementation and the question of financing and/or funding remains. Although it is not expected that the CCA will be mentioned in the Budget 2025/26 it is expected that the CCA will play a role in future Budgets.

During the State of the Nation Address 2024, the President announced the **National Climate Change Response Fund** (CCRF) to support adaptation measures to respond to and build resilience against disruptive weather events. Research and various public dialogues have been held to finalise operational recommendations e.g., replenishment mechanisms, disbursement, and governance structures. National Treasury has highlighted the necessity to leverage reforms from the Disaster Relief Financing Strategy, the innovative role of the insurance sector in scaling up and speeding up disbursement and designing types of products for specific climate risks. In a tax-revenue and fiscal-constrained environment for Budget 2025/26, the ability for tax allowances on private sector contributions to the CCRF is limited but may be a consideration in future budgets.

The proposed **Phase Two of the Carbon Tax (2026-2030)** provides further motivation to reduce emissions and invest in new green industries and low-carbon technologies to avoid a higher punitive carbon pricing that will impact the relative price of high-emission goods. Public commentary and multistakeholder consultation show that there are some areas of alignment. It is expected that aspects of phase two will be announced in Budget 2025/26 and areas will be identified where more research and stakeholder engagement should take place. One area where more stakeholder engagement is expected is in carbon markets. COP29 saw considerable movement towards operationalising the international carbon market through the Paris Agreement Crediting Mechanism and Internationally Transferred Mitigation Outcomes in operation and therefore measures to stimulate South Africa's carbon offset market. How the carbon markets should operate in South Africa may require more consultation given the wide variety of views expressed by stakeholders when commenting on National Treasury's wish to develop carbon markets in South Africa as part of the proposed Phase Two of the Carbon Tax. Major amendments giving effect to the phase two proposal are likely to be announced in Budget 2026/27 for the 2026/27 fiscal year and Budget 2025/26 should provide clear indications of which phase two proposals will be implemented.

The South African government is focused on increasing investment attractiveness and sustainable infrastructure development to support **medium-term economic growth and a Just Energy Transition.** We expect that over the G20 Presidency structural reforms and advocacy will also increase investment thus unlocking new industries, e.g. green metals mining, new energy vehicles and batteries manufacturing, as well as green hydrogen and ammonia production, including expanding existing industries, such as renewable energy, to stimulate economic growth. There will be a deliberate intention to commence development for financing and/or funding already secured to advance carbon mitigation and adaptation plans.

While there remains work to be done, the government has set out policies and measures that provide the bedrock for a coordinated response to transform into a low-carbon economy. In 2025, there will be further multistakeholder engagements to refine existing policies and measures, which will strengthen partnership and collaboration, to accelerate a coordinated climate change response.

Contacts

For more information contact Deloitte Africa Budget Insights

Itireleng Kubeka, Managing Director: Deloitte Africa Tax & Legal
Email: ikubeka@deloitte.co.za

Gauteng: Alex Gwala, Southern Africa Market Leader, Deloitte Africa Tax & Legal
Email: agwala@deloitte.co.za

Editorial team

Tsholofelo Dihutso
Email: tdihutso@deloitte.co.za

Linda Mqala
Email: lmqala@deloitte.co.za