Deloitte commentary on South Africa Budget 2025/26

Navigating the future: South Africa's journey towards sustainable growth

MAKING AN IMPACT THAT MATTERS since 1845

> *"Maintaining macroeconomic stability, inclusive of prudent fiscal policy, promotes stable prices, lowers interest rates and enhances the country's resilience to external shocks. This creates a conducive environment for investment.*

Minister of Finance
Mr Enoch Godongwana, 12 March 2025

Contents

Click on the titles to navigate

Foreword

Foreword

Rising to the challenge: South Africa's commitment to economic resilience

Itireleng Kubeka
Managing Director
Deloitte Africa Tax & Legal

Gregory Rammego
Government and Public Services Leader
Deloitte Africa

The Minister of Finance, Enoch Godongwana, delivered the highly anticipated National Budget Speech, following a postponement on 19 February 2025 due mainly to a proposed 2 percentage points value-added tax (VAT) hike. The budget effectively manages the tightrope of increasing public expenditure to spur growth while cautiously approaching debt accumulation. The strategic use of VAT increases as a less disruptive fiscal tool compared to raising corporate or income taxes is a judicious choice that merits further discussion among policymakers.

As part of the proposed fiscal measures, the government plans to increase the VAT rate by 0.5 percentage points in 2025/26, followed by another 0.5 percentage points in 2026/27, resulting in a 16% VAT rate by 2026/27. In an effort to alleviate the financial burden on lower-income households, the government proposes to introduce additional zero-rated VAT on essential food items, a greater than inflationary increase to the social grant and to maintain the current fuel levy without alteration. However, it would appear that the mitigations proposed may be insufficient to shield the poor and would be a short-term solution to increase revenue but may come at the cost of long-term growth. The long-term implications of increased VAT on lower income households need more robust mitigation strategies than those indicated in the budget. It's important to explore more comprehensive fiscal policies that directly target poverty alleviation and economic inequality, rather than relying primarily on indirect measures which may not fully offset the increased cost burden.

In addition, individual taxpayers were not totally spared from personal tax increases as for the second consecutive year, there will be no inflationary adjustments in the income tax brackets, rebates and medical tax credits adjustments for 2025/26.

The National Treasury projects a revised estimate of real GDP growth for 2024 of 0.8%. This is primarily attributed to a significant contraction within the agricultural sector. South Africa's economy is expected to grow at an average rate of 1.8% from 2025 to 2027. Government anticipates that economic recovery is likely to be supported by increased investor confidence, a reliable supply of electricity, lower interest rates, and a diminishing risk premium. Moreover, the effective implementation of essential reforms may play a significant role in facilitating higher growth rates.

These projected GDP growth rates seem modest against the backdrop of the extensive fiscal interventions, significant infrastructure investment (more than R1 trillion over the next three years), and structural reforms being proposed. There is a need for a more aggressive growth strategy that not only stabilises the economy but also propels it forward by delivering job growth and poverty reduction. The government could further enhance transparency in how these growth projections are calculated and more clearly define the linkages between the proposed fiscal measures and the expected economic outcomes.

Concerning fiscal sustainability and accountability, the budget deficit is anticipated to decrease from 5% of GDP this year due to subdued growth and reduced revenue, progressively declining to 3.2% of GDP by 2027/28. This budget deficit is primarily influenced by the capital financing requirement, highlighting a commitment to fiscal consolidation. Nevertheless, the ongoing deficit raises significant concerns regarding the vulnerability to revenue shortfalls and economic downturns, especially considering the optimistic economic outlook embedded within these projections.

Despite a new three-year wage agreement aimed at reducing uncertainty in budget planning, there remains a significant challenge in managing the public sector wage bill, which continues to consume a large portion of government expenditure. There is a critical need for a more sustainable approach to public sector remuneration and productivity that aligns with long-term fiscal plans, while ensuring that the government can attract and retain the skilled personnel necessary for effective service delivery.

Public debt is projected to stabilise at 76.2% of GDP in the fiscal year 2025/26, which is slightly above the level of 75.3% estimated in the 2024 budget. Thereafter, a gradual decline in gross loan debt is anticipated. The medium-term increase in this debt level will primarily be driven by the budget deficit and the financing associated with the Eskom debt-relief arrangement. Elevated debt levels and the associated debt-service costs pose significant challenges for the economy, as they limit the funding available for essential services. Debt-service costs are expected to reach their peak in the current fiscal year, stabilising at 21.7% of revenue, before declining in subsequent years. There is an urgent need to improve the sustainability of public finances by controlling debt levels while prioritising initiatives that directly promote productivity and economic growth. These initiatives include public-private partnerships, introducing e-visas for 34 countries and government expenditure reviews.

The simplification of public-private partnership regulations is good news as attracting private collaboration will be essential to solve some of the country's largest challenges such as water, rail and electricity. Along with the Urban Development Financing Grant, these measures showcase a proactive strategy to address long-standing issues of municipal inefficiency. By incentivising municipal reforms and enabling private sector participation, the government is not only allocating funds but is also creating a strategic framework that encourages sustainable development and improved service delivery at the local level. This dual focus on financial performance and operational efficiency is crucial for turning around the performance of municipalities that are central to the daily lives of citizens.

The importance of the tax system in generating the revenue required to finance government programmes and provide critical services was emphasised. The 2025 budget outlines proposed tax policy measures expected to yield an additional R28 billion in tax revenue for the fiscal year 2025/26 and R14.5 billion for 2026/27. The supplementary revenue will be allocated to augment funding for vital public services, including education, healthcare, and commuter rail systems. It is projected that the tax-to-GDP ratio will attain 25.4% by the fiscal year 2027/28, bolstered by an enhanced economic outlook.

In a bid to broaden the tax base and improve administrative efficiencies, the South African Revenue Service (SARS) will be allocated R3.5 billion in this fiscal year, and an additional R4 billion over the medium-term. Mr Edward Kieswetter, the SARS Commissioner, confirmed that a significant portion of funding in this next year will be used to reduce uncollected debt due to SARS and reduce the number of outstanding tax returns. SARS will also use that money to invest in the modernisation of systems (e.g. using data science and artificial intelligence) for tax collection. It has been reported that an estimated R800 billion of unpaid taxes remains outstanding, which requires work and funding to enable SARS to collect. Bolstering SARS capabilities is a key area that could help solve the country's revenue crisis. The commitment to enhancing SARS' capabilities, particularly through modernisation initiatives, sets a precedent for other African and global revenue services. It showcases a proactive approach to improving tax collection efficiency without overburdening the citizenry.

The public sector is anticipated to allocate R1.03 trillion towards infrastructure development over the next three years. Economic infrastructure, predominantly financed by state-owned enterprises, constitutes 81.5% of the medium-term financial forecast. This investment will primarily target the expansion of power generation capacity, upgrades and enhancements to the transportation network, as well as improvements in sanitation and water services. Furthermore, infrastructure dedicated to social services, encompassing healthcare and education, represents 15.5% of the overall expenditure. In relation to healthcare, infrastructure spend will include strengthening healthcare systems in preparation for the proposed National Health Insurance policy, such as creating centralised databases.

South Africa is currently in compliance or largely compliant with 37 out of the 40 recommendations set forth by the Financial Action Task Force (FATF), with one recommendation deemed inapplicable. The nation is classified as partially compliant with the two remaining recommendations, which concern non-profit organisations and cash couriers. It is essential to note that the achievement of these outstanding recommendations will not affect the timeline for the country's removal from the FATF grey list. South Africa is favourably positioned for the mutual evaluation assessment anticipated in 2026/27. Additionally, further legislation is expected to be introduced in 2025 to bolster compliance with FATF recommendations.

Overall, South Africa is grappling with challenges that impact its economic landscape, including the effects of global trade dynamics, sluggish growth, persistently elevated unemployment rates, high debt-to-GDP ratios, and inadequate infrastructure. There is a sense of cautious optimism surrounding certain aspects of the minister's fiscal strategy, such as supporting SARS' collection efforts, which could represent a meaningful commitment to promoting sustainable economic development. To foster economic growth, it is essential for South Africa to implement a fiscal policy framework focused on sustainability. By prioritising immediate reforms and decisive actions, South Africa can pave the way for a brighter future that benefits all its citizens.

Economic outlook

Economic outlook

Navigating difficult current choices with an eye on the future

Hannah Marais
Southern Africa Chief Economist, Financial Advisory
Deloitte Africa

Hanns Spangenberg
Senior Manager: Financial Advisory
Deloitte Africa

The 2025 Budget Speech scheduled for 12 March and informally dubbed "Budget 2.0", was arguably one of the most anticipated budget speeches in South Africa's young democracy, largely due to the unprecedented delay of the previously scheduled speech on 19 February ("Budget 1.0").

The delay was on the back of a lack of agreement on the to-be-proposed increase in value-added tax (VAT) from 15% to 17%. The Government of National Unity (GNU) in the weeks before Budget 1.0 accepted most of the proposals put forward by Finance Minister Enoch Godongwana, apart from the controversial two percentage point (ppt) VAT increase.

The pro-market Democratic Alliance, the second-largest party in the GNU after the African National Congress, led the veto of the higher VAT proposal in February citing "it would have broken the back of our economy"- amove that was supported by several other parties. This development is seen by many as democracy functioning well, while underlining the profound shift in South African political dynamics.

However, the inability to push through the initial budget has also been seen as a rising risk of inaction as a result of the multi-party government. Indeed, Finance Minister Enoch Godongwana highlighted in his opening remarks during the second attempt at presenting the 2025 budget speech that the delay "is a sign of a maturing and resilient democracy". That said, while the 2025 Budget has been tabled, it is yet to be seen whether or not it will be accepted by the various parties in the GNU and thus passed in Parliament.

Revising Budget 1.0 without the 2ppt VAT increase in three weeks was always expected to be challenging and unlikely to meet the expectations of all parties given the lack of alternatives to fund existing and new spending pressures of more than R200 billion in the next three years, while limiting the adverse impact of such a tax increase on poor households and overall household spending.

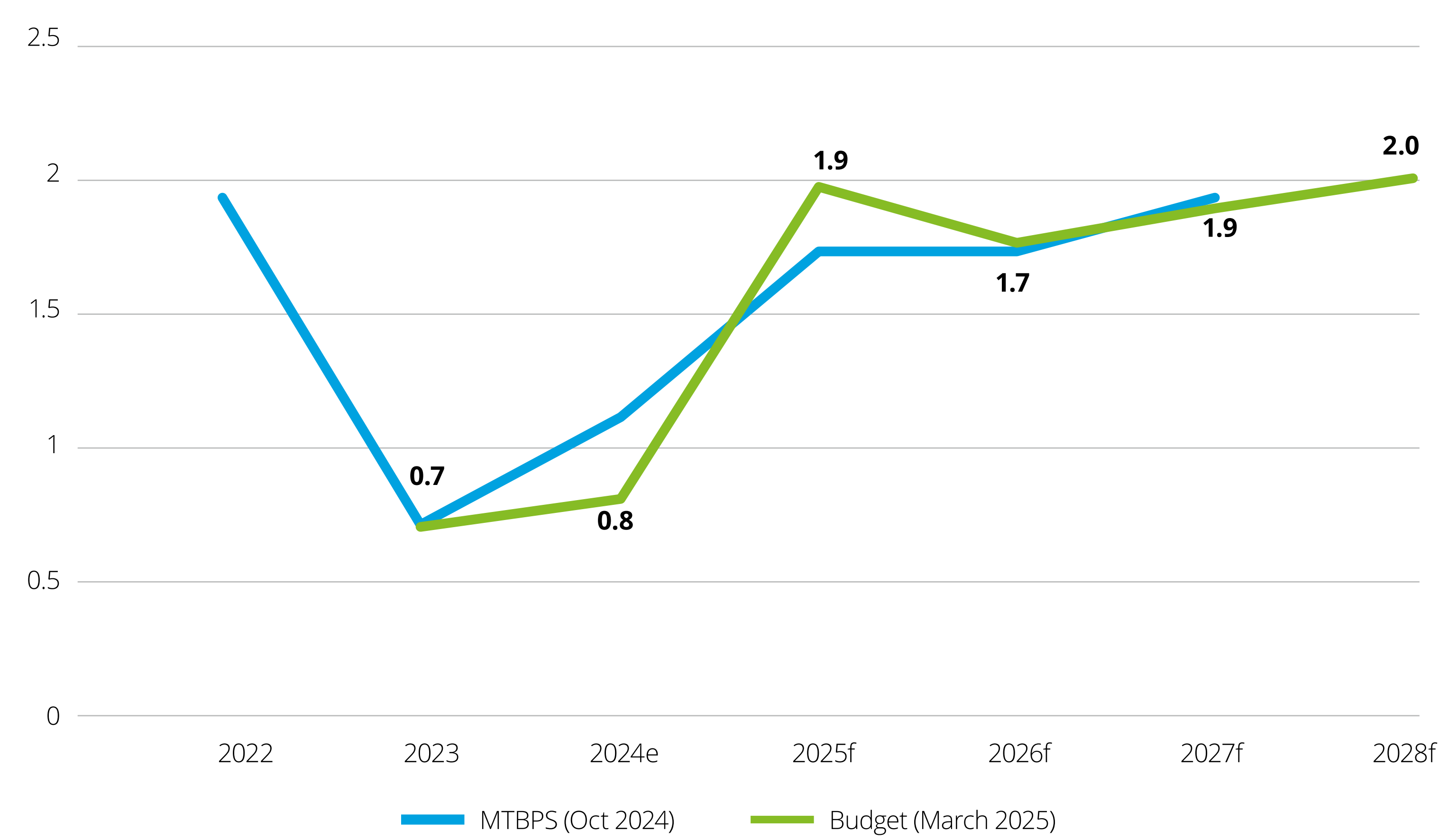
Other than increasing revenues via the aforementioned VAT increase, the National Treasury ruled out policy choices that would reduce expenditure, particularly the reduction of much-needed infrastructure spend, education and health budgets, and spending on social grants; or further increasing corporate or personal income taxes. The latter option would have likely yielded no additional revenue for the fiscus and had an impact on jobs and economic activity; while cutting infrastructure spending puts future investment, economic growth and opportunities for job creation at risk.

Budget 2.0 thus showed somewhat of a compromise given the need to raise additional revenue to fund spending: increasing VAT by only 0.5 ppts in the 2025/26 fiscal year and by another 0.5 ppts to 16% in 2026/27, but making no inflationary adjustments to personal income brackets, rebates or medical tax credits. Some of the additional spending will also be offset by drawdowns on provisional allocations and contingency reserves.

As Minister Godongwana pointed out, while a debate on the VAT has dominated analysis and discussions, the real challenge facing the South African economy is growth, or the lack thereof. Many analysts pointed out ahead of the Budget Speech that there is very little room for "fiscal tricks" and that improving growth prospects should be the primary focus in order to resolve South Africa's challenges.

Minister Godongwana and his team appear to have heeded these comments with the tone of 2025 Budget 2.0 more heavily focused on avenues through which to promote faster and more inclusive growth. Still, it is prudent to consider the above in the context of the economy's performance over the last decade. South Africa's real GDP growth averaged a meagre 0.8% over the last decade (2014-2024). And the latest data from Statistics South Africa (StatsSA) shows another disappointing year with real GDP growth coming in at a mere 0.6% in 2024, slowing from an already lacklustre 0.7% the previous year. The weak performance in 2024 was especially disappointing, given the context of improved electricity supply, a lower interest rate environment locally and internationally and more positive business and investor sentiment following the formation of the GNU.

Figure 1. Real GDP growth outlook (%, 2022-2028F)



Source: National Treasury Budget Review March 2025

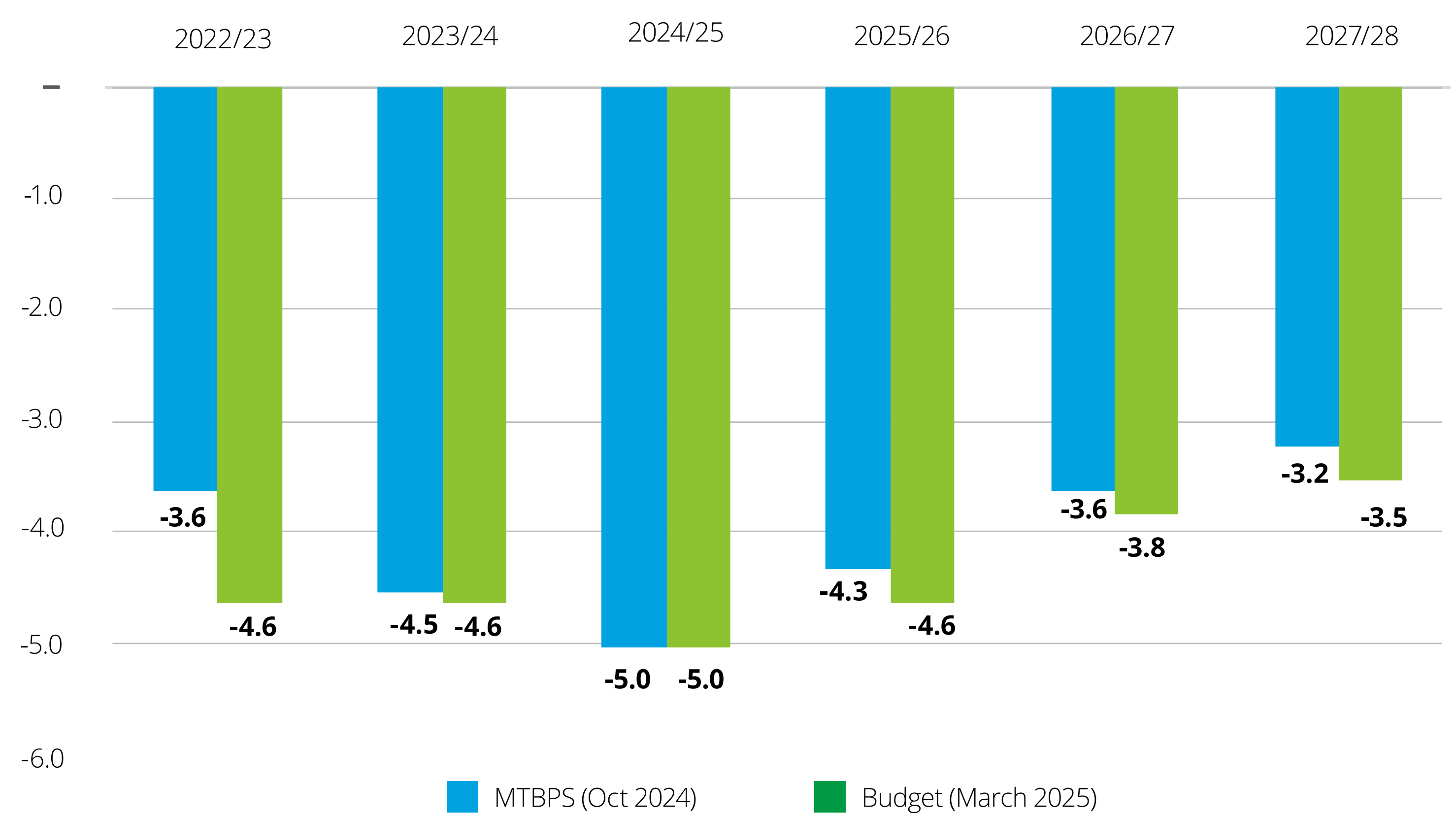
Note: National Treasury's estimate for real GDP growth in 2024 does not reflect the latest data from StatSA.

Real GDP growth is projected by the National Treasury to recover to 1.9% this year, before averaging 1.9% over the 2026-28 period as the economy benefits from the combination of a reduction to supply-side constraints (primarily electricity and logistics) and a more accommodative interest rate environment. The National Treasury intends to support economic growth via four avenues:

1. Maintaining macroeconomic stability;
2. Implementing structural reforms;
3. Accelerating infrastructure investment; and
4. Improving state capability.

Maintaining macroeconomic stability is meant to be achieved through prudent fiscal policy (i.e. narrower budget deficits and stabilised debt levels) so as to create "a conducive environment for investment" and a lower interest rate environment. Regarding fiscal policy, the National Treasury continues to hold fast in its efforts to reign in the budget deficit. The fiscal deficit is expected to increase from the previous fiscal year to 5% of GDP in the 2024/25 fiscal year, before narrowing to an average deficit of 4% of GDP over the 2025/26 to 2027-28 period. However, a primary budget surplus (i.e. revenue less non-interest expenditure) of 0.5% of GDP is expected in the current fiscal year, and noted to increase to 0.9% of GDP in the next fiscal year.

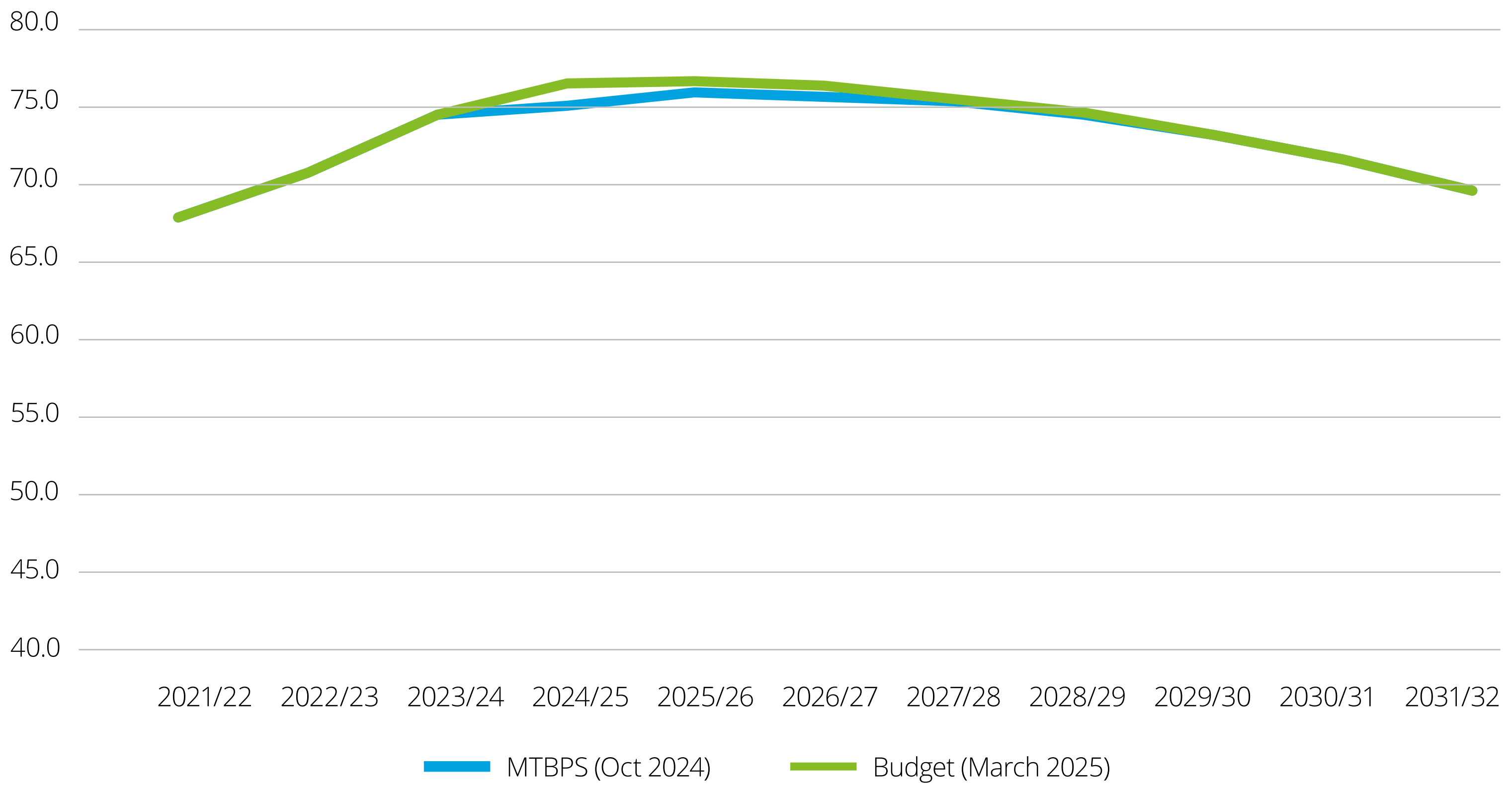
Figure 2. Fiscal Balance (% of GDP, 2015-2028F)



Source: National Treasury Budget Review March 2025

Government's fiscal strategy to stabilise debt in the near term via the primary budget surplus (and via raising additional revenue through VAT for funding notable debt service costs with 22c of every R1 collected paid for debt service costs) sees the debt-to-GDP ratio increase only marginally, now stabilising at 76.2% of GDP in 2025/26 and not 75.5% of GDP as indicated in the Medium-Term Budget Policy Statement. As Minister Godongwana noted, any increase in debt to finance the budget deficit will be very expensive (given the country's sub-investment grade status), with further increases in debt deemed not to be sustainable and crowding out expenditure for infrastructure and other important social spending requirements.

Figure 3. Gross debt-to-GDP outlook (% of GDP, 2017/18FY - 2031/32FY)



Source: National Treasury Budget Review March 2025

Looking beyond the next three years, the National Treasury is looking to ensure that fiscal policy remains prudent over the long term. This is an effort to avoid the mistakes of the excessive and arguably non-productive spending seen over the 2011/12 to 2019/20 period, which had a significantly negative effect on South Africa's debt and fiscal metrics, crowded out investment in infrastructure, and sharply increased the economy's vulnerability to external factors. Currently, fiscal policy is anchored to the above-noted primary budget surplus but the 2025 Budget is accompanied by a discussion document aimed at debating and investigating additional anchors.

Implementing structural reforms, the second avenue via which the National Treasury intends to support economic growth, is by no means a new feature in the Budget and has seen some progress, although slow. That said, Operation Vulindlela is appearing to pay some dividends, notably with Eskom recording 310 consecutive days of not implementing any state-sanctioned power cuts (i.e. loadshedding). Eskom was however forced to institute loadshedding at the end of January 2025, and again in February. This was a stark reminder to South Africans and foreign investors alike that the country is by no means out of its electricity quandary, with a stable electricity supply remaining at the core of any above 1% growth forecasts for South Africa.

Operation Vulindlela has seen some other improvements in easing economic bottlenecks ranging from the approval of a Freight Logistics Roadmap which will potentially encourage private sector involvement in the sector, to reducing data costs, introducing e-visas to boost tourism, and re-instating the water quality regulatory system to support local municipalities. But more will need to be done as acknowledged in the Budget.

A key avenue through which the National Treasury intends to promote growth is via accelerating infrastructure investment. More than R1 trillion has been budgeted for infrastructure investment largely in transport, energy and water over the coming three years. Beyond this sizeable allocation, the National Treasury also intends to continue implementing reforms aimed at promoting private sector investment as well as implementing new regulations on 1 June 2025 for public-private partnerships (PPPs). It is important that the allocated budget for investment is indeed spent, an issue that has not been adequately addressed over recent history so as to add to both the quantity and quality of growth-enhancing infrastructure.

Notably, the 2025 Budget outlined efforts to address wasteful and inefficient public expenditure. These efforts are not aimed at reducing expenditure but "to systematically assess whether public expenditure is effectively aligned with the priorities of this government". In other words, National Treasury is attempting to ensure that expenditure is allocated where it will yield the best results for the money spent – an imperative to be implemented successfully if South Africa is to emerge from its current economic situation.

Overall the 2025 Budget attempted to navigate between ever-more-difficult choices with much needed economic growth still absent in 2024. While the National Treasury is holding fast in its efforts to stabilise debt levels and narrowing the budget deficit while attempting to unlock economic growth, there are many risks to South Africa's economic as well as fiscal outlook stemming from both domestic risks (continued and unresolved logistical challenges, slow progress on structural reforms, etc.) as well as global risks amid heightened geopolitical tensions and trade disputes. The building blocks for faster economic expansion are being put in place but not achieving this quickly – which also hinges on trying to balance the country's books – will be South Africa's biggest risk in the coming months.

Tax policy proposals

Tax policy proposals

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

Overview

Tax policy measures proposed in the 2025 Budget are designed to raise R28 billion in additional revenue in 2025/26. This will principally be achieved through the following:

- No inflationary adjustments to personal income tax brackets, rebates or medical tax credits (expected to result in additional tax revenue of R19.5 billion);
- Increasing the VAT rate by 0.5% (expected to result in additional tax revenue of R13.5 billion);
- Above-inflationary increases in excise duties on alcohol and tobacco (expected to result in additional tax revenue of R1 billion);
- Increasing the basket of VAT zero-rated goods (expected to provide relief of R2 billion); and
- No increase in the general fuel levy (expected to provide relief of R4 billion).

Notwithstanding its stated tax policy i.e. "a broad tax base, combined with relatively low tax rates and improved tax administration, supports sustainable revenue-raising and economic growth over the long term", National Treasury is of the view that an increase in the VAT rate is unavoidable "to ensure adequate funding for policy priorities while maintaining fiscal sustainability".

Tax revenue for 2024/25 is expected to amount to R1.85 trillion, which is R16.7 billion less than projected at the time of the 2024 Budget. The shortfall in tax revenue collections is mainly as a result of the following:

- VAT collections are R16.7 billion less than budgeted mainly because of a stable power supply which led to lower imports of energy-related components and less import VAT.
- Similarly, demand for fuel fell sharply during 2024/25 as load-shedding subsided. Fuel levy collections are R12.7 billion less than anticipated.
- Personal income tax collections are expected to be R6.4 billion less than budgeted even though R11.6 billion was collected as a direct result of the two-pot retirement reform.
- The foregoing is partially offset by corporate tax and other tax collections that are expected to outperform 2024 Budget estimates.

The aforementioned tax policy proposals, along with further tax policy proposals identified by our Deloitte Africa tax subject matter specialists, are discussed in further detail overleaf.

Anthea Scholtz
Director: Global Employer Services
Deloitte Africa Tax & Legal

Individuals and Employment Taxes

- **Personal income tax**
  - The personal income tax proposals are effective from 1 March 2025 and are expected to raise revenue of R19.5 billion. No personal tax rate increases are proposed. No inflationary adjustments to the brackets and rebates are proposed, resulting in bracket creep.
  - While this proposal will increase the collection of personal income taxes, it does mean that where taxpayers' taxable income increases due to inflation or salary increases etc., they may be moved into a higher tax bracket, resulting in a higher tax liability - even though their purchasing power may remain unchanged.
- **Medical scheme tax credits**
  - No changes are proposed to the medical scheme fees tax credits which will remain at R364 per month for one person or one dependant, R728 per month for one person and one dependant or two dependants and R246 per month for each additional dependant. The total medical tax credit cost for individuals with taxable income above R1 million is R3.1 million.
  - The proposal to medical scheme tax credits was anticipated in light of the funding requirements of the National Health Insurance regime. It will also aid an increase in revenue collections.
- **Amending the definition of "remuneration proxy"**
  - Currently, an employee's "remuneration proxy" is used to calculate certain elements of an employee's taxable remuneration in the current tax year, for example, it is used to calculate the quantum of the employee's taxable benefits arising in respect of the use of employer-provided residential accommodation. However, the "remuneration proxy" is calculated with reference to the employee's prior year's remuneration.
  - Accordingly, where an employee qualified for the foreign services exemption in the prior tax year, his prior tax year's remuneration will be lower and hence he will receive an unintended tax advantage in that certain taxable benefits/amounts will be calculated with reference to that lower remuneration proxy amount resulting in a lower value for the taxable benefit in the current tax year or the employee qualifying for an exemption from tax which he would not otherwise have qualified for (e.g. in the case of bursaries granted to relatives of employees).
  - To correct this unintended impact, it is proposed that the definition of "remuneration proxy" be amended to include amounts that are exempted under section 10(1)(o)(ii) of the Income Tax Act.
  - The proposal to amend the definition of "remuneration proxy" is welcomed as it places individuals who qualified for the foreign services exemption in a prior tax year on the same tax footing as individuals who did not qualify for the exemption and thus it ensures more equitable taxation of taxable benefit/remuneration. The impact of the proposal is that foreign employment income which was exempted from tax in the prior tax year will now be factored into the remuneration proxy calculation for the current tax year and therefore will be included in the calculation of all taxable remuneration items which are calculated with reference to the remuneration proxy.
- **Closing loopholes in the ring-fencing of assessed losses**
  - Currently taxpayers who fall below the threshold at which the maximum marginal tax rate applies, can repeatedly use losses from certain business activities to reduce their taxable income from other sources.
  - This excessive loss offsetting creates a loophole which results in substantial revenue loss to the fiscus due to amongst others, taxpayers receiving full refunds of their PAYE on employment income – thus effectively lowering their tax liabilities beyond what is fair.
  - To prevent this, it is proposed that the threshold at which assessed loss ring-fencing rules apply be reviewed and amended.
  - This is welcomed as it aims to ensure a fair tax contribution from all taxpayers as it will limit the conditions under which business losses can be offset against other sources of income which in turn, will prevent taxpayers from exploiting the system while ensuring a more equitable tax framework.
- **Reinstating the exemption for child maintenance payments funded from after-tax income**
  - Child maintenance payments, which are not sourced from retirement funds, are generally taxable in the hands of the recipient without allowing for a corresponding tax deduction in the payer's hands.
  - To better align with government's social policy objectives, it is proposed that child maintenance payments be excluded from the recipient's taxable income.

- This proposal to reinstate the exception for child maintenance payments funded from after-tax income is welcomed as it will have positive cash flow implications for the recipients, which will in turn aid the recipient to better support the child. That said, it will be interesting to see whether relief from the imposition of penalties and interest will be granted to those recipients who did not previously declare child maintenance payments in their taxable income.

- **Clarifying payment of death benefits**
  - Currently, a member of an approved retirement fund in South Africa may, on the retirement, elect for his/her member's interest in the savings component to be paid to him/her and deemed to be a retirement fund lump sum benefit. Any portion of the member's interest in the savings component not paid as aforesaid is then added to the amount payable to the member in the form of an annuity.
  - The above provision does however not apply in instances where the member dies. Accordingly, on death of the member, the member's interest in the savings component is paid as a "savings withdrawal benefit" and is taxed using the normal tax tables applicable to individuals, as opposed to the special tax tables.
  - It is proposed that the definition of the savings component be amended to allow that on the death of a member, should the nominees or dependants choose to receive a lump sum benefit, that such lump sum benefit be considered a retirement fund lump sum benefit (and accordingly benefit from the special tax tables).
  - This proposal is welcomed as it ensures that the income tax (and employment tax treatment) is aligned in instances where an employee dies or retires from the fund

- **Reviewing the Fourth Schedule to allow for one nominated employer for company group structures and employee share scheme trusts of a group of companies**
  - It is proposed that the Fourth Schedule be reviewed to determine if it should be amended to allow one employer to be nominated by a group of companies or by an employee share scheme trust for a group of companies, to apply to be registered as the employer on their behalf for employees' tax withholding, payment and reporting purposes. This may require, among others, extending the joint and several liability principles in the Fourth Schedule for the entities concerned.
  - This proposal is welcomed and will be a practical solution to the current administrative employment tax challenges that are faced by companies which operate within the same group of companies and share resources and/or an employee share scheme trust.
  - We recommend that any proposed amendments be extended to the SDL and UIF Acts, in particular as it applies to joint and several liability principles (the latter Acts currently do not cater for joint and several liability to apply in any instances).

- **Employment tax incentive values**
  - It is proposed that the employment tax incentive (ETI) will remain at a maximum of R1 500 per month for the first 12 months and R750 per month for the second 12 months of eligibility.
  - Effective 1 April 2025, the formula to calculate the ETI and eligible income bands will be adjusted.
  - Employers will be able to claim the ETI at a rate of 60% of the wages below R2 500 per month, subject to certain limitations or requirements.
  - Maximum value of R1 500 per month will apply to employees earning between R2 500 to R5 500 per month – this is an increase on prior year (R2 000 – R4 500)
  - ETI value will decrease as wages increase, tapering to zero at a monthly income of R6 500 (previously R6 500)
  - This is welcomed as it encourages formal sector employment. The adjustment to the values also encourages employers to increase their work force.

- **Cross-border tax treatment of retirement funds**
  - Current tax rules may result in double non-taxation where a double tax agreement applies.
  - It is proposed that changes be made to the tax rules that currently exempt lump sums, pensions and annuities received by South African tax residents from foreign retirement funds for previous employment outside South Africa.
  - Careful consideration will need to be given to the wording of the proposed draft legislation to ensure that the changes do not give rise to unintentional consequences.

Kabelo Mokitlane
Director and Business Tax Leader
Deloitte Africa Tax & Legal

Business Tax (General)

- **Interest limitation rules: Refining and clarifying the definition of "interest" to enhance certainty**
  - It is proposed that the definition of interest in section 23M of the Income Tax Act be clarified.
  - Taxpayers should rely on the definition of interest in section 24J of the Income Tax Act to calculate adjusted taxable income.
  - Given the current complexity and uncertainty surrounding the definition of 'interest' in section 23M of the Income Tax Act and its application in the calculation of adjusted taxable income, the hope is that a narrower definition of interest is adopted compared to the broader definition that is currently applied.
- **Reviewing the carve-out for the interest limitation rules**
  - It is proposed that back-to-back lending arrangements where the ultimate funding is obtained from a lending institution that is not in a controlling relationship with the debtor be excluded from the interest limitation rules.
  - The proposal will essentially exclude interest on funding that is indirectly (ultimately) obtained from a third-party financial institution from the interest limitation rules.
- **Clarifying the treatment of foreign exchange differences in terms of the interest limitation rules when there is no accrual for the creditor**
  - It is proposed that it be made clear that the objective is to test whether the underlying debt should be limited and only then should foreign exchange differences also be limited.
  - It is unclear whether this will resolve the current situation where foreign exchange losses on trade debtors and creditors are potentially subject to the interest limitation rules. One will have to wait for the draft Taxation Laws Amendment Bill to be published later in the year.
- **Dividends by a covered person**
  - The proposed amendment seeks to align the tax treatment of dividends with the accounting treatment for a "covered person".
  - A "covered person" (e.g. banks and brokers) is taxed in accordance with accounting principles of IFRS 9. Certain covered persons purchase shares and receive dividends as a mechanism to hedge specific financial liabilities such as equity-linked notes, where the associated payments qualify for tax deductions.
  - To ensure consistent tax treatment, there is a proposal to tax the dividends earned from these hedges to ensure alignment with the financial accounting treatment of these dividends.
- **Capital contributions by collective investment schemes**
  - As detailed in the discussion document on the tax treatment of collective investment schemes (CIS), published by National Treasury on 13 December 2024, from 2010 the adjusted trust model provided a mechanism to allow income to pass through to unit holders without being subject to tax in the CIS. Since then, there has been no clear legal rule regarding ongoing "capital distributions" made by CIS to unit holders from the portfolio's capital (not considered proceeds on disposal of the participatory interest).
  - It is proposed that the tax treatment of these capital distributions be considered. This is a welcomed change.
- **First loss after capital instruments**
  - First loss after capital (FLAC) instruments (as defined in the Financial Sector Regulation Act (2017)) are loss absorbing instruments designated for bail-in resolution where creditors are aware of and compensated for the inherent risks. The Reserve Bank has the authority to instruct the Prudential Authority to set Prudential Standards outlining the features of FLAC instruments and to require designated institutions, like banks, to maintain a minimum level of these instruments. Some of the instruments may later convert to equity or trigger write-offs.
  - It is suggested that the tax treatment of FLAC instruments be clarified where needed, which is a welcomed change.
  - Under current legislation the tax treatment of FLAC instruments could potentially trigger adverse tax consequences including anti-avoidance rules, which would defeat the purpose of having them in place.

- **Clarifying the ordering of set-off of assessed loss and certain deductions**
  > The set-off of balances of assessed losses is limited to the greater of R1 million or 80% of taxable income for companies (effective for years of assessment ending on or after 31 March 2023). Deductions related to donations and transfers from policyholder funds of long-term insurers are limited with reference to taxable income. In certain instances, there is uncertainty regarding the ordering of the set-off of balance of assessed losses and deductions for donations and transfers from policyholder funds.

  > Legislative changes are proposed to clarify the order of these deductions when determining taxable income. There are currently different treatments followed by taxpayers and clarification is therefore welcomed in this regard.

  > It is noteworthy that no clarification with regards to the ordering of pre-trade expenditure under section 11A of the Income Tax Act has been proposed.

- **Trusts**
  > Following changes introduced in 2023 to limit the flow through ("conduit pipe") principle applicable to trusts in relation to non-resident beneficiaries, government has become aware that the amendments don't achieve their intended purpose in certain circumstances. This is apparently due to the income attribution rules in section 7 of the Income Tax Act.

  > It is proposed to amend the Income Tax Act to ensure that the conduit pipe principle is only applicable to resident beneficiaries.

  > Section 7 contains various provisions deeming a person other than the actual recipient of the income to be liable for tax on such income. It is unclear which of these provisions will be amended nor how they will be amended.

Daniel Dias
Associate Director: Tax Advisory
Deloitte Africa Tax & Legal

Business Tax (Mergers and Acquisitions)

- **Extending the anti-avoidance rules dealing with third-party backed shares**
  - Anti-avoidance rules deem dividends from preference shares backed by third parties through an enforcement right of the holder to be income unless used for a qualifying purpose. An enforcement right allows the holder to demand performance from another party regarding the share.
  - Structures that circumvent these rules have been identified, and it is proposed that new measures be considered to prevent this circumvention.
  - The 'enforcement right' definition in section 8EA is likely to be expanded to include a broader set of rights/obligations by the holder/issuer of the equity instrument. We recommend that taxpayers assess whether they have issued/hold equity instruments that are subject to any guarantees or sureties.
- **Refining the definition of "hybrid equity instrument"**
  - The term "hybrid equity instrument" broadly encompasses any share with debt characteristics. The definition includes preference shares, and it has come to the government's attention that the definition's characteristics as it relates to preference shares can be circumvented.
  - It is proposed that the definition of "hybrid equity instrument" be revised to address the circumvention of this anti-avoidance measure.
  - Subparagraph (c) of the 'hybrid equity instrument' definition in section 8EA of the Income Tax Act includes any preference shares subject to certain conditions. 'Preference share' in section 8E of the Income Tax Act is defined as any preference shares as defined in section 8EA of the Income Tax Act. We expect the definition of 'preference share' in section 8EA to be expanded to include a larger scope of preference share instruments.
- **Clarifying the rollover relief for listed shares in an asset-for-share transaction**
  - In terms of a section 42 of the Income Tax Act "asset-for-share transaction", assets are disposed of and acquired at their tax cost.
  - A special rollover regime was introduced in 2010 to address the tracking of tax costs when listed shares are disposed of in terms of section 42 of the Income Tax Act. The revised regime allows for the rollover relief to apply to the seller but for the purchaser's tax cost in the shares to equal the market value of the shares.
  - It is proposed that the special rollover regime be amended to only apply to shareholders who hold less than 20% of the listed shares.
  - The proposed amendment to section 42 of the Income Tax Act is for unique transactions where a shareholder disposes of its shares in a listed company to another company in terms of an 'asset-for-share transaction'.
  - The proposal only impacts the acquiring company in the 'asset-for-share transaction' when listed shares are acquired from a shareholder who holds 20% or more of the listed shares in the target company. In this instance, the tax cost of the shares acquired will no longer be their market value but will be equal to the tax cost in the hands of the seller.
- **Reviewing asset-for-share and amalgamations transactions involving collective investment schemes**
  - Transferring shares to a collective investment schemes (CIS) without tax implications has allowed for unintended tax avoidance during changes of shareholdings in listed companies as the realised gains in the shares are not taxed on transfer.
  - The realised gains are also not taxed when the CIS disposes of the shares as part of a corporate restructuring as it qualifies for a specific exemption under the Eighth Schedule to the Income Tax Act.
  - It is proposed that these provisions relating to asset-for-share transactions and amalgamations transactions be reviewed.
  - The proposal indicates that collective investment schemes may be excluded from the rollover relief provisions provided for in section 42 and section 44 of the Income Tax Act.
- **Limiting interest deductions for reorganisation and acquisition transactions**
  - In 2024, amendments aligned the definition and formula for "adjusted taxable income" in sections 23N and 23M of the Income Tax Act.
  - The effective date for the amendments is 1 January 2027 to allow time for affected stakeholders to consider the impact of the proposed amendments.
  - A review is planned for 2025 with a potential proposal in the 2026 Budget.
  - The proposal in relation to section 23N of the Income Tax Act is unclear, however the effective date of the changes (as promulgated in 2024) is years of assessment commencing on or after 1 January 2027. Based on the proposal it may be deferred.

Olebogeng Ramatlhodi
Director and Indirect Tax Leader
Deloitte Africa Tax & Legal

Customs and Excise

- **Customs voluntary disclosure programme**
  - > The Tax Administration Act (2011) provides for a voluntary disclosure programme (VDP) which currently excludes customs and excise.
  - > It is proposed that the VDP be extended to customs and excise by amending the Customs and Excise Act to provide for a customs and excise VDP.
  - > As opposed to previous years, there are some significant industry operational and policy developments, though the details are yet to follow these will be positive for traders overall. For example, including customs and excise voluntary disclosures in a more formal structure such as the Tax Administration Act will provide more certainty to traders and will likely encourage foreign direct investment.
- **Timing of adjustment of bill of entry**
  - > It is proposed that section 40 of the Customs and Excise Act be amended in relation to the timing of the adjustment of bill of entry to create flexibility in respect of adjustments made in a manner prescribed by the South African Revenue Service (SARS) Commissioner.
  - > The SARS Commissioner may by rule determine a different manner to adjust a bill of entry – for example, by allowing a single consolidated document to be submitted to adjust various affected bills of entry.
  - > Traders will welcome regulating the practical treatment of submitting single consolidated documents to adjust various affected bills of entry versus having to do individual corrections of bill of entries. Interestingly, there are proposed rule amendments to the Customs and Excise Act that speak to these proposed amendments.
- **Diesel refund**
  - > The Customs and Excise Act may require amendments to facilitate the implementation of the new diesel refund system.
  - > The current diesel refund system enables certain industries to qualify for a refund of the general fuel levy and Road Accident Fund levy for 80% of eligible diesel fuel purchases. The new proposed diesel refund system aims to apply the refund for all (i.e.100%) eligible diesel purchases declared to SARS, effective from 1 April 2026. This increased relief will be welcomed.
- **Dutiability of waste derived from processing imported goods in manufacturing plants**
  - > SARS together with the cooperation of relevant government agencies such as the International Trade Administration Commission of South Africa, aims to consider the dutiability of waste derived from processing imported goods in a manufacturing plant.
  - > This is to provide for relief when waste is disposed of in a sustainable and environmentally friendly manner.
- **Movement of fuel products**
  - > SARS proposes to review the legislation pertaining to the fuel industry to align it with changes in the fuel industry and facilitate the movement and storage of fuel products.
  - > This is in line with the shift in the fuel industry from local manufacturing to importing refined petroleum products such as petrol, diesel, illuminating kerosene and aviation kerosene.
  - > Further reforms of the fuel industry are welcomed (including reforms to the control of movement and storage of fuel products) as this reflects the changing nature of the industry in South Africa from manufacturing to importing.
- **Specific excise duties**
  - > A 6.75% increase on all alcoholic beverages is proposed.
  - > A 4.75% increase on cigarettes, cigarette tobacco and vaping systems is proposed.
  - > A 6.75% increase on pipe tobacco and cigars is proposed.
  - > The continual increase in the rates of specific excise duty on alcohol- and tobacco products may eventually not have the desired effect, i.e. to decrease consumption of these substances deemed harmful to human health, and to optimise revenue yield for the fiscus.
  - > The higher sales price for these products, caused by the duty increases, might cause consumers to turn to the illicit market where these products can be obtained at much lower (duty free) prices, with the effect that government will then actually collect less revenue on these products.
- **Effective date for excise duty increases**
  - > It is proposed that in future years excise duty increases will take effect on 1 April each year; not on the day of the Budget Speech as is the current case.
  - > This is a welcome development for industries impacted as it enables proper planning.

- **Fuel taxes and levies**
  - No increase to excise duty, general fuel levy and Road Accident Fund levy rates on petroleum products is proposed.
  - A 3c / litre increase to the carbon tax on fuel, additional to the general fuel levy rate, is proposed.
  - The current excise duty rate for petrol is R0.03909c / litre, and for diesel R0.03817c / litre. The proposed new rate seems to reflect National Treasury's intention to simplify this rate by rounding it off to R0.04c / litre.
- **Ad Valorem Excise Duties**
  - It is proposed that the current flat rate of 9% on smartphones is maintained but that, from 1 April 2025, smartphones with an import cost of R2 500 or less are excluded from this duty.
  - This is a welcome development as it will decrease the cost of entry-level smartphones as we transition to 4 and 5G networks and retire 2 and 3G.

Other tax proposals

- **Delegation of functions of customs officers and designation of persons as customs officers.**
  - It is proposed that section 3 of the Customs and Excise Act be amended to insert a provision providing that the SARS Commissioner may delegate functions of customs officers to persons in the service of organs of state or institutions with whom the SARS Commissioner has concluded an agreement.
  - This is in line with the new SARS electronic traveller management system, among other things.

Le Roux Roelofse
Director: Tax Advisory and
Head of Tax Technical
Deloitte Africa Tax & Legal

International Tax

- **Refining the definition of "equity shares" to cater for transfers by foreign companies**
  - The terms "dividend" and "return of capital" are defined in section 1 of the Income Tax Act, referring to amounts transferred by resident companies in respect of shares.
  - Separate definitions exist for a "foreign dividend" and a "foreign return of capital."
  - It seems that the current definition of "equity share" in section 1 of the Income Tax Act does not include a share in a foreign company.
  - It is accordingly proposed that the definition of "equity share" be amended to include within its scope shares in foreign companies.
  - The proposal to amend the definition of "equity share" appears to be aimed at making it abundantly clear that a share in a foreign company which is similar in nature to a share in a South African resident company is also an equity share for tax purposes.
- **Controlled foreign company (CFC) rules and comparable tax exemption**
  - South Africa has a comparable tax exemption for CFCs, allowing their net income not to be imputed under CFC rules if the foreign tax on income paid is at least 67.5% of the normal tax that would have been paid in South Africa had the CFC been a resident.
  - The exemption does not currently consider tax systems that refund shareholders for tax paid by the dividend-declaring company.
  - It is proposed that shareholder tax refunds be taken into account when applying the comparable tax exemption.
  - The purpose of this proposed amendment is not to grant relief from a section 9D imputation under the comparable tax exclusion if the foreign tax paid by the CFC is refunded (or substantially refunded) to another CFC, such that on a combined basis the foreign tax paid is less than 67.5% of the hypothetical South African tax.
- **Refining the deferral of exchange difference rules on debt between related companies**
  - Section 24I of the Income Tax Act addresses the tax treatment of gains and losses on foreign exchange transactions.
  - Current rules allow for postponing the taxation of exchange differences in respect of certain categories of debt until the debt is realised.
  - It is proposed that deferred exchange differences be triggered on the portion of the exchange item realised during the assessment year.
  - Additionally, it is proposed to clarify the classification of debt not recognized in financial statements for financial reporting purposes.
  - The proposal to refine the rules dealing with the deferral of exchange differences is unclear. Firstly, the proposal is not clear on when the deferred exchange difference will be triggered where the exchange item has been realised. Secondly, it is not clear how government intends to clarify the classification of off-balance sheet debt.

Other tax proposals

- **Interaction between sections 6quat and 23(m) of the Income Tax Act**
  - Section 6quat(1C) of the Income Tax Act allows for the deduction of taxes paid or proved to be payable to foreign governments against income when determining taxable income.
  - Section 23(m) of the Income Tax Act, with certain exclusions, prohibits deductions against remuneration received from employment.
  - The exclusions in section 23(m) do not currently reference the deduction allowed under section 6quat.
  - It is proposed that the exclusions in section 23(m) be extended to include deductions permitted by section 6quat(1C).
- **Interaction of controlled foreign company rules in section 9D with section 9H**
  - Section 9H of the Income Tax Act, known as the exit charge, deems a foreign company to have disposed of all its (worldwide) assets immediately before it ceases to be a CFC.
  - Section 9D(2A) requires the "net income" of a CFC to be calculated as if it were a taxpayer and tax resident for certain sections in the Income Tax Act.
  - Government has identified arrangements where CFCs acquire all the shares in South African holding companies without triggering the exit charge.
  - It is proposed that the Income Tax Act be amended to ensure the exit charge is triggered in such cases.

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

Value-Added Tax (VAT)

- **Staggered VAT rate increase**
  - VAT is levied at the standard rate of 15% on the supply of goods and services by registered VAT vendors. After much debate, and after examining alternative measures, it is proposed that the VAT rate will increase to 15.5% on 1 May 2025 and to 16% on 1 April 2026. This is one of the measures that is expected to raise R28 billion and R14.5 billion in the respective years. This was seen as the most effective way to avoid further spending cuts.
  - A VAT rate increase requires system and transitional considerations. In addition, limited time is normally allowed for these changes. Having two rate increases in quick succession requires added focus and effort.
- **Expanding the basket of zero-rated food items**
  - In an effort to cushion taxpayers, and specifically vulnerable households from the VAT rate increase, and the escalating cost-of-living, it is proposed that more food items be zero-rated. The following items are considered: canned vegetables, dairy liquid blends, and edible offal from sheep, poultry and other animals.
  - In an attempt to cushion the VAT rate hike, additional zero-rated food items are proposed. These do not necessarily offset the rate increase and assist those intended as was confirmed by the findings from the Katz Commission, the OECD as well as the Davis Committee. It would also be crucial for these zero-rated items to be defined clearly. Where this does not occur, it leads to administrative difficulties for SARS and VAT vendors.
- **Expansion of the intermediary provisions**
  - Currently, intermediaries may account for VAT on supplies made on behalf of foreign suppliers of "electronic services" as if these supplies were made by these intermediaries as principal. A recent legislative change allowed the intermediary to account for these transactions as principal, whether the underlying supplier is a VAT vendor or not. This amendment did not, however, extend to supplies made on behalf of local suppliers. Widening the intermediary provisions is proposed to include supplies facilitated on behalf of local suppliers.
  - Intermediaries and marketplace operators often deal with a plethora of principal suppliers on their platforms. Expanding the current provisions will assist these intermediaries and marketplace operators to account for transactions irrespective of whether the principal is a resident of South Africa or a foreign VAT vendor. This would ensure certainty of the VAT treatment of these transactions. The amendment proposed will also facilitate the issue of a single consolidated tax invoice for supplies of multiple principal suppliers to a single customer.

Other VAT matters under consideration and consultation

- It is proposed that section 21 of the VAT Act be amended to make it clear that the transferee can issue debit and credit notes in respect of returned goods or services relating to a going concern transaction under section 42 or 45 of the Income Tax Act. This will make it clear that the transferee steps into the shoes of the transferor when the transaction is effected under the above corporate rollover relief provisions in instances where goods or services are returned.
- It is proposed that the VAT treatment of testing services supplied to non-residents be reviewed. Where these services are supplied to non-residents who are outside South Africa at the time of the supply, but the services are supplied directly in connection with movable property situated in South Africa, or directly benefits someone in South Africa, these supplies could fall foul of the zero rating provisions. Certainty regarding the zero-rating of these services will encourage providing local testing services to foreign enterprises.
- In light of the decision in the Constitutional Court matter of Capitec Bank Limited v Commissioner for the South African Revenue Service it is proposed that the definition of "insurance" be reviewed. It is anticipated that any revision will clarify whether a premium is required in order to establish an insurance service.
- It is proposed that the VAT treatment of airtime vouchers supplied in South Africa for exclusive use in an export country be reviewed. It is expected that clarity will be provided on the zero-rating of this service.

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

Carbon Tax and Incentives

- **Proposals for Phase Two of the Carbon Tax (2026 – 2030)**

  The main proposals for Phase Two of the carbon tax are as follows:

  > Basic tax-free allowance to be maintained until 31 December 2030.

  > Carbon offset allowance to increase by 5 % from 1 January 2026, to 10 % for fugitive and process emissions and to 15% for combustion emissions.

  > 30% trade-intensity threshold for the trade exposure allowance to be retained.

  > Carbon budget allowance for the voluntary carbon budget system to be extended until 31 December 2025.

  > Removal of the electricity generation levy from 1 January 2026 and applying the carbon tax on electricity emissions.

  > Sequestration deduction to be extended for the paper and pulp sector to third-party timber sequestration measured and verified in line with the approved protocol effective from 1 January 2026.

  > In November 2024, National Treasury released a discussion paper proposing significant changes to the Carbon Tax for Phase Two to start in 2026.

  > The proposed measures - and notably the progressive removal of the allowances – would have had severe consequences on certain industries. The measures announced in this Budget Speech are reassuring for industry in the short term.

  > The inclusion of electricity generation in the carbon tax, although revenue neutral, will bring an explicit carbon price mechanism on the generation of electricity. This is particularly important for South African exporters to the European Union who are required to report on the embedded emissions (including indirect emissions from the electricity used) and the carbon price paid for their products in the context of Carbon Border Adjustment Mechanism (CBAM).

  > The proposed increase of the carbon offset allowance, although less important that initially proposed in National Treasury's discussion paper, is in line with government's drive to stimulate the development of a South African carbon market.

- **Section 12L Energy Efficiency Tax incentive**

  > Extension of the Section 12L Energy Efficiency Tax incentive in its current form for five years, to 31 December 2030.

  > The extension of the Section 12L tax incentive by another five years will be welcomed by industry and will continue to support energy efficiency initiatives.

Other tax proposals

- **Review of the renewable energy allowance**

  > Section 12BA Renewable Energy allowance fell away on 28 February 2025.

  > No change to the leasing provisions and the generation threshold of 1 megawatt (MW)).

  > There is no extension for section 12BA which allowed a 125% deduction for renewable energy projects brought into use before 1 March 2025.

- **Extending the urban development zone tax incentive**

  > It is proposed that the sunset date for the urban development zone tax incentive introduced in 2003 be extended by five years to 31 March 2030. The extension allows for certainty and planning for investors, and adequate time to consult with municipalities.

Daniel Flanagan
Director: Business Tax
Deloitte Africa Tax & Legal

Tax Administration and Other Taxes

- **Clarifying the meaning of audit certificate to be used by public benefit organisations**
  - > Section 18A of the Income Tax Act prescribes that an organisation conducting mixed section 18A and non-section 18 activities must obtain and retain an audit certificate confirming that all donations received or accrued in the year for which receipts were issued were used solely to undertake activities covered by section 18A. Some uncertainty exists about how the term "audit certificate" must be interpreted and whether it should bear reference to terminology contained in the Auditing Profession Act (2005). It is proposed that the term be clarified in the context of this section.
- **Inspecting an enterprise that submits a voluntary VAT registration application**
  - > When voluntary value-added tax (VAT) registration applications are submitted, and in order to curb VAT fraud and abuse, SARS may require a site inspection to be conducted to verify that the business address given in the application exists and that the premises is conducive to conducting the activities reflected on the application. The Tax Administration Act makes provision for SARS to conduct inspections at business premises under certain circumstances. It is proposed that the provisions in the Tax Administration Act and those of the VAT Act be expanded to include inspections for this purpose.
- **Clarifying "bona fide inadvertent error" for purposes of understatement penalties**
  - > The concept and scope of a "bona fide inadvertent error" has proven to be contentious. To clarify its scope it is proposed to link the term "bona fide inadvertent error" explicitly with "substantial understatement" in the understatement penalty framework.
  - > While further guidance on what constitutes a "bona fide inadvertent error" would be welcomed, the proposal at this stage is unclear. We will need to wait for the draft proposal to determine the impact of linking "bona fide inadvertent error" with "substantial understatement".
- **Tax clearance status**
  - > The interaction between the SARS tax compliance system and SARS' entity scoring model will be reviewed to determine whether synergies in approach can be achieved.
- **VAT disputes on the importation of goods**
  - > VAT on the importation of goods, as well as penalties or interest emanating from an import transaction, is imposed in terms of the VAT Act. For practical administrative purposes, VAT disputes in this context are dealt with in terms of the customs internal administrative appeals framework. However, nothing precludes the vendor from instituting an objection and appeal under the Tax Administration Act. This raises practical and administrative challenges as the customs and VAT disputes are interrelated and should ideally be dealt with as part of one dispute resolution mechanism. It is proposed that the dispute resolution framework of both acts be reviewed to determine the best way to deal with these types of disputes.
- **Body-worn cameras**
  - > SARS is investigating issuing body-worn cameras to customs officers to promote trust, transparency, and accountability in relation to the enforcement functions performed by customs officers.
- **Tax administration update**
  - > Over the last five years, SARS has made significant progress in rebuilding and modernising its systems by shifting to online services and automating many of its processes in order to improve service, detect fraud and enhance compliance. In 2025/26 it will focus on addressing the tax gap by improving taxpayer compliance and trade facilitation through the use of artificial intelligence and data science. SARS will deploy new technologies to simplify processes, improve the single window platform, and speed up inspections through ports of entry with scanning technologies and intelligent image analysis. The traveller declaration system is also being upgraded to provide digital services to foreign travellers and state entities, thus reducing illicit financial flows and other risks.

Other Taxes

- **Adjustment of transfer duty**
  - > Effective 1 April 2025, the monetary threshold for transfer duties will be adjusted by 10% to account for inflation but the transfer duty tax rate will stay the same.

Other matters under consideration and consultation

- A discussion paper issued during November 2024 on collective investment scheme (CIS) taxation made three main proposals: make CIS fully transparent, provide a threshold for CIS and remove hedge funds from the framework. Government recognised the administrative concerns raised for the fully-tax transparent proposal and confirmed that it doesn't intend to tax all CIS returns as revenue. Consultations will continue in 2025.
- Government intends to publish a consultation paper on unlocking institutional funding for infrastructure. It will propose that certain investment vehicles be enabled to facilitate such investments and will offer a flow-through tax regime. Consultations will take place during 2025.
- Government aims to expand South Africa's tax treaty network and renegotiate existing treaties to strengthen economic and trade relations, prevent double taxation, tax abuse and enhance regional co-operation.
- The VAT Act provides for a VAT exemption on the importation of low value goods. Government will review legislation to bring parity to the VAT treatment of such goods purchased online, as many offshore suppliers of these goods are not registered for VAT.

Tumi Malgas
Director: Tax Technology Consulting
Deloitte Africa Tax & Legal

Are your systems easily re-configurable for the VAT increase?

The increase in value-added tax (VAT) in 2018, created a challenge for VAT vendors that had to re-configure their systems to account for this increase and it may cause a similar challenge this time around. The complications that arose at the time included the following:

- The VAT rate was hard coded rather than dynamically applied in systems for some organisations;
- Large organisations had multiple systems (product systems, billing systems, enterprise resource planning systems, to name a few) in which VAT updates needed to be effected; and
- In setting up the system to ensure credit notes and bad debts still apply the prior VAT rate where relevant.

Ideally VAT vendors would have benefitted from the 2018 experience in respect of the VAT increase and have already adjusted their systems to cater for the implementation of the VAT increases, but this is not guaranteed and system updates may be costly from both a time and a cost perspective.

These system changes usually require a planned project by IT teams and require finance or tax teams to test different scenarios to ensure that the updates have been done correctly. This also becomes a critical item for audit teams to test, increasing external audit costs for companies. The litmus test of the efficacy of the changes is when the monthly VAT returns are produced. The VAT returns would typically show both rates in the first year.

The incorrect set-up of VAT would have an impact on numerous transactions. VAT vendors need to ensure they are compliant and don't lose money through resulting penalties and interest due to their systems not being set up correctly.

Contacts

For more information, contact your nearest Deloitte tax office

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

KwaZulu-Natal: Mark Freer, Regional Leader, Deloitte Africa Tax & Legal
Email: mfreer@deloitte.co.za

Western Cape: Anthea Scholtz, Global Employer Services, Deloitte Africa Tax & Legal
Email: ascholtz@deloitte.co.za

Editorial team

Ruben Johannes
Email: rjohannes@deloitte.co.za

Fezile Mbatha
Email: fmbatha@deloitte.co.za

Tsholofelo Dihutso
Email: tdihutso@deloitte.co.za

www.deloitte.co.za