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Pre-Budget 2026/2027 Commentary

Restoring confidence, maintaining optimism, together.

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Foreword

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The 2026 National Budget's priorities Reform momentum and sectoral renewal

South Africa enters the 2026 National Budget season at a moment charged with both urgency and possibility. Only a year ago, the postponement of the 2025 National Budget Speech signalled deep uncertainty. Yet by the close of 2025, the tone had shifted: the Medium-Term Budget Policy Statement (MTBPS) offered reassurance, reform energy accelerated, and government reaffirmed its resolve to steady the nation's finances and rebuild confidence.

Today, the question is no longer whether reform is happening — but whether the country can sustain the momentum required to turn early gains into lasting progress.

As Deloitte Africa, our pre-budget insights and predictions by our subject matter specialists reveal that we must continue this momentum to restore investor confidence and maintain economic optimism. Below is an overview of some of these pre-budget predictions:

Fiscal consolidation and revenue enhancement

The 2026 Budget, scheduled for 25 February, aims to maintain fiscal consolidation by narrowing the deficit, stabilising debt, and boosting investor confidence. Following the MTBPS, public debt is projected to stabilise, and a primary surplus is expected. However, slow growth and expenditure pressures require continued fiscal restraint through tax changes, efficient spending, and anti-waste measures to improve creditworthiness.

Key in the next year will be further modernisation of tax administration. The South African Revenue Service (SARS) will step up compliance, digital initiatives, and enforcement to close the revenue gap. The ongoing VAT Modernisation Project will advance real-time reporting, e-invoicing, and oversight, with businesses facing increased audits – potentially an alternative to a rate hike.

A new customs Voluntary Disclosure Programme will allow importers and exporters to regularise past errors, align with global standards, enhance compliance, and provide greater certainty for cross-border trade.

Transfer pricing: Certainty, capacity building, and simplification

Transfer pricing is part of SARS' strategy to protect revenue, with efforts shifting toward administrative efficiency and certainty. The advance pricing agreement programme is underway, offering multinationals more predictability and reducing long disputes. There's also discussion about adopting simplified methods for low value-adding intra-group services to reduce compliance costs, provided safeguards are in place.

SARS is leveraging technology, such as databases and artificial intelligence, to enhance transfer pricing enforcement and continues to recruit and train specialists for balanced enforcement and investor certainty.

VAT remains essential for revenue and trade policy, with focus on stricter compliance, clearer export rules, and resolving procedural inconsistencies rather than raising rates. Legislative changes should help vendors, cut audit disputes, and support growth, especially through clear export VAT guidance and aligned definitions.

To boost economic growth and attract investment, South Africa needs effective tax incentives for sectors like manufacturing, renewable energy, and digital industries. Modernising these incentives—covering capital outlay, research and development, and energy efficiency—is key to remaining competitive and broadening the tax base.

Sustainable development and a new reform agenda

The 2026 Budget aims to further South Africa's sustainability goals through expanded carbon taxes, green bonds, and incentives for renewables and electric vehicles—all aligned with global trends. Infrastructure investment in energy, water, and logistics is set to drive growth and jobs. Public-private partnerships are emphasised as essential for unlocking investment and streamlining infrastructure development, aided by regulatory reforms.

The mining sector is undergoing major reforms to boost competitiveness and attract investment, including permitting improvements and VAT exemptions. Reliable energy, efficient logistics, and regulatory clarity are seen as vital for the sector's future. As the budget nears, the mining industry seeks policy certainty and cost-competitiveness, with initiatives like the Africa Green Minerals Strategy and the Renewable Energy Masterplan key for long-term economic stability and growth.

Looking ahead

Overall, the year ahead will test the government's resolve to sustain reform momentum, deliver on infrastructure and energy commitments, and build a more resilient, inclusive economy. For taxpayers, investors, and businesses, the evolving fiscal landscape will demand agility, robust governance, and proactive engagement with new compliance frameworks – those that will hopefully be highlighted or hinted at in this year's National Budget Speech.

As this booklet demonstrates, the 2026 National Budget is a catalyst for transformation, offering both challenges and opportunities for those prepared to navigate its complexities, as we aim for a more sustainable and inclusive economic future.

South African economic outlook

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South Africa enters 2026 with cautious optimism – hopeful that this could be the year to reverse its sluggish growth trajectory. The optimism is tempered, however, as early signs of recovery at the start of 2025 were quickly challenged by a delayed and disputed national budget process, instability within the coalition Government of National Unity, and the Liberation Day announced 30% reciprocal tariffs by the United States. These factors contributed to subdued business and consumer confidence in the earlier parts of that year.

Nevertheless, there are now indications that South Africa is gradually emerging from its low-growth trap. Real GDP growth figures for the first nine months of 2025, compared to the same period in 2024, reached 1.2%. Five industries expanded over the period January and September 2025, compared to the previous year, with the largest gains seen in agriculture, forestry and fishing (19.5%); while construction continued to contract (-4.1%). On the expenditure side, growth was driven by households (3.1%). However, government expenditure, gross fixed capital formation (GFCF) and exports all declined by -0.7%, -2.7% and -2.1% respectively.[i]

As 2025 drew to a close, many forecast agencies expected South Africa's real GDP growth to just exceed 1% for the year,[ii] with the National Treasury revising its forecast down to 1.2% for 2025 in November. Treasury anticipates real GDP growth will reach 1.5% in 2026 and rise to 2% by 2028.[iii] While some forecasters project medium-term growth reaching 2%, the International Monetary Fund (IMF) though has cautioned that the country is unlikely to exceed 2% real GDP growth before 2030.[iv] The main constraint remains a lack of significant investment, particularly in infrastructure. Although public-sector infrastructure plans have increased, GFCF is expected to decline for a second year in 2025, even as infrastructure remains a policy focus.[v]

But there are positive developments that are underpinning some initial green shoots. Lower demand has resulted in subdued inflation and improved consumer purchasing power. Since September 2024, the South African Reserve Bank (SARB) has cut the repo rate by a cumulative 150 basis points.[vi] Consumer price inflation averaged 3.1% from January to September 2025 and settled at 3.2% for the year – firmly at the lower end of the SARB's 3% to 6% target band, and the lowest in 21 years.[vii] The SARB had signalled a shift to a point target of 3% (with a 1% tolerance band) last year,[viii] a move confirmed by the minister of finance in the November 2025 Medium-Term Budget Policy Statement (MTBPS).[ix]

With a lower inflation target rate, the SARB expects that the repo rate could fall to 6% by 2027.[x] This could support business confidence and consumer activity from 2026, though risks remain, especially in anchoring inflation expectations at 3% given historically higher public-sector inflation.[xi]

Reforms are also progressing. A significant milestone was South Africa's exit from the Financial Action Task Force "grey list" in October 2025, after implementing a 22-point action plan to address deficiencies in anti–money laundering and counter-terrorism financing. Subsequently, in January 2026, the European Union followed suit, removing South Africa from its list of High-Risk Third Country Jurisdictions. The removal from such lists is expected to lower transaction costs, boost investor confidence, and unlock investment.[xii]

Further momentum in structural reforms is visible in the energy and logistics sectors. The electricity market is being restructured, with the establishment of the South African wholesale electricity market and the continued unbundling of Eskom. The National Transmission Company of South Africa is preparing to operate as a market operator, and a significant pipeline of private renewable energy projects is in development.[xiii] The Independent Transmission Project aims to expand transmission infrastructure by 14,000 kilometers over the next decade.[xiv]

Logistics reforms include opening rail networks to private operators and improving port performance. These changes are reversing declines in freight-rail volumes and reducing port congestion, with R200 billion in potential investment anticipated over five years.[xv]

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[i] *Statistics South Africa (Stats SA), "Gross domestic product – third quarter 2025," Dec. 2, 2025.*

[ii] *LSEG Workspace, "Reuter's poll," accessed Nov. 11, 2025; International Monetary Fund, "World economic outlook"; Oxford Economics, "Country economic forecast – South Africa," Oct. 8, 2025; BMI/Fitch Solutions, "Bulk data export," accessed Oct. 31, 2025.*

[iii] *National Treasury, "Medium-Term Budget Policy Statement 2025," Nov. 12, 2025.*

[iv] *International Monetary Fund, "World economic outlook."*

[v] *National Treasury, "Medium-Term Budget Policy Statement 2025"*

[vi] *LSEG Workspace, "Economic indicator database," accessed Nov. 21, 2025.*

[vii] *Stats SA, "Consumer price index – December 2025," Jan. 21, 2026.*

[viii] *South African Reserve Bank (SARB), "Statement of the MPC November 2025," Nov. 21, 2025.*

[ix] *National Treasury, "Medium-Term Budget Policy Statement 2025."*

[x] *SARB, "Statement of the MPC September 2025," Sept. 18, 2025.*

[xi] *Daan Steenkamp, "Daan Steenkamp: Team SA approach needed for a low-cost transition to lower inflation target," BusinessDay, Oct. 3, 2025.*

[xii] *SANews, "SA exits FATF greylist after successful reform efforts," Oct. 26, 2025; Nicola Mawson, "South Africa delisted from FATF greylist: What it means for your bank transactions," IOL, Oct. 25, 2025; Ciaran Ryan, "SA removed from another 'naughty list', this time by the EU", Moneyweb, Jan. 13, 2026.*

[xiii] *National Treasury, "Operation Vulindlela: Phase II progress report," October 2025.*

[xiv] *South African Government, "National Treasury on Independent Transmission Programme," June 6, 2025.*

[xv] *National Treasury, "Operation Vulindlela."*

Fiscal governance is improving. The MTBPS projects a wider primary surplus for 2025, with tax revenues exceeding estimates. This is attributed to reduced value-added tax refunds, better commodity prices, and improved collections. The primary surplus is expected to grow from 0.9% of GDP in 2025 to 2026 to 2.5% by 2028 to 2029, while the budget deficit narrows.[xvi] On the back of broader reforms, saw S&P Global upgraded South Africa's foreign currency long-term sovereign rating from BB to BB- in November 2025, with a positive outlook – the first upgrade in nearly two decades. [xvii] However, debt-servicing costs still outpace GDP growth, posing long-term risks and more will need to be done to confirm prudent fiscal management and a stabilising debt-to-GDP ratio (below 78%). This could further prompt credit-rating upgrades (Fitch kept the country's rating unchanged, while Moody's rates South Africa the same as S&P Global)[xviii], lower borrowing costs, and restore confidence.

Despite progress, many obstacles remain to turning the tide on economic growth, not the least those of crime and corruption, often undermining trust and deterring investment. Strengthening local government governance will need to be an ongoing priority in 2026, particularly as local government elections approach. Support towards this end has been extended by, for example, organisations such as the World Bank, providing a US$925 million loan to support reforms in eight major cities.[xix]

Externally, South Africa faces global trade and geopolitical uncertainties, especially after the imposition of US reciprocal tariffs effective from 8 August 2025, the end of the African Growth and Opportunity Act in September 2025 (now extended for Sub-Saharan Africa, though South Africa's eligibility remains to be confirmed), and ongoing tensions with the US. This has hurt export competitiveness and market access in sectors such as agriculture and manufacturing.[xx]

As 2025 concluded, South Africa's hosting of the G20 Summit was a diplomatic milestone, offering a platform to showcase reforms and attract investment. The event underscored the country's commitment to multilateralism and development, both domestically and across Africa. And while many challenges remain, the country has seen notable reform momentum and improved fiscal management. Its ability to sustain this progress, anchor inflation, invest in infrastructure and attract investment will be crucial for breaking out of its low-growth trap and achieving long-term prosperity.

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South Africa enters 2026 with cautious optimism, and while many challenges remain, the country has seen notable reform momentum and improved fiscal management.

[xvi] National Treasury, "Medium-Term Budget Policy Statement 2025."

[xvii] Reuters, "S&P upgrades South Africa for first time in nearly 20 years as reforms gain traction", Nov. 15, 2025.

[xviii] Suren Naidoo, "South Africa's ratings upgraded by S&P Global," Moneyweb, Nov. 15, 2025.

[xix] Antony Sguazzin, "SA wins R15.91bn World Bank loan for ailing cities," Moneyweb, Nov. 10, 2025.

[xx] EIU, "One-click report: South Africa," Nov. 7, 2025; Mthobisi Nozulela, "US House approves three-year AGOA extension, but where does this leave South Africa?", IOL, Jan. 15, 2026.

Turning the corner: Will the 2026 Budget sustain reform momentum?

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The South African Medium-Term Budget Policy Statement (MTBPS) was for many analysts a pleasant[1] surprise[2]. Following the turmoil surrounding the first ever postponement of the 2025 Budget Speech in the country's democratic history[3], the MTBPS proved a milestone in a year marred by economic uncertainty[4]. The impasse over the proposal to raise value-added tax (VAT) – heavily opposed by many members of the newly established Government of National Unity (GNU) – is for the moment resolved. A lower inflation target was announced, a forward-thinking decision from the Ministry of Finance aimed at easing pressure on households and businesses. Meanwhile, a proposed additional expenditure of R15.8 billion is expected to facilitate funding for key priorities.

But even more heartening was a further evolution of the amendments to public-private partnerships (PPP) regulations to unlock clearer, more efficient processes – with municipal PPP regulations also set to be amended this year.

These priorities align with the priorities outlined by the GNU during the 2025 State of the Nation Address[5], where President Cyril Ramaphosa announced a R940 billion spend on infrastructure over the next three years and a priority to unlock private sector expertise and funds through PPPs. Given the importance of infrastructure development for poverty alleviation and economic development, Finance Minister Enoch Godongwana's National Budget Speech for 2026 must maintain this momentum. However, it is essential that government be held accountable in delivering on these promises.

Between the 2025 national budget and MTBPS, numerous initiatives were placed in the spotlight, more specifically Operation Vulindlela, an initiative of the Presidency and National Treasury to accelerate the implementation of structural reforms and support economic recovery in multiple key sectors. The energy and logistics sectors have seen some of the biggest wins, rebounding due to the concerted PPP efforts.

Transnet's rail network is now open to private operators under the Freight Logistics Roadmap. Meanwhile, projects for over 2,000 MW of new electricity capacity have been registered, as Eskom returns to profitability.

These are important success stories, but there are still serious concerns arising around some of the country's key infrastructure – neglected, despite being integral to the lives of its citizens. Water infrastructure has long been a concern, but analysts warn that South Africa is entering a dangerous phase where chronic underinvestment, collapsing wastewater plants, leaks, and failing oversight could trigger water delivery failure across cities and industries. In the MTBPS, the minister acknowledged that water security remains a key priority, with the launch of the National Water Resources Infrastructure Agency set to launch in 2026.

Meanwhile, despite no direct mention in the MTBPS of the loss of almost US$440 million in aid from the United States for HIV/Aids relief last year, the conversations around foreign funding continue. As the South African Institute of Taxation said in its 2026 outlook: "reliance on foreign aid is a vulnerability we can no longer afford to ignore"[6].

Whether or not the minister will address this exact concern is unclear, but his plan will have to allude to the possibility of building domestic systems that are less swayed by the policy shifts of international superpowers.

Similarly, the tariff conversation is far from over, with 30% tariffs on South African exports to the United States still in effect. One of our largest export markets to the US, the automotive sector, saw demand drop 82.2% year-on-year in the first half of 2025. South African Revenue Service data over the same period shows demand for vehicles and accessories are also down 45%. The minister will have to address this in his budget by balancing the need for protectionist measures to support local industries against the need to manage rising import costs and inflation. Other trade partners may need to be considered, an option bolstered by South Africa's recent removal from the Financial Action Task Force grey list. With South Africa now viewed as a lower-risk jurisdiction again, this restored trust can lead to renewed trade and capital flows. However, government was quick to note that the removal from the list is the first step of many[7] in South Africa's financial transformation journey – as we aim to improve governance and law enforcement processes.

In summation, South Africa's recent budget policy has marked pivotal steps towards fiscal stability and reform. Yet while progress in infrastructure, PPPs, and economic recovery is encouraging, significant challenges remain. The coming year will test the government's resolve, a resolve we hope will be reflected in the 2026 Budget Speech.

[1] *South African Markets Gain Momentum on Back of Credible Fiscal Reforms - Consolidated Wealth Group*
[2] *MTBPS Signals Turning Point for South African Assets - Welcome to the Official Magazine of the SAIFM*
[3] *From the desk of the President - Monday, 24 February 2025 | The Presidency*
[4] *2025 Medium-Term Budget Policy Statement | Deloitte South Africa*
[5] *SONA_2025_Speech.pdf*
[6] *South Africa's 2026 Economic Landscape: Budget, Tax & Wages*
[7] *2025102401 MEDIA STATEMENT-SOUTH AFRICA EXITS THE FATF GREYLIST ON 24 OCTOBER 2025.pdf*

VAT priorities likely to shape the budget: Tightened compliance over rate hike

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South Africa enters the 2026 budget cycle amid sustained pressure to close the fiscal gap, reduce fraud and accelerate tax reform efforts. As a result, valued-added tax (VAT) as a self-assessment tax may be scrutinised more rigorously. Vendors may expect a notable shift in how VAT compliance is monitored and enforced as a mechanism to narrow revenue shortfalls and achieve more targeted results.

In April 2025, the National Treasury withdrew its budgeted VAT rate hike after political opposition. Consequently, proposed expenditure adjustments needed to be made to cover a projected R75 billion revenue shortfall over the medium term to maintain economic sustainability. Although VAT is a viable lever for revenue sustainability, given the public sentiment and political optics, another proposed rate hike in the near term is improbable, despite fiscal pressures.

The South African Revenue Service (SARS) is therefore far more likely to pursue efficiency gaps and tax reform through alternative methods in this cycle.

SARS has already signalled a shift towards broader efforts to transform tax processes and close the fiscal gap through its VAT Modernisation Project initiated in 2023. Structured legal definitions were introduced in the 2025 Tax Administration Laws Amendment Bill in November 2025 for e-invoicing, e-reporting and an interoperability framework designed to support real-time VAT data transmission, laying the foundation for more granular oversight.

However, SARS may need to intensify compliance-driven measures until its real-time VAT journey matures and is ready to bear fruit.

What options are on the table?

- **Field data on VAT returns:** Adding more fields on the VAT201 return can provide more precise detail on transaction types for targeted interrogation by SARS. Detailed disclosure can improve SARS' error detection capabilities and prepares vendors to provide information in structured and consistent format with clearer audit trails for data reconciliation.
- **Pinpointing risky vendors and industry sectors:** Vendors or industries with a higher probability of non-compliance may face greater scrutiny where a risk-based compliance approach flags behaviour patterns such as unusual or frequent refunds, deviations with industry norms, or inconsistent return declarations.
- **Strategic verifications and audits:** Although reliance is still placed on post-transaction audits and verifications, more detailed information requests and stricter VAT data reconciliations may be on the horizon to curb false refund claims or detect data omissions. Employing third party data-matching technology – which SARS has implemented in other areas already – may also serve as an effective risk tool for validating vendor filings.
- **Implementing standard reconciliations:** Implementing reconciliations between VAT and other financial information would not be unprecedented, as SARS historically applied a similar approach through so-called IT14SD reconciliations prior to its withdrawal. Introducing an alternative reconciliation concept as a risk detection tool could support early identification of anomalies and reduce reliance on intensive audit procedures.
- **Cross-border compliance:** Expanding enforcement around our growing digital economy is critical to rectify competitive imbalances. Some businesses continue to operate under the radar, benefiting from limited detection. To promote a fair marketplace and accelerate cross-border compliance, SARS may strengthen its oversight and data-sharing capabilities to ensure transparency and accountability.
- **Avoid non-meritorious spurious assessments:** A more efficient use of audit resources is required to reduce capacity strain on SARS officials and avoid administrative bottlenecks. For example, reducing the issuance of non-meritorious assessments due to process inefficiencies, by making certain amendments to s95 of the Tax Administration Act.

Even though s95 of the Tax Administration Act has been applicable since the promulgation of the Act in 2012, the functionality for VAT in relation to estimated assessments was only implemented in December 2023. As such, the experience of dealing with estimated assessments for VAT is only being dealt with now and it has become clear that there are still teething issues in dealing with VAT estimated assessments.

Considering the process issues that have been identified over the past two years with the implementation of the VAT estimated assessments, proposals were made to the National Treasury (Treasury) to have s95 amended in order to use SARS' audit resources more efficiently.

In order to reduce non-meritorious assessments, it was proposed to Treasury that:

- SARS must inform the taxpayer of its decision not to make a reduced or additional assessment after the taxpayer submits the return or relevant material requested by SARS.
- The notification of the decision not to reduce the estimated assessment, must be accompanied with grounds for not reducing the estimated assessment to enable the taxpayer to adequately respond to these grounds in its objection.
- Upon receipt of the notification the taxpayer must within 21 business days of delivery of the document, or further period requested by the taxpayer which may be allowed by SARS, respond in writing to the facts and conclusions set out in the document.
- These proposed amendments will ensure that there is enough time, opportunity and remedial options provided to the taxpayer to respond accordingly to SARS' information requests before the matter is escalated to an additional assessment that is time-consuming, wastes resources and is unnecessary. The proposed amendments, if implemented will see that potential additional assessments and prolonged disputes are dealt with efficiently for both the taxpayer and SARS.

What to expect?

Looking ahead, we expect a drive by SARS to identify non-compliance faster than before. However, with the real-time VAT reporting groundwork still in its infancy, alternative compliance methods may need to be exhausted as an interim solution. This would place more pressure on audit and verification processes to find anomalies or result in other methods employed by SARS to achieve results. Vendors could however be headed for compliance fatigue and cash flow strains, in order for SARS to protect and expand the VAT base.

Nevertheless, a tightened compliance model may encourage vendors to invest in more robust governance processes and adopt better data sources, internal controls, ultimately paving the way for VAT modernisation as the natural next step.

Addressing fiscal constraints in South African healthcare

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While the increase in health budget allocations in last years' budget speech was a positive signal, the sector continues to operate under significant fiscal constraints. Such constraints include R22 billion in health debt from the preceding year for services provided and R28.9 billion earmarked for infrastructure projects. But even with a significant increase in funding, this alone will not deliver system reform. For example, for the National Health Insurance initiative to become a reality, sustained focus is required on upgrading healthcare infrastructure, ensuring medicine availability as well as retaining a motivated and capable workforce.

Provider satisfaction, workforce stability and service quality are deeply interconnected for overall client satisfaction. Furthermore, an increased prioritisation of value-based, high-quality care must sit at the centre of health system planning and digital infrastructure development. Investments in additional healthcare posts for community service doctors – among other job opportunities – are a step in the right direction.

When Health Minister, Aaron Motsoaledi, revealed his 2025/26 healthcare budget last year, a significant investment in skills marked a significant shift towards strengthening healthcare systems. This included the appointment of 1,200 doctors, 200 nurses and 27,000 community health workers permanently, offering meaningful employment for newly qualified professionals and stability for those under contract[1].

However, these appointments must be paired with more effective human resource management models to translate funding into measurable improvements in care delivery and professional retention into medical officer, residencies and specialist positions.

US funding cuts have left South Africa in a challenging position, where professionals previously funded by these programmes are now available in the local labour market. South Africa can use this as an opportunity to bring experienced managers and system builders to fix inefficiencies in the public health system to enable new innovative public-private partnerships by utilising digital tools and Artificial intelligence to modernise planning, procurement, workforce management and service delivery.

South Africa has an opportunity to move beyond business as usual by leveraging innovation, digital transformation, and stronger public–private collaboration to improve system efficiency. By introducing public health and management expertise, alongside South Africa's established medical technology and pharmaceutical footprint, there is room to optimise supply chains, strengthen governance and improve cost efficiency across the health system. Subtle but targeted partnerships can support provinces facing financial and operational challenges without undermining accountability, while protecting continuity of care.

Ultimately, the budget should be used as a catalyst to modernise healthcare delivery – aligning infrastructure, workforce, technology and partnerships to deliver sustainable, high-quality services.

> The National Budget should be used as a catalyst to modernise healthcare delivery – aligning infrastructure, workforce, technology and partnerships to deliver sustainable, high-quality services.

[1] *What The 2025/26 Health Budget Means | SAMDP*

Can South Africa afford to lose R85 billion?

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The national budget is to be presented to the nation on 25 February, and as taxpayers and citizens of South Africa we are all wondering what measures the Minister of Finance Enoch Godongwana (the minister) will propose to raise more tax revenues and the tax relief measures that will be granted to cash strapped taxpayers in 2026. In recent times, the minister has been heavily reliant on the South African Revenue Service (SARS) collecting more taxes through its constantly improving efficiency and collection drive. Similarly, there have been no inflationary adjustments to individual taxpayers' tax brackets and rebates. From 2025, pension withdrawals due to the two-pot withdrawals also contributed to increased tax collections. Besides these three avenues, where else can the minister look to raise tax revenues in 2026?

In the Minister of Finance's written reply to Parliament in 2025, he confirmed that up to 70% of cigarettes sold in South Africa are illicit and result in annual tax revenue losses of over R27 billion. According to Oxford Economics' report of 2023 titled, *The Impact of the Tobacco Industry in South Africa*[1], the potential cumulative taxes evaded due to illicit trade in cigarettes during 2019 to 2022 is estimated at R85.6 billion. This amount includes value-added tax (VAT) and excise duties evaded from the sale of illicit cigarettes.

The R85.6 billion seems, at least to me, low hanging fruit for the minister to pursue in order to increase tax revenues. However, to date, it is surprising that government has not undertaken greater effort to assist SARS in collecting a big portion of this R85.6 billion.

Tax revenue loss due to the illicit trade in cigarettes did exist prior to 2019, though it was not as prevalent as it is today. This means that the R85.6 billion losses are much lower over the long term. During this period of tax revenue losses, excise duties were increased on a yearly basis and VAT was also increased in 2018 from 14% to 15%. Due to these increases, current excise duties make up over 50% of the average retail price of legally sold cigarettes – and the tax compliant producers pass these increases on to their customers.

According to the Oxford Economics report, despite these increases, excise duties paid by the tobacco industry decreased by 36.3% in 2020 to R11 billion and according to the minister, based on SARS' data, revenue from tobacco and cigarette products dropped from R13.4 billion in 2015/16 financial year to R9.4 billion in 2024/25, a 29.6% (R4 billion) decline over 10 years. A major reason for the drop is attributed to the 2020 ban by government on the sale of cigarettes which attributed to the increase in illicit trade in cigarettes, which now constitute over 70% of all cigarette sales in South Africa. Although the 2020 tobacco and cigarette sales ban largely contributed to the rise in illicit trade, the increasing excise duties also contributed. However, according to the Tobacco Control Data Initiative report: *Strengthen Tobacco Taxation in South Africa*[2], the increased duties also contributed to the reduction in smoking in South Africa.

Despite government's awareness of the illicit trade problem and their contribution to the over R85.6 billion of tax revenue losses, it is surprising that the minister has not treated the eradication or control of the illicit cigarette trade as a national crisis that needs immediate and decisive action. Addressing this problem cannot rest solely on the shoulders of SARS; rather, a coordinated effort from all relevant government agencies is essential. This approach would greatly benefit South Africa.

Imagine if only half of the R27 billion annual tax revenue losses are recovered. Inflationary adjustments to personal income tax and rebates for individual taxpayer could be provided and there would be no need for a VAT increase to 16%. To continue with the current enforcement actions may result in further reduction in tobacco and cigarette tax revenues due to tax compliant cigarette producers' inability to compete with their non-compliant counterparts. Based on the above, the minister is urged to mobilise all of government to assist SARS in combating illicit trade in tobacco and cigarettes. The potential benefits to the fiscus and South Africa are undeniable.

[1] *Impact of the Tobacco Industry in South Africa v13*

[2] *TCDI South Africa Taxation Policy Brief*

South Africa advancing toward sustainable development

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The 2026 National Budget Speech is expected to focus on revenue stability, administrative efficiency, and targeted economic stimulus. Recent government policy statements and the 2025 budget review have emphasised a shift toward renewable energy and sustainable growth, which strengthens the likelihood of the following forecasts:

- **Tax measures:** This year, we may see new taxes on carbon-intensive industries to support the transition to a low-carbon economy. Given the government's recent introduction of rising carbon taxes and public statements supporting climate mitigation, such measures are increasingly probable. As a consequence, certain sectors in South Africa may feel the pressure and push back to maintain operational sustainability e.g. ferrochrome smelters.
- **Carbon tax:** The South African government may also consider introducing or expanding a carbon tax to support climate change mitigation efforts, reflecting trends observed over the past two years. This is also a matter of ongoing debate as it will influence South Africa's foreign trade.
- **Infrastructure investment:** We may see increased funding for infrastructure projects, with a focus on energy, water and transport sectors, especially given the government's recent emphasis on renewable energy in the 2025 budget review.
- **Climate change initiatives:** Support for green industrialisation, skills development and job creation in renewable energy and sustainable infrastructure is expected to continue. The possible establishment of a green investment fund aligns with recent economic data showing growth in green sectors[1] and continued policy support for climate adaptation and mitigation.
- **Energy sector reforms:** Potential reforms to the energy sector, including the introduction of new energy sources and technologies, are anticipated. The government may also consider increasing the energy efficiency target for industries and commercial buildings, consistent with recent regulatory trends. The rising energy tariffs remain a concern for heavy emitter industries, specifically resulting in job losses. It may become a requirement out of the 2026 Budget to apply different rules for different industries which will not be a simple aspect to navigate.
- **Green bond issuance:** The government may consider issuing a green bond to support climate change mitigation and adaptation efforts, following the positive reception of similar instruments in other emerging economies.
- **Climate change fund:** The establishment of a climate change fund to support mitigation and adaptation, including the development of climate-resilient infrastructure, would be in line with both recent policy statements and international best practices.
- **Electric vehicle incentives:** Government may introduce incentives to support the adoption of electric vehicles, building on growing market trends and previous pilot programmes.
- **Economic growth and structural reforms:** Through accelerated Infrastructure Investment as government plans to accelerate the implementation of a R1 trillion infrastructure plan, with a particular emphasis on critical sectors such as roads, energy, water and logistics. This substantial investment aims to modernise the nation's infrastructure as well as foster greater connectivity and efficiency across the country. Continued reforms are expected in pivotal sectors including energy, logistics (notably port and rail concessions) and digital infrastructure. These reforms will aim to unlock bottlenecks and drive economic expansion.
- **Corporate tax incentives:** Targeted incentives will be directed at encouraging job creation and investment in renewable energy, supporting both employment and environmental objectives.
- **Private sector participation:** We may see an increase in governments is set to reliance on public-private partnerships, particularly to mobilise funding for state-owned entities. This approach seeks to leverage private investment to enhance public service delivery and infrastructure development.
- **Support for small business:** We could see targeted initiatives introduced to reduce bureaucratic obstacles and enhance access to funding for small, medium and micro enterprises, thereby promoting entrepreneurship and job creation.

South Africa's 2026 National Budget is poised to reinforce the country's commitment to sustainable development through targeted fiscal measures, infrastructure investment and support for green initiatives. By prioritising renewable energy, climate resilience and economic reforms, the government aims to drive inclusive growth while navigating the challenges of a just transition.

[1] *https://www.dffe.gov.za/mediarelease/george_sagreeneconomyleadsgdpgains*

South Africa needs tax incentives to boost investment

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South Africa stands at a pivotal moment in its economic trajectory. After more than a decade of sluggish growth, escalating fiscal pressures, and deteriorating infrastructure performance, the country urgently needs strategies that can stimulate investment, unlock productivity, and restore confidence among both domestic and foreign investors. Tax incentives – properly designed and effectively administered – offer one of the most powerful policy levers to achieve these outcomes.

While South Africa remains the most industrialised economy in Sub Saharan Africa, investor sentiment has been undermined by persistent structural challenges. These include policy uncertainty, weakened infrastructure, severe energy constraints, only recently resolved, and a tight fiscal position. Despite strengths such as strong capital markets and a robust legal system, investor confidence continues to be threatened by slow economic reforms, corruption, and concerns around property rights.

In this context, tax incentives can serve as a compensatory tool to offset investor risk. By lowering the effective cost of doing business, they encourage long term capital commitments that might otherwise be diverted to more predictable emerging markets.

South Africa's fiscal authorities face a difficult balancing act. The National Treasury over the years has signalled the need to boost revenues. Well-designed tax incentives will not cost the government any money, apart from lost revenue, while achieving higher economic growth, improving productivity, and broadening the tax base through increased business activity. Incentives for capital expenditure and manufacturing expansion can stimulate productivity gains – one of the most critical levers identified for boosting growth. Combined with already existing tax incentives for research and development as well as energy efficiencies, significant productivity gains can be achieved. In other words, by fostering higher privatesector activity, incentives help generate *more* taxable income overall.

South Africa's growth potential is held back most severely by failures in the logistics, and until recently, energy sectors. It remains to be seen if the energy sector will remain load shedding free. Productivity gains and economic expansion depend heavily on improvements in infrastructure for energy and transportation systems. Yet the fiscus cannot afford the capital investment required on its own, particularly climate resilient infrastructure and renewable energy capacity. Tax incentives can crowd in private capital where public finances fall short.

With improved reliability in electricity supply and logistics, businesses will be more likely to reinvest and expand operations, creating a positive feedback loop of growth. While these improvements take time to be implemented tax incentives will play an important role to attract capital investments.

South Africa is Africa's leading investment destination, but competition is intensifying. Neighbouring countries offer corporate tax incentives, special economic zones, and streamlined regulatory environments to attract foreign investors. Although South Africa's value proposition remains strong, backed by worldclass financial markets and an increasingly diversified economy, it needs to stay competitive even with all the challenges it faces. South Africa needs to strengthen and modernise its incentive portfolio, particularly to support advanced manufacturing, greenenergy projects, and digital industries. Without renewed incentives, South Africa risks losing out on largescale green energy and industrial investments that are already shaping global value chains.

Tax incentives alone cannot fix structural issues such as regulatory inefficiency, corruption, or gaps in skills development. But they can serve as catalysts that encourage investment during the time needed to implement broader reforms.

If South Africa hopes to reignite much needed economic growth, restore investor confidence, and position itself as a globally competitive investment hub, tax incentives must form a core part of its economic strategy. Tax incentives are not giveaways – they are investments in national prosperity. By reducing investor risk, stimulating productivity, attracting foreign direct investment, and supporting infrastructure and energy reform, tax incentives can unlock the country's immense potential and set it on a sustainable path to inclusive economic growth.

Reform, financial discipline and infrastructure development: The South African mining sector's shared Budget priorities

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Globally, the energy sector is navigating a complex landscape, one being shaped by economic uncertainty, supply chain disruption and consistently evolving regulation. Of particular interest, mining and metals companies are redefining how they create and share value.

In Deloitte's recent Tracking the Trends 2025 report, we have explored how mining and metals organisations and their broader ecosystem of collaborators can work together to redefine their capabilities and output. In light of the Medium-Term Budget Policy Statement (MTBPS), and the expectations of the upcoming 2026 National Budget Speech, three themes consistently emerge, forming a view of how the South African mining sector and the national fiscal framework could aim to navigate uncertainty, accelerate growth, and strengthen resilience.

Structural reform and productivity enhancement

Structural reform is a central driver of long-term competitiveness and stability – both in the mining sector and within South Africa's broader economic governance framework.

Mining companies are operating in an era of unprecedented geopolitical and technological transformation. Mining houses must adapt by adopting new leadership models, digitising operations, scaling artificial intelligence, and redesigning supply chains to be more agile and resilient. These reforms are not surface-level; they require a shift in the mindset of leadership, as well as a deeper integration of data-driven decision-making and modern operating systems to unlock productivity and improve cost efficiency.

Within South Africa's fiscal policy, similar principles apply. The 2025 MTBPS emphasises energy sector reforms, improvements in logistics and more disciplined public-sector management as fundamental to restoring economic momentum. Over-arching initiatives like Operation Vulindlela and the Targeted and Responsible Savings framework are intended to reduce inefficiencies, eliminate waste, and ensure that resources are directed toward high-impact programmes. The emphasis on reform is also directly tied to capacity and service delivery, an area that has historically constrained productivity across both government and the private sector. In 2025, further reforms were approved to support industrial investment, with special economic zones, benefitting from faster permitting and value added tax exemptions.

However, initiatives need to ensure competitive costs in energy and logistics in the near-term, to be able to safeguard investment in the mining sector and respond to growing demand for in-country beneficiation and catalyse the opportunities for South Africa to become a competitive role-player in the value-chain for Africa's mineral and metal production.

It is recognised that South Africa has approved several protective measures to restore the ferroalloy industry. This includes export duties on chrome ore and preferential electricity pricing for smelters, and an export permit regime requiring all chrome concentrate exports to be approved by the International Trade Administration Commission[1]. However, operating economics in ferroalloys and in other mid-stream industries have long been an issue in the country. It is not certain if these measures will have the required effect, now that many smelters have either entered care and maintenance or closed indefinitely.

Looking ahead to the 2026 Budget Speech, widespread expectations are that Finance Minister, Enoch Godongwana, will double down on these reform commitments. Structural reforms – especially those affecting water infrastructure, electricity reliability and state-owned enterprises – are expected to be central to the national agenda. These reforms are viewed as essential enablers for improved investment flows, reduced operational risk, and greater economic competitiveness. It is also crucial that in a volatile geopolitical and trade environment, South Africa's Government responds with haste to policy shifts from the Africa Green Minerals Strategy, South Africa's own Critical Minerals and Metals Strategy and the South African Renewable Energy Masterplan and implements long-term measures. This way, government can align sectoral support for the installation of competitive exploration, mining and beneficiation in South Africa.

Fiscal consolidation, debt stabilisation and financial discipline

Another clear point of convergence is the focus on fiscal consolidation and the restoration of financial stability at both the corporate and national levels.

[1] *Commodities Outlook for January 2026*

In the mining context, our recent research highlights the importance of disciplined portfolio management, capital optimisation, and robust risk frameworks as companies navigate volatile commodity markets.

The need for resilience is emphasised repeatedly, reflecting a global environment where cost inflation, geopolitical uncertainty, and supply chain pressures require tighter planning and financial prudence.

Nationally, South Africa's fiscal stance mirrors this discipline. The 2025 MTBPS signals a turning point: public debt is projected to stabilise for the first time in over a decade, and the country has returned to a primary surplus. The narrowing of the budget deficit, combined with improving revenue performance, marks a shift toward restoring investor confidence and creating fiscal space for future reforms.

Expectations for the 2026 National Budget suggest that this consolidation path will continue. With sluggish growth and persistent expenditure pressures, the government is expected to maintain a tight fiscal stance, potentially including further tax adjustments, more efficient spending, and sustained efforts to curb waste across departments. The message is clear: fiscal resilience is a prerequisite for sustainable development, improved creditworthiness, and macroeconomic stability.

Infrastructure and energy Investment as catalysts for growth

The third shared theme is the recognition that infrastructure and energy stability form the foundation of long-term economic expansion.

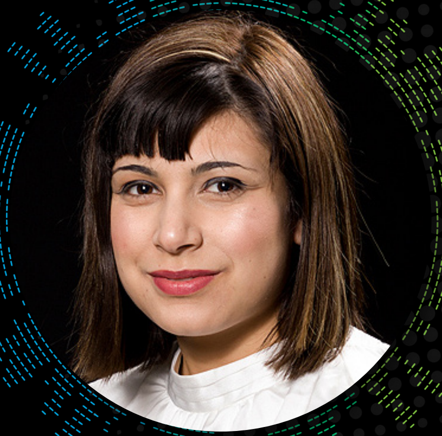
Deloitte's mining trends report emphasises that the sector's future competitiveness depends heavily on energy reliability, logistics capacity and digital infrastructure. Supply chain resilience, decarbonisation efforts and advanced digital systems all require a robust and stable infrastructure base.

For South Africa, the MTBPS positions infrastructure (particularly in energy, water and logistics) as the fastest-growing area of expenditure. Infrastructure is not only viewed as a tool for boosting competitiveness but also as a catalyst for employment, particularly among youth and technical workers. In the current mining environment, the infrastructure projects that attract this investment should have local economic significance, demonstrate cost-effective physical and digital solutions and demonstrate reliable, resilient and affordable development to support intra-African and export trade.

As the 2026 National Budget approaches, energy and water investments remain at the forefront of public submissions and economic expectations. Businesses and households alike see infrastructure as the linchpin of higher growth, reduced operating costs and a more resilient economy. Investments in energy and infrastructure would be complimentary to the R1.35 billion of funding announced by the Public Investment Corporation to support early-stage mining opportunities ; and provide a real catalyst for the industry.

Across these shared themes, a unified roadmap emerges. A roadmap for strengthening South Africa's economic performance and positioning both the mining sector and the broader economy for future resilience.

Tax disputes in the digital age: How the 2025 MTBPS and tax technology are shaping a new era of tax disputes



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As we approach the 2026 National Budget Speech, we believe that the tax landscape is poised for significant transformation. The 2025 Medium-Term Budget Policy Statement (MTBPS) delivered by Finance Minister Enoch Godongwana signals a decisive shift in the South African Revenue Service's (SARS) operational focus – one that will have far-reaching implications for taxpayers, especially in the realm of tax dispute resolution and the adoption of tax technology.

A new chapter for SARS: Technology, data and debt collection

The 2025 MTBPS is clear: SARS is being equipped for the future. An additional R7.5 billion allocation will empower SARS to recover tax debts and, crucially, invest in new technology, data science, and artificial intelligence. This investment is not just about plugging revenue gaps. It is about fundamentally reshaping how SARS interacts with taxpayers and manages taxpayer compliance.

The 2025 MTBPS emphasised the need for "improving efficiency and effectiveness of spending" and highlighted within SARS, the role of technology in strengthening collection efficiency and transparency. Additionally, SARS has communicated in their valued-added tax (VAT) modernisation discussion paper that they are on a journey to rollout e-invoicing which will mean getting access to taxpayers' transactional data in real time. In other words, SARS will have visibility on the compliance of taxpayers' data in real time. These enhanced capabilities will be felt in practice, from more sophisticated audit selection to faster, data-driven interventions.

At our recent tax technical session focused on VAT, customs compliance and disputes - which included panel members from SARS and the Office of the Tax Ombud – the conversation centred around how taxpayers should prepare their systems and internal controls for the evolving digital transformation being undertaken by SARS. The following section will explore the key considerations and actionable steps required for navigating this critical shift.

What does this mean for tax dispute resolution?

With SARS' renewed focus on debt collection, taxpayers can expect a more assertive approach on the part of SARS, to the suspension of payment applications in respect of disputed tax debts. The days of lengthy, drawn-out disputes with little immediate cash flow impact may thus be numbered.

In the digital age, compliance checks will shift from focusing mainly on tax returns to being assessed at the stages of data entry, system setup, and real-time reporting. SARS will gain earlier access to transactional data, even before returns are filed, which will significantly transform the way audits and verifications are conducted. Moreover, the sheer volume and granularity of data now available to SARS, due to legislative changes and technology investments, will enable more targeted audits and reviews. Taxpayers should anticipate increased engagement from SARS, not only in the form of traditional audits but also through data-driven queries as well as requests for information.

The imperative for proactive tax dispute resolution and technology adoption

In this environment, the onus is on taxpayers to be more proactive than ever. The digitalisation of the tax function is now a strategic necessity. By investing in tax technology, organisations can streamline compliance processes, improve the quality and accessibility of supporting evidence, and reduce the risk of costly errors or omissions. This means that taxpayers must adapt their systems to support data-driven tax administration by embedding tax logic within their core business systems and implement strong data governance policies to ensure accuracy of data at the source.

Taxpayers should also proactively perform data analytics checks such as implementing automated reconciliations between transactional data, sub-ledgers and tax returns. This not only reduces audit exposure but will assist with identifying anomalies.

Such digitalisation also supports a more robust approach to tax dispute management. Automated record keeping, real-time data validation, and workflow tools can help taxpayers respond swiftly and accurately to SARS queries, reducing the risk of adverse findings or unnecessary penalties.

Building a culture of tax compliance and readiness

The 2025 MTBPS' focus on operational efficiency and the fight against illicit activity highlights the broader policy direction: tax compliance is non-negotiable, and the tools to enforce it are becoming more sophisticated.

Taxpayers who continue to rely on manual processes or fragmented data are exposing themselves to risk. The use of manual processes like spreadsheets, often lack adequate controls such as version management and inappropriate audit trails, making the use thereof ineffective in a digital administration environment.

Forward-thinking organisations are already embracing digital transformation in their tax functions, not only to manage tax compliance but to add strategic value. The ability to model scenarios, anticipate SARS interventions, and resolve disputes efficiently will be a key differentiator for taxpayers in the years ahead.

Conclusion:
Technology is no longer a "nice to have" but a strategic necessity in the new era of proactive tax dispute resolution.

The 2025 MTBPS together with the 2026 National Budget Speech, will no doubt set the stage for a new era in South African tax administration, i.e. one defined by technology, data, and a more assertive and equipped SARS.

For taxpayers, the message is clear: now is the time to invest in the digitalisation of their tax function to promote real-time reporting, maintain robust retention of accurate records, build resilience against disputes with SARS, and to foster a culture of proactive, responsible taxpayer compliance.

Transfer pricing as part of SARS' current strategy

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After the abandonment of the government's initial controversial plan last year to increase VAT by 1% (to be done incrementally via two 0.5% increases), the Minister of Finance emphasised, in the May Budget Speech, that increased tax collections would need to close the revenue gap. The following was said:

"The 2026 Budget will therefore need to propose new tax measures, aimed at raising R20 billion. We have allocated an additional R7.5 billion over the MTEF, to increase the effectiveness of the South African Revenue Service in collecting more revenue. Part of this allocation will be used to increase collections from debts owed to the fiscus. SARS has indicated that this could raise between R20 billion to R50 billion in additional revenue per year. Another part of the additional allocation to SARS will be used to improve modernisation. This will include targeting illicit trade in tobacco and other areas, which should boost revenue over the medium term."

While transfer pricing was not specifically mentioned, it is no secret that the South African Revenue Service (SARS) and National Treasury – like revenue authorities around the world – see transfer pricing as a key mechanism for closing the tax gap.

However, transfer pricing skills are scarce and in demand. Therefore, SARS faces resource constraints in focusing on the enforcement of transfer pricing. These constraints are not only due to the scarcity of skills but are also financial in nature.

Financial limitations were given as one of the reasons for the delays in the implementation of the eagerly anticipated advance pricing agreement (APA) process. The original discussion paper on the APA programme was released by SARS in 2020. It stated the following: *"It is estimated that it will take three to four years to implement an APA programme."* Given that we are now in 2026 – and that there is still a great deal more work to be done before full implementation is achieved – it can be seen that this process is significantly behind the timing originally indicated.

However, there are clear signs that the process has not stalled. In last November's Medium-Term Budget Policy Statement, the minister stated that R4 billion had been allocated to SARS – in other words, more than half the total amount indicated in the main Budget Speech for the medium-term expenditure framework.

It seems reasonable to assume that part of this funding has been allocated to transfer pricing. We are aware that SARS has been actively recruiting experienced individuals to form part of a dedicated APA unit. Therefore, it would seem that the capacity building process to build the programme is well underway. However, there is still much to be done – including:

- Upskilling of SARS personnel to handle APAs (presumably including international training).
- Releasing the detailed regulations on the practical aspects of submitting an APA application – including fees to be charged to taxpayers.
- Selecting a test case for a bilateral APA and completing that case

APAs enable multinational enterprises (MNEs) to reach agreement with a revenue authority – or with two or more revenue authorities – regarding the pricing of key intra-group transactions. In view of the cost and disruptions associated with a transfer pricing dispute – as well as the significant amounts of tax potentially involved – APAs are much sought after internationally. They are certainly investor friendly as prospective investors are able to obtain certainty regarding the transfer pricing implications of major transactions. Even for investors not considering applying for an APA, the existence of an APA programme in a country can potentially provide assurance that the country has a reliable and stable tax administration and processes.

However, while the introduction of an APA programme will be an excellent development in the longer term, it is difficult to see how APAs will directly contribute to closing a current revenue gap. This is where enforcement of transfer pricing rules will continue to play an essential role. The SARS personnel tasked with transfer pricing audits will operate separately from those involved with APAs – hence the need for a specific recruitment drive for the APA programme.

SARS' efforts in the audit space continue unabated; we are aware of multiple transfer pricing disputes at various stages of the overall process – from notifications of audit to Alternative Dispute Resolution (ADR) proceedings, pending court cases and mutual agreement proceedings. It is therefore clear that SARS' overall strategy in relation to transfer pricing will be multifaceted.

Transfer pricing disputes are very resource intensive due to the complexity of the cases. Therefore, all parties – taxpayers, advisors and SARS itself - face the challenge of insufficient skilled personnel and capacity constraints. However, technology has significant potential for helping to fill this gap.

The country-by-country report (CbCR) of an MNE is potentially a mine of information for revenue authorities when doing transfer pricing risk assessments since it contains a wealth of information regarding the multinational group and its operations. Indeed, at the time when the CbCR rules were introduced, the Organisation for Economic Co-operation and Development issued a handbook for tax authorities entitled **"HANDBOOK ON EFFECTIVE TAX RISK ASSESSMENT"**. That handbook provides comprehensive guidance regarding how to assess the transfer pricing risks of MNEs, including providing 19 risk indicators. These include the following (as examples):

- IP is separated from related activities within a group
- There are jurisdictions with significant profits but little substantial activity
- There are jurisdictions with significant activities but low levels of profit (or losses).

It should be feasible to use technology (including AI) to analyse and interrogate the CbCRs of MNEs and identify areas of risk for further exploration by tax authorities. However, we have seen minimal activity from SARS, and indeed from revenue authorities globally, regarding the CbCRs. Yet, they will soon have access to significant amounts of information, namely the Pillar Two returns of MNEs.

It is evident that SARS is investing in transfer pricing-related technology. Last year they issued a tender for the development of a database of comparables. It seems probable that, while some of the additional budget allocated to SARS will have been spent to recruit additional skilled personnel, SARS will also invest in technology tools to support the efforts of transfer pricing specialists.

In summary, we anticipate the following to form a significant part of SARS' overall strategy in relation to transfer pricing over the short to medium term:

- Continued audit activity to contribute to closing the revenue gap
- Increasing use of technology, including for purposes of risk profiling
- Significant focus, in the next couple of years, on building an APA programme.

It is evident that SARS is investing in transfer pricing-related technology. It seems probable that, while some of the additional budget allocated to SARS will have been spent to recruit additional skilled personnel, SARS will also invest in technology tools to support the efforts of transfer pricing specialists.

The simplified approach for low value-adding intra-group services: Should South Africa consider adoption?

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With the Budget Speech expected to be delivered by the Minister of Finance, Mr Enoch Godongwana, on 25 February 2026, many await to see what tax proposals will be contained therein. In transfer pricing, not many changes or proposals, if any, are expected. This is because South Africa's transfer pricing legislation, which is contained in Section 31 of the Income Tax Act, has remained largely unchanged since its introduction. The key reason for this is that Section 31 follows the so-called "arm's length principle", and while its interpretation can vary, the concept and its application is nonetheless internationally accepted, especially given existing international guidance.

In South Africa, the South African Revenue Services (SARS) issued Practice Note No. 7[1] in August 1999 (Practice Note) to give guidance on the application of the arm's length principle. It is in this Practice Note that SARS acknowledges the status of the Organisation for Economic Co-operation and Development (OECD) guidelines[2] as *"an important, influential document that reflects unanimous agreement amongst the member countries, reached after an extensive process of consultation with industry and tax practitioners in many countries."* Therefore, SARS views the OECD guidelines as an important document to consider with regards to the application of the arm's length principle.

Given that transfer pricing remains a complex and contentious area of international taxation, it is therefore not surprising that, while South Africa's governing legislation does not frequently change, new or updated guidance is released by the OECD and other bodies on a regular basis on the application of the arm's length principle. One such update is the so-called *Simplified approach for low value-adding intra-group services* (the simplified approach) introduced in the 2017 version of the OECD Guidelines.

What is the simplified approach?

The simplified approach, as outlined in Chapter VII of the OECD guidelines, offers a streamlined method for pricing and documenting services classified as low value adding. The key element of the simplified approach is that where services meet the requirements of low value adding, multinational enterprises (MNEs) can apply a cost plus 5% markup in determining an arm's length charge for rendering such services. This eliminates the need to prepare complex, and sometimes costly, benchmarking analyses to determine and/or support the markup applied by taxpayers. Therefore, the simplified approach serves as a safe harbour for taxpayers.

South Africa's current position on the simplified approach

The simplified approach is an elective regime. While several countries have elected to adopt this approach, South Africa, according to the OECD's latest country profile[3], has not subscribed to its adoption. There may be several reasons why South Africa has chosen not to adopt the simplified approach, which could include, *inter alia*:

- **Legislative rigidity:** South Africa's transfer pricing legislation does not provide for safe harbour provisions or simplified methods for transfer pricing. Intra-group transactions, regardless of their nature, must be justified with detailed documentation and analysis.
- **Concerns on base erosion:** SARS has regularly raised its concerns on base erosion and mispricing. It is possible that SARS is wary of potential abuse of the simplified approach, fearing that it could facilitate base erosion and profit shifting.

Therefore, SARS generally maintains a cautious stance, emphasising the need for robust evidence that services have been rendered and that charges are at arm's length, regardless of the value or nature of the service.

[1] *South Africa Revenue Service Practice Note No. 7 - Section 31 of the Income Tax Act: Determination of the taxable Income of Certain Person from International Transactions: Transfer pricing.*

[2] *The Organisation for Economic Co-operation and Development Report on Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (updated from time to time).*

[3] *South Africa - Transfer Pricing Country Profile - July 2025*

Should South Africa adopt the simplified approach?

The SARS Commissioner, Mr. Edward Kieswetter, has on many occasions emphasised the importance of making it is easy for taxpayers to comply with their tax obligations. In fact, this is one of SARS' nine strategic objectives. Furthermore, it is worth noting that SARS acknowledges, in an addendum to the Practice Note[4], that the preparation of transfer pricing documentation is time-consuming as well as expensive, and therefore, the general rule is that it is not expected of taxpayers to go to such lengths that the compliance costs related to the preparation are disproportionate in nature, scope and complexity.

In view of SARS' commitment to making compliance easier for taxpayer, and given that benchmarking study can be time-consuming and expensive, also considering SARS' recognition of the OECD guidelines, there is a strong case for SARS to adopt the simplified approach. After all, the most significant risk in respect of intra-group services does not lie with the mark-up itself, but rather the appropriateness of the cost base, and the allocation thereof.

To mitigate the abuse of the simplified approach, SARS can retain the ability to challenge inappropriate use of the approach. This can include insisting on the performance of a benchmarking study to determine the appropriate mark-up where services are found not to be low value-adding.

Another consideration in whether or not to adopt the simplified approach, could be to take into account the value of the services. For example, large MNEs like banks might be charging significant amounts for information technology and other support services, whereas smaller MNEs might only be charging out much less. The effect of a distortion in markups is therefore much bigger for significant amounts. Therefore, considering the addendum to the Practice Note, it may be appropriate for the large MNEs to benchmark the service fees, but not for the smaller MNEs.

Benefits of adopting the simplified approach

Countries that choose to adopt the simplified approach can derive several benefits, including[5]:

- Reduced compliance burden: The simplified approach allows for a fixed markup (typically 5%) on qualifying services, reducing the need for extensive benchmarking and documentation. This is particularly beneficial for MNEs with large volumes of low-value transactions.
- Administrative efficiency: Tax authorities can focus their resources on higher-risk transactions, rather than spending time and effort on low-risk, low-value services.
- Increased certainty: Taxpayers benefit from greater certainty regarding the acceptability of their transfer pricing policies, reducing the risk of disputes and adjustments.

Conclusion

While South Africa's cautious approach to low value-adding intra-group services is understandable, the adoption of the simplified approach can bring significant benefits. Reduced compliance costs, increased certainty, and more efficient tax administration are compelling reasons for change. As the global tax environment evolves, it may be time for South Africa to revisit its position and consider whether the adoption of the simplified approach could support its stated objective of making compliance easier for taxpayers.

[4] *Transfer Pricing: Addendum to SARS Practice Note 7 Dated 6 August 1999: Submission of Transfer Pricing Policy Document.*

[5] *United Nations Practical Manual on Transfer Pricing for Developing Countries.*

Why improvements to export VAT rules matter

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South Africa, as a key player in the global economy and the gateway to African markets, has a well-established import and export framework. However, longstanding ambiguities and interpretational gaps in the law continue to create uncertainty for vendors and foreign purchasers. Even where supplies should genuinely qualify for zero rating, any misapplication of the export value-added tax (VAT) rules exposes vendors to protracted verification processes, unnecessary audit disputes and assessment by the South African Revenue Service (SARS). This makes the upcoming 2026 Budget an opportune moment to address these challenges with a clear strategy focused on reducing procedural inconsistencies. The key benefits would be much needed clarity for vendors and foreign purchasers to navigate export compliance obstacles while easing the administrative pressures faced by SARS.

The article explores the nature of these challenges and what practical legislative changes or improvements can provide meaningful relief to those engaged in exports.

"Exporter" disconnect between customs and VAT

The export of goods from South Africa is subject to the zero rate of VAT provided that certain requirements are met. In the case of an indirect export of goods, the qualifying purchaser is responsible for exporting the goods from South Africa and the requirements as set out in the VAT Export Regulation (published in Government Gazette 37580 on 2 May 2014) must be adhered to. One of these documentary requirements is to retain the export customs documentation.

But who should be regarded as the exporter on it?

- In the SARS VAT Connect Issue 13 (November 2021), the revenue authority states that it is the qualifying purchaser that must be registered as an exporter and listed as such on the SAD 500 to comply with the provisions of the Customs and Excise Act.
- The VAT Export Regulations do not specifically mention this requirement, but do require the qualifying purchaser to register as an exporter.
- An "exporter" as defined in the Customs and Excise Act includes, among other things, a person who at the time of exportation either owns the goods exported or is beneficially interested in the goods exported.

Therefore, arguably the supplying vendor who has an interest in the goods could reasonably be listed as the "exporter" on the SAD 500 based on the customs definition. A disconnect has evolved between what is regulated in law, provided as guidance and the commercial reality of the supply between the seller and purchaser.

Following SARS' guidance, including the comments in the VAT Connect, where indirect exports take place, the foreign purchaser (Qualifying Purchaser) should be registered as an exporter and should be reflected on the SAD 500 as the exporter. Practically, though, where suppliers are audited by SARS, these SAD 500s are queried by SARS auditors. It is important that the current VAT Export Regulation is amended to provide clarity for both suppliers and foreign purchasers. This is needed to encourage foreign trade.

Inconsistency in payment requirements for exports

Section 11(3) of the VAT Act is supported by two Interpretation Notes issued by SARS, namely Interpretation Note 30 (Issue 3)(IN30) and Interpretation Note 31 (Issue 4)(IN31) which provide the documentary proof required to substantiate the zero rate.

The exceptions which are in substance concessions and detailed in IN30, should similarly apply to zero rated supplies governed by IN31. Introducing similar exceptions and concessions to IN31 would provide consistency, clarity and indeed parity in the compliance requirements for zero-rated supplies.

Goods sold which never enter nor exit South African borders

Where a South African vendor sells goods to an export customer, and the goods are shipped from outside South Africa to an export country, these transactions would need to adhere to the generally accepted documentation prescribed in IN30.

These goods, however, never enter or exit South Africa's borders so no South African export customs documents will be available. This means that the South African vendor is missing part of the documents needed as proof, despite the economic substance of the supply genuinely qualifying for the zero rate.

Under destination-based principles, VAT should be borne where goods and services are consumed. It follows that IN30 should provide clear guidance on the proof required to support the sale of goods that never enter nor exit South Africa.

Conclusion

In an increasingly complex global trade environment, addressing challenges with the export VAT rules will allow vendors to operate more confidently. The upcoming budget speech therefore presents a platform to extend certainty in this space, support vendors with export compliance and pave the way for sustainable economic growth.

South Africa's proposed customs Voluntary Disclosure Programme: What the 2026 Budget could mean for importers and exporters

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As South Africa prepares for the 2026 National Budget, one of the most anticipated developments in the customs and excise environment is the expected implementation of a Voluntary Disclosure Programme (VDP) for customs, as proposed in the 2025 Draft Tax Administration Laws Amendment Bill. A VDP is a formal mechanism that allows taxpayers to voluntarily disclose past non-compliance in exchange for relief from penalties and prosecution. While the VDP is currently established under the Tax Administration Act (TAA), customs and excise matters have historically been excluded, leaving no equivalent relief for contraventions in this area. The proposed amendment introduces a VDP under Chapter XB of the Customs Act, extending voluntary disclosure relief to the customs and excise environment for the first time.

In light of these changes, it is important to consider what businesses can expect from this development and how it may reshape the customs and excise landscape.

The rationale for a customs VDP

The introduction of a customs VDP marks a pivotal moment for South African businesses engaged in cross-border trade. While VDPs have long been a feature of the tax landscape—enabling taxpayers to address historic non-compliance without the fear of criminal prosecution or excessive penalties—the absence of a structured VDP for customs has left many businesses in a precarious position, lacking clear assurances or protection when seeking to correct past errors.

Extending the VDP to customs is a logical progression, given the increasing complexity of cross-border trade, the prevalence of technical errors, and the need for the South African Revenue Service (SARS) to balance enforcement with facilitation. Once implemented, this initiative could mark a significant and positive shift in the relationship between SARS and importers or exporters, with far-reaching implications for compliance, revenue collection, and business certainty.

Once implemented, a customs VDP could fundamentally reset the relationship between SARS and the trading community, with meaningful implications for compliance, revenue collection and business certainty.

Key features expected

While the final details are pending, the proposed VDP under Chapter XB of the Customs Act is expected to:

- Allow importers and exporters to voluntarily disclose previous customs and excise non-compliance, such as misclassification, undervaluation, or incorrect origin declarations.
- Offer relief from criminal prosecution and, in certain cases, a reduction or waiver of penalties and interest, provided the disclosure is full and honest.
- Operate for a limited period, encouraging early engagement and swift resolution of legacy issues.
- Provide a clear process for voluntary disclosure, aligning South Africa with international best practice and offering traders a credible route to regularise their affairs.

Strategic alignment and predicted impact

The proposed customs VDP is closely aligned with SARS' 2020–2025 Strategic Plan, which prioritises voluntary compliance, modernisation, and building public trust. By providing a clear and accessible route for traders to regularise past customs and excise errors, the VDP supports SARS' objectives to offer clarity and certainty, make compliance easier, and focus enforcement resources on deliberate non-compliance. It also complements SARS' digital transformation efforts and commitment to stakeholder engagement, helping to close the tax gap and facilitate legitimate trade.

Ultimately, the VDP advances SARS' vision of a smart, modern revenue authority that enables sustainable economic growth and strengthens public confidence in the tax system.

Against this strategic backdrop, the customs VDP is expected to deliver several key benefits:

1. **Enhanced compliance culture:**
A well-structured VDP will incentivise businesses to proactively address historical errors, thereby improving overall compliance levels in the customs environment.

2. **Increased revenue collection:**
By encouraging voluntary disclosures, SARS stands to benefit from additional revenue that might otherwise remain undisclosed, supporting the government's fiscal objectives.

3. Improved certainty for business:
The VDP will provide a clear pathway for businesses to regularise their affairs, reducing the risk of future audits, disputes, and reputational damage.

4. Alignment with global best practice:
Many jurisdictions have implemented similar programmes with positive results. South Africa's adoption of a customs VDP will enhance the country's reputation as a business-friendly destination, aligned with international standards.

Critical design considerations

For a VDP to be credible and effective, certain design features will be critical. In particular, SARS will need to:

- Clearly define the scope of relief, qualifying periods and eligibility criteria, including any exclusions;
- Maintain confidentiality and offer strong protection against future enforcement actions for the periods disclosed, provided that the disclosure is honest and complete; and
- Provide practical and adequate guidance, with examples as well as frequently asked questions to support businesses and advisors in evaluating whether and how to participate.

What businesses should do now

The proposed customs VDP represents a progressive step towards modernising South Africa's customs administration and recalibrating the compliance framework for cross-border trade. As we await further details in the 2026 National Budget, businesses should begin now by:

- Conducting targeted reviews of their customs compliance history, including tariff classification, valuation, origin and warehouse regimes;
- Identifying historic risk areas and quantifying potential exposures that may be suitable for disclosure; and
- Develop an internal governance and decision-making framework for potential VDP participation, including board and executive committee approvals where required.

It is widely anticipated that the 2026 National Budget will confirm the implementation of the customs VDP, setting the stage for a new era in customs compliance.

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