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Deloitte commentary  
on South Africa's Budget 2026/27

Restoring confidence, maintaining  
optimism, together.

“

Given our difficult past, and some of the inevitable challenges we have faced as a young democracy trying to find its place in a world marked by a number of new and overlapping crises, it would be easy to indulge in extremes; either of blind optimism or crippling pessimism. We should resist both these extremes.

”

***Minister of Finance***

Mr Enoch Godongwana, 25 February 2026



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# Foreword

## South Africa's 2026/27 Budget crucial to economic recovery



**Itireleng Kubeka**  
**Managing Partner,**  
**Deloitte Africa Tax & Legal**

South Africa is entering the 2026 National Budget season at a pivotal time, filled with challenges, yet rife with opportunities to renew economic optimism. In his budget speech on 25 February, Minister of Finance, Enoch Godongwana, presented a comprehensive fiscal strategy that fosters optimism due to its decisive measures aimed at strengthening the country's financial position and promoting sustainable economic growth.

The economy has shown resilience, with the government fulfilling its commitment to focus on fiscal discipline and structural reforms to lift growth. Notably, the proposed R20 billion tax increase, announced in the 2025 budget, will be withdrawn due to higher-than-expected tax revenue and progress toward key fiscal targets. This decision enables fiscal consolidation without imposing additional burdens on taxpayers or obstructing the economic recovery.

### Improved economic outlook and growth prospects

South Africa's economic recovery is slowly gaining momentum. The economy is now projected to grow by 1.4% in 2025, an improvement from the 1.2% estimated in the 2025 Medium-Term Budget Policy Statement (MTBPS). Looking ahead, the economic outlook has been moderately enhanced, with growth expected to reach 1.6% in 2026 and real GDP growth forecast to reach 2% by 2028. This growth is supported by ongoing structural reforms, rising business and investor confidence, lower interest rates, and increased investment.

Additionally, inflation expectations are decreasing and aligning more closely with the 3% target.

Despite some positive trends, several challenges remain. Logistical bottlenecks, declining public infrastructure, and the recent outbreak of foot-and-mouth disease continue to hinder economic activity and pose risks to the overall outlook. Additionally, growth is still below the levels needed to significantly reduce unemployment and generate enough revenue to expand social and economic services.

### Balancing consolidation, debt reduction, and service delivery

Fiscal policy seeks to carefully balance the need to reduce the budget deficit and lower debt while also fulfilling the responsibility to protect public services and support the economy. The consolidated budget deficit is expected to decrease over the medium-term expenditure framework (MTEF) period, falling from 4.5% of GDP in 2025/26 to 3.1% in 2028/29. For the first time since the global financial crisis of 2008, the gross debt-to-GDP ratio is stabilising, with national government debt projected to hold steady at 78.9% of GDP in 2025/26. This stabilisation is partly due to lower inflation and, as a result, weaker nominal GDP growth. Improved confidence in South Africa's fiscal outlook has led to a sovereign ratings upgrade and lower borrowing costs, which provide additional fiscal space debt-service costs are also expected to reach their highest point in the current financial year and decrease in future years.

### Tax system: Efficiency, fairness, and targeted relief

The government is committed to maintaining a tax system that is efficient, fair, and simple. Gross tax revenue for 2025/26 has been revised upwards by R21.3 billion compared to the 2025 Budget. This is due to increased value-added tax (VAT), corporate income tax and dividend tax collections.

Despite challenging economic conditions, South Africa's tax system has performed well, with the tax-to-GDP ratio increasing to 25.9% in 2025/26 from 25.1% in 2024/25. For the first time since the 2023/24 financial year, personal income tax brackets and medical tax credits will be fully adjusted for inflation. This means that, if taxpayers receive an inflation-linked salary increase, they will not fall into a higher income tax bracket (known as bracket creep).

The compulsory VAT registration threshold has been increased from R1 million to R2.3 million, providing small businesses some relief from the administration burden of VAT compliance.

Illicit trade remains a large concern for the South African fiscus and endangers the growth and stability of the economy. Having a robust and modernised tax system is essential to combat this challenge. We would have liked the minister to expound further and provide more detail on the plans to curb illicit trade.

When looking at increasing tax revenues, we also would have expected more comment in the budget speech on the implementation of an electronic invoicing system to prevent fraudulent VAT claims, under declaration of VAT to expand the VAT tax base. The South African Revenue Service was planning to implement this system by 2028, but progress on the details of what would be implemented is taking longer than expected. Given the success in other countries across the continent, it is essential that this system is introduced as soon as possible.

### Structural reforms and strengthening state capability

The government continues to implement structural reforms and enhance state capability through the joint strategic initiative between the Presidency and National Treasury, termed Operation Vulindlela. Now in its second phase, this initiative is focused on unlocking economic growth by accelerating reforms in key sectors.

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Significant progress has been made in the electricity sector, with regulatory approvals and institutional developments advancing the transition to a competitive electricity market. Transnet has maintained improved operational performance, reflected in higher rail volumes and ongoing fleet renewal. A major milestone was achieved with the signing of the long-term concession agreement for Durban Container Terminal Pier 2, unlocking investment in port capacity and technology.

The National Water Resources Infrastructure Agency is expected to begin operations in 2026, supporting increased maintenance and investment in water infrastructure. To strengthen state capacity, the government has allocated performance-based grants to seven qualifying municipalities under the Metro Trading Services Reform, aimed at improving management accountability, financial transparency, cash flows, and infrastructure maintenance. These structural reforms are critical for stabilising operations in the electricity and logistics sectors, which are essential for reversing economic decline.

### Infrastructure investment and public-private partnerships

South Africa's infrastructure deficit continues to limit productivity and increase the cost of doing business, particularly through transport bottlenecks, water insecurity, and uneven municipal service delivery. High levels of investment in public infrastructure are fundamental to long-term economic growth, improved service delivery, job creation, and climate resilience. As announced in the 2025 MTBPS, the government is managing risks by increasing spending in 2025/26 for strategic public infrastructure projects.

In 2025, the government issued its first sovereign infrastructure and development finance bond, raising R11.8 billion at favourable rates, reflecting strong market interest in financing public investment projects. These funds will be ring-fenced for strategic capital projects,

based on a rigorous assessment process by the Budget Facility for Infrastructure.

There are currently 63 public-private partnership (PPP) projects at various stages of development: 17 in inception, 32 in feasibility, and 14 in procurement. Among the most advanced is the six border posts project, which will ease congestion, boost regional trade flows, and upgrade key inland border posts. PPPs provide a viable alternative for public entities to undertake projects, even in a fiscally constrained environment.

The operationalisation of the Infrastructure Finance and Implementation Support Agency (IFISA) on 1 April 2026 will be a key enabler in further growing the PPP project pipeline.

In recognition of the importance of data and artificial intelligence in the economic development of South Africa, the government is exploring options to bolster investment in data infrastructure. This will be critical in accelerating the country's digital transformation.

### Debt sustainability and fiscal resilience

National Treasury has developed a debt sustainability model to assess risks to the baseline fiscal framework. While it is not possible to provide precise assessments of future outcomes, this tool offers risk-adjusted projections under different scenarios, supporting sound fiscal decision-making. The model is not used to determine fiscal policy, but rather to indicate the likely trajectory of debt under various growth scenarios and the fiscal effort required to maintain sustainability. Under current economic conditions, the model suggests that the government's approach is sufficient to keep debt on a declining path and to build buffers against shocks, implying that even significant shocks would not derail the path to debt stabilisation.

### Looking ahead: sustaining momentum for a resilient and equitable future

As Deloitte's subject matter specialists projected, the 2026 budget will play a crucial role in South Africa's economic recovery, focusing on fiscal sustainability, structural reforms, financial stability, and controlling inflation. This perspective was echoed by President Cyril Ramaphosa in his State of the Nation Address, where he emphasised that the nation is in a stronger position than it was a year ago, with economic growth showing promising signs of momentum. By building on this positive foundation, South Africa has the opportunity to foster a more resilient and equitable society, enhancing its position on the global stage. Having made significant progress, it is now essential to sustain this upward trend and further accelerate the country's development efforts.

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# Economic outlook

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# Economic outlook



**Hannah Marais**  
**Senior Associate Director:**  
**Financial Advisory**  
**Chief Economist: Southern Africa**

## South Africa's Economic Outlook<sup>1</sup>

The 2026 National Budget read on 25 February 2026 marks an important milestone in South Africa's economic and fiscal outlook. Buoyed by signs of economic recovery and cautious optimism, National Treasury looks to stabilise debt this fiscal year and achieve key fiscal targets that will lay the groundwork for a more sustainable growth trajectory. While many challenges remain, the improved economic outlook underpinned by progress on various structural reforms and other economic reforms, prudent fiscal management together with the announcement of targeted tax relief, offers hope for households, businesses, and investors.

### A gradual recovery and anchored inflation underpin the improved outlook

The economic outlook has improved moderately. Real GDP growth is projected at 1.6% for 2026, up from an estimated 1.3% in 2025,<sup>2</sup> and is expected to reach 2% by 2028. This slight acceleration is supported in the immediate term by lower interest rates amid a softer inflationary

environment and increased consumer purchasing power, and in the medium term by continued momentum in structural reforms and higher investment. Household consumption remains the main driver of domestic demand with growth forecast at 1.8% in 2026 and 2.2% by 2028.

Inflation has eased significantly, averaging 3.2% in 2025 and projected to remain anchored around 3.3% over the medium term. The South African Reserve Bank's adoption of a 3% inflation target (with a 1 percentage point tolerance band) has helped anchor expectations, improve affordability for households and create room for lower interest rates. This environment is expected to further support consumer purchasing power, business confidence and investment – necessary ingredients to boost real GDP growth rates to above 3% and thus to meaningfully reduce unemployment, poverty and inequality in the coming years.

### Debt sustainability and fiscal management signal a turning point

A key achievement of the 2026 Budget is the stabilisation of the debt-to-GDP ratio, expected in the current fiscal year (2025/26). Although one percentage point higher than expected in the 2025 Medium-Term Budget Policy Statement (MTBPS) due to inter alia lower nominal GDP, gross government debt is expected to peak at 78.9% of GDP in 2025/26 and stabilise thereafter, declining to 77.3% in 2026/27 and 76.5% by 2028/29. While the trajectory is welcome, we are yet to see the actual stabilisation and decline, with debt still at historically high levels, leaving the country vulnerable to shocks.

The expected improvement is driven by a combination of improved revenue collection, lower borrowing costs and disciplined expenditure management. The main budget primary surplus is set to reach 0.9% of GDP in 2025/26, rising to 2.3% by 2028/29, providing a de-facto anchor for fiscal policy – with the announcement of a principles-based fiscal anchor deferred to the 2026 MTBPS to complete consultations. The implementation of this is expected to further reinforce fiscal credibility.

The consolidated budget deficit narrows from 4.5% of GDP in 2025/26 to 3.7% in 2026/27 and 3.1% by 2028/29, reflecting the focus on expenditure restraint and improved revenue collections. Debt-service costs, while still high and still crowding out other essential spending and investment, are projected to grow more slowly than overall expenditure for the first time in a decade, falling from 21.3% of revenue in 2025/26 to 20.2% by 2028/29.

While again this trajectory is welcome, it is also subject to optimistic assumptions on revenue collection and of course economic performance. The challenge remains that any unforeseen shocks that result in a revenue shortfall, for example, will reverse the expected fiscal gains pencilled in. The fiscal path although signalling a turning point remains a slippery slope.

### Structural reforms: A focus on energy, logistics, and local government

The 2026 budget underscores the need to follow through on existing reforms and the progress made in the electricity and logistics sectors, but also expanding reform momentum to areas such as water and local government. In the electricity sector, regulatory approvals and

<sup>1</sup> This article is based on data points in the National Treasury 2026 Budget Review and corresponding 2026 Budget Presentation available at: [National Treasury](#)

<sup>2</sup> National Treasury estimates 1.4% for 2025. Various forecast agencies as well as the Reuter's poll expect 1.3% for 2025. The Reuter's poll also expects 1.6% in 2026 and 2% by 2028.

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institutional reforms are advancing the transition to a competitive electricity market. The unbundling of Eskom and the establishment of the National Transmission Company are progressing, with significant private sector investment in renewable energy and transmission infrastructure. Similarly, Transnet's operational improvements, including higher rail volumes and the long-term concession for Durban Container Terminal Pier 2, are unlocking investment and improving export capacity.

The budget introduces a shift from oversight to active structural intervention at the municipal level, with changes to legislation, governance, and technology. Through Operation Vulindlela Phase II, reforms are being prioritised that will improve local government capability and improve service delivery.

Reforms are also progressing on a more streamlined public-private partnership (PPP) framework, for greater private sector participation particularly in public infrastructure projects. National and provincial government regulations have been revised, with new municipal PPP regulations to be published by June 2026. 63 PPP projects are in the pipeline, indicating a growing role for private sector investment in infrastructure delivery.

But reforms do remain slow, curbed inter alia by administrative hurdles and legislative processes, with a key risk being reform fatigue if implementation in key areas continues to lag, eroding confidence.

### **Expenditure priorities remain the social wage, boosting capital investment and efficiency improvements**

Government expenditure remains redistributive, with over 60% of non-interest spending allocated to the social wage in the next fiscal year. Basic education, health, and social protection comprise just above 70% of this allocation. The social grants allocation rises to R292.8 billion for

2026/27, with slightly above inflation increases across all major grants and the continuation of the Social Relief of Distress (SRD) grant.

Budget reforms are underway to improve efficiency, cut wasteful programmes, and reconfigure or wind down low-priority initiatives and programmes. The Targeted and Responsible Savings (TARS) programme is expected to accumulate savings of R12 billion over the medium term. The Early Retirement Programme and a "ghost worker" audit are also expected to yield billions of rands in savings over that period. These savings are being reallocated to fund priority spending increases.

Public-sector infrastructure spending is again planned to exceed R1trillion over the medium term, with the fastest growth in capital assets (9.7% per annum). This is expected to support gross fixed capital formation which in real terms has contracted two years in a row and should be a key driver of growth going forward. The focus of the public purse is on energy (about 20% of the allocated expenditure over the medium-term expenditure framework), water (about 17%) and transport and logistics (almost 40%).

State-owned enterprises (SOEs) and public entities are expected to execute just over half of planned expenditure. The revised PPP regulations and the establishment of the Infrastructure Finance and Implementation Support Agency are expected to catalyse further private sector participation. Ongoing efforts though to strengthen the governance, financial sustainability and operational effectiveness of implementing SOEs will be crucial to honour the Budget's commitment to increase infrastructure investment.

### **Welcome relief for households and businesses announced**

The 2026 budget provides notable tax relief with the withdrawal of the previously proposed R20 billion tax increase pencilled into the previous budget for the 2026/27 fiscal year now scrapped. Personal income tax brackets and rebates, as well as medical tax credits are fully adjusted for inflation after two years of no relief. To encourage greater savings, the tax-free annual investment limit will also increase to R46,000 in the new fiscal year, with an increase also in the retirement fund deduction limit.

For small businesses, the compulsory VAT registration threshold increases to R2.3 million after not having been adjusted for inflation since 2009. This is expected to ease administrative burdens. Similarly, the capital gains tax exemption for small business sales by older persons rises to R2.7 million with the qualifying business value threshold rising to R15 million, providing tax relief to older owners selling businesses while supporting succession and hopefully also the growth and sustainability of the small business sector in the country.

The increase in the tax-to-GDP ratio that is projected, to reach 26.2% by 2028/29 from 25.9% this fiscal year is expected to be driven by effective tax collections and administration and an improving growth outlook rather than increases to VAT (as initially proposed last year) or other taxes.

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## In summary

For households, the combination of lower inflation, tax relief, and increased social grants will support real incomes and purchasing power. For businesses, the improving macroeconomic environment, lower borrowing costs, and targeted tax measures for small enterprises provide a relatively more supportive operating climate. The emphasis on infrastructure investment and structural reforms should gradually alleviate longstanding supply-side constraints, unlocking new investment opportunities and improving competitiveness over time.

But, as always, many downside risks persist. Besides ongoing global trade tensions, many domestic challenges remain. The complexity of implementing key reforms, persistent weaknesses in local government, an emerging water crisis and challenges such as crime and corruption continue to weigh on growth.

Nevertheless, the 2026 Budget Speech signals a fiscal turning point for South Africa. Maintaining reform momentum, anchoring inflation, investing in infrastructure and strengthening public finances will be essential to overcoming the country's low-growth trajectory. The key challenge now lies in sustaining recent progress and ensuring that policy commitments translate into tangible improvements for all South Africans.

Maintaining reform momentum, anchoring inflation, investing in infrastructure and strengthening public finances will be essential to overcoming the country's low-growth trajectory

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# Infrastructure



**Greg Rammego**  
Africa Government and  
Public Services Leader  
Deloitte Africa



**Shain Germaner**  
Senior Manager: Africa Insights  
Deloitte Africa

## Water reforms will be essential to restore trust in government's infrastructure strategy

Conversations around South Africa's water infrastructure are boiling over – and the government is taking notice. A pronounced public dissatisfaction over recurring water outages in Gauteng has been the centre of recent news coverage<sup>1</sup>, with some residents living without

water for over a month. At a municipal and regional level, promises were made to resolve the issues as soon as possible, a commitment reiterated at the very top of government. But Gauteng is far from the only province affected, as seen in the recent 2026 State of the Nation Address (SONA).

President Cyril Ramaphosa acknowledged that inadequate maintenance of water systems in many areas must be resolved – with a promise to build new dams in several areas of the country and upgrade existing infrastructure. His announcement of a R156 billion fund commitment for water and sanitation infrastructure over the next three years<sup>2</sup> was an important step in stemming growing public concern.

However, while this was a focal point during SONA, in the 2026/27 National Budget Speech, water infrastructure received only some attention – not as much as we originally predicted. Finance Minister, Enoch Godongwana, confirmed the funding strategy from the President, elaborating by saying that investments would be directed towards “high-impact bulk water augmentation schemes, refurbishment of ageing infrastructure and the completion of strategic projects that support economic nodes, agriculture and household supply”.

However, even more importantly, he acknowledged the cross-subsidisation that occurs among our municipal services, citing that even though Johannesburg's water revenue sits at R11.9 billion, only

R1.3 billion is allocated to Joburg Water for capital expenditure. This diversion of funds to unrelated functions is a notable concern, but the Minister of Finance has explained that this trajectory will be corrected – with R27.7 billion allocated to a performance-linked reform for metro trading services in electricity, water, sanitation and solid waste.

This ring-fencing of funds will help to assure that money earned from water service delivery will be used for the large-scale maintenance of the water infrastructure that is urgently required.

However, such reforms cannot be implemented correctly without leadership involvement at the highest echelons of government. It is for this reason that Deputy President Paul Mashatile has been tasked with water reform<sup>3</sup>. In February, he gathered a team of ministers and government officials as part of the Water Task Team, to assess the current water supply challenges in Gauteng. Similarly, the Deputy Minister of Water and Sanitation, David Mahlobo, is well-positioned to ensure the task team's duties are conducted effectively and has the capacity to make a meaningful difference. In a recent opinion piece<sup>4</sup>, he decried the politicisation of the water crisis but said his department – comprised of leaders from different political formations – were working together to produce shared solutions despite this.

The appointment of a focused leadership is a pivotal step in addressing not only the country's water challenges, but other infrastructural issues as well. We've seen the power of resolute, action-oriented leaders across Operation Vulindlela, now in its second phase.

<sup>1</sup> Dry days: Joburg residents forced to find ways to cope during prolonged water crisis | News24

<sup>2</sup> Ramaphosa Prioritises Water Security and Infrastructure to Address Service Delivery Crisis - Parliament of South Africa

<sup>3</sup> Deputy President Paul Mashatile convenes Water Task Team on intervention to stabilise Gauteng water supply | The Presidency

<sup>4</sup> DAVID MAHLOBO | By working together, we can overcome water challenges

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Aiming to modernise and transform network industries (including electricity, water, transport and digital communications) the operation has resulted in numerous regulatory reforms, unlocking private investment and overall performance improvements. While the public sector aims to invest R1 trillion in infrastructure over the medium term, it will be these public-private partnerships (PPPs) – such as those seen across Operation Vulindlela – that have the potential to expedite development. The Minister of Finance acknowledged this himself in the Budget Speech, saying public institutions should increasingly see PPPs as a viable alternative method for delivery.

To maximise the impact of the government's renewed commitment to infrastructure overall, stakeholders should prioritise transparent fund allocation, robust project management, and the acceleration of such PPPs.

Recent commitments in both the SONA and National Budget Speech suggest a renewed focus on reform and investment. The ring-fencing of funds, strengthened leadership, and emphasis on public-private partnerships are positive steps towards restoring public trust and ensuring sustainable water delivery. However, effective implementation and continued accountability will be crucial to creating tangible improvements for communities across the country.

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# Tax policy Proposals

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# Tax policy proposals



**Ruben Johannes**  
**Partner: International Tax**  
**Deloitte Africa Tax & Legal**

## Overview

As foreshadowed in the Medium-Term Budget Policy Statement, government has decided to withdraw the R20 billion in tax increases provisionally included in the May 2025 budget. This decision is underpinned by stronger revenue collections in the current year, reducing the immediate need for additional fiscal tightening.

Tax policy measures proposed in the 2026 Budget Speech include the following:

- Inflationary adjustments to personal income tax brackets, rebates and medical tax credits;
- Inflationary adjustment to excise duties on alcohol and tobacco;
- Above inflationary adjustment to the carbon fuel levy (additional tax revenue of R1 billion); and
- Below inflationary adjustment in the general fuel levy (tax relief of R1 billion).

Tax revenue for 2025/26 is expected to amount to R2.01 trillion, which is R21.3 billion more than projected at the time of the 2025 Budget. The net increase in tax revenue collection for 2025/26 is mainly as a result of the following:

- Value-added tax (VAT) collections are R15.3 billion more than budgeted, due to stronger household expenditure and lower than expected VAT refunds;
- Improvements in corporate income tax (R7.8 billion) and dividends tax (R4.2 billion) collections; and
- However, the increase in VAT, corporate income tax and dividends tax collections is partly offset by lower-than-expected personal income tax receipts (R6.2 billion).

The 2026 Budget Speech also included noteworthy updates on Domestic Treasury Management Companies, crypto assets, global minimum tax (Pillar Two) and the Diamond Export Levy.

The aforementioned tax policy proposals, along with further tax policy proposals identified by Deloitte, are discussed in further detail overleaf.

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# Individuals and Employment Taxes



**Anthea Scholtz**  
**Global Employer Services Leader:**  
**Southern Africa**  
**Deloitte Africa Tax & Legal**

## Key proposals

### Adjustment of personal income tax tables, thresholds and rebates, for inflation

- No personal tax rate increases are proposed. The personal income tax brackets, rebates and thresholds will be adjusted to provide relief to individuals for the impact of inflation (after two years with no inflationary relief).
- This proposal is welcomed for individual taxpayers as it will reduce the impact of fiscal drag and ensure that individual taxpayers are not pushed into higher tax brackets due to inflationary salary increases without any real increase in their purchasing power. It also assists in preserving disposable income and support consumer spending. Low - and middle-income taxpayers will derive the most relief from this proposed change.

### Inflationary adjustments to the medical scheme fees tax credits

- Medical scheme fees tax credits will increase to R376 per month for the first two dependants and R254 per month for each additional dependant. This will have positive cash flow effect on individual taxpayers.

### Employees Tax ("PAYE") withholding obligation for non-resident employers

- Currently non-resident employers who carry on business through a permanent establishment in South Africa, are liable to withhold PAYE in respect of South Africa taxable remuneration paid/payable to employees who render services outside South Africa even where those employees are not effectively connected to the permanent establishment in South Africa. It is proposed that non-resident employers will only have a PAYE withholding obligation in relation to employees who are effectively connected to its permanent establishment in South Africa.
- This proposal is welcomed as it removes the anomaly whereby a PAYE withholding obligation is currently placed on a non-resident employer (carrying on business through a permanent establishment in South Africa) who pays remuneration to a South African resident employee who renders services outside South Africa and who does not have any connection to the South African permanent establishment. Non-resident employers should review their current mobility tax equalisation arrangements as this proposed change may result in significant tax savings for these employers where these employees are tax equalised.
- While this proposal is welcomed, the tax rules relating to a foreign employer's Skills Development Levy (SDL) and Unemployment Insurance Fund (UIF) obligations should also be reviewed as currently, a foreign employer may still be liable for SDL and UIF in the above scenario.

### Penalty regime for underestimation of provisional tax

- Where a taxpayer under-estimates their provisional tax and such estimate is within the acceptable tolerance (i.e. the margin by which a taxpayer's second provisional tax estimate may fall short of the final taxable income without incurring an underestimation penalty), an underestimation penalty cannot currently be imposed, even where the taxpayer does not actually pay the provisional tax liability. The only penalty that can be imposed in this case is the late payment penalty.
- It is proposed that, with effect from 25 February 2026, taxpayers must make timely payment of their provisional tax liability as calculated based on the estimate before it may be relied on. Where payment is not made timeously, an under-estimate penalty will be levied even if the estimate is within acceptable tolerance, but payment is not made.
- In addition, the current R1 million taxable income cap that applies when using historical assessments of taxable income instead of current estimates of taxable income for provisional tax purposes, will be increased to R1.8 million for tax years commencing on or after 1 March 2026.
- This proposal is welcomed as it closes a loophole in the tax laws whereby taxpayers could avoid paying the 20% under-estimate penalty by simply submitting an accurate estimate within the acceptable tolerance but not paying it by 28 February (incurring only a 10% late-payment penalty).

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- The proposal ensures that even if an estimate is within the acceptable tolerance, missing the payment deadline will trigger the imposition of the full under-estimate penalty, in addition to late-payment penalty.

#### Permitting pre- or post-deposit screening of refunds by banks

- Banks are required to report suspicious tax refunds to the South African Revenue Service (SARS) and hold the refunds for up to two business days while SARS investigates. To expedite legitimate refunds, SARS is working with banks to explore screening potential refunds prior to their deposit into taxpayers' accounts. It is therefore proposed to explicitly permit pre- or post-deposit screening of refunds by banks.

#### Interest relief on defaults disclosed during voluntary disclosure application

- In the recent Medtronic International Trading S.A.R.L constitutional court case, it was held that it is not possible to combine a voluntary disclosure application with a request for remission of interest under the various tax acts without legislative authority that permits this.
- It is proposed that provision be made to specifically permit applicants for voluntary disclosure relief to simultaneously apply for the separate remission of interest, under the provisions of the relevant tax act, in respect of the defaults disclosed in the voluntary disclosure application. It is proposed that this amendment takes effect from 1 March 2026 to assist potential applicants without affecting existing applications.

- This proposal is welcomed as it will now allow taxpayers to regularise their non-compliance affairs through the voluntary disclosure in a holistic manner. Taxpayers would no longer need to file a separate request for the remission of penalties (and such remission was generally not guaranteed). It thus encourages compliance and self-corrective actions from taxpayers.

#### Tax compliance status pending the outcome of a request for remission of penalty

- The Tax Administration Act (TAA) suspends a taxpayer's obligation to pay tax pending SARS' decision on the suspension of payment request. A taxpayer must further be indicated as "tax compliant" during this interim period. The TAA does not currently provide for a scenario where a taxpayer's obligation to pay tax is automatically suspended pending the outcome of a request for remission of penalties. It is proposed that this anomaly be addressed. It is further proposed that the periods for which a suspension continue after a request has been rejected by SARS be aligned to 10 business days.

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**Adjustments to various tax free or exempt thresholds in respect of individual taxpayers****Capital gains tax (CGT)**

CGT exclusion for small business asset disposal	R10 000 000	R15 000 000
Exclusion amount on disposal of small business when person over 55 years	R1 800 000	R2 700 000
Exclusion at death	R300 000	R440 000
Exclusion in respect of disposal of primary residence	R2 000 000	R3 000 000
Annual exclusion	R40 000	R50 000

**Savings and retirement**

Tax-free investments: annual limit	R36 000	R46 000
Retirement fund contribution deduction limit	R350 000	R430 000
Retirement interest de minimis threshold for Annuitisation	R247 500	R360 000
Living annuity commutation	R125 000	R150 000

**Donations tax**

Exemption for donations made by entities	R10 000	R20 000
Exemption for donations made by individuals	R100 000	R150 000

**Tax-exempt employment benefits**

Bursaries or Scholarships: Annual remuneration ceiling for all employees including persons with disabilities (PwD)	R600 000	R900 000
Bursaries or Scholarships: Annual ceiling for employee relatives' primary / secondary education (PwD)	R20 000 (R30 000)	R30 000 (R40 000)
Bursaries or Scholarships: Annual ceiling for employee relatives' tertiary education (PwD)	R60 000 (R90 000)	R90 000 (R130 000)
Remuneration proxy (cap): Employee loans for immovable property	R250 000	R 360 000
Market value of property: Employee loans for immovable property	R450 000	R650 000
Maximum compensation exemption for employees dying in fulfilment of duties	R300 000	R800 000
Awards for bravery and long service	R5 000	R16 000

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- This relief is welcomed and will have a positive impact on individual taxpayer's disposal income. It also supports the view that increasing taxes beyond a certain point may not generate additional revenue and that the better route to increase revenue collections is to broaden the tax base and grow the economy

#### Increase in single discretionary allowance

- To take into account inflation and currency fluctuations, the single discretionary allowance limit for individuals is increased from R1 million to R2 million per calendar year via authorised dealers for all purposes, including travel, gifts, remittances, investments and donations. This increase is welcomed.

### Other proposals

#### Allowing rollover treatment of capital allowances on allowance assets transferred between spouses

- Currently, section 9HB of the Income Tax Act does not prevent the recoupment of capital allowances on allowance assets transferred between spouses, nor does it allow the transferee spouse to take over accumulated allowances previously claimed.

It is proposed that this section be amended to:

- prevent the recoupment of capital allowances on such transfers; and
- allow the carry-over of accumulated allowances to the transferee spouse.

This proposal is welcomed as it removes unintended tax consequences and administrative complexity when allowance assets are transferred between spouses.

#### Limiting the donations tax exemption rules where a spouse ceases to be a tax resident

- It is proposed that the donations tax exemption be limited to donations made to a spouse who is a South African tax resident at the time the donation is made, effective from 25 February 2026. This proposal is to avoid the use of this exemption in avoidance arrangements where assets are donated to a spouse who has already ceased to be a South African tax resident prior to the remaining spouse's cessation of residency. This measure is intended to protect the South African tax base by preventing tax-free transfers of wealth to non-resident spouses.

#### Excluding certain exempt entities that are companies from the definition of "provisional taxpayer"

- The definition of "provisional taxpayer" in the Fourth Schedule of the Income Tax Act currently excludes certain partially taxed entities to reduce their compliance burden. However, the definition of "provisional taxpayer" specifically includes any company (see paragraph (b) of the said definition). It is now proposed that the definition be amended to exclude from its definition fully exempt entities and certain partially exempt entities classified as companies. This clarity is welcomed.

#### Determining the application of the de minimis limit for multiple living annuities held with the same insurer or fund

- A living annuity can be fully commuted (cashed out) and paid to a taxpayer as a lump sum where the value is below a prescribed de minimis limit (currently R125 000 and proposed to increase to R150 000). There is uncertainty as to whether this de minimis limit applies per policy or cumulatively per insurer or fund. It is proposed that the tax laws be amended to clarify that the limit must be

applied on a cumulative basis in instances where a taxpayer holds multiple living annuities with the same insurer or fund. This proposal is welcomed as applying the limit on a per-policy basis could undermine retirement income security by enabling the early commutation of multiple small annuities and could facilitate tax-driven restructuring of retirement assets.

#### Extending the eligibility for the medical scheme fees tax credit

- It is proposed that eligibility for the medical scheme fees tax credit be extended to these members, where the medical scheme offers benefits, and adheres to certain governance and solvency requirements that are equivalent to those prescribed under the Medical Schemes Act. The proposed amendment promotes fairness and is a positive step towards ensuring an equitable tax treatment for individuals in equivalent schemes. However, additional clarity and administrative guidance would be required to ensure effective implementation. Government should also assess whether this extension could be applied to foreign funds that are registered under similar provisions (to that of the aforementioned schemes) contained in the laws of the foreign jurisdiction where the scheme is registered.

#### National online gambling tax

- Proposed 20% tax on gross gambling revenue generated by online gambling.

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# Business Tax



**Kabelo Mokitlane**  
**Partner: Business Tax Leader**  
**Deloitte Africa Tax & Legal**



**Ansius Vermeulen**  
**Associate Director: Business Tax**  
**Deloitte Africa Tax & Legal**

## Key proposals

### Aligning short-term insurance taxation with IFRS 17 terminology

- Section 28 of the Income Tax Act deals with taxation of short-term insurers. With the introduction of the IFRS 17 accounting standard for insurers which replaced IFRS 4, tax legislation was also amended to align to this new accounting standard. Not all subsections within section 28 of the Income Tax Act had been updated to align to the updated terminology in IFRS 17. It has been proposed that the outdated terminology in the affected subsection be updated to align to the IFRS 17 terminology, ensuring consistent tax treatment of insurance related liabilities transferred between short-term insurers. This proposed amendment is welcomed and would remove any uncertainty that existed in this regard.

### Special economic zones

- Section 12R of the Income Tax Act provides that qualifying companies located in approved special economic zones by the Minister of Finance are taxed at a corporate tax rate of 15% instead of 27%. The section contains anti-avoidance provisions to prevent companies from shifting profits to connected parties located in the special economic zone simply to take advantage of a lower tax rate. The specific provision in question relates to instances where 20% of expenditure or gross income arises from transactions with connected persons outside the zone.
- In order to provide further relief to businesses already operating in the zones, as well as potential investors wanting to use the zones to strengthen their own supply chains, it is proposed that a different approach be adopted. It is proposed that where companies are buying or selling their products to connected parties outside the zone at market-related prices, the anti-avoidance provisions are not triggered.
- This is a welcomed proposal. This will provide a level of certainty for investors around the applicable tax rate which was in some instances hindered by the 20% threshold year on year. This will also provide certainty and consistency around financial reporting considerations for these entities. We note further that this requirement could require adequate documentation from taxpayers to support local inter-group transaction prices.

### Diamond export levy

- Diamond producers incur a levy of 5% on the value of unpolished diamonds released for export. However, producers are exempt from paying this levy if they meet local sales requirements. Different thresholds are applied to producers of different sizes. Large producers must sell 40% locally, and medium producers 15%.

To continue support for the domestic industry, government proposes to lower the threshold separating large and medium producers from R3 billion to R2 billion, and allow large producers to choose between selling 15 per cent locally and offering the remaining output (which we assume to be 25% in order reach the 40% aggregate local limit- in this regard the draft legislation that was published on 25 February 2026 is not clear) to the Diamond Exchange and Export Centre (DEEC) or selling 40% locally and being exempt from offering the remaining production to the DEEC. The proposed amendment is expected to take effect from assessment periods beginning on or after 1 January 2027. Stakeholder consultation is expected to continue.

## Other proposals

- Collective Investment Schemes (CIS) and retail investment hedge funds are open to the general public, are well regulated and have diversification and other requirements, providing an important avenue for savings. By contrast, qualified investment hedge funds are not open to the general public, have minimal investment criteria and only cater for those able to invest a minimum of R1 million. Government will propose excluding such qualified funds from the CIS tax regime. Alternative tax regime options for these funds will be proposed in the response document.
- National Treasury published a draft national online gambling tax discussion paper for public comment in November 2025. It proposed a tax of 20% on gross gambling revenue generated by online gambling. This tax would be in addition to the current taxes paid to provinces. The public comment period was extended to close on 27 February 2026. Following receipt of the comments, National Treasury will hold a workshop with those who commented. A proposal, including any revisions from the consultation, will be included in draft legislation that will be made available for public comment later in the year.

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# Value-Added Tax



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



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

## Key proposals

### VAT registration thresholds

- As from 01 April 2026, the compulsory VAT registration threshold will be R2.3 million (previously R1 million) and the voluntary threshold R120 000 (previously R50 000).

### Zero rating of the supply of gold to banks

- It is proposed that the zero rating in terms of section 11(1)(f) of the VAT Act be repealed, due to the complexity faced to trace or isolate unprocessed, primary-sourced gold, which leads to difficulties to prove the validity of the zero rating.

### Electronic services and intermediaries

- Previous amendments aimed to make intermediaries liable for VAT on electronic services supplied via their platforms. This relied on written agreements creating compliance challenges with small foreign suppliers. It is proposed that intermediaries be the default party responsible for the VAT unless an agreement specifies otherwise, with joint and several liability retained.

### Expanding documentary requirements for second-hand goods

- To reduce fraudulent notional input tax claims, it is proposed that the VAT Act be updated so that second hand goods vendors must also comply with prescribed documentation and record keeping obligations detailed in the Second-Hand Goods Act (2009).

### Additional information required on tax invoices on the acquisition of second-hand goods subsequently supplies by a vendor

- A proposed amendment to the VAT Act will require invoices for subsequent supplies of such second-hand goods to show the original purchase price and the notional input tax previously claimed.

### Limitation on the time period to deduct notional input tax on second-hand goods

- To prevent a situation where a VAT refund and notional input tax is claimed on second-hand goods which are ultimately exported, it is proposed that the notional input tax must be claimed no later than the tax period in which the second-hand goods are supplied (within the five-year prescription period).

### Potential screening of refunds by banks

- It is proposed that the law explicitly allow banks to screen refunds either before or after they are paid by the South African Revenue Service (SARS) but before they are released to the taxpayer.

### Interest relief on defaults disclosed during voluntary disclosure application

- A new provision is proposed to allow voluntary disclosure applicants to simultaneously apply for interest remission for the disclosed defaults under the relevant tax Acts. The amendment would take effect from 1 March 2026 to assist future applicants without impacting existing cases.

Where the compulsory VAT registration threshold is increased from R1 million to R2.3 million on 01 April 2026, fewer small businesses will be required to register and therefore may apply for deregistration. While this reduces compliance costs for smaller businesses, this will result in an obligation to account for VAT on all enterprise assets (goods, rights) and a review of existing business contracts after SARS has determined the date of deregistration. Deregistration of local vendors may also mean that non-resident electronic services suppliers can no longer apply the business-to-business exclusion causing them to be liable for VAT in South Africa. Although the threshold increase will provide welcomed relief to most small businesses, small businesses that mainly do business with vendors may choose to remain on register.

The proposed amendment to section 54(2B) shifts the VAT default position so that intermediaries are automatically liable to account for VAT on electronic services supplied through their platforms unless a written agreement specifies that the supplier will account

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for the VAT. While this change aims to reduce SARS' compliance risks and simplify the VAT position for larger intermediaries with established systems, it may create additional administrative burdens for smaller intermediaries that lack the capacity to manage VAT on behalf of multiple foreign suppliers. Notably, the proposal does not seem to impact the proposed amendment that resident suppliers also fall within the scope of the intermediary provisions. This amendment forms part of the 2025 proposed amendments currently awaiting promulgation.

The so-called notional input tax deduction enables vendors to claim a deemed input tax credit when purchasing second-hand goods from non-registered persons that are residents of the Republic. The current five-year window for claiming this deduction creates non-compliance risks, especially when goods are exported and refunds are processed before all claims are finalised. The proposed amendment will restrict the deduction to the tax period in which the supply occurs will enhance certainty, reduce compliance risks, and protect the fiscus, but will require vendors to significantly strengthen their processes to ensure timely and accurate claims are processed, including adhering to the documentary requirements under the Second-Hand Goods Act (2009).

The proposed amendment allowing voluntary disclosure applicants to request interest remission alongside their disclosure represents a welcome amendment, but only to taxpayers that request the relief on or after 1 March 2026. This means old and current cases before the Voluntary Disclosure Programme Unit at SARS will not qualify for a request to remit interest. The proposed amendment is welcomed and allows the taxpayer to request the remission of interest which for VAT purposes means that he must show that the default was due to circumstances beyond his control.

## Other proposals

### Services rendered to a customs-controlled area enterprise (CCA) or special economic zone (SEZ) operator

- It is proposed that section 11(2)(k) of the VAT Act be amended to reflect that the services must be physically rendered in the customs-controlled area to qualify for zero rating.

### Extending Section 18C to Non-Vendor Lessors

- Currently, section 18C of the VAT Act requires only vendor lessors to make a VAT adjustment where and to the extent that leasehold improvements are used for non-taxable purposes, meaning non vendor lessors escape the adjustment. This creates a mismatch: non vendor lessors benefit from improvements for which they effectively incurred no VAT cost. A proposal suggests expanding section 18C to include all lessors, not just vendors, and introducing a specific declaration channel to facilitate the declaration.

### VAT modernisation

- Recommendations for additional funding to be made available to SARS to accelerate digital transformation, automation and cybersecurity resilience.

### Removing distinction between eFilers and non eFilers

- Government proposes a single system where all VAT vendors file returns and make payments on the last business day of the month, removing the current distinction since most vendors already use eFiling.

- The Minister of Finance also tabled the 2026 Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill on 25 February 2026. It states that where a school ceases to be a vendor on 1 January 2026, for the sole reason of the exemption contemplated in section 12(h), that the tax payable in respect of the deemed supply can be paid in 12 equal monthly instalments, or in so many monthly instalments as the Commissioner may allow, commencing on 1 January 2027. Based on the wording of this draft amendment it seems that the proposed 2025 amendments relating to schools will be promulgated and made effective from 1 January 2026, with the change that the school will be able to pay the exit VAT in 12 equal instalments starting from 1 January 2027.

### SARS works with banks - Tax refunds screened to combat fraud

Currently section 190(5A) of the Tax Administration Act No. 28 of 2011 (TAA) allows banks to withhold a tax refund where it reasonably suspects that the payment of the amount is related to a tax offence. The bank must report its suspicion to SARS and hold the amount for two business days while SARS investigates. The two days could be extended if SARS or a High Court directs otherwise or SARS issues a third-party notice to the bank to pay the money to SARS in satisfaction of a taxpayer's outstanding tax debt.

National Treasury announced, in Annexure C of the Additional Tax Policy and Administrative Adjustments of the 2026 National Budget Speech, that SARS is working with banks to explore screening potential refunds prior to the monies being deposited into taxpayers' accounts.

The stated objective is the expedition of legitimate refunds and the proposal is for SARS to explicitly permit pre- or post-deposit screening of refunds by banks.

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Even though the objective is to expedite legitimate refunds, the wording of the provision in the TAA reflects an intent of preventing the payment of fraudulent refunds. Thus, the pre-or post-deposit screening would serve this dual purpose which will strengthen tax compliance, combat tax fraud and ultimately reducing the tax gap. One can expect that banks may be required to perform certain checks that may point to fraudulent activity.

With all initiatives, there are unforeseen challenges and we advocate that SARS ensure that there is clear communication in the process by informing the taxpayer that the refund has been released but is withheld by the bank, pending the outcome of an investigation into the refund. The communication must set out the procedure or process followed, including clear timelines for resolution, so that the refund does not get lost in transition and there is an audit trail of the withheld refund as it is not clear whether the refund would reflect as paid on SARS' statement of account during the investigation. The issue of interest payable by SARS in respect of delayed refunds should also be considered, especially where the two business-day period is extended.

The success of this initiative will be dependent on the seamless implementation of the screening of the deposits with no unnecessary delays to the payment of the VAT refunds rightfully due to taxpayers and the process of obtaining the pre-clearance for the banks must not be administratively burdensome.

There are unforeseen challenges and we advocate that SARS ensure that there is clear communication in the process by informing the taxpayer that the refund has been released

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# Customs and Excise



**Olebogeng Ramatlhodi**  
**Partner: Africa Indirect Tax Leader**  
**Deloitte Africa Tax & Legal**



**Caroline Rheeder**  
**Associate Director:**  
**Indirect Tax (Customs)**  
**Deloitte Africa Tax & Legal**

## Key proposals

### Proposed amendment to the Admission Temporaire/ Temporary Admission to digitise a previously manual system

- This change is needed so that South Africa can comply with new international requirements for electronic carnets, replacing the old paper-based process and streamlining temporary cross-border trade.

### Proposed amendments to facilitate the administration of carbon tax refunds

- Proposal to amend the Customs and Excise Act to allow for the administration of carbon tax refunds over a longer period by

aligning this Act's two-year limit to the longer five-year compliance period in the Carbon Tax Act.

- The proposed amendment to extend the period for claiming carbon tax refunds is a welcome step towards aligning the Customs and Excise Act with the longer compliance cycle of the Carbon Tax Act. This change will provide businesses with greater certainty and flexibility, ensuring they are not unfairly penalised by a misalignment in legislation when seeking refunds. However, it also places a greater emphasis on robust record-keeping and long-term compliance management.

### Proposed amendment of the discretion to exempt non-compliance in relation to rebates in Schedules No. 3, 4 and 6

- The 2026 budget proposes amending section 75(10) of the Customs and Excise Act, which currently gives the Commissioner of the South African Revenue Service broad discretion to exempt or condone non-compliance with rebate conditions in Schedules 3, 4 and 6. The amendment aims to replace this broad discretion with clear criteria, in line with modern legislative practice, to enhance clarity, certainty and transparency for taxpayers seeking exemptions.
- The proposed amendment to section 75(10) of the Customs and Excise Act reflects a broader trend in tax administration towards greater transparency and predictability. By replacing broad discretion with clear criteria, the change should give taxpayers more certainty about the requirements for exemptions and reduce the risk of arbitrary decision-making. However, it is important that the new criteria be drafted with enough flexibility to accommodate genuine exceptional cases so that the system does not become overly rigid or unfair.

### Proposed separation of carbon fuel levy from general fuel levy

- The 2026 Budget Speech proposes separating the carbon fuel levy from the general fuel levy in the Customs and Excise Act. Previously, both levies were collected together due to system limitations but with recent system upgrades and new tariff items the carbon fuel levy can now be administered independently. A new Part 5C will be added to Schedule No. 1 to provide for this separate administration.
- Separate administration means reporting requirements may change. Clients should review their compliance processes to ensure accurate allocation and payment of each levy.

### Proposed amendments in relation to electronic heated tobacco products

- The 2026 budget proposes amending the taxation of electronic heated tobacco products so that excise duty is calculated based on the weight of tobacco (per kilogram net) rather than the number of sticks (per 10 sticks).
- Taxing electronic heated tobacco products by weight instead of by stick will make excise duties fairer and harder to avoid, better reflect actual tobacco content and support public health aims. While this aligns with international best practice, businesses will need to update their systems and processes to comply with the new rules.

### Customs duty relief for the Men's Cricket World Cup

- For the 2027 Men's Cricket World Cup, South Africa will apply its standard customs duty rebates and temporary import exemptions to support the import of essential goods and equipment needed for the event. These measures will make it easier and more cost

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effective for organisers and participants to bring in items like pharmaceuticals, food and promotional materials. Income from the event for non-residents will be managed under existing double tax agreements to avoid double taxation, with relevant domestic tax rules applied as necessary. This approach aims to facilitate international participation and ensure tax compliance.

- The extension of customs duty rebates and temporary import exemptions for the 2027 Men’s Cricket World Cup is a pragmatic and business-friendly move (seen before for similar reasons such as the 2010 Soccer World Cup). It will ease the logistical and financial burden on organisers and participants, helping to ensure the event’s success and maximising its economic benefits for the region.

**Specific excise duties**

- On average, the duty rate on alcoholic beverages has increased by 3.40%; significantly less than the 6.75% increase in 2025.
- On average, the duty rate on tobacco products has increased by 3.40%; less than the 4.75% increase in 2025.

**Wine**

	<b>Unfortified</b>	<b>Fortified</b>	<b>Sparkling</b>
Current rate	R5.95 / litre	R10.04 / litre	R19.03 / litre
New rate	R6.15 / litre	R10.38 / litre	R19.68 / litre

**Ciders and other alcoholic fruit beverages**

<b>Current rate</b>	R145.07 / LAA
<b>New rate</b>	R149.98 / LAA

**Malt Beer**

<b>Current rate</b>	R145.07 / LAA
<b>New rate</b>	R149.98 / LAA

**Spirits**

<b>Current rate</b>	R292.91 / LAA
<b>New rate</b>	R302.84 / LAA

\* Proposed new rates for 2026 / 2027

### Tobacco products

	Cigarettes (conventional)	Cigarettes (heated)	Cigarette tobacco	Pipe tobacco	Vapes
Current rate	R22.80 / 20	R17.10 / 20	R25.63 / 50g	R8.03 / 25g	R3.18 / ml
New rate	R23.58 / 20 cigarettes	R17.68 / 20 sticks	R26.50 / 50g	R8.31 / 25g	R3.29 / ml

- In line with the World Health Organisation’s call on governments to adapt their alcoholic beverage taxation policy frameworks to serve as a tool to curb the deemed high consumption levels globally and the corresponding impact this has on human health through disease and injury, the South African government in 2024 proposed the establishment of a policy framework where excise duty rate adjustments are made within the bounds of the expected inflation, as a minimum, with an upper limit of 10%.
- It also considered the implementation of a minimum unit price for alcoholic beverages. Such mechanism is not a tax instrument but a pricing mechanism that sets the price floor below which no unit of alcohol should be sold. It prevents producers and retailers from absorbing some of the tax increases and reducing prices or offering large, discounted prices on alcoholic products. Setting a minimum price per unit of alcohol reduces consumption of cheap alcohol and alcohol-related harm.
- Currently, spirituous beverages (e.g. brandy, whisky, vodka, rum and gin) are taxed much higher than other alcohol categories, and the excise duty rate divergence from others has increased over the years. Hence, government’s consideration for adjustment on other alcohol categories which will narrow such divergence. This gap and divergence has however not been reduced this year as the proposed percentage duty-rate increase for spirituous beverages equals that of other alcoholic beverages.

### Fuel taxes and levies

- The general fuel levy for petrol will increase by 9 c/litre and 8 c/litre for diesel.
- An increase of 7 c/ litre to Road Accident Fund (RAF) is proposed.
- A 5c / litre and 6c / litre increase to the carbon fuel levy for petrol and diesel, respectively.
- Proposed new rates are detailed below:

	Excise duty	General fuel levy	RAF levy	Carbon fuel levy
Current rate	R0.04 / litre (petrol and diesel)	R4.01/ litre (petrol) R3.85 / litre (diesel)	R2.18 / litre (petrol and diesel)	R0.14 / litre (petrol) R0.17 / litre (diesel)
New rate	R0.04 / litre (petrol and diesel)	R4.10 / litre (petrol) R3.93 / litre (diesel)	R 2.25 / litres (petrol and diesel)	R 0.19 / litre (petrol) R 0.23 / litre (diesel)

- What is more interesting is that some anticipated areas have not been mentioned, specifically the long-awaited and much anticipated Voluntary Disclosure Programme for Customs. The details are outstanding as well as an indication of the timing of implementation.
- In addition, we still await the promulgation of legislation to effect the formalisation of Retrospective Customs Value adjustments – mentioned in last year’s budget followed by the second iteration of draft rules in January this year.
- It was also proposed that any increases in the rates of excise duties be made effective only on 1 April however we see that this will be effected in 2027. Taxpayers have raised an issue of the timing of excise duty rate adjustments and the administrative burden and compliance complexities it creates. To address this difficulty, the Minister of Finance in 2025 mentioned that it is considered to implement the excise duty rates adjustments either on 1 March or 1 April following the announcement in the Budget Review to coincide with the tax year or government fiscal year, respectively. The above-listed proposed duty-rate increases became effective on 25 February 2026.

# Tax Advisory



**Le Roux Roelofse**

**Partner: International Tax and  
Head of Tax Technical  
Deloitte Africa**

## International Tax

*Le Roux Roelofse*

### Key proposals

#### Currency rules in respect of CFCs with a DTMC shareholder

- In terms of section 9D(6) of the Income Tax Act, the income of a controlled foreign company (CFC), being a foreign company that is controlled by one or more South African tax residents, must be imputed to one or more of its South African shareholders in certain circumstances. The CFC's net income must be determined in the functional currency used by the CFC, while the amount to be imputed to the South African shareholder/s must be translated into rands (by applying the average exchange rate for the CFC's foreign tax year).
- In terms of section 25D(5), where such a South African shareholder is a Domestic Treasury Management Company (DTMC), any amount received by or accrued to the DTMC in any currency other than the

DTMC's functional currency (e.g. the rand attribution of an amount of net income) must be determined in the DTMC's functional currency and must be translated to rands by applying the average exchange rate for the relevant tax year (if the functional currency of the DTMC is not rands).

- The interaction between section 9D(6) and section 25D(5) creates onerous currency translation requirements and may distort the South African taxable income of the DTMC.
- Pursuant to the proposed amendments, the Act will be amended to ensure that, where a DTMC is the South African shareholder of a CFC, section 9D(6) will not require the translation of an amount of net income into rands.
- If enacted, the effect of the proposed amendment will be that a CFC's income will be calculated in its functional currency (e.g. US\$) and will remain in its functional currency (e.g. US\$) when imputed to the DTMC (instead of being converted to rands). Such amount will then only be translated to rands (once) in terms of section 25D(5).
- The proposed amendment is practical and will reduce the risk of artificial gains or losses in South Africa due to artificial exchange differences. It will also reduce affected taxpayers' administrative burden by eliminating an unnecessary currency translation.

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**Anne Casey**  
**Partner: Mergers and Aquisitions**  
**Deloitte Africa Tax & Legal**

## Mergers and Aquisitions

Anne Casey

### Interest limitation: Withdrawal of proposed amendment on s23N and s23M formula alignment

- The 2024 Taxation Laws Amendment Act introduced amendments, with an effective date of 1 January 2027, intended to align the formula used to limit interest deductions under s23N with s23M.
- In the 2026 Budget, it is now proposed that the 2024 amendment to align these formulas be withdrawn.
- Briefly stated, s23N provides for an interest limitation associated with interest incurred in acquiring shares under s240 or share/asset acquisitions under the s45 or s47 provisions. The interest incurred and which may be deducted is limited by the application of a formula as set out in s23N. The 2024 Explanatory Memorandum contained commentary on the fact that National Treasury wished to align s23M with s23N given that the rules are broadly similar. The proposed amendment was to come into effect on 1 January 2027 and was to apply in respect of years of assessment commencing on or after that date.

- In the 2026 Budget Speech, National Treasury indicated the intention was to withdraw the proposal to align the two sections given the concerns raised that the two interest limitation sections were in fact not similar in nature and dealt with different transactions.
- The end result is that s23N and s23M will remain distinct sections and where s23N and s23M interest is incurred, detailed calculations must be performed for both sections. From an M&A tax perspective, s23N interest deductibility depends partly on repo-rate-linked formulas, which in certain circumstances may allow for higher deductions. Deloitte's view is that the calculations set out in these sections are complex, particularly those relating to s23M. The intricacy of these provisions can create uncertainty and increase compliance burdens.

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# Transfer Pricing



**Philip Fouche**  
**Senior Associate Director:**  
**Transfer Pricing**  
**Deloitte Africa Tax & Legal**

## Key proposals

- Increased transfer pricing focus on inbound loans from non-resident related parties due to proposed exchange control amendments. As part of promoting foreign trade and investment into South Africa, it is proposed that exchange control regulations be relaxed to remove the interest rate caps on inbound foreign loans, provided the loans are market related and reported to the South African Reserve Bank.
- If the above proposed amendment to the exchange control regulations is implemented, there will be increased reliance on transfer pricing studies to support the arm's length nature of debt pricing or interest rates on inbound loans from non-resident related party lenders, both for exchange control and income tax purposes (in addition to transfer pricing studies in respect of the resident borrower's debt capacity to take on the specific quantum of the loan amount).
- We expected that there would not be any major amendments to the transfer pricing legislation as the ambit of the legislation is already very broad. As mentioned by the Minister of Finance, the focus is on efficient tax administration and targeted compliance initiatives. In our view, this certainly includes ensuring transfer pricing compliance by way of risk reviews and audits by the South African Revenue Service.

- As concluded at the end of Chapter 4 of the Budget Review, the South African tax system is highly progressive. We therefore look forward to the implementation of the advance pricing agreement (APA) programme, in line with international best practice. The advance tax certainty provided by an effective APA programme will encourage multinational enterprises to invest in South Africa and to use the country as a gateway for doing business in other African countries.

## Other proposals

### Prevention of profit shifting to special economic zones

- Qualifying companies located in special economic zones are taxed at a corporate tax rate of 15%, instead of 27%. Currently there are rigid rules to prevent profit shifting to these companies by connected persons. These rules may have a negative effect on potential investors and therefore it is proposed that they be withdrawn and replaced with the requirement for the companies to buy or sell their products to connected parties outside the zone at market-related prices.
- Although the above transactions within the Republic should not typically fall within the ambit of transfer pricing legislation, one would be in a position to apply the well-established transfer pricing principles to support the arm's length nature of the trading between the companies in the economic zones with their connected parties outside of the zones.

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# Pillar Two – Global Minimum Tax



**Ruben Johannes**  
**Partner: International Tax**  
**Deloitte Africa Tax & Legal**

## Key proposals

In the 2024 Budget Speech, National Treasury estimated that the introduction of global minimum tax in South Africa would result in additional tax revenue of R8 billion in 2026/27. In this year's Budget Speech those estimates have been revised, with global minimum tax collections now expected to be closer to R2 billion.

National Treasury's stated reasons for the downward revision of its forecast are that it is based on the most recent data on affected companies' operations and the Organisation for Economic Co-operation and Development's (OECD's) updated rules following negotiations between member states. The latter is presumably a reference to the OECD's side-by-side package released in January 2026 which caters for, inter alia, an extension of the transitional safe harbours and the introduction of a substance-based tax incentive (SBTI) safe harbour.

Tax incentives available to multinational groups in South Africa would not have been considered "qualified", and would therefore not have benefited from preferential treatment, under existing global minimum tax legislation. The introduction of the SBTI safe harbour potentially changes that and may be part of the reason for the downward forecast. Multinational groups should consider how the introduction of the SBTI safe harbour could reduce their global minimum tax exposure.

Unfortunately for affected taxpayers, the expected decrease in global minimum tax collections does nothing to alleviate the heavy administrative burden placed on them by the introduction of global minimum tax. In this regard, affected taxpayers are reminded of the fast-approaching registration deadline (30 April 2026).

It is unclear whether National Treasury has considered the potential decrease in corporate income tax collections from CFCs, as a result of foreign jurisdictions introducing global minimum tax legislation.

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# Tax Dispute Resolution



**Jadyne Devnarain**  
**Senior Associate Director:**  
**Tax Dispute Resolution**  
**Deloitte Africa Tax & Legal**



**Jula Mabena**  
**Senior Manager:**  
**Tax Dispute Resolution**  
**Deloitte Africa Tax & Legal**

## Key proposals

### Interest relief on defaults disclosed during voluntary disclosure application

In the recent Medtronic International Trading S.A.R.L case, the Constitutional Court held that it is not possible to combine a voluntary disclosure application with a request for remission of interest under the various tax acts without legislative authority to this effect.

It is proposed that provision be made to specifically permit applicants for voluntary disclosure relief to simultaneously apply for the separate remission of interest, under the provisions of the relevant tax act, in respect of the defaults disclosed in the voluntary disclosure application.

It is further proposed that this amendment take effect from 1 March 2026 to assist potential applicants without affecting existing applications.

This is a welcomed development for taxpayers and potentially an aspect that will contribute to a rise in Voluntary Disclosure Programme (VDP) applications being submitted to the South African Revenue Service (SARS).

From a practical perspective, it will be interesting to understand how the simultaneous processing of the VDP and the interest remission application will work. It is plausible that this process could potentially lead to processing delays, especially if applications rise in anticipation of the new provision.

The amendment is proposed to take effect from 1 March 2026 and will not apply retrospectively. Taxpayers who submitted VDP applications to SARS on or before 25 February 2026 (being the day before the Budget Speech announcement), may feel unfairly treated, given that they will not be able to avail of this new provision. This could potentially lead to challenges or requests by taxpayers for SARS to reconsider its VDP application accompanied by the simultaneous interest remission application. Accordingly, consideration should be given to whether transitional relief is warranted for applications submitted prior to this date but not yet finalised.

### Tax compliance status pending the outcome of a request for remission of penalty

Section 164(6) of the Tax Administration Act suspends the taxpayer's obligation to pay tax pending SARS' decision on the suspension of payment request. In terms of section 256 of the Tax Administration Act, a taxpayer must be indicated as "tax compliant" during this interim period.

Section 256 does not provide for a scenario where a taxpayer's obligation to pay tax is automatically suspended pending the outcome of a request for remission of penalties in accordance with section 215(3) of the Tax Administration Act. It is proposed that this anomaly be addressed. It is further proposed that the periods for which a suspension under sections 164 and 215 of the Tax Administration Act continues after a request has been rejected by SARS be aligned to 10 business days.

This is a welcomed proposed amendment, intended at providing relief to taxpayers whose business operations are, inter alia, dependant on having a "compliant" tax compliance status (TCS).

However, it will remain to be seen whether SARS' systems will be updated appropriately to accommodate these developments. Ideally the TCS process should become a seamless one where the system automatically detects that a request for remission or relevant debt management/ payment arrangement has been submitted to SARS, which automatically marks the TCS as "compliant". Complexities may however arise where taxpayers do not have functionality on e-filing to submit their request for remission applications.

Amendments to the Tax Administration Act will need to be clearly drafted to avoid unintended consequences, the inconsistent application of such provisions by SARS officials and disputes with taxpayers.

### Permitting pre- or post-deposit screening of refunds by banks

The Tax Administration Act currently requires banks to report suspicious tax refunds to SARS and to hold these refunds for up to two business days while SARS investigates. This means that the banks

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already have an obligation to screen refunds to some extent. The proposed explicit permission for pre- or post-deposit screening by banks appears to extend the current arrangements. While this may enhance fraud prevention, it also increases the frequency and scope of data sharing between SARS and banks. Concerns around taxpayer confidentiality may arise as well as the risks of unauthorised access to taxpayer information.

It will remain to be seen whether refunds will ultimately be released in good time or whether the bank screening process will unduly delay the release of refunds to taxpayers.

If taxpayers are aggrieved with the late payments of refunds, it will be important to understand if taxpayers have recourse against the bank or SARS or both parties.

From a process perspective it will be crucial to understand whether the pre-screening will result in any overlap with SARS' current verification processes i.e. is this intended to be an additional step before refunds are paid, and will taxpayers be notified of this screening? Further guidance on the practicalities around the process and implications for banks and taxpayers would be appreciated.

## Relief to taxpayers whose business operations are, inter alia, dependant on having a "compliant" tax compliance status

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# Tax Administration and Other Taxes



**Daniel Flanagan**  
**Partner: Business Tax**  
**Deloitte Africa Tax & Legal**

## Tax administration

*Daniel Flanagan*

### Key proposals

#### Reviewing penalty regime for underestimation of provisional tax

Taxpayers who underestimate their taxable income for second provisional tax purposes outside of acceptable tolerances are liable for a 20% penalty in terms of paragraph 20 of the Fourth Schedule. However, taxpayers whose estimate of taxable income are within the tolerances but fails to make payment by the end of the tax year are only liable for a 10% late payment penalty in terms of paragraph 27 of the Fourth Schedule. The 20% penalty cannot be imposed. It is proposed that with effect from 25 February 2026 taxpayers who fall within the latter scenario will effectively also be subject to the 20% penalty. Affected taxpayers will therefore have to ensure that their provisional tax payments are made on time to avoid exposure to the 20% penalty.

Furthermore, the R1 million cap for relying on amounts based on historical assessments, rather than current estimates, will be increased to R1.8 million for years of assessment commencing on or after 1 March 2026.

#### Excluding certain exempt entities that are companies from the definition of “provisional taxpayer”

The definition of “provisional taxpayer” in the Fourth Schedule of the Income Tax Act excludes certain entities that are subject to partial taxation. The exclusion of these entities was mainly aimed at reducing their compliance burden, for example, the difficulty in determining how provisional tax should apply to amounts subject to exemption only up to a specified threshold. In terms of paragraph (b) of the definition of “provisional taxpayer”, any company is a provisional taxpayer. It is thus proposed that fully exempt entities and certain partially exempt entities, which are regarded as companies, should also be excluded from being classified as provisional taxpayers. The extension of the relief to affected companies is welcomed.

#### Updates and other tax matters under consideration:

- As part of the review of the urban development zone tax incentive, and in line with Operation Vulindlela’s objective to reduce spatial inequality, government will explore targeting the incentive to better support affordable housing developments in areas that are close to jobs, public transport and essential services. A workshop will be held with relevant stakeholders during 2026, with the aim of tabling proposals in the 2027 budget.
- Following public consultation after the publication of the discussion paper on collective investment scheme (CIS) taxation in 2024, the National Treasury will release a response document with revised proposals for further consultation. The draft recommendation in the response document proposes that all investment returns generated by regular CISs and retail investment hedge funds be taxed as capital. This is to encourage savings and to provide the industry with certainty about the tax treatment of these savings vehicles.

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## For more information, contact your nearest Deloitte Africa tax team

**Itireleng Kubeka, Managing Partner, Deloitte Africa Tax & Legal**

Email: [ikubeka@deloitte.co.za](mailto:ikubeka@deloitte.co.za)

**Gauteng: Sudasha Naidoo, Southern Africa Market Leader, Deloitte Africa Tax & Legal**

Email: [sunaidoo@deloitte.co.za](mailto:sunaidoo@deloitte.co.za)

**KwaZulu-Natal: Mark Freer, Regional Leader, Deloitte Africa Tax & Legal**

Email: [mfreer@deloitte.co.za](mailto:mfreer@deloitte.co.za)

**Western Cape: Anthea Scholtz, Global Employer Services Leader: Southern Africa, Deloitte Africa Tax & Legal**

Email: [ascholtz@deloitte.co.za](mailto:ascholtz@deloitte.co.za)

## Editorial team

**Ansuis Vermeulen**

Email: [avermeulen@deloitte.co.za](mailto:avermeulen@deloitte.co.za)

**Fezile Mbatha**

Email: [fmbatha@deloitte.co.za](mailto:fmbatha@deloitte.co.za)

**Tsholofelo Dihutso**

Email: [tdihutso@deloitte.co.za](mailto:tdihutso@deloitte.co.za)

**Nomvelo Shabalala**

Email: [nomshabalala@deloitte.co.za](mailto:nomshabalala@deloitte.co.za)

[www.deloitte.co.za](http://www.deloitte.co.za)



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