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On 12 March 2025, South Africa's Minister of Finance, Enoch Godongwana, delivered the much-anticipated 2025 Budget Speech.

This key address provided a comprehensive overview of the government's fiscal policies, spending priorities, and economic outlook for the coming year.

As always, the budget holds significant implications for various sectors of the economy, influencing everything from individual tax burdens to national development projects. In this analysis, we look into the most notable aspects of the 2025 Budget Speech, offering a closer look at the minister's proposals, the underlying economic assumptions, and their potential impact on businesses and consumers, and the public sector.

2025 Projected Tax Revenue

The National Treasury projected a budget of R1.863 trillion for the previous year. For the 2025/26 financial year, the projected revenue increased to R2.006 trillion. This represents an increase of R143 billion, or approximately 7.7%, from the previous year's budget.

The key revenue drivers are expected to include **Value-Added Tax (VAT),** with a **planned rate increase from 15% to 15.5% in 2025/26 and a further rise to 16% in 2026/27.** Personal Income Tax (PIT) is expected to generate stable revenue without any adjustments to tax brackets or rebates. Corporate Income Tax (CIT) is forecasted to remain steady despite economic pressures that had previously caused declines. Excise duties, including alcohol, tobacco, and fuel levies, are expected to supplement the revenue without significant hikes.

In terms of actual revenue collections in the previous year, the **Treasury fell short of projections by approximately R16.7 billion**. The lower-than-expected revenue can be attributed to underperfomance in key areas, including VAT, corporate tax, and limited growth in personal income tax collections.

Corporate Tax

Corporate Income Tax (CIT) rate remains unchanged.

Considering the new and persistent funding pressures in health, education, transport and security, the government considered various policy options to raise the required additional funding. Such policy options that were considered included, amongst others, the possible increase in the corporate income tax rate.

Ultimately, after careful consideration the National Treasury decided against increasing the corporate income tax. Amongst the reasons for this decision by the Treasury includes the argument that South Africa's corporate income tax rate is already higher than its peers and thus an increase in corporate income tax rate would worsen the unattractiveness of South Africa as an investment destination.

We concur with the National Treasury's position not to increase the corporate income tax rate in order to fund-the budget shortfall. This is because we believe that the increase in the corporate income tax rate would result in South Africa being less competitive in terms of attraction of foreign direct investments when compared to competitors in the OECD countries.

According to the Tax Foundation Corporate Tax Rates Around the World, 2024 report , **the average corporate income rate amongst the OECD countries is 23.8%.** This indicates that the current South African income tax rate of 27% is already too high and increasing it could have made South Africa even more unattractive to investors as their returns would be eroded by the high taxes and therefore, they would opt to consider investing their funds elsewhere

Furthermore, the corporate income tax rate was reduced by **the government from 28% to 27% only two years ago (was reduced in 2023)** and therefore our assessment is that increasing this rate in 2025 would not have made any logical or economic sense. This is made mainly because the factors that led to the reduction in the tax rate are still present.
Additionally, when the corporate tax rate was decreased two years ago there was a related legislative provision that was introduced in the Income Tax Act that limits the amount of the assessed loss that a taxpayer can claim as a deduction in any year of assessment.

Therefore, increasing the corporate income tax could have necessitated the need to reconsider the assessed loss limitation provisions.

In conclusion, in our view, there is still room for the South African corporate income tax rate to be further reduced to align with the rates of other OECD countries. This would enhance the attractiveness of South Africa as an investment destination, which would cascade into improvement in economic growth and reducing the level of unemployment in the country.

Further, we argue that the gap that could be created by any further reduction in the corporate income tax would be plugged through efficient use of finances as this would result in the reduction of fruitless and wasteful expenditures by government departments and entities.

This view is supported by the proposition by The Centre for Development and Enterprise (CDE) , which argue that South Africa do not have a revenue problem but rather have a spending problem. This means that South African Revenue Service (SARS) collects adequate tax revenue, however the tax revenue just needs to be spent efficiently.

Authors: **Sefako Ledwaba** & **Godfrey Madimbu**

The extension of the urban development zone tax incentive.

The Johannesburg Central Business District, commonly called Johannesburg CBD, is one of the main business centres of South Africa and often referred to as the "capital city of money". The state and condition of Johannesburg CBD' s physical infrastructure have been deteriorating over the past decades.

The infrastructure deterioration has left the Johannesburg CBD with abandoned and hijacked high-rise buildings which serve as breeding grounds for criminals and criminality. Recently, the president of the Republic of South Africa, Mr. Cyril Ramaphosa, visited Johannesburg CBD as part of his oversight. What he discovered left him expressing his concern over the poor state of the Johannesburg CBD.

In recent period, the National Treasury embarked on a project to review the effectiveness of the various tax incentives. This project resulted in the National Treasury reaching a decision to discontinue most of incentives including the Urban Development Zone (UDZ) incentive. The UDZ tax incentive was introduced in 2003 to address urban decay within inner cities including Johannesburg and was due to expire on 31 March 2025.

This incentive provides accelerated depreciation allowances under section 13quat of the Income Tax Act to promote investment in designated inner cities. Coinciding with the President's visit to Johannesburg CBD, it is now proposed in the 2025 Budget that the sunset date for this incentive be extended by five years to 31 March 2030.

Author: **Azwindini Magadani**

Personal Income Tax (PIT) and Employees' Tax

Strengthening Tax Compliance and Reforming South Africa's Fiscal System: Key Updates for 2025.

In the 2025/26 fiscal year, the South African Revenue Service (SARS) has identified a critical gap in tax compliance. Despite substantial economic activity, a significant number of taxpayers remain unregistered or fail to file their returns. **SARS has detected 156 000 individuals in this category**, highlighting the need for greater tax compliance across the country. In response, the Minister of Finance has called on all South Africans to support SARS in its effort to collect the necessary revenues, which are essential for funding critical government services.

Personal Income Tax Rates Not Adjusted for Inflation.

For the 2025/26 fiscal year, the National Treasury will not adjust personal income tax brackets or rebates for inflation. The National Treasury states that raising personal income tax rates has been inefficient in generating substantial revenue, as taxpayers often adjust their behaviour to minimise tax liabilities. Higher rates also reduce the incentive to work, save, and invest, potentially harming economic growth.

The National Treasury further stated that over the past decade, tax rate increases have raised less revenue than expected. The personal income tax collection and the marginal tax rate are already significantly higher than those in most developing countries. As a result, the government has opted not to increase rates, instead relying on the non-adjustment of tax brackets and rebates to generate additional revenue.

While we are of the view that not all taxpayers will be affected, those receiving annual income increases may find themselves pushed into higher tax brackets, leading to higher tax liabilities. With medical tax credits remaining unchanged, these individuals could end up paying more taxes without the offsetting relief.

Two-Pot Retirement Reform Has Exceeded Expectations.

The two-pot retirement reform, which was implemented on 1 September 2024, aims to provide greater flexibility in retirement savings. Under this reform, individuals can access a portion of their retirement funds as a savings component while the remainder is preserved for long-term retirement purposes.

As of February 2025, SARS has significantly exceeded initial estimates from these withdrawals, with R11.6 billion in tax collections - far surpassing the anticipated R5 billion for the 2024/25 financial year. This shows a promising future for the reform and underscores the ongoing importance of tax collections in the medium term as individuals continue to access their savings.

Cross-Border Tax Treatment of Retirement Funds.

A key proposal in the 2025/26 budget includes a review of the cross-border tax treatment of retirement funds. Currently, South Africa's tax rules may inadvertently lead to double non-taxation, especially in situations where South Africa is granted taxing rights under a treaty. To address this issue, changes are proposed to the existing tax framework for lump sums, pensions, and annuities, ensuring that retirement fund distributions are taxed fairly and consistently both domestically and internationally.

Tackling Tax Loopholes by Closing Gaps in Loss Offset Schemes.

In another major reform, the government plans to close existing loopholes in the ring-fencing of assessed losses. Under the current system, taxpayers who earn below the maximum marginal rate can exploit tax provisions by offsetting losses from certain trades against other income sources.

The National Treasury states that this practice has led to substantial revenue losses, as taxpayers often receive full refunds of employees' tax despite these losses. The proposed amendments will review and adjust the thresholds at which ring-fencing rules apply, aiming to plug this gap and ensure that tax law is enforced in a way that reflects its original policy intent.

In conclusion, the proposed tax reforms and policy adjustments for the 2025/26 financial year demonstrate South Africa's ongoing commitment to ensuring fiscal stability and promoting fair tax practices. The government seeks to create a more equitable tax environment by addressing issues such as tax compliance, retirement fund access, and the elimination of loopholes.

Authors: **Laurence Mbokwane** & **Phumla Taho**

Value-Added Tax

The rising cost of living: How the vat hike impacts South Africans.

Following the annual budget speech on the 12th of March 2025, the government has proposed a 0.5% increase in value-added tax (VAT), effective from the 1st of May 2025. This VAT hike has sparked wide-spread concern, particularly regarding its far-reaching effects on South Africans at every level of the supply chain.

We delve into the implications of the VAT increase, shedding light on how it will impact consumers, businesses and the broader economy. Most notably, we explore how this policy shift will disproportionately affect the poor and middle class, further straining household finances in an already fragile economic environment.

The burden of the VAT increase on consumers.

VAT is a consumption-based tax, meaning that it applies to goods and services at every stage of production. While business can often pass the additional cost onto consumers, households, especially those with limited disposable income, bear the brunt of such increases. Historically, VAT has been regarded as a regressive tax because it takes a larger percentage of income from lower-income earners than from higher-income earner. A 0.5% increase may seem minimal on the surface, but for millions of South Africans already struggling with the rising costs of living, this could be a tipping point.

The impoverished and middle class will feel the hardest hit. The poor, who live paycheque to paycheque or depend on social grants, will see a significant portion of their limited resources further erode. Meanwhile, middle class South Africans, who already endured post-COVID interest hikes, rising inflation, and stagnant wage growth, will face a decline in disposable income, further reducing their ability to afford basic goods and services.

The impact of VAT increases on social grant recipients.

One of the government's justifications for VAT increases is the need to generate additional revenue to fund development. The government's budget includes a proposal to increase social grants above inflation to cushion grant recipients from the impact of the VAT increase. In spite of the fact that the government has proposed an increase on social grants, which are a critical lifeline for many South Africans, the VAT rate increase reduces the intended benefit for the most vulnerable households.

For instance, a recipient of a child support grant, which currently stands at R530 per month, will see an increase to R560 per month, reflecting a 5.7% rise. However, this increase will effectively be reduced by the expected average inflation of 4.4% in 2025. Albeit the government states that the social grant increases are above inflation, the increase in the VAT rate further dilutes the spending power by an additional 0.4%. Simply put, despite the nominal increase in grants, beneficiaries will see little to no real improvement in their ability to afford essential goods and services.

Equally, the middle class will be impacted by the VAT rate increase. The current economic growth of 0.6% will potentially result in lower income increments or no increments at all.

Given the fact that the minister proposed no inflationary adjustments to personal income tax brackets, rebates and medical tax credits, such proposition aimed at raising additional tax coupled with the VAT rate increase and the 4.4% inflation, this will further exacerbate the financial burden already suffered by the middle class. This approach creates a cycle where any economic relief is immediately nullified, failing to achieve the intended goal of poverty alleviation.

The zero-rating of essential food items.

In an attempt to cushion the blow of VAT increase, the government has proposed additional zero-rated essential food items, meaning that certain staple products will not be subject to VAT. While this initiative appears to be a targeted measure to support lower income households, its effectiveness is questionable due to the complex structure of South Africa's economy.

For example, in rural areas the price of essential goods is already inflated due to transportation, distribution and supply chain mark-ups. This means that even if an item is zero-rated, various intermediaries still add their margins, driving up the overall cost for the end consumer. Consequently, the intended VAT zero-rating does not always reach the most vulnerable populations.

In conclusion, while the government committed at the proposed VAT increase is targeted at financing its expenditure due to its inability to raise additional debt, it remains to be seen whether the commitment made related to economic growth programmes will yield results that will lessen financial hardships that South Africans are currently facing.

Authors: **Cavin Mothobi** & **Sithokozise Njomane**

Commentary on the customs and excise, carbon tax updates

The increase in Excise Duties, generally referred to as **"Sin & Luxury taxes", from 4.75% to 6.75%** will see **Alcohol, Tobacco, Cosmetics, and Electronics industries** taking a higher knock than other product industries. This is caused by the fact that VAT is applied to excise duties as well. In summary, there is a VAT component on the excise duty, meaning that excise duty is regarded as a vatable expense of the product.

Will the increases curb consumer behaviours on alcohol and tobacco products? History tells us that no change will happen, and it is a revenue generating stream for the government.

As much as the general "**Fuel Levy**" has not been increased once again this year's budget, with government signaling government's intention to ease pressure on motorists due to high fuel prices in recent times. However, the **"Carbon Fuel Levy" increase: of 3c/litre to reach 14c/litre for petrol and 17c/litre for diesel,** which will take effect **from April 2nd**, does have a negative impact on motorists and other diesel users.

Most often than ever the final consumer will bear the brunt of this increase as it will be passed through to them by industries.

From 1 January 2025, carbon tax rate reached R236 per tonne of carbon dioxide equivalent (tCO2e), with an anticipation that **by 2026, the tax will reach R308 per tCO2e, climbing to R462 per tCO2e by 2030.** These rates were determined to establish a clear carbon price signal that incentivises industries to adopt low-carbon technologies and to provide a predictable price path to 2050.

There has been no clarity on the extension of the Diesel Refund to manufacturers of foodstuffs that expires on 31 March 2025. I would have expected the Minister to announce that such foodstuffs diesel refund is permanent and included in other industries and compliance with legislation.

Global trade topic currently is Donald Trump's executive orders that impact exported goods to the United State markets. As relations between Trump's administration and South Africa sours, we expected the Minister to announce alternative trade negotiations for SA products destinations.

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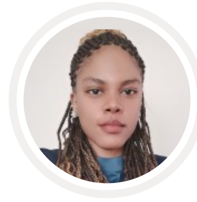

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