KPMG

Completing the economic jigsaw

Tax Budget Guide 2025/2026

Income tax: Individuals and special trusts

Tax rates (year of assessment ending 28 February 2026)

Taxable income	Rates of tax
R0 – R237 100	18% of each R1 of taxable income
R237 101 – R370 500	R42 678 + 26% of the amount above R237 100
R370 501 – R512 800	R77 362 + 31% of the amount above R370 500
R512 801 – R673 000	R121 475 + 36% of the amount above R512 800
R673 001 – R857 900	R179 147 + 39% of the amount above R673 000
R857 901 – R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000

Tax thresholds

Age	Threshold
Below age 65	R95 750
Age 65 to below 75	R148 217
Age 75 and older	R165 689

Trusts, other than special trusts, will be taxed at a flat rate of 45%.

Tax rebates (natural persons)

- Primary rebate – R17 235
- Secondary rebate (age 65 to below 75) – R9 444
- Tertiary rebate (age 75 and older) – R3 145

Individuals who must submit tax returns

The Commissioner gives annual public notice of the persons who are required to submit tax returns for normal tax purposes.

The relevant Government Gazette is expected to be issued in June/July 2025 in relation to the tax year ended 28 February 2025.

Tax relevant Government Gazette Public notices can be found here: Public Notices | South African Revenue Service (sars.gov.za).

Capital gains tax – Individuals

Capital Gains Tax (CGT): Individuals

Relevant rates

Inclusion rate: 40%

Statutory rate: 0% – 45%

Effective rate: 0% – 18%

Exemptions / exclusions from CGT

- The annual exclusion for individuals and special trusts is R40 000.
- The exclusion granted to individuals during the year of death is R300 000.
- The first R2 million of the capital gain or capital loss in respect of the disposal of a primary residence must be disregarded.
- A capital gain in relation to the disposal of a primary residence, if the proceeds from the disposal of that primary residence does not exceed R2 million, must be disregarded.
- The exclusion on the disposal of a small business for persons 55 years and older is R1.8 million, provided that the market value of the business does not exceed R10 million.

Allowances

Subsistence allowances and advances

Where the recipient is obliged to spend at least one night away from his/her usual place of residence on business, and the accommodation to which that allowance or advance relates is in South Africa, and the allowance or advance is granted to pay for:

- meals and incidental costs, an amount of R570 per day is deemed to have been expended.
- incidental costs only, an amount of R176 for each day which falls within the period is deemed to have been expended.

These rates also apply where an employee is obliged to be away from the office on a day trip.

Overseas costs: The applicable rate per country is available on the SARS website at Subsistence Allowances and Advances | South African Revenue Service (sars.gov.za) or Legal Counsel / Secondary Legislation / Income Tax Notices on the SARS website.

Travel allowance

A log book confirming business kilometres travelled and total kilometres travelled during the tax year must be maintained in order to claim a deduction against the travel allowance.

PAYE must be withheld by the employer on 80% of the allowance granted to the employee.

The withholding percentage may be reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.

No fuel and/or maintenance costs may be claimed if the employee has not borne the full cost thereof (e.g. if the vehicle is covered by a maintenance plan).

The fixed cost must be reduced on a pro-rata basis if the vehicle is used for business purposes for less than a full year.

Alternative simplified method:

No tax is payable on a reimbursement paid by an employer to an employee which does not exceed the SARS rate per kilometre, regardless of the value of the vehicle.

The SARS rate per kilometre for the 2026 tax year will be available on the SARS website under Legal Counsel / Secondary Legislation / Income Tax Notices.

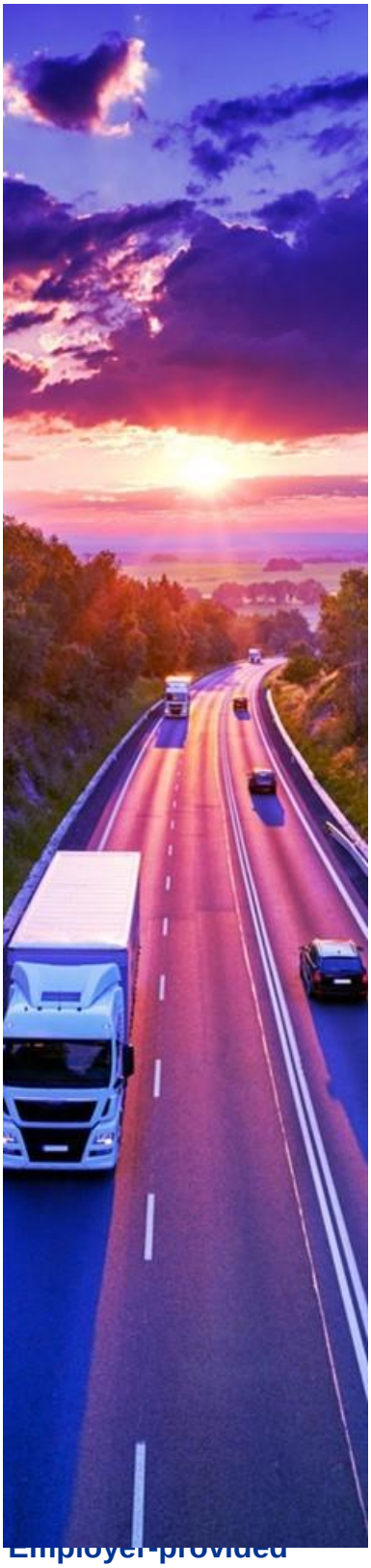
This alternative simplified method is not available if other compensation in the form of an allowance or reimbursement (other than for parking or toll fees) is received from the employer in respect of the vehicle.

Travel table

The actual distance travelled during the tax year and the distance travelled for business purposes, substantiated by a logbook, are used to determine the cost which may be claimed against a travelling allowance.

Rates per kilometre which may be used in determining the allowable deduction for business travel against an allowance or advance where actual costs are not claimed, are determined by using the table on SARS's website.

Fringe benefits



Employer-provided vehicles

The taxable value is 3,5% of the determined value (the cash cost including VAT) per month of each vehicle.

However, where the vehicle is:

- the subject of a maintenance plan when the employer acquired the vehicle, the taxable value is 3,25% of the determined value; or
- acquired by the employer under an operating lease, the taxable value is the cost incurred by the employer under the operating lease plus the cost of fuel.

80% of the fringe benefit must be included in the employee's remuneration for the purposes of calculating PAYE.

The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.

On assessment, the fringe benefit for the tax year is reduced by the ratio of the distance travelled for business purposes substantiated by a logbook, divided by the actual distance travelled during the tax year.

On assessment, further relief is available for the cost of licence, insurance, maintenance and fuel for private travel, if the full cost thereof has been borne by the employee, and if the distance travelled for private purposes is substantiated by a logbook.

Employer-provided residential accommodation

In the case of employer-provided residential accommodation, where the employer-provided accommodation is leased by the employer from an unconnected third party, the value of the fringe benefit to be included in gross income is the lower of:

- the cost to the employer of providing the accommodation; and
- the amount calculated with reference to the formula.

"Remuneration proxy" is the remuneration derived by the employee in the previous year of assessment and is used in the formula mentioned above It has been proposed that the term "remuneration proxy" be amended to include exempt foreign remuneration.

The formula will apply if the accommodation is owned by the employee, but it does not apply to holiday accommodation hired by the employer from non-associated institutions.

Interest-free or low-interest loans

The fringe benefit to be included in gross income is the difference between interest charged at the official rate for the benefit and the actual amount of interest charged.

Exemptions

Interest and dividend income

Under 65 years of age – The first R23 800 of interest income is exempt.

65 years of age and over – The first R34 500 of interest income is exempt.

Interest is exempt if earned by a non-resident person who is an individual and who is physically absent from South Africa for at least 183 days during the 12 month period before the interest accrues, or if the debt from which the interest arises is not effectively connected to a permanent establishment of that non-resident person in South Africa.

Interest exemptions are subject to apportionment in a tax year in which an individual ceases to be a South African tax resident.

South African dividends are generally exempt after the withholding of dividends tax (except to the extent that anti-avoidance provisions have been triggered).

Foreign interest and dividends

There is no exemption in respect of foreign sourced interest income.

Where an individual holds less than 10% of the equity share capital of a foreign company which distributes a dividend, the dividend will be taxed at a maximum effective rate of 20%, as determined by a formula.

No deductions are allowed for expenditure to produce foreign dividends.

Foreign remuneration exemption

Where an employee works abroad for more than a certain amount of qualifying days (see below), that foreign remuneration is exempt from tax in South Africa. The exemption is limited to the first R1.25 million of foreign remuneration.

For the foreign remuneration exemption to be applied, an employee must be rendering services outside of South Africa for more than 183 days in a 12-month period and for more than 60 consecutive days in the same 12-month period.

In an effort to reduce the cash flow burden on the employee, the South African employer may apply to SARS for a tax directive allowing Foreign Tax Credits (FTCs) as a tax reduction in the South African payroll.

Employees who are not remunerated via a South African payroll will be considered provisional taxpayers and will be required to claim the FTCs when filing their provisional and annual tax returns.

Fringe benefit exemption for employer provided bursaries

Employer-provided bursaries to employees are not subject to income eligibility thresholds or monetary limit criteria.

However, there are other criteria, such as repayment conditions, that must be met for the bursary to be exempt entirely.

The remuneration eligibility threshold applicable to employees in respect of bursaries granted to their relatives, is R600 000.

The monetary limits for bursaries to relatives are as follows:

- R20 000 for grade R to grade 12 or for qualifications up to and including NQF level 4; and
- R60 000 for qualifications from NQF level 5 and above.

The monetary limits for relatives with disabilities are as follows:

- R30 000 for grade R to grade 12 or for qualifications up to and including NQF level 4; and
- R90 000 for qualifications from NQF level 5 and above.

No exemption applies if the bursary is subject to an element of salary sacrifice.

Deductions from income – Individuals

Contributions to pension, provident and retirement annuity funds

Employer contributions to South African retirement funds for the benefit of employees are deemed to be taxable fringe benefits in the hands of employees. Depending on the nature of the fund, the fringe benefit is either the actual cash value of the contribution or determined by a formula. The employee will be deemed to have made contributions to the value of the fringe benefit (which, together with their own contributions, may be eligible for a deduction).

The annual tax deduction for contributions to all retirement funds is limited to the lower of R350 000, or 27,5% of the greater of taxable income before the inclusion of a taxable capital gain (excluding retirement and severance lump sums) or remuneration (excluding retirement and severance lump sums).

Any contributions in excess of the limitations will be rolled forward and will be available for deduction in future tax years, subject to the annual limitations applicable in those tax years. Any non-deductible contributions will be available for deduction against retirement lump sums or annuity income on withdrawal or retirement from the fund.

Retirement reform

Effective 1 September 2024 (in terms of the two-pot system regime), persons who contribute to South African retirement funds will have limited pre-retirement access to some of their retirement savings. Marginal tax rates will apply to the savings accessed pre-retirement.

Donations to certain PBOs

Deductions in respect of donations to certain Public Benefit Organisations (PBOs) are limited to 10% of taxable income (excluding retirement fund lump sums and severance benefits).

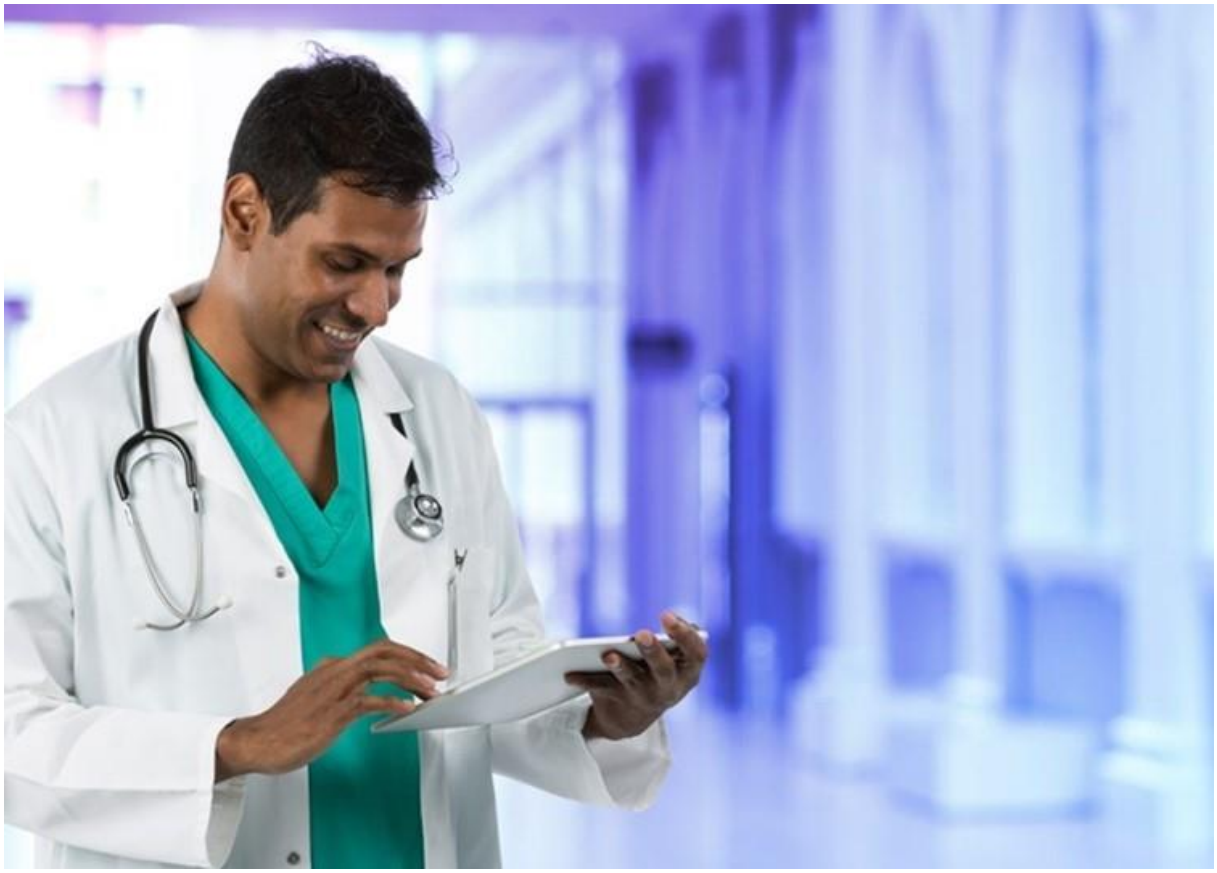
The amount of donations exceeding 10% of the taxable income is treated as a donation to qualifying PBOs in the following tax year. Third-party reporting has been extended to tax deductible donations made, so that SARS can pre-populate these on the relevant tax returns.

Home office deduction

Employees who work from home more than 50% of the time, and have set aside a room to be occupied for the purpose of “trade”, may be allowed to deduct certain expenses incurred in maintaining a home office. The deduction will be calculated on a pro-rata basis, provided that the requirements as set out in section 11(a) of the Income Tax Act, read in conjunction with sections 23(b) and 23(m), are met.

More details are available on the SARS website: Home Office Expenses | South African Revenue Service (sars.gov.za).

Medical and disability expenses



Taxpayers may deduct from their tax liability a tax credit (i.e. a rebate) of:

- R364 per month for each of the first two beneficiaries and
- R246 per month for each additional beneficiary,

in respect of medical aid contributions.

Taxpayers 65 years and older and those with disabilities under the age of 65 years or with disabled dependents may deduct an additional medical expenses tax credit (rebate) equal to 33,3% of the sum of:

- qualifying medical expenses; and
- an amount by which the contributions paid exceed three times (3x) the medical tax credits for the year.

Taxpayers under the age of 65 years may deduct an additional medical expenses tax credit (rebate) equal to 25% of the sum of:

- qualifying medical expenses; and
- an amount by which the contributions paid exceeds four times (4x) the medical tax credits for the year, but limited to the amount which exceeds 7,5% of taxable income (excluding retirement lump sums and severance benefits).

Tax-free savings and investment accounts

All returns received from tax free savings and investment accounts, such as interest, dividends and capital gains, are 100% tax free.

The annual contribution limit is R36 000 from 1 March 2020.

The lifetime contribution limit is R500 000.

Taxation of lump sum benefits

Retirement fund lump sum benefits (retirement or death) and severance lump sum benefits

The tax-free lump sum benefit upon death, retirement, withdrawal after reaching the age of 55, as well as illness, accident, injury, incapacity or in respect of severance benefits (as defined in the Income Tax Act), is R550 000. The tax rates are:

Taxable income	Rates of tax
R1 – R550 000	0% of taxable income
R550 001 – R770 000	18% of taxable income above R550 000
R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

Retirement fund lump sum withdrawal benefits

Retirement fund lump sum withdrawal benefits refer to lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund upon withdrawal from the fund in circumstances that do not qualify for the above rates table. The tax rates are:

Taxable income	Rates of tax
R1 – R27 500	0% of taxable income
R27 501 – R726 001	18% of taxable income above R27 500
R726 001 – R1 089 000	R125 730 + 27% of taxable income above R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

These tax tables apply cumulatively to all lump sum benefits, and include:

- all other retirement fund lump sum withdrawal benefits accruing from March 2009;
- all retirement fund lump sum benefits accruing from October 2007; and
- all severance benefits accruing from March 2011.

Companies and employers

Corporate tax rates

Type	Rates of tax
Companies	
Resident company	27%
Non-resident company	27%
Personal service provider company	27%
Gold mining, oil & gas companies and long-term insurance companies are subject to special rules and tax rates.	
Small business corporations (footnote 1)	
R1 – R95 750	0% of taxable income
R95 751 – R365 000	7% of taxable income above R95 750
R365 001 – R550 000	R18 848 plus 21% of taxable income above R365 000
R550 001 and above	R57 698 plus 27% of taxable income above R550 000
Micro businesses (footnote 2)	
R1 – R335 000	0% of taxable turnover
R335 001 – R500 000	1% of taxable turnover above R335 000
R500 001 – R750 000	R1 650 plus 2% of taxable turnover above R500 000
R750 001 and above	R6 650 plus 3% of taxable turnover above R750 000
Withholding taxes (footnote 3)	
Dividends	20%
Interest paid to non-residents	15%
Royalties paid to non-residents	15%
Amounts paid to non-resident entertainers and sportspersons	15%
Disposal of fixed property by non-residents	Individuals: 7,5%, Companies: 10%, Trusts: 15%

[1] Applicable for years of assessment ending on any date between 1 April 2025 and 31 March 2026.

[2] Micro businesses have the option of making payments for turnover tax, VAT and employees' tax bi-annually. Applicable in respect of years of assessment that end on any date between 1 March 2025 and 28 February 2026.

[3] Subject to double tax agreement relief if paid to a non-resident.

Withholding taxes

If the amount is paid to a non-resident, the applicable withholding tax rate may be reduced by the provisions of an applicable Double Tax Agreement (DTA). The foreign recipient of the royalty, dividend or the interest should provide a written declaration and undertaking to the payor, confirming that the requirements to qualify for a reduced rate under a DTA have been met. These written declarations and undertakings have to be renewed every five years.

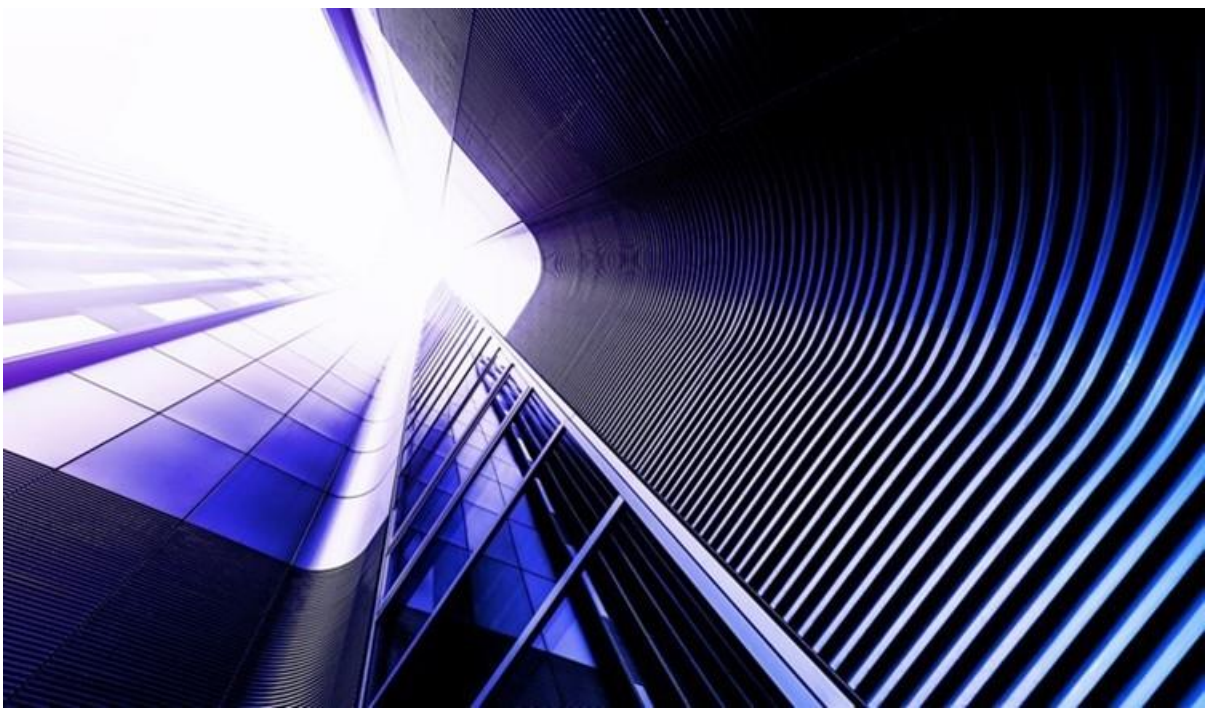
Which companies must submit returns

The Commissioner annually gives public notice of the persons who are required to furnish returns for the assessment of normal tax within the period prescribed in that notice (likely to be issued in June/July 2025).*

The following entities are currently required to submit annual income tax returns:

- every company or other juristic person, which is a resident and which derived gross income or capital gains or losses of more than R1 000, had assets or liabilities of more than R1 000 or had taxable income, taxable turnover, an assessed tax loss or an assessed capital loss;
- every trust which is a resident;
- every company, trust or other juristic person, which is not a resident, and
  - which carried on a trade through a permanent establishment in South Africa;
  - which derived income from a source in South Africa; or
  - which derived any capital gain or capital loss from the disposal of an asset to which the Eighth Schedule to the Income Tax Act applies;
- every company incorporated, established or formed in South Africa, but which is not a resident as a result of the application of any DTA.

*A KPMG Tax Alert setting out the category of persons required to submit a return and any changes in relation to the above requirements, will be issued at the time of publication of the public notice (once available on the SARS website).



Capital gains tax – Companies and trusts

Effective CGT rates

Type of taxpayer	Inclusion Rate	Statutory Rate	Effective Rate
Other trusts i.e. trusts other than 'special trusts' as defined	80%	45%	36%
Companies* (including personal service provider companies and branches of non-resident companies)	80%	27%	21,6%
Small business corporations	80%	0% – 27%	0% – 21,6%

Payroll taxes and levies

Employees' tax / Pay-As-You-Earn (PAYE)

Resident employers, representative employers and with effect from 22 December 2023, non-resident employers who are conducting business through a permanent establishment in South Africa, are required to withhold PAYE from all remuneration paid to employees.

The PAYE must be paid to SARS by the 7th day of the month following the month in which the remuneration is received. If the 7th falls on a weekend or public holiday, the payment must be made by the last business day before the 7th.

Employees' tax and personal income tax administration reforms are expected.

Unemployment Insurance Fund (UIF)

UIF contributions are payable by both resident and non-resident employers to SARS on a monthly basis and are calculated at a rate of 2% of remuneration paid or payable (1% employee and 1% employer contribution, based on the employee's remuneration) to each employee during the month.

The monthly threshold increased to a maximum threshold of R17 712 per month (R212 544 per year) from 1 June 2021.

Employers (including non-resident employers) not registered for PAYE or SDL purposes must pay the contributions to the Unemployment Insurance Commissioner.

With effect from 1 March 2018, foreign nationals working in South Africa and employees undergoing learnership training are subject to UIF.

Skills Development Levy (SDL)

Both resident and non-resident employers with a payroll of more than R500 000 per year must account for SDL at a rate of 1% of total remuneration paid to employees. This is an employer contribution only.

Employment Tax Incentive (ETI)

The ETI was introduced with the objective of generating employment opportunities for young and less experienced work seekers.

The incentive reduces the cost of hiring young people to employers through a cost-sharing mechanism with government, while leaving the wage of the employee unaffected. Compliant employers are able to reduce their PAYE liabilities by claiming ETI.

The ETI was implemented with effect from 1 January 2014 and will end on 28 February 2029.

Eligible employers can claim ETI for a maximum period of 24 qualifying months in relation to qualifying employees.

Employers are able to claim ETI up to a maximum of:

- R1 500 per qualifying employee per month in the first twelve months and up to
- R750 per qualifying employee per month in the second twelve months.

Effective 1 April 2025, the formula to calculate the incentive and the eligible monthly remuneration bands will be adjusted.

The incentive is nil for qualifying employees who earn R7 500 and more.

Monthly remuneration	First 12 months	Second 12 months
R0 to R1 999,99	75% of monthly remuneration	37,5% of monthly remuneration
R2 000 to R4 499,99	R1 500,00	R750
R4 500 to R6 499,99	R1 500 – (0.75 x (monthly remuneration – R4 500))	R750 – (0.375 x (monthly remuneration – R4 500))
Effective 1 April 2025		
Monthly remuneration	**First 12 months**	**Second 12 months**
R0 - R2 499,99	60% of monthly remuneration	30% of monthly remuneration
R2 500 - R5 499,99	R1 500	R750
R5 500 - R7 499,99	R1 500 - (0.6 x (month remuneration - R5 500))	R750 - (0.3 x (month remuneration - R5 500))

Changes proposed per Chapter 4 page 42 Interpretation of the implied changes

ETI reimbursements are classified as refunds for purposes of the Tax Administration Act and accordingly may be subject to the imposition of understatement penalties if ETI is claimed incorrectly.

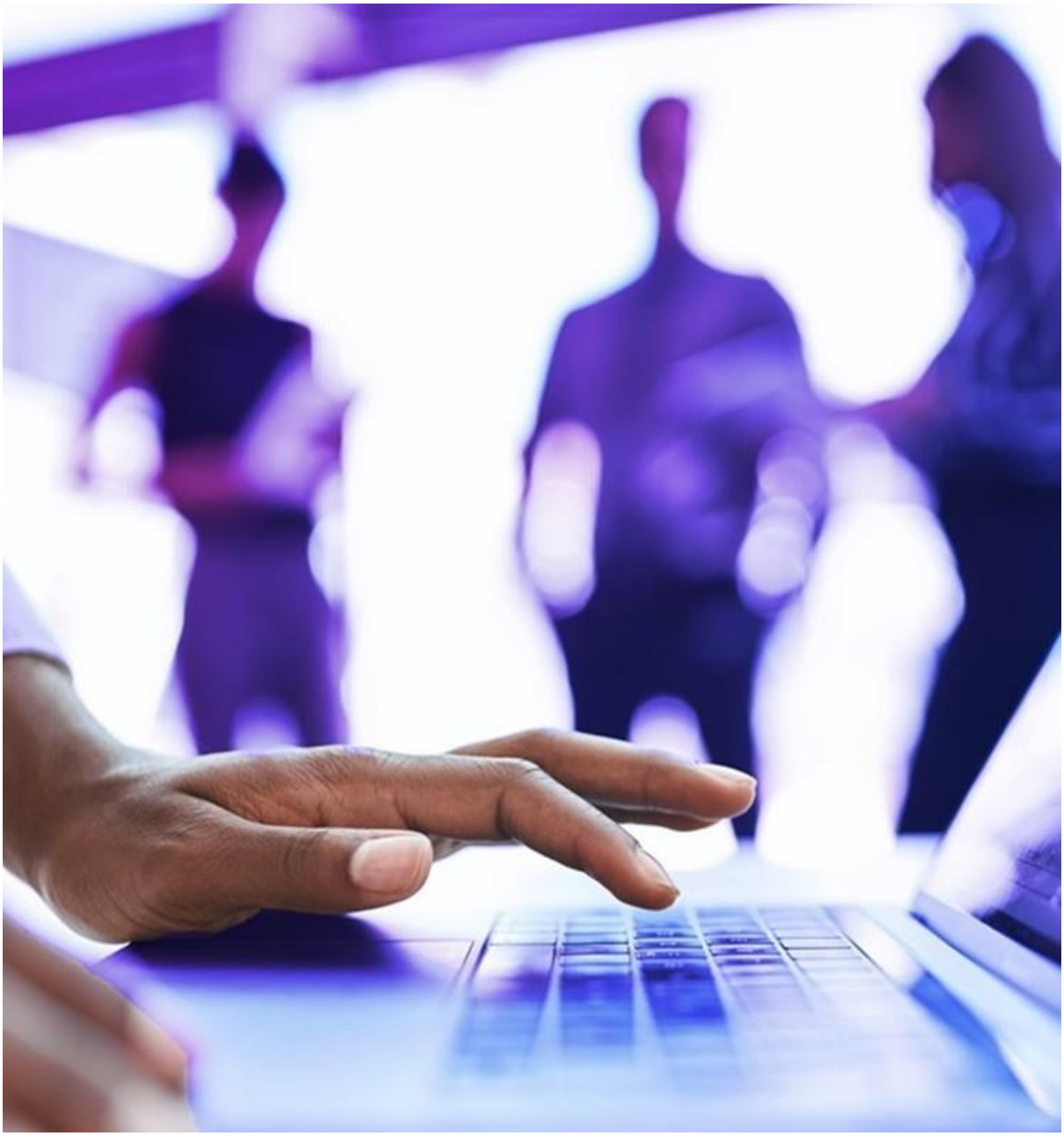
To curb abuse of the ETI, punitive measures have been introduced.

Value-Added Tax

- Standard rate:
  - 16% (from 1 April 2026*)
  - 15,5% (from 1 May 2025*)
  - 15% (from 1 April 2018)
  - 14% (until 31 March 2018)

  *as proposed in the 2025 Budget
- Threshold for compulsory VAT registration: Taxable supplies > R1 million during any 12-month period
- Voluntary VAT registration threshold: Taxable supplies > R50 000 during any 12-month period
- VAT registration threshold for foreign suppliers of “electronic services”:
  - R50 000 (until 31 March 2019)
  - R1 million (from 1 April 2019)

Corporate income tax



Third-party backed shares

Additional anti-avoidance measures will be introduced into section 8EA of the Income Tax Act.

Hybrid-equity instruments

The definition of “hybrid-equity instruments” in section 8E of the Income Tax Act will be amended to address schemes that circumvent the application of the anti-avoidance provisions in relation to preference shares.

Clarifying the order of set-off of the balance of assessed losses and certain deductions

The current assessed loss rules limit the set-off of any balance of assessed losses to 80% of taxable income. Deductions in respect of donations as well as transfers from policyholder funds to the corporate fund in terms of section 29A of the Income Tax Act are also limited with reference to taxable income. Amendments will be introduced to clarify whether the assessed losses limitation or limitation in respect of donations / policyholder fund transfers must be applied first.

Clarifying the roll-over relief for listed shares in asset-for-share transactions

The current provisions of section 42 of the Income Tax Act do not roll over the historical base cost of listed company shares where the company acquiring the listed company shares holds at least either 25% or 35% of the listed company shares following the transaction. This effectively allows the acquiror to have a step up in base cost.

The provisions of section 42 of the Income Tax Act will be amended to reflect the policy intention that the regime for listed company shares should only apply to shareholders holding less than 20% of the shares in the listed company prior to the asset-for-share transaction.

Reviewing the asset-for-share provisions and amalgamation provisions in relation to transactions involving collective investment schemes

The asset-for-share provisions in section 42 of the Income Tax Act as well as the amalgamation provisions in section 44 may apply to the transfer of interest in a collective investment scheme (CIS) allowing the tax neutral transfer of equities to the CIS. The subsequent disposal of the equities by the CIS is however not taxed in terms of paragraph 61 of the Eighth Schedule. The provisions of section 42 and 44 in relation to CIS's will be reviewed.

Clarifying the interest limitation rules

Various amendments are proposed to the interest limitation provisions contained in section 23N and section 23M of the Income Tax Act. These include:

- Limiting the definition of "interest" to be used in the calculation of "adjusted taxable income" in section 23M to interest as defined in section 24J of the Income Tax Act.
- Extending the carve-out to section 23M in relation to back-to-back lending arrangements to arrangements where there is no controlling relationship between the ultimate lending institution and the debtor.
- Clarifying the application of section 23M where no foreign exchange gain accrues to the creditor to make it clear that the underlying debt should first be tested. If the underlying debt falls within the ambit of section 23M, the foreign exchange difference in relation to the debt will also be limited.
- A review of the impact of the 2024 amendments to section 23N in relation to the definition of "adjusted taxable income" and the formula to limit the interest deduction with reference to the definition of "adjusted taxable income" and the formula to limit interest deduction applied in section 23M. The proposed effective date of these amendments is currently 1 January 2027. Any changes in this regard will form part of the 2026 Budget proposals.

Other incentives

Incentives review

The following changes were proposed:

- The urban development zone tax incentive sunset date will be extended by five years from 31 March 2025 to 31 March 2030.
- The section 12L energy-efficiency tax incentive sunset date will be extended by five years from 1 January 2026 to 31 December 2030.

Provisional tax

Provisional tax – individuals / companies

- First payment: To be made within 6 months from the start of the tax year.
- Second payment: To be made by the last day of the tax year.
- Third payment: Voluntary payment to be made within 7 months after the tax year end (if tax year end is 28/29 February), or to be made within 6 months after year end (if tax year end falls on any other date).

A provisional taxpayer is any person who earns income by way of remuneration from an unregistered employer, or income that is not remuneration or an allowance or advance payable by the person's principal. An individual is not required to pay provisional tax if the individual does not carry on any business and the individual's taxable income:

- will not exceed the tax threshold for the tax year; or
- from interest, dividends, foreign dividends, rental from the letting of fixed property will be R30 000 or less for the tax year.

Provisional tax returns showing an estimation of total taxable income for the year of assessment are required from provisional taxpayers.

Deceased estates are not provisional taxpayers.

Provisional tax – penalties on late payment, late submission and underestimation

The following penalties may be imposed:

- A 10% penalty for the late payment of the amount of provisional tax due.
- A 20% penalty for the underestimation of the amount of provisional tax due.
- The 20% underestimation penalty is reduced by the amount of any late payment penalty imposed. Both of these penalties constitute percentage based penalties in terms of section 213 of the Tax Administration Act.

The 20% underestimation penalty will only be triggered in the following scenarios:

- When a taxpayer reports an estimate of taxable income of less than R1 million for the purposes of the second provisional tax return (form IRP6) and that estimate of taxable income is less than 90% of the final assessed taxable income per the assessment (form ITA34) **and** is less than the "basic amount" (i.e. the taxable income per the most recent previous assessment issued).
- When a taxpayer reports an estimate of taxable income of more than R1 million for the purposes of the second provisional tax return (form IRP6) and that estimate of taxable income is less than 80% of the taxable income per the final assessment (form ITA34).

International Tax

Refining the definition of “equity shares” to include foreign company shares

The Income Tax Act defines "dividends" and "return of capital" only in reference to amounts transferred by South African residents. For payments transferred by foreign companies, separate definitions apply for "foreign dividends" and "foreign return of capital." Currently, the definition of an "equity share" applies to shares issued by South African companies, in other words, companies that are tax resident for South African tax purposes. Foreign company shares are not categorised as equity shares for tax purposes. This causes doubt about the tax definition for amounts acquired from or transferred to foreign companies.

The exclusion of foreign company shares from the “equity share” definition means that amounts distributed by foreign companies may not qualify for the same tax treatment as those distributed by South African companies. This results in different tax treatment of local and international equity instruments, which may deter cross-border investments and complicate tax compliance for multinational companies.

National Treasury suggests to define "equity share" to include shares in a foreign company. This would match the tax treatment of domestic and foreign equity instruments, guaranteeing equal treatment of funds transferred by foreign companies. It would also make it easier to classify dividends and repatriation of capital from foreign companies, therefore giving taxpayers with overseas assets more certainty.

Closing the exit charge loophole in controlled foreign company rules

When a foreign company ceases to be a controlled foreign company (CFC), section 9H of the Income Tax Act triggers an "exit charge". In terms of this clause, the foreign company is deemed to have disposed of all of its international assets shortly before it loses CFC status, therefore creating a deemed tax liability on any capital gains. Section 9D(2A) requires that a CFC's "net income" be computed as though the CFC was a taxpayer with South African tax residence (in terms of specific sections in South African domestic tax law). These clauses are meant to prevent tax avoidance should a CFC exit the South African tax base.

Certain arrangements between South African holding companies and their foreign subsidiaries which are CFCs, have been found to enable a CFC to buy all the shares in the South African holding company without incurring an exit tax. This creates a loophole allowing taxpayers to move funds abroad free from the expected capital gains tax implications.

National Treasury suggests changing the Income Tax Act to guarantee that, should a CFC purchase shares in its South African holding company, the section 9H exit tax be triggered. This reform seeks to address the current loophole for strategic cross-border restructuring and guarantee uniform application of the exit tax charge, therefore preventing further erosion of the base.

Adjusting the comparable tax exemption to account for shareholder tax refunds

In terms of South Africa's CFC laws, the net income of a CFC is not imputed, should the CFC pay at least 67.5% of the South African tax that would have been due if the CFC been a tax resident of South Africa. This exemption guarantees that CFCs operating in countries with tax rates equivalent or similar to South Africa are not liable to additional taxes in South Africa.

However, the current comparable tax exemption ignores the tax systems of countries allowing refunds to some shareholders for tax paid by the CFC when declaring dividends. Consequently, the integrity of the comparable tax exemption may be compromised if a CFC initially pays tax that exceeds the 67.5% threshold, as a subsequent shareholder refund could reduce the effective tax paid by the CFC. This leaves a possible gap wherein some foreign tax systems may artificially fulfil the exemption requirements, even with a reduced total tax payment.

Adjusting the comparable tax exemption to account for shareholder tax refunds (cont.)

National Treasury suggests changing the CFC regulations to consider tax refunds earned by shareholders when determining whether a CFC satisfies the 67.5% criteria for the comparable tax exemption. This adjustment seeks to avoid artificial qualification for the exemption and guarantee that the equivalent tax exemption fairly shows the actual tax paid by the CFC.

Aligning foreign tax deductions in terms of section 6*quat* with employment Income deductions

When calculating taxable income, section 6*quat*(1C) of the Income Tax Act enables a taxpayer to subtract foreign taxes paid or proven to be payable to a foreign authority. This clause permits a deduction for taxes paid abroad, therefore offering relief from double taxation. Nonetheless, section 23(m) of the Income Tax Act prevents deductions against income earned from employment, subject to specific limitations.

The list of exclusions under section 23(m) does not currently contain the deduction for foreign taxes allowed under section 6*quat*(1C). Although section 6*quat*(1C) is meant to offer double tax relief, this creates a conflict because taxpayers generating employment income subject to foreign tax may not be able to claim a deduction for those foreign taxes. This discrepancy causes an unintentional limit on the relief accessible for foreign taxes paid on employment income.

To resolve this, National Treasury suggests to change section 23(m) to allow deductions in terms of section 6*quat*(1C). This change will guarantee that taxpayers receiving employment income subject to foreign tax can claim a deduction for those taxes, therefore matching the management of foreign tax deductions with the objective of relief from double taxation.

Taxation of trusts and their beneficiaries

Section 7 and 25B of the Income Tax Act deal with the taxation of trusts, particularly in relation to the taxation of income received by or from a trust.

The flow-through principle's limitation to resident beneficiaries means non-resident beneficiaries' income or gains may not be taxed the same. This could lead to double taxation or income recognition inconsistencies.

National Treasury is of the view that the tax treatment of vested income and assets for non-resident beneficiaries is potentially inefficient where section 7 and 25B interact.

Therefore, National Treasury proposes reviewing section 7 and 25B to identify and resolve unintended tax consequences in relation to non-resident beneficiaries of a trust.

Refining deferral of exchange difference rules on debt between related parties

Section 24I of the Income Tax Act deals with how gains and losses from foreign exchange transactions are taxed. This includes foreign-denominated debts.

Currently, the tax on foreign exchange differences is in some cases postponed until the debt is actually settled or realised. This means that the associated gains or losses are not taxed until the debt is settled or realised.

National Treasury proposes that the tax on the foreign exchange differences would also be triggered when only part of the foreign exchange debt is realised or settled during the year of assessment.

Furthermore, the proposal seeks to clarify the treatment of such debt in financial statements, ensuring consistent classification and tax treatment of these debts for accounting purposes.

Customs and excise

Customs and excise rates increases

Customs and excise rate increases:

- ***Specific excise duties:*** With effect from 12 March 2025, specific excise duties are increased. Alcoholic beverages increased by 6,75%, (while traditional African beer and beer powder remains unchanged). The rate of duty on cigarettes, cigarette tobacco, and electronic nicotine and non-nicotine delivery systems ("vaping") will increase by 4,75%, whereas the rate of duty on pipe tobacco and cigars will increase by 6,75%.
- ***General Fuel Levy & Road Accident Fund Levy:*** The General Fuel Levy and the Road Accident Fund Levy will remain unchanged.
- ***Carbon tax:*** With effect from 1 January 2025, the carbon tax rate increased to R236 per tonne of carbon dioxide equivalent. The carbon fuel levy for 2025 will increase to 14c/litre for petrol and 17c/litre for diesel from 2 April 2025. The carbon tax cost recovery quantum for the liquid fuels refinery sector increased to 0.99c/litre from 1 January 2025.
- ***Health promotion levy***: No increase in the health promotion levy will take effect in 2025 to allow the sugar industry more time to restructure in response to regional competition.
- ***Ad valorem excise duties on smartphones***: With effect from 1 April 2025, government proposes that the ad valorem excise rate of 9% that applies to smartphones will only be applied to smartphones with a price paid greater than R2 500 at the time of export to South Africa.
- ***Adjustment to the diesel refund for the primary sector***: National Treasury proposes to increase the threshold for a refund of the general fuel levy and RAF levy from 80% of eligible diesel purchases to 100% of all eligible diesel purchases declared to SARS, effective from 1 April 2026.
- ***Excise duty increases***: To ease the administrative burden of implementing adjustments on Budget Day, in future years adjustments to excise duties will take effect from 1 April.

Legislative amendment proposals:

- ***Delegation of functions of customs officers and designation of persons as customs officers***: National Treasury proposes to amend the Customs and Excise Act to allow for the delegation of functions of customs officers to persons in the service of an organ of state or institution with whom the Commissioner has concluded an agreement.
  The proposed amendment is aimed at the implementation of the new SARS electronic traveller management system (amongst others).
- ***Customs voluntary disclosure programme***: National Treasury proposes that the Customs and Excise Act be amended to provide for a customs and excise voluntary disclosure programme.
- ***Timing of adjustment of bill of entry***: National Treasury proposes to amend section 40 of the Customs and Excise Act to allow for flexibility in relation to the timing of the adjustment of the bill of entry. This may include, for example, the use of a single consolidated document to be submitted to adjust various affected bills of entry.
- ***Body-worn cameras***: National Treasury is investigating issuing body-worn cameras to customs officers to promote trust, transparency and accountability in relation to the enforcement functions performed by customs officers.
- ***Diesel refund***: National Treasury proposes to amend the Customs and Excise Act to facilitate the implementation of the new diesel refund system.

Customs and excise rates increases (cont.)

- ***Dutiability of waste derived from processing imported goods in manufacturing plants***: National Treasury is considering raising duties on waste derived from processing imported goods in a manufacturing plant to provide for relief when waste is disposed of in a sustainable and environmentally friendly manner, such as recycling.
- ***Movement of fuel products***: National Treasury proposes to review the legislation pertaining to the fuel industry to align it with changes in this industry and to facilitate the movement and storage of fuel products.

Environmental taxes

Carbon tax

Carbon tax rate increase

The Carbon Tax Act specifies that the initial rate of carbon tax of R120 per tonne will be increased by consumer price inflation (CPI) +2% per year until 31 December 2022, whereafter the rate of carbon tax will be increased only by CPI.

In line with this, the carbon tax rate is increased with 24,2% from R190 to R236 per tonne of CO2e.

The amendments will take effect from 1 January 2025.

Carbon fuel levy and carbon tax cost recovery

Effective 2 April 2025, the carbon fuel levy will increase to 14c/litre for petrol and 17c/litre for diesel.

The carbon tax cost recovery quantum for the liquid fuels sector increased from 0.69c/litre to 0.99c/litre, effective 1 January 2025.

Carbon tax - Second phase

A discussion paper outlining proposals for the second phase of the carbon tax was published for public comment in November 2024. The main proposals for carbon tax are to:

- Extend the section 12L allowance to 31 December 2030.
- Extend the commitment to electricity price neutrality to 31 December 2030.
- Increase the carbon offset allowance by 5 percentage points from 1 January 2026.
- Retain the 30% trade-intensity threshold used to determine the trade exposure allowance.
- Maintain the basic tax-free allowance until 31 December 2030.
- Extend the carbon budget allowance for the voluntary carbon budget system until 31 December 2025.
- Introduce a greenhouse gas emission intensity benchmark of 0.94 tCO2e/MWh for the electricity sector from 1 January 2026.
- Extend the utilisation period for carbon offsets until 31 December 2028.

Carbon Tax - Aligning schedule 1 of the Carbon Tax Act

It was announced in the 2025 Budget that the Department of Forestry, Fisheries and the Environment (DFFE) approved country-specific Tier 2 emission factors for natural gas and coal fuel types to be used by data providers to estimate and report stationary and non-stationary fuel combustion emissions.

To ensure alignment between the Carbon Tax Act and the DFFE-approved emission factors, it was announced that changes to the carbon dioxide emission factors and net calorific values for the relevant fuel types are necessary.

It is therefore proposed to change the carbon dioxide factor for sub-bituminous coal from 96 100 to 96 777 kgCO2/TJ and for other bituminous coal from 94 600 to 82 912 kgCO2/TJ in Schedule 1 of the Carbon Tax Act; the net calorific value to be used to convert to tonnes of emissions should be 19.14 MJ/kg for sub-bituminous coal and 26.51 MJ/kg for other bituminous coal; and the carbon dioxide emission factor for natural gas from 56 100 to 55 709 kgCO2/TJ, with a net calorific value of 37.01 MJ/m3.

These proposals are set out in Annexure C to the 2025 Budget Review and the proposed amendments will be effective from 1 January 2026.

Fugitive emissions formula

Section 4(2)(b) of the Carbon Tax Act provides the formulas to be used by companies to calculate the carbon dioxide equivalent (CO2e) emission factors for fugitive emission activities which applies to oil, natural gas and coal mining and handling.

During the 2023 and 2024 Budget Speech, new fugitive emission categories were added. To provide clarity to taxpayers, it is proposed in the 2025 Budget Speech that the formula for oil and natural gas should be used to calculate the CO2e for solid fuel transformation (IPCC code 1B1C) activities, including coke and charcoal production.

Carbon tax (cont.)

Fugitive emissions formula (cont.)

A new formula will be considered for calculating the emission factors for the coal to liquid fuel and charcoal production activities where calorific values may be required to convert emissions to tonnes.

Sequestration deduction

A deduction is provided for carbon dioxide sequestration in forestry plantations. It is proposed to extend the sequestration deduction for the paper and pulp sector to third-party timber sequestration measured and verified in line with the approved protocol effective from 1 January 2026. This extension aims to incentivise informal growers to produce timber which will in turn contribute to economic development and the livelihoods of the producers.

Transfer duty and Securities Transfer Tax

Securities Transfer Tax (STT)

This tax is imposed at a rate of 0,25% on the transfer of listed or unlisted securities.

Transfer duty

Payable on transactions that are not subject to VAT (including zero-rated VAT)

Value of property	Rates payable
R1 – R1 210 000	0% of the value
R1 210 001 – R1 663 800	3% of the value above R1 210 000
R1 663 801 – R2 329 300	R13 614 plus 6% of the value above R1 663 800
R2 329 001 – R2 994 800	R53 544 plus 8% of the value above R2 329 300
R2 994 801 – R13 310 000	R106 784 plus 11% of the value above R2 994 800
R13 310 001 and above	R1 241 456 plus 13% of the value above R13 310 000

Estate duty and donations tax

Estate duty

Estate duty is payable on:

- "Property" and "deemed property" (less allowable deductions) for persons who are "ordinarily tax resident" in South Africa.
- "Property" and "deemed property" (less allowable deductions) as relates to persons who are not tax resident in South Africa.

Estate Duty | South African Revenue Service

Estate duty is levied on the "dutiable value" of an estate at a rate of 20% on the first R30 million. A tax rate of 25% will apply where the dutiable value of an estate is above R30 million.

A basic deduction of R3.5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to Public Benefit Organisations (PBOs) and property accruing to surviving spouses.

Donations tax

A rate of 20% will be payable on the value of property donated. Donations exceeding R30 million in value will be taxed at a rate of 25%.

The first R100 000 of property donated in each year by a natural person is exempt from donations tax. For taxpayers who are not natural persons, exempt donations are limited to casual gifts not exceeding a total of R10 000 per annum. Donations between spouses, South African group companies and to certain PBOs are exempt from donations tax.

Administrative non-compliance penalties

Fixed amount penalties

Taxable income for preceding year	Monthly penalty
Assessed loss	R 250
R 0 – R 250 000	R 250
R 250 001 – R 500 000	R 500
R 500 001 – R 1 000 000	R 1 000
R 1 000 001 – R 5 000 000	R 2 000
R 5 000 001 – R 10 000 000	R 4 000
R 10 000 001 – R 50 000 000	R 8 000
Above R 50 000 000	R 16 000
Maximum successive penalties: 36 months (SARS in possession of address) or 48 months (SARS not in possession of address)	

Administrative non-compliance is the failure to comply with an obligation imposed by or under a tax Act and listed in a public notice by the Commissioner. Failures attracting fixed amount penalties currently include:

- The failure by a natural person to submit an income tax return (subject to further conditions).
- The failure by a reporting financial institution to submit returns in relation to the intergovernmental agreement to implement the United States of America's Foreign Account Tax Compliance Act.
- Certain incidences of non-compliance with the Common Reporting Standard (CRS) Regulations (e.g. failure by a reporting financial institution to submit a return as required, or to remedy the partial or non-implementation of a due diligence required under the CRS Regulations within 60 days, etc.).
- Failure by a company to submit an income tax return as required under the Income Tax Act for years of assessment ending during the 2009 and subsequent calendar years, where SARS has issued the company with a final demand and such company has failed to submit the return within 21 business days of the date of issue of the final demand.

Understatement percentage-based penalties

Behaviour	Standard case	Obstructive or repeat case	Voluntary disclosure after notification of audit	Voluntary disclosure before notification of audit
Substantial understatement	10%	20%	5%	0%
Reasonable care not taken in completing return	25%	50%	15%	0%
No reasonable grounds for tax position	50%	75%	25%	0%
Impermissible avoidance arrangement	75%	100%	35%	0%
Gross negligence	100%	125%	50%	5%
Intentional tax evasion	150%	200%	75%	10%

"Understatement" means any prejudice to SARS or the fiscus as a result of:

- A failure to submit a return
- An omission from a return
- An incorrect statement in a return
- Failure to pay correct amount of tax if no return is required
- An impermissible avoidance arrangement

The burden of proving the facts on which SARS based the imposition of the understatement penalty, is on SARS.

Voluntary Disclosure Programme

Provisions for a general Voluntary Disclosure Programme (VDP) are contained in the Tax Administration Act, in terms of which taxpayers (corporate entities, individuals, etc.), can approach SARS with a view to regularise their tax affairs, with the prospect of remittance of certain penalties.

It was announced in the 2021 budget that the VDP provisions would be reviewed to ensure that the provisions align with strategic and policy objectives of the programme. There has been no subsequent announcement regarding the progress of the review of the VDP provisions.

SARS interest rates

Effective 1 February 2025	
Fringe benefits – interest free or low interest loans	8,5% p.a.
Effective 1 March 2025	
Late or underpayments of tax	11,25% p.a.
Refund of overpayments of provisional and employees' tax	7,25% p.a.
Refund of tax on successful appeal, or where the appeal was conceded by SARS	11,25% p.a.
Refund of VAT after prescribed period	11,25% p.a.
Late payments of VAT	11,25% p.a.
Customs and Excise Duties	11,25% p.a.

Future-ready Tax

A changing landscape – Completing the economic jigsaw

Tax is no longer (only) a compliance function of business, but has become a Strategic Asset

There is no shortage of challenges and opportunities facing today's tax functions. Carrying on as in the past is no longer a viable option. The traditional tax function is undergoing a transformation. This is a response to the constantly evolving business, economic and technological developments happening as we speak.

Tax authorities around the world are moving towards digitised reporting requirements and seeking to collect tax information directly from your company's accounting system (ERP) in real-time. Even locally there is a fundamental shift in how data is being collected and exchanged. We are moving away from information being "pushed" to tax authorities towards a position where data is "pulled" by them.

From SARS's 2024 Vision Statement it is clear that they are moving towards risk-based reviews, that is not return driven, using data (from ERP systems and other third parties) and a stronger technological backbone. Hiring and upskilling resources with data analytical and data management skills are a priority for SARS. Having a technologically inclined workforce that can rely on factual insight directly from data in real time, requiring limited interaction with business on tax, will bring significant efficiency and growth opportunities for tax authorities.

KPMG's response:

Tax Reimagined *– KPMG's framework where we have combined our technology, transformation and compliance capabilities to meet your unique tax business needs.*

- Deploying our solution architects and leveraging this framework, we assist businesses to develop a strategy for your tax function and design a "future-ready" technology-enabled target operating model (TOM) to reduce costs, improve quality and unlock value from your tax and statutory function.
- Every company is unique. Every tax function is too. A bespoke KPMG Tax Reimagined workshop gives you the opportunity to imagine the model that works for you, then brings it to life. Our rapid diagnostics and wealth of benchmarking data can take you from dreaming of the possible to the foundations of a tangible business case in less time than you think.

A changing landscape - Harnessing the power of technology and unlocking the value of a company's data

Data has become a core asset of the 21st century tax function

Tax executives need to look beyond the implementation of a specific compliance tool or technology solution, also considering accessibility, accuracy and completeness of tax data. The concept of "compliance-by-design", whereby tax data is ready for reporting in real-time, has become a critical success factor in today's tax world.

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