SOUTH AFRICAN TAX ADVISORY UPDATE

12 March 2025

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THE SOUTH AFRICAN BUDGET SPEECH 2025

Introduction

Following a delay of three weeks, South African Minister of Finance, Enoch Godongwana, finally delivered his 2025 Budget Speech on the 12th of March 2025. This speech was originally scheduled for the 19th of February 2025 but was postponed at the last minute because of objection from members of Government on a proposed increase of 2 percentage points in the VAT rate to 17 percent.

The compromise reached on the originally planned 2 percentage points increase in VAT was:

- A 0.5 percentage point increase in the VAT rate to 15.5 percent effective from 1 May 2025.
- A further 0.5 percentage point increase in the VAT rate to 16 percent effective from 1 April 2026.
- No inflationary adjustments to personal income tax brackets, rebates and medical credits.

As has been the custom for the last number of years, the largest part of the budget speech did not deal with tax issues but rather various social and funding issues that South Africans are well familiar with.

Tax brackets, rebates and credits

- There will be no adjustments for inflation to personal income tax brackets or rebates.
- There will be no changes to medical credits.

Other taxes, levies and incentives

- There will be no change to the fuel levy.
- There will be above-inflation increases on alcohol and tobacco excise duties.
- The monetary thresholds for transfer duty will be adjusted by 10 percent to compensate for inflation.
- The formula to calculate the employment tax incentive will be adjusted, in part due to adjustments of minimum wages.

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- The sunset date for the urban development zone tax incentive has been extended to 31 March 2030.
- The future application of the renewable energy allowance will be clarified.
- Various changes to carbon taxes and incentives are proposed.
- A previously announced increase in the health promotion levy on sugary beverages has been cancelled to allow the sugar industry more time to restructure in response to regional competition.
- Adjustments to the diesel refund scheme that applies to the farming, mining and forestry industries are proposed.

VAT

- From 1 April 2025, zero rating will be extended to include edible offal of sheep, poultry, goats, swine and bovine animals; specific cuts such as heads, feet, bones and tongues; dairy liquid blend; and tinned and bottled vegetables.
- Changes to the VAT treatment of goods purchased online will be considered as many offshore suppliers of these goods are not registered for VAT.

Tax treaty network

- Government aims to expand South Africa's tax treaty network and renegotiate some existing treaties to strengthen economic and trade relations, prevent double taxation and tax abuse, and enhance regional cooperation.

Foreign pensions

- Due to possible double non-taxation, it is proposed that changes be made to the rules that currently exempt lump sums, pensions and annuities received by South African residents from foreign retirement funds for previous employment outside South Africa.

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The flow-through taxation of trusts and their beneficiaries

- In 2023 amendments were made to the rules relating to the taxation of trusts and their beneficiaries by limiting the flow-through principle to resident beneficiaries, resulting in tax being payable in the Trust when distributions are made to non-resident beneficiaries. Due to the interaction of the deeming rules in section 7 and the flow-through rules of section 25B of the Income Tax Act, there could be unintended consequences where non-residents are involved. It is proposed that these aspects be reviewed.

Collective investment schemes (CIS)

- As the law currently stands, investors can transfer shares to CISs on a tax neutral basis. In addition CISs are not subject to capital gains tax on the disposal of their assets. This regime has been under scrutiny by the legislator for a number of years and proposed changes on various aspects of CIS taxation are once again proposed.

Additional tax amendments proposed for the upcoming legislative cycle include:

The Budget documentation also include topics which are currently being considered for possible tax law amendment, with a number of these aimed at closing perceived loopholes. These include:

- As is the case every year, refining the corporate reorganisation rules. Rules applying to asset-for-share transactions involving listed shares will specifically be addressed.
- Section 20A of the Income Tax Act deals with so-called anti-hobby legislation. Taxpayers on the highest income tax bracket are not allowed to offset losses from certain trades against other sources of income. It is proposed to review the tax rate at which this ring-fencing will apply.
- Clarifying the ordering of set-off of balance of assessed losses relating to policyholder funds of long-term insurers.
- Various proposals relating to interest, including the definition of ‘interest’ and interest limitation rules.
- Widening the rules that apply to exit charges where a foreign company ceases to be a controlled foreign company.
- Refining the high tax exemption that applies to controlled foreign companies to take into account refunds of foreign taxes.

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- Refining provisions which defer exchange difference on debt between related companies. In addition, clarity will be provided on the classification of debt that is not recognised in the financial statements for financial reporting purposes.
- Clarifying the meaning of '*bona fide* inadvertent error' for purposes of understatement penalties.

As always, if you have any queries or would like to discuss the draft legislation in more detail, please contact your Relationship Manager, or our in-house tax specialists.

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