

Media release
For immediate release

Will there be a “B” in the Budget?

As the South African Minister of Finance prepares to deliver the 2026 Budget Speech, anticipation is mounting around the tax measures that will be announced to secure sustainable revenue for the coming financial year and beyond.

Christian Wiesener, a member of SAICA’s Transfer Pricing sub-committee and Associate Director at KPMG, explains that transfer pricing remains a prominent issue both in South Africa and globally, and that in this context, the Organisation for Economic Cooperation and Development’s (OECD) simplification and streamlining mechanism, known as “Amount B” and forming part of the Base Erosion and Profit Shifting (BEPS) initiative, has recently attracted renewed attention.

Focus on transfer pricing

Transfer pricing is a complex area of tax and applies in respect of cross-border intragroup transactions between members of Multinational Enterprise (MNE) Groups. The overarching principle is that when transacting with one another, the members of the MNE must do so in accordance with the arm’s length standard, which is globally accepted. Nevertheless, transfer pricing is not an exact science, and it is often technical and challenging for taxpayers to demonstrate that cross-border intragroup transactions are entered into in accordance with the arm’s length standard. There may therefore also be planning opportunities for MNE Groups, and therefore revenue authorities need to enforce transfer pricing compliance to counter a potential erosion of the tax base.

Transfer pricing has long been earmarked as an area of tax where the potential for MNE Groups to shift profits to low tax jurisdictions promises tax authorities significant opportunity to increase tax revenues. This is because transfer pricing challenges usually expand over several years and, if successful in its challenge, the relevant tax authority makes a transfer pricing adjustment resulting in additional income tax, as well as penalties and interest, and in some jurisdictions also a secondary adjustment in the form of dividends tax or similar. For example, consider a wholesale distribution entity in South Africa that procures stock from its foreign affiliate and sells it to South African third-party customers. If the South African Revenue Service (SARS) challenges



the pricing of these transactions, arguing that the purchase price was not at arm's length and was too high¹, it may adjust the entity's taxable income. Suppose SARS increases the taxable income from R20 billion to R26 billion. In this case, the additional income tax, dividends tax (as a secondary adjustment), interest, and penalties could easily total R2.6 billion. Even if the entity is loss-making, SARS could still benefit significantly. This is because, despite no income tax being payable, dividends tax, interest, and penalties would still result in an immediate cash outflow.

Furthermore, new methods for managing or resolving transfer pricing disputes, such as Advance Pricing Agreements and Arbitration, have been introduced or are being developed in South Africa and other countries. Another approach aimed at reducing disputes and simplifying transfer pricing is the OECD's Amount B simplification and streamlining mechanism. However, while Amount B helps to clarify transfer pricing rules, it also provides revenue authorities with a reliable income stream and limits tax planning opportunities for businesses. So, what is Amount B?

The OECD worked on a proposed solution for Amount B for several years since the 2021 OECD statement, when 137 countries agreed on the need to develop the approach. In February 2024, in line with the timeframe it had set, the OECD then released its initial report, acknowledging that some further work was still in progress. Further updates were released throughout 2024, and the consolidated report was then published in February 2025 (OECD 2025: https://www.oecd.org/en/publications/consolidated-report-on-amount-b_182b47ad-en.html)

Amount B is, simply put, a simplified and streamlined approach, which provides a framework to simplify the application of the arm's length principle to baseline marketing and distribution activities. What this means is that Amount B in essence provides a suggested operating margin (return on sales) profit mark-up for certain routine distribution entities. The approach is limited to entities purchasing from a foreign affiliate and selling to third party customers on a wholesale basis. While certain retail activities may be permitted, the relevant entity would need to be able to clearly segment the return in respect of the wholesale activity. Several activities, in addition to the wholesale activity, would however result in Amount B not being applicable (e.g., the provision of services, the trade in commodities).

¹ SARS will perform a transfer pricing adjustment if the price of a transaction between connected persons (related parties) is too high (i.e., not at arm's length), as this reduces the taxable income in South Africa.

The OECD designed the rules for Amount B to be intentionally broad. Each jurisdiction can choose how to implement Amount B: either as an elective safe harbour, allowing eligible taxpayers to decide whether to apply the mechanism, or as a mandatory requirement, where taxpayers must comply once the criteria are met. While the mandatory approach is stricter, it offers greater certainty and consistency for both taxpayers and revenue authorities.

While Amount B is designed to constitute a simplification mechanism, its application appears quite technical in that specific qualitative and quantitative scoping criteria need to be observed. The reason for this is that for example, entities exhibiting economically more involved characteristics such as unique and valuable intangibles or excluded transactions as mentioned above, would be excluded on the basis that they are not comparable. Additionally, where annual operating expenses are very low or significantly higher than is expected, for example these expenses exceed 30% of net revenues, Amount B would also not be applicable.

Once it has been determined that an entity falls within the scope of Amount B, in that there are no exclusions, a pricing matrix which has been determined by the OECD suggests the correct pricing, in the form of return on sales, depending on the entity's industry classification as well as a factor intensity classification. Essentially, this means that based on this matrix, the return on sales could be anywhere between 1.5% and 5.5%. Following the determination of the pricing, an operating expense cross-check is applied, and this is merely to corroborate the pricing determined.

It is interesting to note that during the work performed by the OECD there was a focus on ensuring that the approach was fair and would also take into account the specific economic and industry circumstances in so-called low-capacity jurisdictions (these are primarily jurisdictions with lower sovereign credit ratings and a lack of sufficient comparable data for benchmarking purposes). In essence, such jurisdictions would apply a specific formula often resulting in a slightly higher return on sales mark-up than elsewhere.

A concern raised by many has been the implementation of Amount B, because there are a number of different ways in which it can be implemented and applied. However, the consolidated report sets out measures that should ensure that Amount B will not result in double taxation, for example, because one jurisdiction applies Amount B to a transaction, whereas the jurisdiction of the counterparty does not. The OECD has also published a Model Competent Authority Agreement, which would help achieve commitment and certainty.

A further step towards certainty and consistency is the OECD's Pricing Automation Tool, which is updated annually. With the release of the 2026 version, the OECD stated:

"The Pricing Automation Tool is designed to automatically compute the Amount B return for an in-scope tested party, requiring only minimal data inputs. It is intended to further optimise the administrative and simplification benefits of Amount B for both tax administrations and taxpayers. The tool will be updated annually to reflect any changes to the pricing matrix and other datapoints relevant to application of Amount B adjustment features." (OECD, February 2026 at: <https://www.oecd.org/en/topics/sub-issues/transfer-pricing/pillar-one-amount-b.html>)

Why does this matter for South Africa?

As indicated above, Amount B is designed to simplify and streamline the transfer pricing process for baseline wholesale distribution activities. This is particularly relevant for South Africa, which is a net importer of goods. Most foreign MNE Groups selling into South Africa operate through limited-risk distribution entities. If these distribution entities meet the requirements for Amount B, the mechanism would apply, and the taxpayer would be required to achieve a return on sales ratio in line with the prescribed pricing matrix.

Currently, without Amount B, determining the arm's length price for a distributor relies on a benchmarking study. While this provides useful guidance, the broad nature of transfer pricing means that such studies typically result in a weighted average interquartile range. Taxpayers can then select a point within this range that best reflects their circumstances. In practice, pricing often falls toward the lower end of the range identified in the benchmarking analysis. Adjustments are only made if the taxpayer's results fall outside the range and are identified, for example, during a SARS transfer pricing audit. In such cases, the return is adjusted to the median of the range.

In contrast, Amount B's pricing matrix is more targeted, offering a narrower range and promoting more accurate revenue collection. Additionally, as South Africa is considered a low-capacity jurisdiction, the accepted "upliftment" under Amount B would generally result in a more appropriate level of return for local distributors. This contrasts with global benchmarking studies, which often yield lower returns compared to what is appropriate for the South African market. Thus, while Amount B would provide benefits to the taxpayer, such as certainty, consistency and given that the OECD has provided the pricing tool also a lower cost for performing the analysis, it would also ensure appropriate revenue collections for SARS from qualifying entities.

Furthermore, it should be noted that the African Tax Administration Forum has clarified that it is supportive of Amount B and in fact already introduced suggested draft rules in its suggested approach to transfer pricing for its members. Thus, the introduction of Amount B would also be beneficial where the principal entity selling to its routine distributors in other African countries is located in South Africa, as broad reliance on the rules would mitigate double taxation and ensure that the right residual profit is retained and taxed in South Africa.

Conclusion

It is widely anticipated that South Africa will move forward with the implementation of Amount B, given the potential benefits for the South African fiscus outlined above. Since Amount B would not require additional skills and could actually ease the workload for SARS auditors, it presents an attractive opportunity to boost tax revenues efficiently. The key question now is whether the Minister of Finance will address this development in his Budget Speech on 25 February 2026. All eyes will be on his announcements as he takes the stage.

Issued by the SAICA Corporate Affairs and Stakeholder Engagement Team

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