4

2025 BUDGET REVIEW

REVENUE TRENDS AND TAX PROPOSALS

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

REVENUE TRENDS AND TAX PROPOSALS

In brief

- The revised tax revenue estimate for 2024/25 is R1.84 trillion, which is R19.3 billion less than expected in the 2024 Budget.
- To address spending needs, tax policy proposals are designed to raise R58 billion in additional revenue in 2025/26.
- Government proposes to increase the value-added tax (VAT) rate by 2 percentage points to 17 per cent.
- To provide relief to poor households, government proposes additional VAT zero rating of essential food items and no changes to the fuel levy.
- Building on the progress made in revitalising the South African Revenue Service (SARS), government will continue to protect and broaden the tax base.

OVERVIEW

The tax system raises the revenue needed to fund government programmes and deliver services. Tax revenue for 2024/25 is expected to amount to R1.84 trillion, which is R19.3 billion less than projected at the time of the 2024 Budget. In light of new and persistent spending pressures, government has taken the difficult decision to raise the VAT rate by 2 percentage points to 17 per cent. The increase enables additional funding to several key functions and policy priorities, as outlined in earlier chapters.

Tax policy measures proposed in the 2025 Budget are designed to raise R58 billion in additional revenue in 2025/26. A VAT increase affects everyone, and government is mitigating the adverse effects for poorer households, including through above-inflation increases to social grants and expanding the list of foods zero rated for VAT. Other tax proposals include full inflation adjustment of the bottom two personal income tax brackets, partial adjustment of the remaining income tax brackets, above-inflation increases on alcohol and tobacco excise duties, and diesel refund relief for primary sectors.

These proposals are designed to maintain the progressive character of South Africa's tax system. Government remains committed to broadening the tax base and improving tax administration to support sustainable revenue collection and economic growth.

REVENUE COLLECTION AND OUTLOOK

Revenue collection has fallen short of expectations over the past year in line with economic outcomes. The tax-to-GDP ratio is expected to increase marginally from 24.5 per cent in 2023/24 to 24.7 per cent in 2024/25.

Although corporate tax receipts benefited from better-than-expected profitability, slower import growth led to underperformance in import VAT collections. Fuel levy receipts contracted amid falling demand and large diesel refund payments. Import VAT collections fell by more than 20 per cent between 2022/23 and 2023/24 as nominal imports slowed sharply. While this trend has since moderated, tax receipts contracted by 2.3 per cent in the first 10 months of 2024/25 compared with the same period in the previous year.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2023/24			2024/25			Percentage change[3]
	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	
Taxes on income and profits	**997 924**	**1 008 556**	**10 632**	**1 084 989**	**1 095 686**	**10 698**	**8.6%**
Personal income tax	649 783	648 911	-872	738 749	734 268	-4 481	13.2%
Corporate income tax	301 367	313 097	11 730	302 702	314 634	11 931	0.5%
Dividends tax	39 705	39 173	-532	36 142	38 108	1 966	-2.7%
Other taxes on income and profits[4]	7 069	7 375	305	7 395	8 677	1 282	17.7%
Skills development levy	**22 713**	**22 604**	**-109**	**24 500**	**24 493**	**-7**	**8.4%**
Taxes on property	**19 486**	**19 400**	**-86**	**20 600**	**21 339**	**739**	**10.0%**
Domestic taxes on goods and services	**616 951**	**616 459**	**-492**	**654 290**	**623 020**	**-31 270**	**1.1%**
Value-added tax	445 340	447 557	2 216	476 749	459 963	-16 786	2.8%
Specific excise duties	53 942	53 522	-420	58 184	58 171	-14	8.7%
Health promotion levy	2 254	2 245	-9	2 398	2 306	-92	2.7%
Ad valorem excise duties	7 782	7 348	-435	6 847	6 962	116	-5.2%
Fuel levy	93 372	91 508	-1 864	95 771	80 624	-15 147	-11.9%
Other domestic taxes on goods and services[5]	14 261	14 280	19	14 342	14 994	652	5.0%
Taxes on international trade and transactions	**74 279**	**73 849**	**-430**	**78 655**	**79 162**	**507**	**7.2%**
Customs duties	72 492	70 549	-1 944	76 818	76 255	-563	8.1%
Health promotion levy on imports	107	115	8	114	138	24	20.0%
Diamond export levy	155	137	-18	163	89	-74	-35.4%
Export tax	401	411	10	422	463	42	12.7%
Miscellaneous customs and excise receipts	1 124	2 637	1 514	1 140	2 218	1 078	-15.9%
Gross tax revenue	**1 731 353**	**1 740 870**	**9 517**	**1 863 035**	**1 843 701**	**-19 334**	**5.9%**
Non-tax revenue[6] *of which:*	61 294	62 944	1 650	41 856	41 146	-711	-34.6%
Mineral and petroleum royalties	*15 718*	*15 979*	*262*	*16 000*	*11 342*	*-4 658*	*-29.0%*
Less: SACU[7] payments	-79 811	-79 811	–	-89 871	-89 874	-3	12.6%
Main budget revenue	**1 712 836**	**1 724 003**	**11 167**	**1 815 020**	**1 794 972**	**-20 048**	**4.1%**
Provinces, social security funds and selected public entities	208 587	223 974	15 387	221 602	231 671	10 069	3.4%
Consolidated budget	**1 921 423**	**1 947 977**	**26 554**	**2 036 623**	**2 026 643**	**-9 979**	**4.0%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2024 Budget Review estimates
3. Percentage change between outcome in 2023/24 and revised estimate in 2024/25
4. Includes interest on overdue income tax and interest withholding tax
5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax and International Oil Pollution Compensation Fund
6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
7. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Stable power supply led to lower imports of energy-related components, which alongside weaker investment subdued demand for imports. Despite domestic VAT performing better than expected, the contraction in import VAT led to significant downward revisions to net VAT collections compared with 2024 Budget estimates.

Table 4.2 Budget revenue outcomes and outlook[1]

R million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Outcome			Revised	Medium-term estimates		
Taxes on income and profits[2]	**912 870**	**988 505**	**1 008 556**	**1 095 686**	**1 173 603**	**1 263 179**	**1 351 781**
of which:							
Personal income tax	*553 951*	*600 367*	*648 911*	*734 268*	*800 457*	*850 916*	*910 810*
Corporate income tax	*320 447*	*344 660*	*313 097*	*314 634*	*325 040*	*360 369*	*385 482*
Skills development levy	19 336	20 892	22 604	24 493	26 006	27 811	29 773
Taxes on property	22 033	21 238	19 400	21 339	22 840	24 314	25 920
Domestic taxes on goods and services	549 806	579 990	616 459	623 020	722 518	767 261	812 261
of which:							
VAT	*390 895*	*422 416*	*447 557*	*459 963*	*545 440*	*579 133*	*612 457*
Taxes on international trade and transactions	59 719	76 068	73 849	79 162	87 131	93 364	99 505
Gross tax revenue	**1 563 754**	**1 686 697**	**1 740 870**	**1 843 701**	**2 032 097**	**2 175 929**	**2 319 239**
Non-tax revenue[3]	46 485	56 201	62 944	41 146	37 763	32 501	32 145
of which:							
Mineral and petroleum royalties	*28 456*	*25 338*	*15 979*	*11 342*	*11 606*	*12 540*	*13 410*
Less: SACU[4] payments	-45 966	-43 683	-79 811	-89 874	-73 552	-77 527	-91 201
Main budget revenue	**1 564 273**	**1 699 215**	**1 724 003**	**1 794 972**	**1 996 308**	**2 130 902**	**2 260 184**
Provinces, social security funds and selected public entities	190 493	201 576	223 974	231 671	251 420	258 959	273 997
Consolidated budget revenue	**1 754 766**	**1 900 791**	**1 947 977**	**2 026 643**	**2 247 728**	**2 389 861**	**2 534 180**
As percentage of GDP							
Tax revenue	*24.7%*	*24.9%*	*24.5%*	*24.7%*	*25.4%*	*25.5%*	*25.5%*
Main budget revenue	*24.7%*	*25.1%*	*24.3%*	*24.0%*	*24.9%*	*25.0%*	*24.9%*
GDP (R billion)	*6 325.6*	*6 763.5*	*7 094.8*	*7 477.9*	*8 003.8*	*8 520.4*	*9 083.2*
Tax buoyancy	*1.99*	*1.14*	*0.66*	*1.09*	*1.45*	*1.10*	*1.00*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes dividends tax, interest withholding tax and interest on overdue income tax
3. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
4. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and SARS

Similarly, demand for fuel fell sharply during 2024/25, and fuel levy collections declined by 10.6 per cent over the first 10 months of the year. Volumes of domestic and imported diesel contracted as load-shedding subsided. Significant diesel refund claims will be settled by the end of 2024/25, further reducing fuel levy collections.

In contrast, corporate tax collections are expected to outperform 2024 Budget estimates. Although provisional corporate tax collections from the mining sector contracted by 28 per cent during 2024/25, this was offset by profits in other sectors.

Personal income tax collection grew at 13.1 per cent over the first 10 months of 2024/25 compared with the same period in the prior year. This reflects the impact of tax policy measures announced in the 2024 Budget and larger-than-expected tax receipts from withdrawals once the two-pot retirement reform came into effect on 1 September 2024. Overall, personal income tax collections are revised down relative to 2024 Budget estimates, in line with a weaker outlook for employee compensation in 2024/25.

Medium-term revenue outlook

The medium-term revenue outlook is revised up by R189.2 billion relative to the 2024 *Medium Term Budget Policy Statement*. As shown in Table 4.3, the increase in the VAT rate in 2025/26 is expected to contribute significantly to additional revenue collection. There is an improved outlook for employee compensation in 2025/26 which, alongside additional revenue expected from two-pot savings component withdrawals, will support stronger personal income tax collections.

The buoyancy of tax revenue for a given level of economic growth is expected to be higher over the medium term, mainly due to the policy measures implemented from 2025/26 and higher personal income tax collections.

The tax-to-GDP ratio is expected to reach 25.5 per cent by 2027/28, supported by an improved economic outlook. Gross tax revenue collections are expected to increase by 10.2 per cent in 2025/26, 7.1 per cent in 2026/27 and 6.6 per cent in 2027/28. This translates into gross tax revenue increasing from an expected R1.84 trillion in 2024/25 to R2.32 trillion in 2027/28. Higher revenue collection requires sustained investment and economic growth, supported by continued improvements in tax administration.

TAX POLICY

A broad tax base, combined with relatively low tax rates and improved tax administration, supports sustainable revenue-raising and economic growth over the long term. A tax rate increase has, however, become unavoidable to ensure adequate funding for policy priorities while maintaining fiscal sustainability.

Increasing tax rates affects the economy, the behavioural response of taxpayers, and considerations of inequality and fairness. In balancing these considerations, government aims for a tax policy mix that generates sufficient revenue while promoting economic growth, efficiency and transparency, with careful consideration of the relative economic and distributional impact of different taxes.

During 2024, two longer-term policy reforms came into effect: the global minimum tax and the two-pot retirement reform. The global minimum tax is expected to increase the amount of corporate tax collected over time. It requires large domestic and foreign multinationals operating in South Africa, as well as South African multinationals in other jurisdictions, to pay more corporate income tax to SARS from 2026/27 if their effective tax rate is below 15 per cent. The two-pot retirement reform has alleviated some near-term revenue pressure through larger-than-expected tax receipts from withdrawals, even though that was not the policy focus of the reform.

Two-pot retirement reform

The two-pot retirement reform took effect on 1 September 2024. This reform was described extensively in Chapter 4 of the 2024 *Budget Review*. One-third of retirement fund contributions now go into a "savings component", while two-thirds go into a "retirement component". Retirement fund members can make one withdrawal per tax year from the savings component. Pre-retirement withdrawals from the savings component are taxable at marginal tax rates, like all other income.

To date, the revenue collected has surpassed the initial estimate of R5 billion for 2024/25, with tax collections amounting to R11.1 billion as of end-January 2025. Withdrawals are expected to continue into the medium term as fund members access their savings component.

Tax administration update

Over the past five years, SARS has made significant progress in rebuilding and modernising its systems by shifting to online services and automating many of its processes to improve service, detect fraud and enhance compliance. In 2025/26, SARS will focus on addressing the tax gap to improve revenue collection. This will be done by improving taxpayer compliance and trade facilitation by leveraging artificial intelligence and data science. SARS is deploying technologies to simplify its processes and enhance the single window platform to improve taxpayer and trader service. Adopting scanning technologies and intelligent image analysis will significantly reduce inspection times through ports of entry. The traveller declaration system is being modernised to provide digital services to cross-border travellers and state entities, reducing illicit financial flows and other risks.

TAX PROPOSALS

The 2025 Budget tax proposals are designed to increase revenue collection. In addition, guidance is provided on the future of the carbon tax.

Revenue measures are expected to raise R58 billion in 2025/26, adding significantly to tax collections over the medium term. The largest contribution is from the increase in the VAT rate. To mitigate the impact of this increase on households, the basket of VAT zero-rated foodstuffs will be expanded and the general fuel levy will not be increased. Personal income tax brackets and rebates will be adjusted to account for inflation. Excise duties on alcohol and tobacco products will be adjusted above the expected inflation rate.

Table 4.3 Impact of tax proposals on medium-term revenue[1]

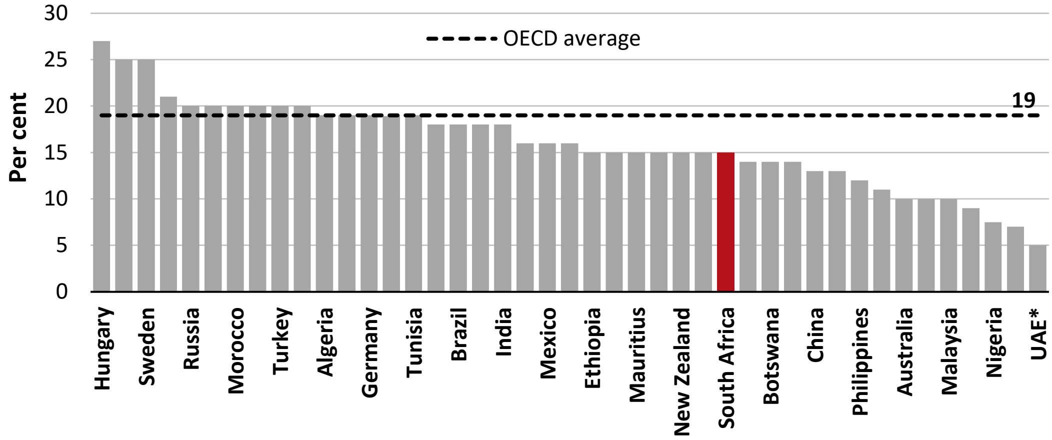
R million	2025/26	2026/27	2027/28
	Effect of tax proposals		
Gross tax revenue (before 2025 Budget tax proposals)	**1 974 097**	**2 115 419**	**2 255 343**
2025 Budget proposals[2]	**58 000**	**-1 000**	
Direct taxes[3]	**3 000**	**3 157**	**3 332**
Personal income tax			
Partial inflationary adjustment to tax brackets and rebates	1 500	1 589	1 694
No inflationary adjustment to medical tax credits	1 500	1 568	1 637
Indirect taxes[3]	**55 000**	**57 353**	**60 564**
Value-added tax (VAT)			
Increase in VAT rate	60 000	63 675	67 300
Additional zero rating	-2 000	-2 128	-2 261
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 258	-4 539
Diesel refund relief for primary sectors	–	-1 000	-1 066
Specific excise duties			
Above-inflation increase in excise duties on alcohol and tobacco	1 000	1 064	1 130
Net impact of tax proposals	**58 000**	**60 510**	**63 896**
Gross tax revenue (after tax proposals)	**2 032 097**	**2 175 929**	**2 319 239**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. In-year tax increase with no carry through
3. Includes carry-through effect of tax policy proposals
Source: National Treasury

Increasing the VAT rate

The 2-percentage-point increase in the VAT rate takes effect on 1 April 2025. In making this decision, government carefully considered the potential contributions of each of the main tax instruments. VAT is an efficient source of revenue. It is broad based, and its design is simple with minimal exceptions. Moreover, South Africa's VAT rate is still relatively low compared with peer countries (Figure 4.1).

Figure 4.1 Comparative standard VAT rates by country, 2024/25



**UAE refers to United Arab Emirates*
Source: https://www.vatcalc.com/vat-rates/ and National Treasury calculations

VAT is a tax on consumption. A rate increase affects all households through price increases, but most VAT is paid by higher-income households, which consume more. Over 75 per cent of VAT revenue is derived from households in the top four expenditure deciles, which roughly corresponds to households that spend R118 000 or more per year (Figure 4.2).

Figure 4.2 VAT paid per expenditure decile, 2022/23*

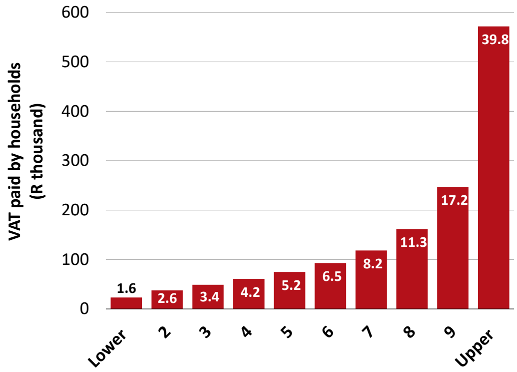


Figure 4.3 Personal income tax as a share of GDP and top rates, 2024

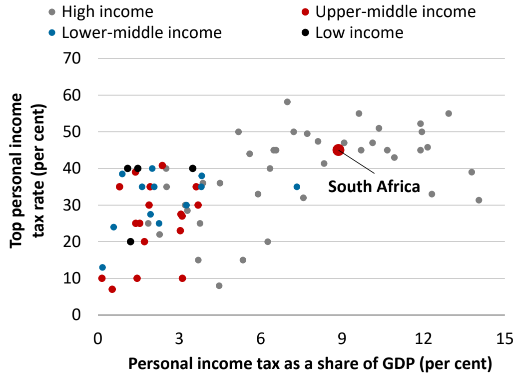


Figure 4.4 Corporate income tax as a share of GDP

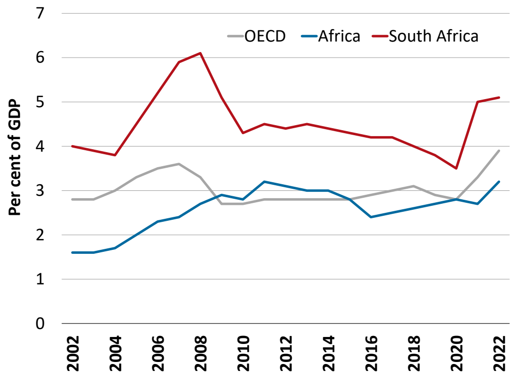
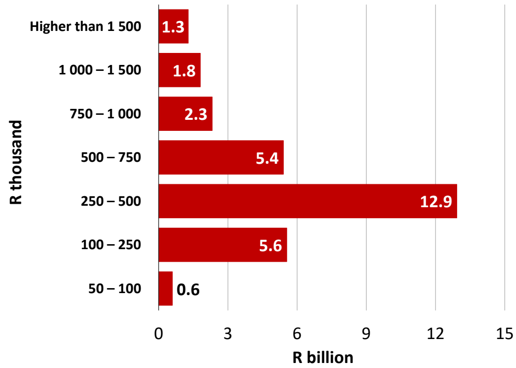


Figure 4.5 Medical tax credit claims by income group, 2023/24



**Data labels refer to the proportion of total VAT paid per expenditure decile*

Source: Statistics South Africa, OECD, World Bank, PwC, SARS and National Treasury

Increasing taxes on consumption through a higher VAT rate will have the least detrimental effect on economic growth and employment over the medium term, relative to increases in personal or corporate income taxes.

Raising personal income tax rates is likely to be inefficient as taxpayers make adjustments to reduce their tax liabilities. Higher personal income tax rates would also reduce the incentive to work and save, with potentially larger negative impacts on the economy. Over the past decade, several tax policy measures have been implemented to raise personal income taxes. Although these have increased the tax burden on individuals, they have generated less revenue than expected. Most recently, the 2024 Budget did not adjust personal income tax brackets or medical tax credits for inflation. South Africa's personal income tax collection measured as a contribution to GDP, and the top tax rate, are far higher than those of most developing countries (Figure 4.3).

Similarly, increases in the corporate tax rate are likely to impede competitiveness while generating less revenue than VAT. Corporate taxes make a higher contribution as a percentage of GDP in South Africa than the Organisation for Economic Co-operation and Development and African averages (Figure 4.4). Of 123 reporting countries, South Africa ranks 13th for corporate tax as a share of GDP. These collections are also more volatile as they depend heavily on commodity price cycles and economic growth. Corporate income tax revenues are expected to increase over time due to the introduction of the Global Minimum Tax Act (2024), which will raise revenue and reduce the incentive for large firms to shift profits.

Consideration of further VAT zero rating

The VAT system currently zero rates 21 essential food items in an effort to make them more affordable for poorer households. Government proposes to extend the list of zero-rated basic foods to mitigate the effect of the VAT rate increase. From 1 April 2025, zero rating will be extended to include variety meats from sheep, poultry, goats, swine and bovine animals; specific cuts such as heads, feet, bones and tongues; dairy liquid blend; and tinned and bottled vegetables.

This decision considered the risk of tax base erosion and the distributional impact of the items identified. Zero rating is a blunt tool to assist lower-income households, because there is no guarantee that there will be a reduction in prices. Zero rating that is not well targeted results in a large portion of the revenue foregone benefiting higher-income households. Nonetheless, the 2022/23 Income and Expenditure Survey shows high consumption of the proposed additional items in the lowest four expenditure deciles. It is estimated that these measures will cost government about R2 billion in forgone revenue.

Personal income tax

To reduce pressure on lower-income earners, the bottom two personal income tax brackets and all rebates will be adjusted to fully compensate for the effect of inflation. The remaining brackets will be partially adjusted for inflation. The personal income tax proposals are expected to raise revenue of R3 billion. No changes to medical tax credits are proposed – these will remain at R364 per month for the first two beneficiaries and at R246 per month for the remaining beneficiaries.

Figure 4.5 shows the distribution of medical tax credit costs by taxable income. The total medical tax credit cost for those with taxable incomes above R1 million is R3.1 billion.

Table 4.4 Personal income tax rates and bracket adjustments

2024/25		2025/26	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R237 100	18% of each R1	R0 - R248 600	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100	R248 601 - R388 400	R44 748 + 26% of the amount above R248 600
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500	R388 401 - R529 200	R81 096 + 31% of the amount above R388 400
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800	R529 201 - R694 500	R124 744 + 36% of the amount above R529 200
R673 001 - R857 900	R179 147 + 39% of the amount above R673 000	R694 501 - R885 400	R184 252 + 39% of the amount above R694 500
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900	R885 401 - R1 875 100	R258 703 + 41% of the amount above R885 400
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000	R1 875 101 and above	R664 480 + 45% of the amount above R1 875 100
Rebates		**Rebates**	
Primary	R17 235	Primary	R18 063
Secondary	R9 444	Secondary	R9 900
Tertiary	R3 145	Tertiary	R3 294
Tax threshold		**Tax threshold**	
Below age 65	R95 750	Below age 65	R100 350
Age 65 and over	R148 217	Age 65 and over	R155 350
Age 75 and over	R165 689	Age 75 and over	R173 650

Source: National Treasury

Table 4.5 shows the effects of the tax proposals on individuals at different levels of taxable income for 2025/26.

Table 4.5 Estimates of individuals and taxable income, 2025/26

Taxable bracket	Registered individuals		Taxable income		Income tax before any relief		Tax relief from proposals		Final income tax payable	
R thousand	**Number**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R100[1]	6 557 001	–	283.1	–	–		–		–	
R100 - R150	1 640 119	20.8	193.3	5.5	13.8	1.7	-1.1	8.1	12.6	1.6
R150 - R250	1 774 242	22.5	344.9	9.8	26.1	3.2	-1.5	10.6	24.6	3.1
R250 - R350	1 101 021	14.0	331.9	9.4	43.7	5.4	-1.8	12.5	41.9	5.2
R350 - R500	1 306 047	16.6	547.2	15.5	93.9	11.5	-2.9	20.5	91.0	11.4
R500 - R750	1 089 046	13.8	657.0	18.6	145.8	17.9	-3.5	22.2	142.4	17.8
R750 - R1 000	408 789	5.2	353.1	10.0	96.2	11.8	-1.6	10.0	94.6	11.8
R1 000 - R1 500	333 809	4.2	415.0	11.8	129.6	15.9	-1.5	8.8	128.1	16.0
R1 500 +	235 542	3.0	684.7	19.4	266.7	32.7	-1.3	7.3	265.3	33.1
Total	**7 888 615**	**100.0**	**3 527.3**	**100.0**	**815.7**	**100.0**	**-15.2**	**100.0**	**800.5**	**100.0**
Grand total	**14 445 616**		**3 810.4**		**815.7**		**-15.2**		**800.5**	

1. Registered individuals with taxable income below the income tax threshold
Source: National Treasury

Adjustment of transfer duty

As part of the periodic reviews of monetary values in tax tables, the monetary thresholds for transfer duties will be adjusted by 10 per cent to compensate for inflation. The transfer duty tax rates will remain unchanged. The tables provided below indicate the adjusted values and are proposed to become effective on 1 March 2025.

Table 4.6 Transfer duty rates and bracket adjustments

2024/25		2025/26	
Property value (R)	**Rates of tax**	**Property value (R)**	**Rates of tax**
R0 - R1 100 000	0% of property value	R0 - R1 210 000	0% of property value
R1 100 001 - R1 512 500	3% of property value above R1 100 000	R1 210 001 - R1 663 800	3% of property value above R1 210 000
R1 512 501 - R2 117 500	R12 375 + 6% of property value above R1 512 500	R1 663 801 - R2 329 300	R13 614 + 6% of property value above R1 663 800
R2 117 501 - R2 722 500	R48 675 + 8% of property value above R2 117 501	R2 329 301 - R2 994 800	R53 544 + 8% of property value above R2 329 300
R2 722 501 - R12 100 000	R97 075 + 11% of property value above R2 722 501	R2 994 801 - R13 310 000	R106 784 + 11% of property value above R2 994 800
R12 100 001 and above	R1 128 600 + 13% of property value above R12 100 000	R13 310 001 and above	R1 241 456 + 13% of property value above R13 310 000

Source: National Treasury

Employment tax incentive values

Government proposes to maintain the value of the employment tax incentive at a maximum of R1 500 per month in the first 12 months and R750 per month in the second 12 months of eligibility. Effective from 1 March 2025, the formula to calculate the incentive and the eligible income bands will be adjusted, in part due to adjustments of minimum wages since the last increase in the value of the incentive in 2022. Employers will be able to claim the incentive at a rate of 60 per cent of the wages below R2 500 per month, where such wage minimums are allowed due to existing exemptions. The maximum value of R1 500 per month will apply to employees earning between R2 500 and R5 500 monthly, up from R2 000 and R4 500 previously. The incentive value will decline as wages increase, tapering to zero at a monthly income of R7 500 (previously R6 500).

Extending the urban development zone tax incentive

The urban development zone tax incentive was introduced in 2003 to address urban decay within inner cities. To allow for certainty and planning for investors, and adequate time to consult with municipalities, it is proposed that the sunset date for this incentive be extended by five years to 31 March 2030.

Review of the renewable energy allowance

In 2023, government introduced a new temporary incentive for renewable energy. The temporary incentive falls away on 28 February 2025. The 2024 *Budget Review* noted that government would reconsider the leasing provisions and the generation threshold of 1 megawatt (MW) under the original incentive (12B). After careful assessment, it is proposed that these two design features remain unchanged.

Cross-border tax treatment of retirement funds

The current treatment of cross-border retirement funds may result in double non-taxation, particularly where South Africa is granted the taxing right by treaty. 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, with amendments in the current legislative cycle.

Excise duties on alcoholic beverages and tobacco-related products

Government published a discussion paper, *The Taxation of Alcoholic Beverages*, for public comment on 13 November 2024. It proposes adjustments to the alcohol excise taxation policy framework, including the introduction of a three-tier progressive excise duty rate structure for wine and beer. Government will hold public consultations on the new excise framework during 2025. Considering that the details of the new alcohol excise taxation framework will be finalised only after the 2025 Budget, government proposes to increase excise duties on alcoholic beverages by 6.83 per cent for 2025/26.

The guideline excise tax burden as a percentage of the retail selling price of the most popular brand within each tobacco product category is currently 40 per cent. Government proposes to increase tobacco excise duties by 4.83 per cent for cigarettes, cigarette tobacco, and electronic nicotine and non-nicotine delivery systems ("vaping"). The proposed increase for pipe tobacco and cigars is 6.83 per cent.

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 provisions to deal with unusual clearances of cigarettes around Budget announcements have been in place since 2021 and may be extended.

Table 4.7 Changes in specific excise duties, 2025/26

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	R145.18 / litre of absolute alcohol (246,80c / average 340ml can)	6.83	2.00
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.83
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.83
Unfortified wine	R5.57 / litre	R5.95 / litre	6.83	2.00
Fortified wine	R9.40 / litre	R10.04 / litre	6.83	2.00
Sparkling wine	R17.83 / litre	R19.05 / litre	6.83	2.00
Ciders and alcoholic fruit beverages	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	R145.18 / litre of absolute alcohol (246,80c / average 340ml can)	6.83	2.00
Spirits	R274.39 / litre of absolute alcohol (R88.49 / 750ml bottle)	R293.13 / litre of absolute alcohol (R94.53 / 750ml bottle)	6.83	2.00
Cigarettes	R21.77 / 20 cigarettes	R22.82 / 20 cigarettes	4.83	–
HTPs sticks	R16.33 / 20 sticks	R17.12 / 20 sticks	4.83	–
Cigarette tobacco	R24.47 / 50g	R25.65 / 50g	4.83	–
Pipe tobacco	R7.53 / 25g	R8.04 / 25g	6.83	2.00
Cigars	R125.91 / 23g	R134.51 / 23g	6.83	2.00
ENDS/ENNDS	R3.04 / ml	R3.18 / ml	4.83	–

Source: National Treasury

Carbon tax

The carbon tax plays an integral role in South Africa's climate change mitigation efforts. It increased from R190 to R236 per tonne of carbon dioxide equivalent (tCO_2e) from 1 January 2025. From 2 April 2025, the carbon fuel levy will increase by 3c/litre to 14c/litre for petrol and 17c/litre for diesel, as required under the Carbon Tax Act (2019). The carbon tax cost recovery quantum for the liquid fuels sector increased from 0.69c/litre to 0.99c/litre from 1 January 2025 to align with the increase of the headline carbon tax rate.

Carbon tax proposals

In November 2024, government published a discussion paper on phase 2 of the carbon tax for public comment. The paper set out proposals to reduce some of the tax-free allowances and strengthen the effective carbon tax rate to promote behaviour change. After considering stakeholder comments, the main proposals for the carbon tax are to:

- Extend the section 12L energy-efficiency tax incentive for five years to 31 December 2030.
- Extend the commitment to electricity price neutrality to 31 December 2030. This five-year extension will continue to protect consumers from higher electricity prices. This will be achieved by removing the electricity generation levy from 1 January 2026 and applying the carbon tax on electricity emissions. Electricity generators can continue to deduct a portion of the renewable energy premium from their carbon tax liability to the extent that there would have been a difference between the carbon tax and electricity levy. The carbon tax on electricity generation will be revenue neutral.
- Increase the carbon offset allowance by 5 percentage points from 1 January 2026. The allowance will increase to 10 per cent for fugitive and process emissions, and to 15 per cent for combustion emissions. Future allowance increases may be considered in response to changes in the carbon market and associated standards.
- Retain the 30 per cent trade-intensity threshold used to determine the trade exposure allowance that a sector or company will qualify for. The discussion paper proposed to increase the threshold from 30 to 50 per cent, but stakeholders raised concerns about the effects on competitiveness. The current threshold will be retained to allow a longer transitional period for hard-to-abate sectors.
- Maintain the basic tax-free allowance until 31 December 2030. The discussion paper proposed to reduce this allowance from 2027. Given concerns about the availability of low-carbon technologies, energy costs, competition, load-shedding and logistical challenges, the National Treasury will consult with the Department of Forestry, Fisheries and the Environment, the Presidential Climate Commission and others on options to reduce the basic allowance from 1 January 2031.
- 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 tCO_2e/MWh for the electricity sector from 1 January 2026. Under the carbon tax, companies may qualify for a performance allowance if they outperform an approved sector intensity benchmark, which does not yet exist in the electricity sector. After further consultations the regulations will be amended and published for public comment.
- Extend the utilisation period for carbon offsets generated from projects approved before the introduction of the carbon tax until 31 December 2028.

Health promotion levy

An inflationary increase in the health promotion levy was due to take effect from 1 April 2025. Government proposes to cancel this increase to allow the sugar industry more time to restructure in response to regional competition.

Ad valorem excise duties on smartphones

Currently, ad valorem excise duties on smartphones are charged at a flat rate of 9 per cent. To enhance smartphone affordability at the lower end of the price spectrum and support efforts to promote digital inclusion for low-income households, government proposes that as of 1 April 2025 this duty rate be applied only to smartphones with a price paid greater than R2 500 at the time of export to South Africa.

Fuel taxes and levies

To mitigate the effects of higher inflation arising from fuel price increases, the general fuel levy has remained unchanged since 2022. Government proposes to keep the general fuel levy unchanged for 2025/26, resulting in tax relief of about R4 billion. The Road Accident Fund (RAF) levy and the customs and excise levy will also remain unchanged.

Table 4.8 Total combined fuel taxes on petrol and diesel

Rands/litre	2023/24		2024/25		2025/26	
	93 octane petrol	Diesel	93 octane petrol	Diesel	93 octane petrol	Diesel
General fuel levy	3.85	3.70	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.18	2.18	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.10	0.11	0.11	0.14	0.14	0.17
Total	**6.17**	**6.03**	**6.18**	**6.06**	**6.21**	**6.09**
Pump price[2]	23.10	21.54	22.51	20.20	22.16	20.34
Taxes as percentage of pump price	*26.7%*	*28.0%*	*27.5%*	*30.0%*	*28.0%*	*29.9%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2023/24 and 2024/25 years. The 2025/26 figure is the Gauteng pump price in February 2025. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Adjustment to the diesel refund for the primary sector

To support South Africa's international competitiveness, tax regulations enable farming, mining and forestry businesses to qualify for a refund of the general fuel levy and RAF levy for 80 per cent of eligible diesel fuel purchases. Government proposes to align with the original policy intent and apply the refund for all eligible diesel purchases declared to SARS, effective from 1 April 2026. The proposal will simplify the administration of the diesel refund system, costing the fiscus an estimated R1 billion from 2026/27.

Other matters under consideration and consultation

- A discussion paper on collective investment scheme (CIS) taxation made three main proposals: make CIS fully tax transparent, provide a threshold for CIS and remove hedge funds from the framework. Government acknowledges the administrative concerns raised with respect to the fully tax-transparent proposal and confirms that it does not intend to tax all CIS returns as revenue. Consultations will continue in 2025.
- Government intends to publish a consultation paper on unlocking institutional funding for infrastructure. It will propose that certain investment vehicles be enabled to facilitate such investments, and would offer a flow-through tax regime. Further consultations will take place during 2025.
- 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. In addition, government will seek to update some treaties to ensure alignment with recent international developments in the OECD Multilateral Instrument.
- The VAT Act (1991) provides for a VAT exemption on the importation of certain low-value goods. Government will review legislation to bring parity to the VAT treatment of such goods purchased online, as many offshore suppliers of these goods are not registered for VAT.

CONCLUSION

The 2025 Budget introduces measures to increase revenue and promote fiscal sustainability. Government remains committed to maintaining a progressive, stable and transparent tax system that is supported by an effective tax administration.