Budget 2025

Tax Alert

Responsible growth for a sustainable future

14 March 2025

In brief

The Finance Minister delivered his Budget Speech on 12 March 2025 and the Budget Review document (Budget 2025) containing several tax policy proposals was published at this time.

To fund spending increases, additional revenue of R28 billion is proposed to be raised in 2025/26 and consequently Budget 2025 proposes to increase Value-Added Tax (VAT) by 0.5% and not provide fiscal drag relief for personal income tax (PIT).

For 2025/26, the PIT proposal is expected to raise R19.5 billion and the VAT increase R13.5 billion. Above-inflation increases in excise duties are expected to raise an additional R1 billion. These tax increases are partly offset by additional zero rating of foodstuffs and the general fuel levy not being adjusted for inflation.

VAT will be increased by a cumulative 1% over the next two years, i.e. from 15% to 15.5% (on 1 May 2025) and to 16% (on 1 April 2026). This increase is coupled with a proposal to add additional zero-rated food items to the essential food item list to mitigate the impact of the increase on poor households.

In respect of Carbon Tax, Budget 2025 proposes to extend the electricity price neutrality, increase the carbon offset allowance by 5% and maintain the other key allowances for now.

Transfer duty will be adjusted for inflation and no increases are proposed for the general fuel and Road Accident Fund (RAF) levies.

We set out the main budget proposals in more detail below.

In detail

Revenue figures

Forecast tax revenues for 2024/25 are slightly better than that forecast in the 2024 Medium Term Budget Policy Statement. This is, however, still some R17 billion less than what was originally forecast in Budget 2024. Based on our own forecasts the revised estimates appear reasonable.

VAT

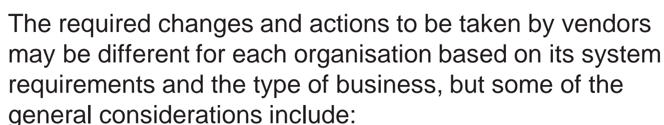
VAT rate increase

Budget 2025 proposes to increase the VAT rate (currently at 15%) by 0.5% to 15.5% with effect from 1 May 2025, and a further 0.5% increase to 16%, effective from 1 April 2026.

The VAT Act permits for the increase in the VAT rate to become effective from the "effective date" (i.e. 1 May 2025) as announced by the Minister of Finance and must be applied by vendors from this date. The legislation to give effect to this VAT rate change need only be passed within 12 months from the announcement date, failing which the announced increase will be of no force or effect and any increase that is implemented would have to be reversed with retrospective effect.

That being said, as at the time of publication, various political parties have indicated that they will not support the VAT proposal in the 2025 Budget and there have been calls to use available legislative processes to amend the proposed fiscal framework and revenue proposals contained in Budget 2025 to remove the proposed VAT increase. Should this be done prior to the effective date of the proposed VAT increase, presumably it would not become effective on the basis that the budget itself is amended.

However, as the proposed effective date of the first VAT rate increase is 1 May 2025, it leaves a short period within which to implement the changes and we encourage vendors to start considering what actions will be required to implement the proposed VAT increase from that date.



The required changes and actions to be taken by vendors may be different for each organisation based on its system requirements and the type of business, but some of the general considerations include:

- System updates/configurations to implement the new VAT rates, including VAT accounting systems and any secondary systems that may have an impact on the VAT accounting (e.g. billing or point-of-sale)
- Understanding the transitional provisions (e.g. apportionment complexities) and anti-avoidance measures
- Other practical matters, e.g. VAT return templates and schedules, reconciliations and budgeting processes.

Expanding the zero-rated essential food item basket

To alleviate the burden of the increased tax on consumers, additional zero-rated food items (offal meat, tinned or canned vegetable products and dairy liquid blend) will be added to the existing 21 essential food items. This is also proposed to be effective from 1 May 2025, although it is not clear at this point how vendors will be able to do so as an expansion of the list requires an amendment to the VAT Act to give effect thereto as well as a clear description of the goods qualifying for the relief, something which is lacking at this stage.

VAT exemption on the importation of low value goods

The VAT exemption on the importation of low value goods will be reviewed to ensure tax parity when goods are purchased online and imported. This measure will hopefully seek to address concerns raised by the local retail sector relating to imports through offshore online platforms and level the playing fields.

Individual tax

Personal income tax and medical tax credits

For the second year in a row, it is proposed that no relief for fiscal drag be provided for personal income tax through no adjustments being made to the tax tables, rebates or medical tax credits in order to raise an additional R19.5 billion in PIT. This differs from the original budget proposal where it was proposed to raise a more limited R3 billion through fiscal drag. This proposal comes notwithstanding the warning by National Treasury that PIT increases will have larger negative impacts on the economy than indirect tax increases, such as VAT, and that South Africa’s PIT burden is far higher than other developing countries. This burden will now exceed 10% of GDP and create a new record, having risen from a low of 6.5% of GDP in the mid 2000s.

Cross border taxation of foreign pensions

It is proposed that the income tax exemption relating to foreign occupational pensions is withdrawn or amended in order to bring foreign pensions within the scope of taxation. The background to this is that when South Africa moved from a source basis to a worldwide basis of taxation in 2001, foreign occupational pensions were excluded with the intention to reconsider the exemption in the medium term.

However, the exemption has not been revisited until now. The reason given to withdraw this exemption is due to some tax treaties allocating the exclusive taxing rights to South Africa and, together with the domestic exemption, there can be circumstances of double non-taxation.

SA tax resident taxpayers with foreign occupational pensions should take note of this proposal and the potential future SA tax implications it may have on any foreign pension payments.

Employment taxes

Employment Tax Incentive (ETI)

The maximum ETI claims per employee are set to remain unchanged.

Effective 1 March 2025, the formula for calculating the ETI will allow for a claim of 60% of wages below R2,500 (where such minimums are permitted due to existing exemptions). The maximum ETI claim of R1,500 per month per "qualifying employee" will apply to employees earning between R2,500 and R4,500 (an increase from the previous range of R2,000 to R4,500). The ETI will decrease as remuneration increases, tapering to zero at R7,500 (previously R6,500).

This represents an increase from the current claim amount of 50% on monthly remuneration earned below R2,000 per month. The proposed increase in salary bands will enable employers to claim ETI for qualifying employees who earn above R6,500 per month.

It is important to note that SARS is actively monitoring ETI claims to ensure that employers are not claiming incorrect amounts. Employers are encouraged to adjust payroll parameters accordingly and conduct reviews to determine what constitutes "monthly remuneration". Failure to do so may result in incorrect ETI claims and potential penalties.

Incentives

Urban Development Zone (UDZ) tax incentive

The UDZ tax incentive was introduced to address urban decay within inner cities and to maintain existing infrastructure while encouraging investment in certain property. The incentive provides an accelerated depreciation allowance on the costs of buildings erected, added to, extended or improved and which are within the UDZ.

Budget 2023 announced an extension of the UDZ tax incentive sunset date to 31 March 2025 for Government to consult stakeholders as part of a review of the incentive.

Budget 2025 proposes an extension of the incentive to 31 March 2030. This extension is welcomed as it will provide certainty and enable investors to plan and consult with municipalities.

Carbon Tax

Budget 2025 proposes several significant updates to the carbon tax framework in South Africa that may impact various sectors, including liquid fuels, electricity generation and trade-intensive industries.

Extension of Section 12L Energy-Efficiency Tax Incentive

This incentive is extended for an additional five years to 31 December 2030, providing businesses with continued opportunities to benefit from energy-saving initiatives, promoting sustainable practices and reducing operational costs.

Commitment to Electricity Price Neutrality

The commitment to electricity price neutrality is extended to 31 December 2030. The key changes include (effective from 1 January 2026):

- the removal of the Electricity Generation Levy; and
- the application of Carbon Tax on electricity emissions.

This extension is crucial for both households and businesses as it allows for better financial planning and budgeting over the next several years.

Increase in Carbon Offset Allowance and evaluation of Additional Carbon Offset Standards

Effective 1 January 2026, the carbon offset allowance will increase by 5% and the utilisation period for carbon offsets generated from projects approved before the introduction of the carbon tax is extended until 31 December 2028. This provides businesses with more flexibility in managing their carbon offset strategies.

The budget proposal to consider additional carbon offset standards for inclusion in the carbon offset allowance is a significant development which could potentially expand the range of eligible projects by reducing the administrative burden for accreditation and increase the supply of carbon offsets available to taxpayers. A broader range of standards provides more opportunities for businesses to invest in diverse, innovative and readily available offset projects.

Extension of Carbon Budget Allowance and retention of other key allowances

The carbon budget allowance for the voluntary carbon budget system is extended until 31 December 2025 which allows businesses more time to align with carbon budgeting practices, facilitating better long-term planning and compliance.

A welcomed announcement for many emitters is that the basic tax-free allowance of 60% will be maintained until 31 December 2030 and the 30% trade-intensity threshold used to determine the trade exposure allowance will also be retained.

The 60% basic tax-free allowance provides a significant buffer for businesses against the full impact of the carbon tax. This allowance means that businesses are only taxed on 40% of their carbon emissions (in the absence of any further allowances), which results in substantial cost savings. The 30% trade-intensity threshold is designed to protect industries that are highly exposed to international competition. Businesses that meet this threshold can benefit from reduced carbon tax liabilities, which can help them manage costs and maintain their competitive edge.

Taxpayers will need to stay informed about the retention of these key allowances, ensure they meet the necessary criteria to benefit from them and should consider conducting regular reviews of their carbon emissions and exploring opportunities to further reduce their carbon footprint. It is important to note that whilst these key allowances have been retained to cushion taxpayers from the full impact of carbon tax, they will most likely be reduced in the future as the pressure to ramp up climate action efforts increases.

Customs / Excise

Above inflationary increases of 6.75% are proposed for excise duties on alcoholic beverages and pipe tobacco and cigars. Excise duties on cigarettes and vaping will be increased by 4.75%.

Diesel Refund

Effective 1 April 2026, primary sectors engaged in eligible activities can claim 100% of eligible diesel purchases under the Diesel Rebate system. This replaces the current limited refund that only allows 80% of eligible diesel purchases to be refunded. The Diesel Rebate provides refunds for general fuel and Road Accident Fund (RAF) levies to producers in primary sectors such as farming, forestry, fishing and mining.

The amendment simplifies the administration of the refunds and aligns with the policy's intent to support the competitiveness of these primary sectors by reducing the financial burden. The diesel refund system was initially implemented to protect the international competitiveness of local industries and reduce the road-related tax burden for certain non-road users. The system also aims to provide equity by refunding some off-road and goods transport operations for the RAF levy, from which they do not benefit. The increased financial relief is expected to reduce operational costs significantly. By reducing the financial burden, the amendment aims to enhance the international competitiveness of local industries, supporting their growth and sustainability.

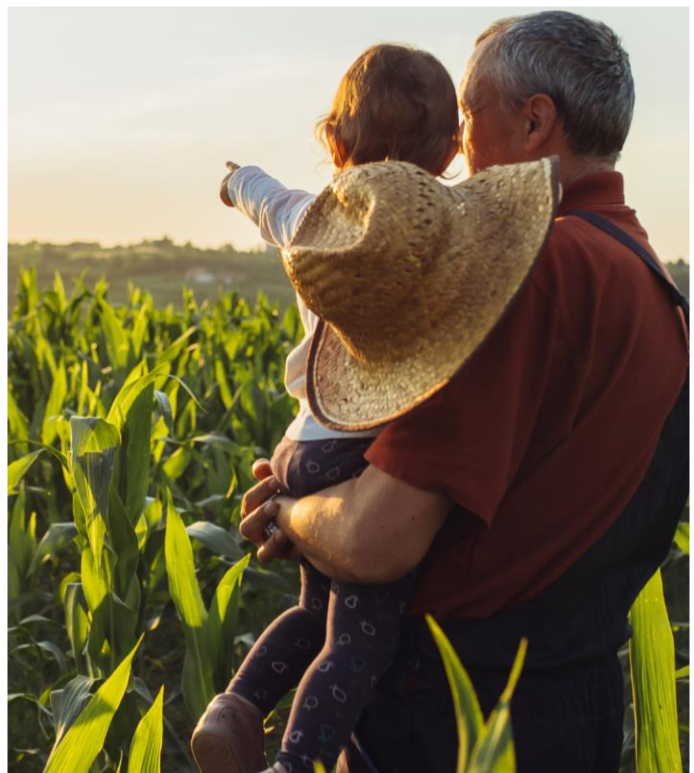
This change also reflects a broader trend towards supporting competitive primary industries. By reducing operational costs, businesses can reinvest in their operations, driving innovation and growth. Companies in these sectors should factor in this change from the appropriate date and ensure that they have the necessary systems and processes in place to benefit, something the affected sectors have struggled with leading to numerous disputes.

General fuel and the RAF levies

Budget 2025 provides effective tax relief by retaining the current general fuel and RAF levies. This relief will be welcomed by business and consumers alike.

Health Promotion Levy

Budget 2023 paused increases in the Health Promotion Levy (“sugar tax”) for 2023/24 and 2024/25 to enable stakeholders in the sugar industry to restructure given the various challenges faced by the industry. An inflationary increase was due to be implemented from 1 April 2025, but Budget 2025 proposes to cancel the increase to allow the sugar industry more time to restructure in response to regional competition. The proposal is welcomed, but the industry should use the opportunity to restructure urgently - there is mounting pressure from some stakeholders to expand the tax base and increase the rates and there is no certainty that increases will be postponed indefinitely.



Let’s talk

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