



# Tax Alert

## Momentum unleashed: Driving reform for growth

25 February 2026

### Budget 2026

#### In brief

The Finance Minister delivered his Budget Speech on 25 February 2026 and the Budget Review document (Budget 2026) containing several tax policy proposals was published at this time.

Budget 2026 withdraws the previously signalled R20 billion of unspecified tax increases penciled into Budget 2025 and instead provides broad inflationary relief to taxpayers for the first time since 2023. Adjustments to personal income tax brackets, rebates, medical tax credits, and various thresholds aim to support households, small businesses and savings. Significant reforms are also proposed across corporate tax, environmental taxes, VAT, customs and excise, and several administrative frameworks.

We set out the main budget proposals below.

### Revenue figures

Gross tax revenue for 2025/26 has been revised upwards, with the tax-to-GDP ratio increasing to 25.9%. Improved collections in VAT, corporate income tax and fuel levies offset weaker collections from specific excise duties and personal income tax.

Previously announced tax increases for 2026 have been withdrawn, supported by improved fiscal metrics and the desire to avoid additional pressures on economic growth.





## Personal income tax

### Inflationary relief

For 2026/27, personal income tax brackets, rebates and medical scheme tax credits will be fully adjusted for projected inflation (3.4%).

- Primary, secondary and tertiary rebates increase.
- Tax thresholds increase across all age groups.
- Monthly medical tax credits increase to R376 (for the first two members) and R254 (each additional member).

Lower- and middle-income groups receive the most relief.

## Employment taxes

### Employment Tax Incentive (ETI)

ETI parameters remain unchanged, following earlier enhancements effective 1 March 2025. SARS continues strengthening compliance monitoring, and employers are encouraged to review payroll systems to avoid administrative penalties.

## Corporate income tax

### Global minimum tax

Implementation of the global minimum tax rules is planned for 2026/27. Updated rules and data reduces South Africa's expected revenue estimate to R2 billion in the first year.

### Special economic zones (SEZs)

Government proposes replacing rigid transactional thresholds with a market-value-based test to ensure prices between SEZ companies and connected parties reflect arm's-length values. This aims to prevent profit-shifting while supporting legitimate investment and supply-chain expansion within SEZs.



## Threshold and limit adjustments

A wide range of thresholds and monetary limits will be adjusted for inflation from 1 March or 1 April 2026.

Some of the key changes are set out below.

### Small business support

- VAT registration thresholds (compulsory and voluntary) increase significantly.
- Turnover tax eligibility increases to R2.3 million.
- Expanded monetary limits for turnover tax brackets.

### Savings and retirement

- Annual tax-free investment contribution limit increases.
- Retirement fund contribution deduction limit increases.
- Living annuity and retirement annuitisation thresholds increase.

### Capital gains tax allowances

CGT exclusions for small business disposals, primary residences and annual exclusions increase.

### Tax-exempt employment benefits

Increases apply to bursary limits, employee loan thresholds, compensation exemptions and bravery/long-service awards.

## Incentives and industry-specific measures

### Urban Development Zone (UDZ) review

Government will consult during 2026 on retargeting the UDZ incentive toward affordable housing in well-located urban areas, with proposals expected for Budget 2027.

### Collective investment schemes (CIS)

Revised proposals will tax regular CISs and retail investment hedge funds on a capital basis while excluding qualified hedge funds from the regime. The taxation of the latter will be excluded from the CIS tax regime and taxed under an alternative regime to be proposed.

### Online gambling tax

Following the publication of a draft national online gambling tax discussion paper on a proposed 20% tax on gross online gambling revenue, Treasury will hold a workshop and release draft legislation later in 2026.



## Carbon tax

### Rate increases and allowances

- Carbon tax increases to R308 per tonne from 1 January 2026.
- Carbon fuel levy increases to 19c (petrol) and 23c (diesel) from 1 April 2026.
- Key allowances, including the basic tax-free allowance and trade-exposure threshold are retained until 2030.
- Carbon offset allowance increases by 5% from 1 January 2026

### Compliance relief and adjustments

Emissions threshold introduced for backup diesel generators in the commercial and institutional sectors.

Amendments planned to clarify refund timing for carbon budget compliance over the five-year cycle.

### Climate-risk resilience in financial sector

The Prudential Authority and FSCA are assessing banks' and insurers' climate-related governance and disclosures. National Treasury will publish a consultation paper on transition planning in 2026.

## Customs and excise

### Alcohol and tobacco excise duties

Excise duties on alcohol and tobacco will increase in line with the 3.4% inflation forecast for 2026/27.

### Fuel taxes and levies

- General fuel levy increases below inflation to R4.10/litre (petrol) and R3.93/litre (diesel).
- RAF levy increases to R2.25/litre.
- Customs and excise levies remain unchanged.

### Diesel refund system

From 1 April 2026, qualifying on land primary sectors may claim 100% of eligible diesel purchases, replacing the previous 80% refund.



## **Men's Cricket World Cup 2027 customs relief**

SARS will apply customs duty rebates, tax dispensations and temporary import exemptions to facilitate the temporary import of essential goods, equipment and promotional materials for the tournament.

## **Discretionary powers**

The Budget introduces a targeted discretionary power for SARS to waive certain technical non-compliance with rebate conditions in Schedules 3, 4 and 6, to avoid disproportionate outcomes.

## **Value-added tax (VAT)**

### **VAT registration thresholds**

Compulsory and voluntary registration thresholds increase significantly to reduce compliance burdens for small businesses.

### **Clarifications and proposed amendments**

- Zero-rating of services for CCAEs and SEZs to explicitly require physical rendering in the customs area.
- Repeal of the zero-rating for certain gold supplies to simplify compliance.
- Restrictions on the timing of notional input tax claims for second-hand goods.
- Amendments for intermediaries supplying electronic services.
- Adjustments to leasehold improvement rules for non-vendor lessors.

## **Tax administration**

A wide range of administrative amendments is proposed, including:

- Extension of screening for refunds by banks (pre- and post-deposit).
- Allowing voluntary disclosure applicants to simultaneously request interest remission.
- Updates to tax compliance status rules pending the outcome of penalty remission requests.
- Reforms to provisional tax underestimation penalties and thresholds.
- Modernisation of ATA Carnet (temporary admissions) processes.
- Enabling separate administration of the carbon fuel levy from the general fuel levy.
- Updates to definitions affecting provisional taxpayer status.
- Expanding documentary requirements for second-hand goods.



## Exchange control

From an exchange control perspective there is a proposed loosening of the interest-rate cap on inbound borrowings—although the requirement for interest rates to be “market-related” (and, presumably, comply with transfer pricing principles) is expected to be more strictly enforced.

Further, the exchange control HoldCo regime is proposed to be expanded, thus supporting, for example, the asset-management industry.

The annual single discretionary allowance for individuals is increased from R1m to R2m.

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