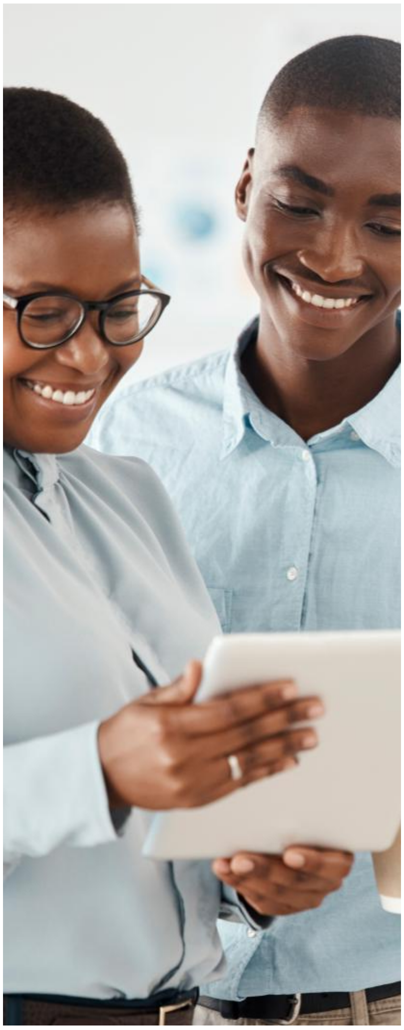
Tax Alert

19 August 2026

Special Economic Zones: Introduction of domestic transfer pricing rules (proposed section 31B)



In brief

On 30 July 2026, National Treasury and the South African Revenue Service ("**SARS**") published the 2026 Draft Taxation Laws Amendment Bill ("**TLAB**") for public comment. The draft TLAB proposes the introduction of a new section 31B to the Income Tax Act, which will apply the arm's length principle to domestic related-party transactions involving Special Economic Zone ("**SEZ**") companies qualifying for the reduced 15% corporate income tax rate.

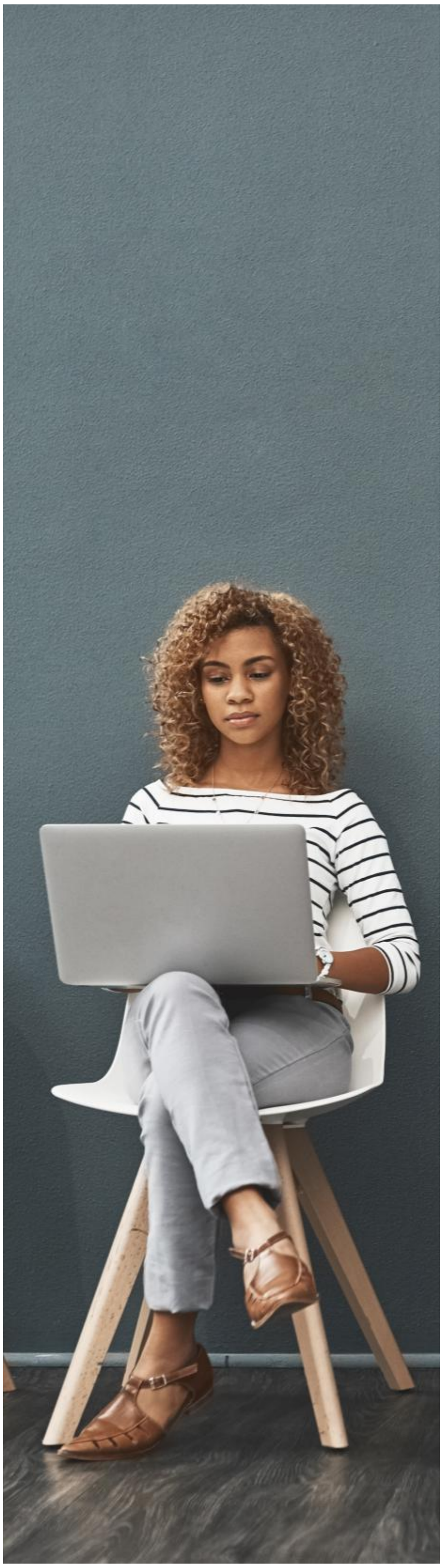
This is a significant shift from the current 20% threshold test in section 12R(4)*(c)* to a full transfer pricing analysis requirement. Comments on the draft Bill are due by 28 August 2026.

Key information

Who is affected?

The proposed amendment targets domestic related-party transactions between:

- A company operating in a designated SEZ that qualifies for the reduced 15% CIT rate under section 12R of the Income Tax Act; and
- A connected person in relation to that SEZ company that is a SA tax resident (subject to the standard 27% CIT rate).



What is changing?

- A reduced corporate income tax rate of 15% (as opposed to the standard 27% rate) is available for qualifying companies operating in approved SEZs. To mitigate the risk of profit shifting from fully taxable connected persons to SEZ qualifying companies, section 12R contains an anti-avoidance provision: a company is disqualified from benefiting from the reduced 15% rate if more than 20% of its deductible expenditure or income arises from transactions with a connected person that is a SA resident or has a permanent establishment in SA.
- This "bright-line" 20% threshold test will be replaced by a full arm's length principle for domestic related-party transactions involving SEZ qualifying companies.
- Under section 31B, SARS will be able to adjust the pricing of individual domestic "cross SEZ" transactions if they are not at arm's length, similar to how cross-border transactions are dealt with under section 31.
- SEZ companies will need to prepare and maintain transfer pricing documentation to support the arm's length nature of their domestic "cross SEZ" related-party transactions.

Setting the scene: Cross-border transactions (section 31 of the Income Tax Act)

- Section 31 applies the arm's length principle to cross-border transactions between connected persons (and/or associated enterprises). Where any term or condition of an "affected transaction" differs from arm's length terms, taxable income must be recalculated as if the transaction had been entered into at arm's length.
- The proposed new section 31B is effectively a domestic counterpart to section 31, extending the same arm's length principle to transactions between SEZ qualifying companies and connected SA entities outside the SEZ.

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Why is the change being made?

- Taxpayers raised concerns that the current 20% threshold is not business-friendly.
- It is common for manufacturing and marketing activities to be in separate companies. The current rule makes it difficult for companies using these arrangements to transact without disqualification from the SEZ incentive.
- Large foreign companies operating in long supply chains find it difficult to locate entire operations within the SEZ.
- The current rule disqualifies investors already operating in SEZs as well as potential new investors who breach the 20% threshold.
- An international comparison of 14 countries shows that countries generally rely on OECD/UN-aligned transfer pricing frameworks rather than disqualifying companies from incentives.

Effective date

If enacted, the proposed amendment will come into effect on 1 January 2027 and applies in respect of years of assessment commencing on or after that date.

Relevant documents

The draft Bills and supporting materials are available on the National Treasury (treasury.gov.za) and SARS (sars.gov.za) websites.

Key takeaway

The proposed s31B represents a fundamental shift from a blunt 20% threshold to a principles-based arm's length standard for domestic transactions involving SEZ companies. Affected taxpayers should review existing intercompany arrangements between SEZ entities and connected non-SEZ entities. Comments on the draft proposal are due by 28 August 2026.