



TAX

Budget Speech 2026 / 2027: Tax Overview

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KEY TAX CHANGES

INTRODUCTION

On 25 February 2026, Finance Minister Enoch Godongwana delivered his fifth Budget Speech and his second under the Government of National Unity. This year, the Budget was delivered on time. We summarise below the key points most relevant to our clients.

The 2026 Budget marks a turning point for public finances. Government debt has more than tripled since 2008/09 but is set to peak at 78.9% of GDP this year before falling. The budget deficit continues to narrow from 5.1% of GDP in 2021/22 to 4.5% in 2025/26 and is projected to fall further to 2.9% by 2028/29.

The economy is forecast to grow by 1.6% in 2026, rising to 2.0% by 2028. Several factors support this outlook: the South African Reserve Bank's new 3% inflation target; S&P Global's credit-rating upgrade following South Africa's removal from the FATF grey list; and energy-sector reforms, including no load-shedding since May 2025 and over 23,900 MW of private renewable energy investment secured.

The government's economic plan has four pillars: maintaining stability through the lower inflation target; advancing energy, transport and telecoms reforms under Operation Vulindlela; strengthening state capacity to deliver services; and increasing infrastructure spending. The government recognises, however, that current growth is insufficient to reduce unemployment meaningfully or to expand public services.

The 2026 Budget brings good news for taxpayers. Notably, stronger-than-expected revenue collection enabled National Treasury to withdraw the R20 billion tax increase it had provisionally announced.

Personal and corporate income tax together account for more than 55% of total tax revenue, with personal income tax alone contributing nearly 40%. South Africa's tax base is narrow: more than half of all personal income tax is collected from just 7.7% of taxpayers — those earning above R1 million per annum. The Government considers that raising personal income tax rates would be counterproductive, as higher rates encourage tax restructuring and yield less revenue than expected. Instead, it has adjusted tax brackets for inflation and raised thresholds to support small businesses. Its longer-term strategy is to broaden the tax base.

In addition to broadening the tax base, the long-term strategy continues to focus on improving taxpayer compliance. SARS has hired 1,500 new debt collectors, reducing overdue balances on payment plans from R14.6 billion to R6.8 billion. SARS has also registered 1.3 million new taxpayers, generating R4.9 billion in additional revenue, and has intensified action against illegal cigarette manufacturers. As at 31 January

2026, outstanding tax debt stood at R646 billion, of which R518.2 billion was undisputed. To recover more of this debt, SARS is working more closely with banks and hiring additional legal staff. Despite these efforts, SARS is unlikely to meet its collection targets, and no additional revenue from debt collection has been included in the fiscal projections.

On spending, the Budget focuses on infrastructure. The government plans to spend R1.07 trillion over the next three years on energy, water and sanitation, transport, health, education and housing. It has also raised R11.8 billion at favourable interest rates through its first infrastructure-specific government bond. On savings, the Targeted and Responsible Savings initiative has identified R12 billion in wasteful or ineffective programmes. A new Early Retirement Programme aims to attract younger workers to the public sector, with expected net savings of R5.5 billion over the medium term. A payroll audit has flagged more than 4,300 high-risk cases of possible payroll fraud.

The Budget reflects the tension between policy ambition and economic reality. The faster reforms deliver tangible results, the more credible they become, particularly as the government seeks to curb spending and reduce debt.

Overall, the 2026 Budget balances careful management of public finances with meaningful taxpayer relief. The decision to withdraw previously announced tax increases, together with inflation-linked adjustments and support for small businesses, is positive news for individuals and companies alike.

The Budget also proposes numerous amendments to fiscal legislation. This overview addresses those most relevant to our clients' affairs. Draft legislation and consultation responses are expected in July 2026, with legislation to be introduced towards year-end.

Please contact us to discuss how these changes may affect your particular circumstances.

INDIVIDUALS

Personal income tax and CGT

After two consecutive years without inflationary adjustments, personal income tax brackets and rebates will be fully adjusted in line with the expected inflation rate of 3.4% for the 2026/27 year of assessment, providing meaningful relief across all income levels (though this will still not fully compensate for the loss in purchasing power since March 2023).

Key changes include:

- The entry threshold for income tax rises from R95,750 to R99,000 for taxpayers under 65, from R148,217 to R153,250 for those aged 65 and over, and from R165,689 to R171,300 for taxpayers aged 75 and over;
- All tax brackets have been adjusted upwards by 3.4%, with the top marginal rate of 45% now applying only to taxable income exceeding R1 878 600 (previously R1 817 000);
- Medical tax credits increase from R364 to R376 per month for the first two members, and from R246 to R254 for each additional member;
- For a taxpayer earning R500 000 per year, the adjustments result in annual tax savings of approximately R1 855. Lower- and middle-income earners benefit proportionally more from these changes.

In addition, the following adjustments are proposed:

- an increase in the tax-exempt limit on donations by individuals from R100 000 to R150 000 — the first such adjustment since 2007;
- an increase in the capital-gain exclusion on the disposal of a primary residence from R2 million to R3 million; and
- an increase in the annual CGT exclusion from R40 000 to R50 000.

Savings incentives

The annual contribution limit for tax-free investments rises from R36,000 to R46,000. However, the lifetime contribution limit remains unchanged at R500,000, meaning individuals who contribute the full annual amount each year will reach their lifetime limit sooner.

The annual retirement fund contribution deduction limit rises from R350 000 to R430 000.

Transfer of Assets Between Spouses

Relief on Transferring Allowance Assets

When a person disposes of a capital asset on which deductions have previously been claimed, the recouped deductions (up to the amount of the sale proceeds) are included in that person's income in the year of sale. Where an asset is donated to a connected person, it is deemed to have been disposed of at market value, triggering a recoupment even though no proceeds are actually received. Section 9HB of the Income

Tax Act provides a roll-over mechanism that allows spouses to transfer assets (trading stock, livestock or capital assets) without triggering a capital gain. However, this roll-over does not extend to recoupments: the donation of a capital asset to a spouse still triggers a recoupment in the hands of the transferor. It is proposed that section 9HB be amended to ensure tax neutrality by preventing recoupment on such transfers and by requiring the transferee spouse to assume the accumulated allowances previously claimed (so that the latter will pay, on any future sale, the tax that the donor up until now would have paid on donation).

Avoidance of Donations Tax and Income Tax

The section 9HB roll-over is expressly excluded for transfers of capital assets from a resident spouse to a non-resident spouse, because a non-resident is subject to CGT on only a limited category of assets. Without this exclusion, assets could be transferred outside the tax net free of tax. Instead, the resident spouse is deemed to receive proceeds equal to the asset's market value and is subject to CGT on the deemed gain.

Donations tax (at 20%, or 25% on cumulative donations exceeding R30 million) is imposed on a South African resident donor regardless of the recipient's tax residence. Donations between spouses are exempt from donations tax, irrespective of the recipient's residence. When a person ceases to be a tax resident, that person is deemed to dispose of all worldwide capital assets at market value, triggering a capital gain. There is no equivalent deemed donations tax charge on cessation of residence.

National Treasury is concerned that spouses may avoid donations tax and CGT exit tax by staggering the cessation of their tax residence. According to National Treasury, Spouse A ceases to be tax resident first; Spouse B then donates all assets to Spouse A, benefiting from the spousal donations tax exemption and the CGT roll-over relief. Spouse B then ceases to be resident, with no deemed disposal for CGT exit-tax purposes. The proposed solution is to limit the spousal donations tax exemption to donations between resident spouses. As noted above, however, the CGT roll-over is already excluded for transfers to a non-resident spouse, and there is no deemed donations tax charge on cessation of residence. Accordingly, the donation of the assets to the non-resident spouse will be subject to CGT. National Treasury's assertion that these arrangements are "designed to avoid both donations tax and the income tax on cessation of residence" appears limited to the scenario of donating a high-growth asset when its value is at its lowest. It remains unclear how donations tax is avoided in these circumstances.

Employees' tax for non-resident employers

Since 2024, non-resident employers operating from a fixed place of business in South Africa are required to register for PAYE. An anomaly was identified: such employers were required to withhold employees' tax (PAYE) from all South African resident employees, regardless of any connection to that fixed place of business. This rule is to be amended to limit the withholding obligation to remuneration paid to resident employees effectively connected to that fixed place of business in South Africa.

CORPORATES

Corporate tax rate

The 27% corporate income tax rate and the limitation on the use of assessed losses, both introduced for years of assessment ending on or after 31 March 2023, remain in place (though the Minister does recognise that South Africa's tax rates remain high by international standards).

Small business and savings incentives

The Budget introduces substantial increases to thresholds that have remained unchanged for over a decade, providing support for entrepreneurs and encouraging savings. In addition to adjustments to the VAT registration thresholds (see below), the following changes are proposed:

- Turnover tax regime: The annual turnover limit increases from R1 million to R2.3 million, with significantly higher tax-free thresholds (the 0% bracket now applies up to R600,000, increased from R335,000).
- Capital gains tax exclusions: the lifetime small-business asset-disposal exclusion increases from R10 million to R15 million; and the exclusion for business owners aged 55 and over rises from R1.8 million to R2.7 million.

Withdrawing the proposal to align the two different interest limitation rules

Sections 23M and 23N of the Income Tax Act limit interest deductions to curb base erosion and profit shifting. Section 23M applies where the debtor is in a controlling or connected-person relationship with the creditor and the creditor is not subject to tax on the interest income (primarily, but not exclusively, aimed at non-resident lenders). Section 23N applies where debt is incurred to enable, facilitate or fund the acquisition of an asset by an acquiring company in a group reorganisation transaction, or of equity shares in an acquisition transaction.

The calculation of the interest deduction limit under both section 23M and section 23N refers to the "*adjusted taxable income*" of the debtor (section 23M) and the acquiring company (section 23N), but different formulae are applied.

The 2024 Budget proposed aligning the definition of "*adjusted taxable income*" and the formula in section 23N with those in section 23M. The result would have been that a lower deduction for interest would have been claimable under section 23N than was hitherto the case.

The effective date was set at 1 January 2027 to allow National Treasury and affected stakeholders time to consider the impact.

It is now proposed that this amendment be withdrawn on the basis that alignment is unnecessary, given the different nature of the rules and the transactions to which sections 23M and 23N respectively apply.

Extending the rehabilitation fund regime

Since 2006, mining companies have been able to deduct cash contributions to mining rehabilitation trusts, with income and gains in the trust exempt from tax. These trusts provide for post-closing environmental rehabilitation obligations. It is now proposed that this regime be extended to environmental rehabilitation trusts established for nuclear facilities, which are subject to similar rehabilitation obligations.

The practical uptake of this extension is uncertain, as mining rehabilitation trusts have largely fallen out of favour in the mining industry in favour of guarantee policies.

Collective Investment Schemes (CISs)

The disposal of assets held on capital account by portfolios of CISs is not subject to CGT by virtue of a specific exclusion. This exclusion does not, however, extend to the disposal by CISs of assets held on trading account, and there is no other exclusion for such disposals. It follows that profits derived by CISs from such disposals are fully subject to income tax in their hands (unless distributed to unitholders, which would then be so taxable).

The taxation of CISs was the subject of a National Treasury discussion document published in December 2024. That document noted that participatory interests in a portfolio are usually held as long-term capital assets and that this intention should govern the nature of receipts and accruals within the portfolio.

Following public consultation, the Budget indicates that a forthcoming response document from National Treasury will propose that all investment returns generated by regular CISs and retail investment hedge funds be taxed as capital gains. This measure is intended to encourage savings and provide certainty about the tax treatment of these vehicles. The response document has not yet been published but is expected to confirm this position.

By contrast, qualified investment hedge funds (QIHFs) are not open to the general public, have higher minimum-investment thresholds, and only cater to investors able to commit a minimum of R1 million. The government has indicated that it will propose excluding such QIHFs from the CIS tax regime. Instead, alternative tax treatment options for these funds will be outlined in the response document, providing tailored rules that reflect the different risk profile, investor base, and investment strategies of these funds compared to retail CISs.

This approach ensures that while retail investors benefit from simplified and predictable capital gains treatment, high-net-worth and professional investors in qualified hedge funds are subject to a tax regime more appropriate to their investment structure.

INTERNATIONAL TAX

Global Minimum Tax

South Africa will implement the global minimum tax rules in the 2026/27 fiscal year. These rules, designed to reduce profit shifting by multinational corporations, are expected to generate approximately R2 billion in additional revenue (revised downwards from an initial estimate of R8 billion). Companies within scope should review their structures and assess their compliance requirements.

Currency translation rules for a Domestic Treasury Management Company (DTMC) holding shares in a controlled foreign company (CFC)

South African exchange control rules allow a group to establish a single subsidiary, a DTMC, to hold the group's foreign direct investments. The DTMC must be registered with the Financial Surveillance Department of the South African Reserve Bank (**FinSurv**) and must be a South African tax resident.

Among the tax benefits of a DTMC is the ability to select and transact in a functional currency. However, a DTMC is taxed in South Africa on its worldwide receipts and accruals.

Where a DTMC holds shares in a CFC, it must include the CFC's net income in its taxable income calculation in Rand.

The CFC's net income is determined in the CFC's functional currency and then translated to Rand using the average exchange rate for the CFC's foreign tax year ending during the shareholder's year of assessment.

The interaction between the DTMC currency translation rules and the CFC net income inclusion creates onerous translation requirements: the CFC's net income (in Rand) must first be translated back to the DTMC's functional currency, and then the DTMC's taxable income must be translated back to Rand. To resolve this, it is proposed that the CFC net income translation rules be amended so that the DTMC shareholder will be entitled to include the CFC income in its own income in foreign currency and then only translate its full and final taxable income in foreign currency to Rand.

Special Economic Zones

The government proposes relaxing the connected-party transaction rules for companies in special economic zones. Rather than disqualifying companies where more than one-fifth of transactions are with connected parties, the focus will shift to whether transactions are conducted at arm's-length prices. This is a welcome development for businesses seeking to strengthen supply chains within these zones.

INDIRECT TAXES

VAT registration threshold

The compulsory VAT registration threshold increases from R1 million to R2.3 million with effect from 1 April 2026. This is the first adjustment since 2009 and will reduce compliance burdens for many small enterprises.

Time period to deduct notional input tax

Vendors acquiring second-hand goods from non-vendors may currently claim a notional input-tax deduction in any VAT period for up to five years after acquisition. This rule is to be amended to require the claim to be made in the tax period in which the supply takes place, subject to the existing five-year limit applicable to all input-tax claims.

Electronic services intermediaries

At present, VAT on electronic services rendered by a non-resident principal through an intermediary must be collected from the non-resident principal, unless the principal has agreed that the intermediary (being a vendor) will collect the VAT.

This default will be reversed: the intermediary will be liable for the VAT unless otherwise agreed, and even then will be jointly and severally liable with the non-resident principal for any unpaid VAT.

Excise Duties and Fuel Levies

Excise duties on alcohol and tobacco increase by 3.4% (in line with expected inflation) with effect from 25 February 2026. From the 2027 Budget onwards, excise duty adjustments will take effect on 1 April rather than on Budget Day.

With effect from 1 April 2026, the general fuel levy increases to R4.10 per litre for petrol and R3.93 per litre for diesel (below inflation). The carbon fuel levy rises to 19 cents per litre for petrol and 23 cents per litre for diesel, and the Road Accident Fund levy increases by 7 cents per litre. The combined increase remains in line with inflation.

NATIONAL ONLINE GAMBLING TAX

In November 2025, National Treasury published a discussion paper on a proposed national online gambling tax. Approximately R1.5 trillion was wagered in the South African gambling industry in 2024/25, with gross gambling revenue (**GGR**) of R74.5 billion — a 25.6% increase from 2023/24. The paper concludes that the current provincial tax regime is structurally inadequate for the rapid growth and cross-border nature of online gambling and proposes a uniform national tax of 20% on GGR, to operate alongside existing provincial taxes.

National Treasury emphasises that, although the proposed tax is expected to generate more than R10 billion, revenue generation is not its primary objective. The tax is framed as a corrective instrument aimed at internalising the social and economic harms of gambling and at aligning taxation with a technology-driven, cross-border environment. The public comment period closes on 27 February 2026. After reviewing submissions and engaging with stakeholders, National Treasury intends to incorporate revised proposals into draft legislation for further public comment later in the year.

TAX ADMINISTRATION

Reviewing the penalty regime for the underestimation of provisional tax

A provisional taxpayer who underestimates taxable income is subject to a 20% underestimation penalty where the second provisional tax estimate is less than 80% of the taxable income finally determined (or less than 90% where taxable income is R1 million or less). A 10% late-payment penalty applies where provisional tax payments are not made on time.

At present, the underestimation penalty cannot be imposed where the second provisional tax estimate falls within the 80%/90% window and is submitted on time but payment is late; only the lesser late-payment penalty applies. It is proposed, with effect from 25 February 2026, that the 20% underestimation penalty will also apply where the estimate is sufficient and submitted on time but payment is late. The legislation already contains rules to avoid duplication of the two penalties. (This means that the new rule will apply to second provisional payments due by the end of this week.)

It is also proposed that the R1 million threshold referred to above be increased to R1.8 million for years of assessment commencing on or after 1 March 2026.

Excluding certain exempt entities that are companies from the definition of "provisional taxpayer"

The definition of "provisional taxpayer" includes any company. This has the unintended consequence that entities fully or substantially exempt from income tax are classified as provisional taxpayers solely by virtue of being companies. It is proposed that fully exempt entities and certain partially exempt entities be excluded from this classification.

Permitting pre- or post-deposit screening of refunds by Banks

To curb fraudulent tax refunds, the Tax Administration Act allows banks to hold "suspicious" refunds and report them to SARS for investigation. To strengthen this measure, SARS and banks are exploring pre-screening of refunds before deposit into a taxpayer's account. It is proposed that explicit legislative permission be granted for pre- or post-deposit screening of refunds by banks.

Interest relief in voluntary disclosure applications

In late 2024, the Constitutional Court held in *Commissioner for the South African Revenue Service v Medtronic International Trading Sàrl* that taxpayers applying for voluntary disclosure relief (from criminal prosecution, administrative non-compliance penalties and understatement penalties) were not entitled to seek remission of interest on the disclosed tax.

It is now proposed that the relevant tax Acts be amended, with effect from 1 March 2026, to allow taxpayers making voluntary disclosures to request remission of interest as part of their application.

EXCHANGE CONTROLS

Capital Flows Management Framework

The Exchange Control Regulations will be amended to regulate transfers of crypto assets (such as Bitcoin and Ethereum) to non-residents and to place crypto-asset service providers on a similar footing to authorised dealers with limited authority. Such providers will be required to authorise crypto-asset transfers within their clients' exchange-control allowances and to report transfers to FinSurv.

Unfortunately there is still no news on the complete restructuring of the Capital Flows Management Framework that was announced several years ago.

Inward Foreign Loans

As part of efforts to attract foreign investment, the interest-rate cap on inward foreign loans is to be removed. At present, inward foreign loans are subject to a maximum interest rate of the base lending rate plus 3% (for foreign-currency-denominated loans) or prime plus 5% (for rand-denominated loans). Going forward, loans need only be at market-related rates and reported to the South African Reserve Bank. This change is possible given the increased regulatory limitation under the Income Tax Act on paying high interest rates to foreign lenders in order to avoid tax in South Africa, and SARS's increased oversight of such arrangements.

Single Discretionary Allowance

The single discretionary allowance for private individuals doubles from R1 million to R2 million per calendar year, enabling South Africans to remit significantly more funds abroad without specific SARB approval.

Cross-Border Credit and Debit Card Transactions

The per-transaction limit for cross-border credit and debit card payments doubles from R50 000 to R100 000 in response to evolving digital-payment trends. This change is likely to have the greatest impact on businesses and consumers that regularly procure digital services or

subscriptions from foreign providers.

Reducing the Capital Flows Regulatory Burden and Improving Competitiveness

At present, the HoldCo regime allows South African groups to incorporate a single DTMC with fewer foreign-exchange restrictions and a chosen functional currency. It is proposed that the DTMC concept be expanded to asset managers, enabling them to manage foreign-asset portfolios and trade foreign-currency-denominated financial instruments directly from South Africa.

TAX RATES AND THRESHOLDS

Individuals and special trusts

Personal income tax rate and bracket adjustments

2026/27 Taxable Income (R)	2026/27 Rates of Tax	2025/26 Taxable Income (R)	2025/26 Rates of Tax
0 – 245 100	18% of each R1	0 – 237 100	18% of each R1
245 101 – 383 100	R44 118 + 26% of the amount above R245 100	237 101 – 370 500	R42 678 + 26% of the amount above R237 100
383 101 – 530 200	R79 998 + 31% of the amount above R383 100	370 501 – 512 800	R77 362 + 31% of the amount above R370 500
530 201 – 695 800	R125 599 + 36% of the amount above R530 200	512 801 – 673 000	R121 475 + 36% of the amount above R512 800
695 801 – 887 000	R185 215 + 39% of the amount above R695 800	673 001 – 857 900	R179 147 + 39% of the amount above R673 000
887 001 – 1 878 600	R259 783 + 41% of the amount above R887 000	857 901 – 1 817 000	R251 258 + 41% of the amount above R857 900
1 878 601 and above	R666 339 + 45% of the amount above R1 878 600	1 817 001 and above	R644 489 + 45% of the amount above R1 817 000

Rebates

	2026/27 (R)	2025/26 (R)
Primary	17 820	17 235
Secondary (Persons 65 and older)	9 765	9 444
Tertiary (Persons 75 and older)	3 249	3 145

Tax threshold

	2025/26 (R)	2024/25 (R)
Below age 65	99 000	95 750
Age 65 to below 75	153 250	148 217
Age 75 and older	171 300	165 689

Annual income tax payable and average tax payable comparison (taxpayers younger than 65):

Taxable Income (R)	2025/26 Tax (R)	2026/27 Tax (R)	Tax change (R)	% change	Average tax rate – Old	Average tax rate – New
90 000	–	–	–	0.0%	0.0%	0.0%

100 000	765	180	-585	-76.5%	0.8%	0.2%
120 000	4 365	3 780	-585	-13.4%	3.6%	3.2%
150 000	9 765	9 180	-585	-6.0%	6.5%	6.1%
200 000	18 765	18 180	-585	-3.1%	9.4%	9.1%
250 000	28 797	27 572	-1 225	-4.3%	11.5%	11.0%
300 000	41 797	40 572	-1 225	-2.9%	13.9%	13.5%
400 000	69 272	67 417	-1 855	-2.7%	17.3%	16.9%
500 000	100 272	98 417	-1 855	-1.8%	20.1%	19.7%
750 000	191 942	188 533	-3 409	-1.8%	25.6%	25.1%
1 000 000	292 284	288 293	-3 991	-1.4%	29.2%	28.8%
1 500 000	497 284	493 283	-4 001	-0.8%	33.2%	32.9%
2 000 000	709 604	703 149	-6 455	-0.9%	35.5%	35.2%

Source: National Treasury

Retirement fund lump sum withdrawal benefits

2026/27

Taxable Income



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