



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

PBO

**PARLIAMENTARY
BUDGET OFFICE**



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

BRIEF ON THE 2025 TAXATION AND REVENUE PROPOSALS

August 2025

The Parliamentary Budget Office (PBO) is established in terms of the Money Bills Amendment Procedure and Related Matters Act of 2009 (amended 2018). The PBO provides independent, objective, and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the Finance and Appropriations Committees.

Director: Dr Dumisani Jantjies
Author: Sbusisiwe Sibeko (ssibeko@parliament.gov.za)

Table of Contents

1. Purpose.....	2
2. The 2025 budget.....	2
3. Effects on the main budget framework.....	2
4. Changes in tax proposals on direct taxes.....	3
4.1 Personal income tax (PIT).....	3
4.2 Corporate income tax (CIT).....	3
5. Changes in tax proposals on indirect taxes.....	4
5.1 Value-added tax (VAT).....	4
5.2 General fuel levy.....	5
6. Changes in tax proposals on excise tax.....	5
7. Tax administration.....	5
Box 1: Updates on South Africa's greylisting.....	6
Box 2: The latest developments on the Global Tax Agreement.....	7

1. Purpose

This Tax and Revenue Brief provides Members of the Finance Committees with an analysis of the 2025 Taxation and Revenue proposals (2025 Tax Proposals) as tabled by the Minister of Finance

In the 2025 Budget Review, the Minister of Finance (MoF) proposed the 2025 tax and revenue measures for consideration and approval by the Parliament. In principle, the Finance Committees' report on the tax and revenue proposals, as per section 8.4 of the Money Bills Amendment Procedure and Related Matters Act, 2009 (Act no. 9 of 2009) ('Money Bills Act') – in the Budget Review should inform consideration of the Rates Bill. The brief provides updates on South Africa's progress with the Financial Action Task Force (FATF) as well as an update on the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS).

2. The 2025 budget

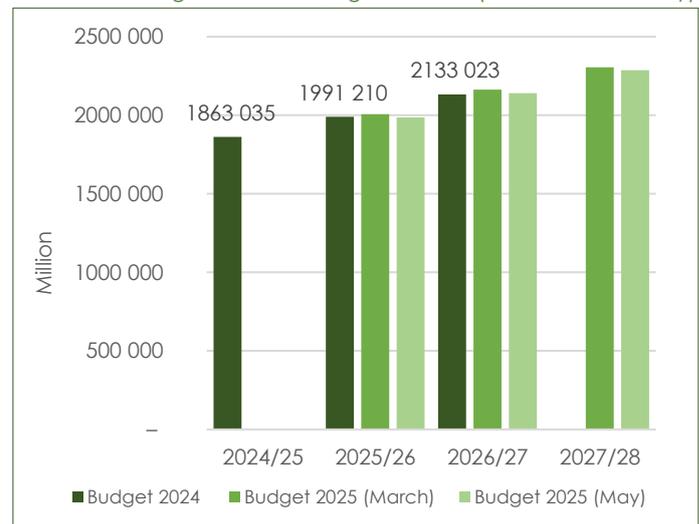
The postponement of the legislative process for approving the 2025 Budget, specifically the tax proposals emphasised the importance of transparent engagement on tax policies. The value-added tax (VAT) proposals

highlighted the challenges and conflicts involved in legitimating tax. In the 2020 Budget Review, government stated that the government's objectives are to broaden the tax base, improve administration on revenue collection, lower tax rates and provide tax relief. In The 2025 budget overview, government states that it remains committed to its long-term objectives of broadening the tax base and improving the efficiency and effectiveness of SARS for sustainable revenue collection. There seems to have been a shift in the objectives of tax policy.

The 2025 budget process also highlighted a divergence in government policy priorities versus fiscal policy choices. The proposal to increase VAT (and later the fuel levy) also seems to be in contradiction of the State of the Nation Address (SONA) 2025 priorities to "reduce poverty and tackle the high cost of living", as announced by the president. Statistics South Africa data (2024) shows that the number of persons who are vulnerable to hunger has increased from 13.2 million in 2012 to 14.7 million in 2024 - this is approximately a quarter of the South African population. The PBO has previously highlighted how the SONA priorities and budgets are sometimes not aligned.

Figure 1 shows the 2025 budget's impact of tax proposals on medium-term revenue. The 2025/26 revenue projection was R1.991 trillion. The value was revised upward to R2.006 trillion after the March 2025 proposals. In the May 2025 budget, the 2025/26 value has been revised downward to R1.986 trillion. This reduction was due to the reversal of the VAT rate increase and the updated economic forecast.

Figure 1: Nominal changes in gross tax revenue projections between Budget 2024, Budget 2025 (March and May)



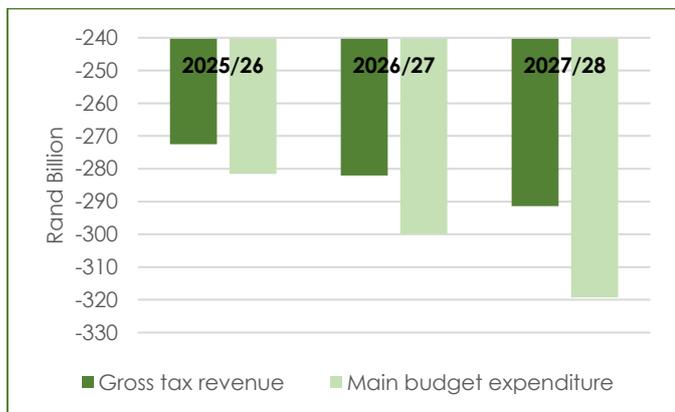
Source: PBO compilation based on National Treasury data

3. Effects on the main budget framework

There were downward revisions for main budget expenditure and revenue from the March to the May 2025 budgets. As shown in figure 4, the main budget revenue estimates have been revised downward by R282 billion,

R300 billion and R319 billion in 2025/26, 2026/27 and 2027/28, respectively. The main budget expenditure is reduced by R273, R282 and R319 billion in 2025/26, 2026/27 and 2027/28, respectively. The main budget balance for 2025/26 is -R361.3 billion.

Figure 2: Changes in the main budget framework between the March and May budgets



Source: PBO calculation based on National Treasury data

4. Changes in tax proposals on direct taxes

Personal income tax (PIT) and corporate income tax (CIT) are expected to constitute almost 60 per cent of tax revenue in 2025/26. Below, we discuss the changes in PIT and CIT between Budget 2024, Budget 2025 (March and May).

4.1 Personal income tax (PIT)

In the 2024 budget proposals, there were no inflationary adjustments to the tax brackets and medical aid credits, which can be seen as both a progressive and regressive measure. In the March and May 2025 budgets, the proposals remain the same.

The choice of non-inflationary adjustments disproportionately impacts those at lower- and middle-income levels through budget creep. The PBO has previously explained that taxpayers could be pushed into higher tax brackets, even though their wages are not increasing in real terms. Bracket creep threatens the progressivity of the tax system, particularly given the repeated practice of not adjusting tax brackets over time. In the past, the government has implemented a "partial bracket adjustment" - where certain tax brackets and rebates are adjusted for inflation, while others are not - this is an option the government should consider if it wishes to use these adjustments as part of a slow redistributive mechanism to reduce inequality.

Table 1 provides a summary of the changes in PIT between the March and May 2025 budgets.

Table 1: Nominal changes in PIT between Budget 2024, Budget 2025 (March and May)

	2025/26	2026/27	2027/28
Budget 2024	R17.3 bn	R18.6 bn	
Budget 2025 (March)	R18 bn	R 19.1 bn	R20.3 bn
Budget 2025 (May)	R16.7 bn	R17.7 bn	R18.8 bn

Source: PBO compilation based on National Treasury data

In the 2024 budget, the projection for 2026/27 assumed that there would be non-inflationary adjustments to PIT and medical credits. The projection on additional revenue collected was R18.6 billion. This amount was revised upward in the March 2025 budget, to R19.1 billion for 2026/27, and then revised downward to R17.7 billion in the May 2025 budget. The downward revision reflects the National Treasury's updated economic forecasts.

4.2 Corporate income tax (CIT)

The March and May 2025 budgets do not include proposals for changes to the CIT. The 2024 Budget Review outlined tax proposals until 2026/27. Those proposals included the electric vehicles tax incentive, and the revenue anticipated from implementing the global minimum corporate tax (GloBE) rules. The electric vehicles tax incentive proposal was meant to support vehicle manufacturers by allowing them to claim a tax benefit of 150 per cent of qualifying investment spending. These measures, proposed to come into effect from March 2026 in the 2024 Budget Review, would specifically target domestic production of electric and hydrogen-powered vehicles. The NT's estimate of forgone tax collection of the incentive is R500 million for 2026/27. In the PBO's 2024 Tax Brief, we indicated that this tax incentive could support domestic production in a sector that mainly exports. It is unclear whether this tax incentive, which was not in the 2025 budget review, will be proposed in the 2026 budget.

The 2024 Budget Review stated that South Africa would implement the global minimum effective tax rate of 15 per cent from 01 January 2024. The National Treasury had projected that the new minimum effective tax would increase corporate tax collection by R8 billion in 2026/27. Parliament should request an update on the implementation of the global minimum effective tax rate. Box 2 provides an update on the international developments in the global minimum effective tax rate discussion.

5. Changes in tax proposals on indirect taxes

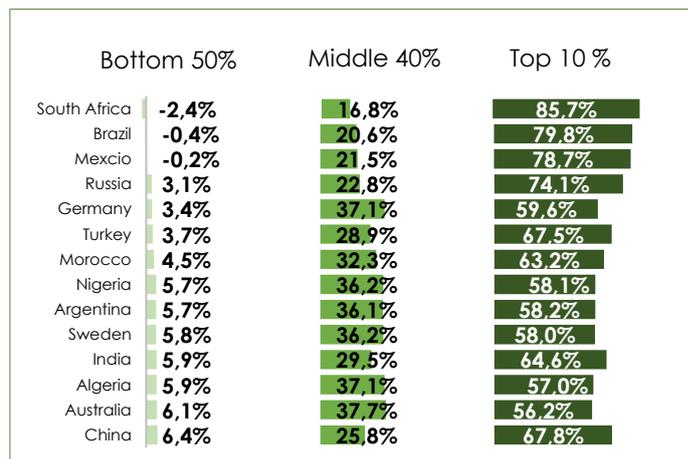
5.1 Value-added tax (VAT)

A VAT increase has been the most contentious policy decision presented in the 2025 Budget. The February 2025 budget (which was not tabled) proposed a two per cent increase in VAT. Based on our modelling of the initial two per cent proposed, [the PBO](#) found that that a VAT increase would disproportionately impact low-income households, potentially exacerbating poverty and inequality.

The VAT increases in 2025 are predicated on the same arguments made in 2018. The arguments are that South Africa's VAT rate is below peer countries, VAT is less harmful to growth than other taxes, and zero-rating more products would mitigate the regressivity of VAT.

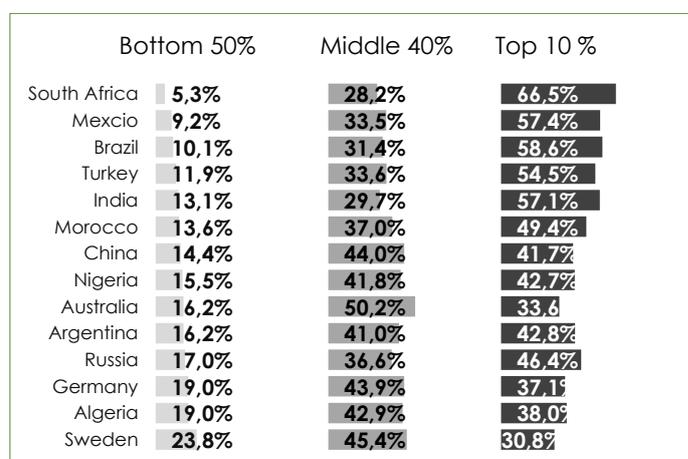
The proposal of a VAT increase also raises questions about evidence-based policy making. Comparative analyses must extend beyond simple rate comparisons and consider diverse socioeconomic realities and developmental objectives. VAT is particularly regressive in the context of the protracted cost-of-living crisis experienced by South African households. The argument that South Africa's VAT rate is low relative to 'peer' countries ignores the fact that wealth and income inequality in South Africa is so much worse than almost every other country in the world. In South Africa, the bottom 50 per cent of the population holds negative wealth (i.e., they owe more than they own), while the top 10 per cent owns over 85 per cent of the total wealth. The data compiled by the PBO shows that the wealth and income distribution in the 'peer' countries selected by National Treasury is less concentrated in the hands of the top 10 per cent (as shown in Figure 3 and Figure 4). As a result, the populations in most of these countries are less exposed to the regressive impacts of higher indirect taxes because their wealth and income are distributed relatively more equitably. Taxes are not a means for the government to collect revenue they are also an essential tool for redistributing income and wealth. The discussion of VAT and comparisons with other countries VAT rates has to take the South African context into account.

Figure 3: Comparative wealth inequality by country



Source: The World Inequality Lab, The World Inequality Report

Figure 4: Comparative income inequality by country



Source: The World Inequality Lab, The World Inequality Report

One of the reasons they posit is that increasing PIT leads to reduced collections in PIT. However, similar considerations are not made for VAT. The projected revenue gains from the 2018 VAT increase did not materialise. The 2019 budget revealed a R22.2 billion deviation in VAT collections from initial estimates, raising questions about the accuracy of revenue forecasting. Therefore, it is prudent to question the revenue projections of the 2025 VAT increase and to assess if the same errors are being made.

Overall, the NT has not provided evidence on the net effect of a VAT increase on the economy and households. There is inadequate consideration on how VAT impacts businesses compared to an increase to CIT. Nor is there evidenced consideration of how VAT will impact expenditure by the government and households, which are significant contributors to GDP.

Further zero-rating of goods was proposed as a way to mitigate the VAT increase. The proposal was to expand the list of VAT zero-rated food items to include items like edible offal (sheep, poultry, goats, swine, and bovine), specific meat cuts (heads, feet, bones, tongues), dairy liquid blend,

and tinned or canned vegetables. Evidence suggests zero-rating has not effectively shielded households from VAT's impact. As noted in the Davis Tax Committee (DTC) March 2018 report, zero-rating is a blunt tool for equity. Government also acknowledges this bluntness in the March 2025 budget, stating that "[z]ero rating is a blunt tool to assist lower-income households, because there is no guarantee that there will be a reduction in prices" (Budget Review, p.40). For example, monitoring the impact of the 2018 VAT increase in April 2019, [the Pietermaritzburg Economic Justice and Dignity Group](#) found that zero-rating cake flour has not had any impact on the household affordability crisis.

5.2 General fuel levy

The Minister of Finance announced an increase to the general fuel levy of 16 cents per litre for petrol and 15 cents per litre for diesel, effective from 4 June 2025 resulting in R4 billion in foregone revenue is expected in 2025/26. This is the first time that the fuel levy has been changed in three years.

The fuel levy will have ripple effects, which exacerbate the protracted cost-of-living crisis that many South Africans experience. The fuel levy increase also inevitably drives up transport and operational costs, which means that businesses will also be impacted. Transport is the third largest contributor to household consumption expenditure (Stats SA, 2025). Transport costs also tend to be a larger portion of the expenditure of those who have lower incomes; therefore, there will be disproportional impacts.

Given the changes in changes in the main budget framework between the March and May 2025 budgets (outlined in Section 2), the government could have chosen to have a smaller surplus and not alter the fuel levy. Without the fuel levy, the main budget surplus for 2025/26 would still amount to -R357.3 billion. Given the impacts of the fuel levy, government could have chosen not to increase the fuel levy.

6. Changes in tax proposals on excise tax

Excise duties on alcoholic beverages and tobacco continue to have above-inflation adjustments, which is in line with government's objective to address the harmful use of alcohol in the country. In its Global Strategy to Reduce the Harmful Use of Alcohol, the World Health Organisation (WHO) suggests tax and pricing control measures in an effort to incorporate public health perspectives into tax and pricing policy.

There are no changes in the proposed excise duty rates between the March and May 2025 budgets; however, the projected revenues change in the medium term.

There have been concerns over the illicit trade of alcoholic and tobacco, which the business argues is fuelled by rising costs in the legal sector.

In response to this concern the National Treasury considers the establishment of a policy framework where excise duty rate adjustments are made within the bounds of expected inflation, as a minimum, with an upper limit of 10 per cent. An update on this process is required.

7. Tax administration

The South African Revenue Service (SARS) has identified over R800 billion in uncollected tax revenue due to unpaid debts, overdue returns, and fiscal leakages. This estimated loss of revenue significantly undermines the state's ability to finance socio-economic programmes without resorting to harmful expenditure cuts and regressive tax increases. Enhancing revenue collection requires bolstering SARS's financial and institutional capacity. The proposal made in the May 2025 budget is to allocate an additional R7.5 billion to SARS relative to the baseline over the medium term. Part of this allocation is expected to increase debt collection by R20 billion to R50 billion per year. An increase in resources to SARS would lead to higher tax collections.

SARS has indicated that it plans to use more automation and artificial intelligence (AI) to increase tax compliance. As of the end of July 2025, SARS has reported that over 75 per cent of taxpayers have already received auto-assessments, with refunds totalling R10.6 billion disbursed. The revenue authority attributes this efficiency to its investment in AI and data science, which it claims is now delivering significant results.

The SARS commissioner, Edward Kieswetter said that future innovations in tax collection methods include a unique digital identity system being developed in collaboration with the Department of Home Affairs and the South African Reserve Bank.

***** (See Boxes below) *****

Box 1: Updates on South Africa's greylisting

On 24 February 2023, South Africa was greylisted by the Financial Action Task Force (FATF) – an intergovernmental body established by the G7 1989 to monitor and combat global money laundering and terrorist financing. The FATF identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT). South Africa is one of 23 countries that are currently on the greylist. Being on the greylist means that South Africa is “under increased monitoring” as it actively works with the FATF to address identified strategic deficiencies in its regime. In 2019, South Africa underwent an assessment of the effectiveness of its measures to combat money laundering and terrorist financing. FATF recommended 32 action items for South Africa to implement to tackle money laundering and terrorist financing. The report was adopted in 2021. By 2023 it had become clear that South Africa had not implemented the measures outlined and thus the decision to put South Africa on the greylist was not a surprise.

South Africa's progress

In November 2024, the FATF reported that since South Africa's 2021 assessment of measures to combat money laundering and terrorist financing, and the 2023 Follow-Up Report, South Africa had taken several steps to strengthen its framework.

In line with the FATF Procedures for mutual evaluations, South Africa had reported back to the FATF on the actions it had taken since its mutual evaluation. Overall, the country had made progress in addressing most of the technical compliance deficiencies identified in its Mutual Evaluation Report (MER) and had received the following upgrades:

- Recommendation 2: upgraded from partially compliant to largely compliant
- Recommendation 6: upgraded from partially compliant to largely compliant
- Recommendation 15: upgraded from partially compliant to largely compliant

In the FATF's 2024 evaluation, South Africa was compliant with five recommendations and largely compliant with 32, while two recommendations remain rated as partially compliant.

On 13 June 2025 FATF released a statement on South Africa's response to the greylisting. In their Jurisdictions under Increased Monitoring statement, FATF notes that:

“South Africa has made the following reforms including: (5) demonstrating a sustained increase in investigations and prosecutions of serious and complex money laundering and the full range of [terror financing] TF activities in line with its risk profile; (7) updating its TF Risk Assessment to inform the implementation of a comprehensive national counter financing of terrorism strategy...”

“At its June 2025 Plenary, the FATF made the initial determination that South Africa has substantially completed its action plan and warrants an on-site assessment to verify that the implementation of AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future.”

The on-site visit is expected to be conducted before the next FATF Plenary, and if its outcome is positive, the FATF will remove South Africa from the greylist at its October 2025 Plenary.

Calls for financial sector reform

The calls for financial sector reform are not new in South Africa. For years, many organisations have called for the government to prioritise the tackling of illicit financial flows (IFFs). It should not have taken an external international agency and greylisting to spur action by the government. This negligence raises questions about the choices the government has made since 1994 with regard to financial liberalisation and adequately regulating capital flows and overall regulation of the financial sector. It also begs the question whether public input on these matters is taken seriously enough by the government. Since the greylisting, Parliament passed two laws to comply with FATF recommendations. And, the SARB, which has the responsibility of administering exchange controls, has now indicated that it plans to monitor its financial jurisdiction with a more risk-based approach. The government is actively engaging additional measures to curb money laundering and other illicit transactions. However, much still can be done.

Beyond FATF, the greylisting of South Africa should be an opportunity for the government to systematically consider the impact of capital flows on the economy and strengthening capital controls. Greylisting opportunity highlights the concern that South Africa should increase its regulation of the financial sector, more broadly.

Box 2: The latest developments on the Global Tax Agreement

The Global Minimum Corporate Tax (GLoBE) tax rate was agreed upon at OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) led by the Organisation for Economic Co-operation and Development (OECD). Heightened concern with BEPS occurred as countries recognised the increased use of tax avoidance strategies by extremely powerful multinational corporations with highly integrated global operations and complex value chains. There was a recognition that global rules had not kept pace with the dishonest strategies of shifting of profits across borders, the rise of e-commerce, and the free movement of capital, labour and intellectual capital, amongst other developments. The failure of global tax rules to keep up with these nefarious activities by MNCs has led to a race to the bottom where governments compete to lower taxes on MNCs. One consequence has been the emergence of a multi-billion-dollar global industry supporting tax avoidance.

In [previous briefs](#), the PBO has highlighted the developments on the GloBE. In January 2025, the OECD published an administrative Guidance that includes a list of jurisdictions that have transitional qualified status for the purposes of the income inclusion rule and domestic minimum tax. South Africa was not included in the list of "Qualified Income Inclusion Rules". This means that as of 28 March 2025, South Africa had not completed the additional legislation for the transitional qualification mechanism process.

South Africa was also not on the list of the central record that indicates whether they are drafting a Domestic Minimum Top-up Tax (DMTT). The DMTT is part of the GloBE rules which aim to ensure all the global profits of large multinational enterprises are taxed at a minimum Corporate Income Tax rate of 15 per cent within a host country. This failure to draft a DMTT has occurred despite the Explanatory Memorandum on the Global Minimum Tax Bill published by government in 2024. A status update from the government is thus needed for Parliament's continued oversight on this important matter.

On 9 May 2025, the OECD/G20 Inclusive Framework on BEPS was updated with a version of a consolidated commentary on the Pillar Two global minimum tax model rules, along with an updated set of examples demonstrating how the model rules apply to certain scenarios. The updated commentary includes administrative guidance approved and published by the OECD Inclusive Framework up to the end of March 2025.

While the GloBE processes continue, recent political developments have created uncertainty. On 20 January 2025, President Donald Trump signed an executive order rejecting an international initiative to reform the taxation of multinational enterprises (MNEs). He also indicated that the United States may impose retaliatory taxes or tariffs on businesses from countries that adopt the global tax agreement. In March 2025, the United States of America government withdrew from the OECD's global tax deal. This will have far reaching impacts given that a significant number of US companies would be the primary targets of the Pillar 2 framework (the global minimum effective tax). [One estimate](#) finds that nearly 40 percent of all income subject to Pillar 2 rules is earned by U.S. multinationals. In June 2025, the G7 met and agreed to the following:

- A side-by-side system would fully exclude U.S. parented groups from the Under-Taxed Payments Rule (UTPR) and the Income Inclusion Rule (IIR) in respect of both their domestic and foreign profits
- A side-by-side system would include a commitment to ensure any substantial risks that may be identified with respect to the level playing field, or risks of base erosion and profit shifting, are addressed to preserve the common policy objectives of the side-by-side system
- Work to deliver a side-by-side system would be undertaken alongside material simplifications being delivered to the overall Pillar 2 administration and compliance framework
- Work to deliver a side-by-side system would be undertaken alongside considering changes to the Pillar 2 treatment of substance-based non-refundable tax credits that would ensure greater alignment with the treatment of refundable tax credits.

The above concessions in the G7 mean that countries will be blocked from applying the proposed top-up tax on multinational corporations whose headquarters are based in the U.S. The global tax deal, therefore, remains precarious. The [Tax Justice Network](#), an international NGO, argues that the side-by-side system threatens to continue the "bifurcated and unlevel economic playing field".