TAX FLASH

BUDGET EDITION 2026

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We are proud to share our *Tax Flash – Budget Edition* for 2026. In this edition, WTS Renmere's experts share their views regarding the tax and exchange control proposals announced in National Treasury's 2026 Budget Speech. We cover a wide array of topics to illustrate the extent of our service offering and guide you through the implications of this year's fiscal framework.

1 Comprehensive overview: A fiscal turning point in a resilient economy

The 2026 Budget represents a structural transition in the management of the national fiscus, marking a definitive departure from a prolonged period of severe macroeconomic strain toward an era of restored credibility and disciplined reform. The tangible outcomes of this macroeconomic strategy are now evident, as South Africa has officially exited the FATF grey list and secured its first credit rating upgrade in nearly two decades, narrowing sovereign risk premiums and easing borrowing costs.

Domestically, the growth outlook is experiencing a steady acceleration, with real GDP growth projected to rise to 1.6% in 2026 and targeted to reach 2.0% by 2028, supported by resilient household consumption and lower interest rates.

A landmark objective achieved in this Budget is the stabilisation of sovereign debt. Gross loan debt is projected to peak and stabilise at 78.9% of GDP in the 2025/26 fiscal year before entering a sustained period of decline over the medium term. This debt stabilisation is engineered through the generation of a primary budget surplus, projected to reach 0.9% of GDP in 2025/26. Consequently, the consolidated budget deficit is experiencing a rapid contraction, narrowing to an estimated 4.5% of GDP.

The strength of in-year fiscal metrics has precipitated a major pivot in overarching tax policy. Gross tax revenue for 2025/26 is revised upwards by R21.3 billion compared to the 2025 Budget, accelerating the tax-to-GDP ratio to 25.9%. This uplift was predominantly driven by higher net Value-Added Tax (VAT) collections, resilient corporate income tax receipts, and strong dividends tax collections.

Recognising the inherent risks of overburdening an economy in the early phases of recovery, the Minister of Finance has officially withdrawn the previously planned R20 billion tax increase. Instead, the 2026 Budget delivers comprehensive relief by implementing full inflationary adjustments across all personal income tax brackets, rebates, and medical scheme fees tax credits, while also adjusting tax thresholds to assist small businesses and encourage personal savings.

Finally, the spending framework over the medium-term expenditure framework (MTEF) focuses heavily on efficiency and capital investment. Capital payments are the fastest-growing expenditure item, expanding by 9.7% over the medium term to support an unprecedented public-sector infrastructure pipeline valued at R1.07 trillion. This allocation is heavily weighted toward state companies (R445.5 billion), followed by provinces (R217.8 billion) and municipalities (R205.7 billion). Concurrently, the budget introduces a paradigm shift in the management of local government finances, moving from passive oversight to aggressive legislative, governance, and technological intervention to address systemic municipal financial distress.

2 Personal Income Tax

2.1 Welcome tax relief for individual taxpayers

Key takeaways:

- No new broad-based tax increases and the previously planned R20 billion tax hike has been officially withdrawn.
- Full inflationary adjustments (3.4%) have been applied to all personal income tax brackets, rebates, and medical tax credits.
- Capital gains tax exclusions have increased, including the annual exclusion (to R50,000), primary residence exclusion (to R3 million) and the small business disposal exclusion (to R2.7 million, provided the total market value of the qualifying business does not exceed R15 million).
- Tax-free savings annual limits rise to R46,000, and the retirement contribution deduction limit increases to R430,000.

The 2026 National Budget delivered on 25 February 2026 heralds positive developments for the tax burden experienced by ordinary South Africans. After two consecutive years without inflationary relief on personal income taxes, government has adjusted several key thresholds and limits in line with expected inflation of 3.4%. The result is meaningful protection against rising living costs, stronger incentives for saving and investment, and support for long-term financial planning, all without any new broad-based tax increases. The relief was made possible by stronger-than-expected revenue collections, which obviated the need for the R20 billion tax hike previously suggested by government.

<u>Personal income tax brackets and rebates move with inflation</u>

All personal income tax brackets and rebates have been increased by 3.4%, marking the first full inflationary adjustment since the 2023/24 tax year. The tax-free threshold for individuals under 65 now rises to R99,000, up from approximately R95,750 previously. Rebates have also been lifted as the primary rebate (available to all taxpayers) moves to R17,820, the secondary rebate for those aged 65 and older rises to R9,765, and the tertiary rebate for taxpayers 75 and older increases to R3,249.

The practical effect of these adjustments is to counter so-called 'bracket creep', namely, the phenomenon in which inflation pushes one's salary into a higher tax bracket without any real increase in buying power. By shifting the entire progressive tax structure upward, the changes keep effective tax rates stable, providing welcome relief to taxpayers faced with the ever-increasing cost of living.

More room for capital gains

Capital gains tax exclusions have also received a boost. The annual exclusion available to individuals is rising from R40,000 to R50,000, while the exclusion upon death increases from R300,000 to R440,000 and the primary residence exclusion on the gain from selling one's home increases from R2 million to R3 million.

In addition, the exclusion amount on the disposal of a small business for individuals over 55 years of age increases from R1.8 million to R2.7 million, subject to an increased qualifying business market value cap of R15 million (up from R10 million).

Capital gains tax for individuals is applied at a maximum effective rate of 18% on the taxable portion of any gain remaining after the applicable exclusion. Consequently, higher thresholds allow a greater proportion of gains to be retained by taxpayers.

To illustrate, an individual who realises a R60,000 gain on shares or unit trusts this year will now be taxed on only R10,000 of that gain, down from R20,000 under the old threshold. Homeowners selling a primary residence can shelter an additional R1 million of profit from tax, which represents a significant benefit for persons looking to relocate.

Tax-free savings get a lift

The annual contribution limit for tax-free savings accounts (TFSAs) has been adjusted from R36,000 to R46,000 per tax year, although the lifetime limit remains capped at R500,000.

Everything earned inside a TFSA, including interest, dividends, and capital gains, remains completely exempt from tax in perpetuity, making TFSAs an essential savings and investment vehicle for all South Africans.

The additional R10,000 annual allowance affords taxpayers the ability to shelter more money each year and therefore to reach the lifetime limit faster, allowing the substantial compounding effect of tax-free growth over time to be even more pronounced.

This opportunity is particularly beneficial for young professionals, parents who are setting aside funds for their children, and individuals seeking to boost their retirement savings.

Stronger incentives for retirement saving

The cap on tax-deductible contributions to pension, provident, or retirement annuity funds rises from R350,000 to R430,000 per year, subject to the existing ceiling of 27.5% of the higher of remuneration or taxable income.

Every rand contributed within the limit reduces taxable income directly, lowering one's tax bill in the current year while the funds continue to grow on a tax-deferred basis until retirement, at which point lower retirement rates will apply when funds are withdrawn.

The impact for higher earners is notable. A taxpayer in the 41% marginal bracket who is now able to contribute an additional R80,000 to a retirement annuity would save roughly R32,800 in tax this year alone, while that additional investment continues to grow tax-free.

The change strongly incentivises long-term saving, which is always a welcome development.

Donations tax exemption rises

The annual exemption for donations by natural persons increases from R100,000 to R150,000. Donations tax applies only to amounts above the exemption. The adjustment restores the real value of the threshold after years of inflation and makes both charitable activity and succession planning more tax-efficient.

What it all means

Taken together, these changes are individually modest but collectively meaningful. They protect take-home pay against inflation and avoid bracket-creep, make saving and investing more attractive, reward home ownership and retirement planning, and support charitable giving.

Lower- and middle-income households will feel the personal income tax relief most directly, while higher earners and investors gain from the expanded savings and capital gains limits. Importantly, no one faces higher tax rates or new taxes on income or consumption.

The 2026 Budget strikes a careful balance between fiscal discipline and targeted relief that puts money back into the pockets of individuals and families. By most measures, this is one of the more taxpayer-friendly budgets in recent years, easing financial pressure while encouraging the savings culture South Africa needs for long-term growth. All changes take effect from 1 March 2026, the start of the new tax year for individual taxpayers.

As always, individual circumstances vary, so it is worth consulting a tax practitioner or financial adviser for personalised guidance.

Dewald Pieterse

2.2 The Good, the Bad and the Budget: rollover relief fixed, loophole closed

Key takeaways:

- Section 9HB will be amended to prevent the recoupment of capital allowances on the transfer of allowance assets between spouses, restoring tax neutrality.
- Transferee spouses will now be allowed to carry over accumulated allowances.
- To combat 'exit tax' avoidance, the spousal donations tax exemption is now strictly limited to donations made to a spouse who is a South African tax resident.

The Good: rollover treatment for capital allowances on spousal transfers

Section 9HB of the Income Tax Act, No. 58 of 1962 (ITA) currently regulates the tax treatment of asset transfers between spouses by providing rollover relief for trading stock, livestock, and capital assets. However, this rollover does not extend to allowance assets. Under current rules, where a spouse transfers an allowance asset, section 8(4)(k) may trigger a recoupment of capital allowances previously claimed in the hands of the transferor, despite the transfer qualifying as a 'spousal transfer' under section 9HB. Furthermore, the transferee spouse is not permitted to continue the allowance claim based on the transferor's historic allowances.

This creates a mismatch in that the fiscus imposes an immediate tax cost on the transferor while denying the continuity of capital allowances for the transferee, effectively undermining the tax-neutral policy intent of spousal rollovers. To rectify this, government proposes amending section 9HB to prevent recoupments of allowances from triggering on the transfer of allowance assets between spouses, and to allow the transferee spouse to take over the accumulated allowances.

The Bad: limiting the donations tax exemption on cessation of residency

Conversely, government has identified a loophole involving the interaction between the spousal donations tax exemption and the exit tax rules. Currently, section 56 of the ITA exempts all donations between spouses from donations tax without limitation.

However, some high-net-worth individuals planning to emigrate have exploited this by deliberately staggering the cessation of their South African tax residency. In this structure, one spouse becomes a non-resident first. The remaining resident spouse then donates significant assets to the non-resident spouse, completely free of donations tax. When the remaining spouse subsequently ceases residency, their section 9H 'exit tax' liability is drastically reduced because they no longer own the donated assets. This arrangement artificially circumvents both donations tax and the intended capital gains exit charge.

To close this material avoidance channel, the Budget proposes that the donations tax exemption between spouses be strictly limited to donations made to a spouse who is a South African tax resident. This amendment, effective immediately on 25 February 2026, establishes a clear 'bright-line test' based on the residency status of the recipient spouse, protecting the tax base without impacting genuine donations between resident spouses. This immediate, hard-stop implementation is designed to instantly void historical estate planning structures relying on staggered emigration, meaning no grace period exists for these transactions.

Dean van den Berg

3 Corporate Income Tax

3.1 Reorganisation interest (section 23N): Treasury abandons formula alignment plans

Key takeaways:

- Government has officially withdrawn the 2024 legislative proposal to align the section 23N interest limitation formula with the more restrictive section 23M parameters.
- Section 23N will retain its independent mechanics, safeguarding the financial modelling and liquidity required for domestic M&A and corporate reorganisations.
- The reversal provides much-needed policy certainty, acknowledging stakeholders' concerns that section 23M (anti-base erosion) and section 23N (domestic capital allocation) serve fundamentally disparate objectives.

It is well-known that in the context of corporate restructuring and mergers and acquisitions (M&A), the deductibility of interest on acquisition debt remains a linchpin of financial modelling.

Within the Income Tax Act, this is primarily governed by two mechanisms: section 23M, which restricts interest deductions on debt owed to persons not fully subject to tax, and section 23N, which specifically caps interest deductions arising from reorganisation and acquisition transactions.

The Taxation Laws Amendment Act of 2024 introduced a highly contentious provision to align the computational formula of section 23N with the changes introduced to section 23M, setting a deferred effective date of 1 January 2027. This impending alignment would have forced section 23N to adopt section 23M's flat 30% limitation on restricted deductions, overriding the dynamic 40% repo-rate adjusted base limit currently utilised by M&A financial modelers. However, over the past two years, concerns have been raised by stakeholders that this impending alignment is arguably unnecessary, given the fundamentally distinct nature of the rules and the transactions to which they respectively apply.

While section 23M essentially serves as an anti-avoidance measure against base erosion, section 23N is designed to regulate domestic capital allocation. Applying the mechanics of section 23M to domestic acquisition financing threatened to severely impair the commercial viability of legitimate corporate dealmaking. Recognising the validity of these concerns, the 2026 Budget explicitly proposes that the 2024 amendment to align the respective formulas be withdrawn.

This pivotal withdrawal is likely to be welcomed by the M&A sector. By preserving the existing, independent mechanics of section 23N, National Treasury has safeguarded the liquidity required for productive corporate reorganisations.

For taxpayers and their advisors, this development provides much-needed policy certainty, ensuring that domestic dealmaking is not inadvertently constrained by anti-avoidance frameworks designed for a different mischief entirely.

Dr Hendri Herbst

3.2 Online gambling tax: A double-edged sword for digital betting

Key takeaways:

- A new national tax of 20% on gross gambling revenue (GGR) specifically for online operations is proposed.
- This national tax will be levied in addition to existing provincial taxes and duties, potentially compressing sector margins.
- Following the closure of the public comment period in February 2026, Treasury will host specialised workshops to refine the legislation and address double taxation concerns.

It is well-known that the rapid proliferation of digital betting platforms has exposed a structural asymmetry in the national tax architecture. While physical casinos and betting operations have long been subject to stringent provincial regulation and levies, it is evident that the borderless nature of online gambling has largely circumvented the direct grasp of the national fiscus.

To address this mischief, National Treasury published a draft national online gambling tax discussion paper, proposing a radical overhaul of the sector's economic landscape. The centerpiece of the proposal is the introduction of a new national tax levied at a flat rate of 20% on the gross gambling revenue (GGR) generated explicitly by online operations.

Importantly, the 2026 Budget documents confirm that this 20% national tax will not replace existing frameworks, but is intended to supplement them and will be levied in addition to the current taxes and duties already paid to provincial authorities. When combined with provincial levies (which range between 6.5% and 9%) and the standard 15% VAT, then depending on how the proposed national tax is implemented, this could push the effective, aggregate tax burden to nearly 40% of GGR.

This dual-layered taxation model marks a major change in the taxation of the sector and threatens to significantly compress operating margins within the digital betting ecosystem. With the public comment period concluding in late February 2026, the industry faces a critical juncture. National Treasury has committed to hosting specialised workshops to synthesise stakeholder feedback before drafting the final legislation later this year.

For operators, the implications are profound. Absorbing a nearly 40% aggregate tax hit to GGR is unlikely to be sustainable without structural adjustments to user incentives, promotional bets, or underlying payout algorithms. Industry bodies warn that this potentially unconstitutional over-taxation creates a systemic risk of driving domestic consumers toward unregulated, untaxed offshore platforms.

As the legislative process advances, the technical definition of GGR and the mechanisms for preventing double taxation across provincial lines will be the focal points determining the future commercial viability of the digital gaming sector.

It will be crucial for taxpayers and their advisors to stay informed and adapt to this changing landscape.

Dr Hendri Herbst

3.3 Sustainable provisioning: Extending environmental rehabilitation tax benefits to nuclear facilities

Key takeaways:

- The tax-advantaged environmental rehabilitation fund regime (section 37A) is being extended beyond mining to include the nuclear sector.
- Nuclear operators can now make tax-deductible contributions to dedicated decommissioning and site restoration funds.
- Investment growth within these dedicated nuclear rehabilitation funds will remain tax-exempt.

The 2026 Budget introduced a targeted extension of tax incentives to support long-term environmental responsibility in the nuclear energy sector. South Africa's mining sector has long benefited from a dedicated environmental rehabilitation fund regime, first introduced in 2006 under section 37A of the Income Tax Act. This regime permits operators to make tax-deductible contributions to approved funds, earmarked for site rehabilitation and closure obligations, with investment growth in those funds remaining tax-exempt until funds are applied to qualifying rehabilitation activities. The structure ensures funds are available for environmental restoration while providing upfront tax relief and encouraging prudent provisioning.

Nuclear facilities face comparable and often more stringent long-term decommissioning, decontamination, and site restoration requirements under legislation such as the National Nuclear Regulator Act and related international obligations. These obligations mirror the environmental liabilities in mining but lacked equivalent tax support, creating inconsistencies in treatment across high-impact energy and extractive industries. To align tax policy with these realities and promote sustainable energy management, the Budget proposes extending the rehabilitation fund regime to nuclear facilities.

Operators will now be eligible to establish dedicated funds for nuclear decommissioning and environmental rehabilitation, benefiting from the same tax-deductible contributions and tax-exempt growth provisions currently available to mining operations. This measure supports responsible long-term planning in South Africa's nuclear sector (including facilities managed by entities like the South African Nuclear Energy Corporation), reduces potential future fiscal burdens on the state for legacy site remediation, and reinforces environmental stewardship amid the country's energy transition goals.

It forms part of a suite of practical, sector-specific adjustments in the 2026 tax proposals which emphasise fiscal stability and targeted relief amid stronger revenue performance.

Francois Grobler

3.4 CIS taxation: Proposed capital account treatment for investment returns

Key takeaways:

- National Treasury proposes that all investment returns generated by regular Collective Investment Schemes and retail hedge funds be taxed safely as capital.
- This aims to provide absolute tax certainty for retail investors and remove administrative friction.
- Qualified investor hedge funds (requiring a minimum R1 million commitment) are carved out of this favourable regime and may face normal tax principles distinguishing between capital and revenue.

It is well-known that the taxation of Collective Investment Schemes (CISs) has historically been the subject matter of much uncertainty, particularly regarding the characterisation of investment returns. Specifically, the treatment of gains pursuant to the realisation of investments by these vehicles has often sparked debate as to whether they are held on capital or revenue account.

To address this mischief, following public consultation on the 2024 discussion paper on CIS taxation, National Treasury intends to release a response document outlining revised proposals for further consultation. Aimed at providing the investment industry with absolute clarity, the draft recommendation proposes that all investment returns generated by regular CISs and retail investment hedge funds be taxed strictly as capital.

This proposed framework is a welcome development. Retail investment hedge funds and regular CISs are open to the general public, subject to strict regulatory oversight, and represent an essential avenue for domestic savings. By confirming capital account treatment for these mass-market vehicles, National Treasury is actively encouraging savings and removing the administrative friction and tax uncertainty that previously burdened the sector.

However, not all funds operate with the same mandate. Qualified investor hedge funds, which are not open to the general public, possess minimum investment criteria, and cater exclusively to more sophisticated investors making a minimum commitment of R1 million, will be explicitly carved out from this favourable CIS tax regime. For these specific funds, National Treasury will propose alternative tax regime options in the forthcoming response document, potentially reverting to normal tax principles that distinguish between capital realisations and active trading revenue.

For asset managers and investors, this evolving landscape presents complexity. While retail funds will enjoy the safety of a legislative safe harbour for capital treatment, managers of qualified hedge funds must prepare for a distinct, and potentially more rigorous, tax framework. Furthermore, as part of this evolving framework, distributions of capital receipts by a CIS will now be treated as a capital gain (where proceeds exceeds the base cost) in the hands of the participatory interest holder, taking effect from 1 March 2026.

Dr Hendri Herbst

4 International Tax

4.1 Global Minimum Tax implementation: A recalibration of revenue expectations under Pillar Two

Key takeaways:

- With the enabling legislation already enacted in late 2024 and early 2025, the 2026/27 fiscal year marks the implementation of the OECD Pillar Two global minimum tax rules (15% rate for MNEs exceeding EUR 750 million in revenue).
- Expected corporate tax revenue yields from these rules have been drastically revised downward from R8 billion to only R2 billion for the upcoming period.
- This contraction reflects the mechanical reality of global adoption, i.e. as other low-tax jurisdictions implement their own top-up taxes, the residual 'undertaxed' profits available for SARS to capture inherently diminishes.
- Despite lower-than-anticipated cash tax liabilities, the administrative and compliance burdens for South African MNEs remain intense, with significant reporting deadlines arising in mid-2026.

It is well-known that the implementation of the Organisation for Economic Co-operation and Development (OECD) Pillar Two framework, imposing a 15% global minimum tax on multinational enterprises (MNEs) with revenues exceeding EUR 750 million, aims to fundamentally curb base erosion and profit shifting into jurisdictions with negligible tax rates.

Having already formally enacted the Global Minimum Tax Act in late 2024, South Africa is now advancing the practical implementation of these rules for the 2026/27 fiscal year, actively deploying the Income Inclusion Rule (IIR) and a domestic minimum top-up tax.

However, the fiscal math underpinning this implementation has been drastically recalibrated. Initial projections in the prior budget cycle estimated that the adoption of these rules would generate a substantial R8 billion in additional corporate tax revenue. The 2026 Budget forcefully revises this expectation downward, forecasting a yield of only R2 billion for the 2026/27 period.

This contraction in expected revenue is not necessarily a reflection of policy failure, but rather a mechanical reality of global adoption. The revised estimate incorporates the most recent operational data from MNEs alongside the OECD's finalised administrative guidance. As an increasing number of low-tax jurisdictions implement their own Qualified Domestic Minimum Top-up Taxes (QDMTT) to protect their respective tax bases, the residual pool of 'undertaxed' profits available for SARS to capture via the IIR inherently diminishes.

For South African multinationals, this dynamic presents a complex paradigm. While the actual cash tax liability levied by the ultimate parent jurisdiction may be significantly lower than initially anticipated, the administrative friction remains absolute. MNEs must rigorously overhaul their systems to comply with the hyper-granular jurisdictional reporting demanded by the GloBE Information Return.

It will be crucial for taxpayers and their advisors to stay informed and adapt to this changing landscape, particularly as the first major compliance deadlines loom. The tax burden may be globalised, but the compliance burden remains intensely localised.

Dr Hendri Herbst

4.2 Streamlining multinational reporting: Rand translation relief for treasury companies

Key takeaways:

- Domestic Treasury Management Companies will be excluded from the rand-translation requirement for Controlled Foreign Company income under section 9D(6).
- This removes a redundant layer of dual-currency conversion, reducing severe compliance and administrative costs for international treasury functions.
- The change better aligns taxation with economic reality without altering the overall tax liability of South African-based multinationals.

Domestic Treasury Management Companies (DTMCs) are South African tax-resident entities approved to manage international treasury functions and treated as non-residents for exchange control purposes. They often hold shares in Controlled Foreign Companies (CFCs) and use a foreign functional currency (e.g. USD or EUR).

Under current regulation (section 9D(6) of the Income Tax Act), CFC net income, calculated in the CFC's functional currency, must be translated into rands using the average exchange rate for inclusion in the South African shareholder's taxable income. For a DTMC shareholder, section 25D(5) then requires re-translation of that rand amount back into the DTMC's functional currency before any further rand conversion for final taxation. This creates redundant, multiple currency conversions, increasing compliance complexity, administrative costs, and potential distortions in effective taxation for South African-based multinational groups.

To address this anomaly, the Budget proposes legislative amendments excluding DTMCs (as resident shareholders of CFCs) from the rand-translation requirement in section 9D(6). The change eliminates unnecessary double conversions, streamlines reporting obligations, better aligns taxation with economic reality, and reduces burdensome administration, achieved without changing the core attribution of CFC income or the overall tax liability.

This measure supports South Africa's efforts to remain competitive for global treasury operations and multinational investment, forming part of a broader set of practical, business-friendly adjustments in the 2026 tax proposals amid improved fiscal metrics and revenue performance. Draft legislation is expected in due course for public comment.

Francois Grobler

4.3 Cross-border employment: Nexus for PAYE withholding by non-resident employers

Key takeaways:

- The obligation for foreign employers with a South African permanent establishment to withhold PAYE has been refined.
- Withholding rules will now only trigger if the employee is 'effectively connected' to the South African permanent establishment.
- This resolves the anomaly where local permanent establishments were forced to withhold tax for resident employees working entirely overseas and disconnected from the local branch.

An amendment to the Fourth Schedule of the Income Tax Act, No. 58 of 1962 (ITA) is proposed to resolve an anomaly concerning the withholding obligations of non-resident employers. Following the 2023 Tax Administration Laws Amendment Act, foreign employers conducting business through a permanent establishment (PE) in South Africa were required to withhold employees' tax. This resulted in unintended consequences, wherein non-resident employers were required to withhold South African employees' tax for resident employees working entirely overseas and completely disconnected from the local branch.

To correct this anomaly, National Treasury proposes that the PE requirement for non-resident employers be amended to include an additional requirement. Going forward, the withholding obligation will only be triggered if the employee in question is 'effectively connected' to the South African PE. This ensures a much more logical and practical application of the PAYE withholding rules for multinational employers.

However, multinational employers must be warned that while the 'effectively connected' test cures the PAYE withholding anomaly, statutory misalignments remain regarding broader payroll compliance. The Skills Development Levies Act and the Unemployment Insurance Contributions Act define an 'employer' without applying the PE limitation introduced for PAYE. Consequently, a non-resident employer may be legally exempt from PAYE withholding but may still carry statutory liability for SDL and UIF registrations and contributions.

Arno van Wyk

5 Value-Added Tax

5.1 SME threshold relief: A historic increase in VAT and Turnover Tax limits

Key takeaways:

- The compulsory VAT registration threshold will increase significantly from R1 million to R2.3 million effective 1 April 2026.
- The voluntary VAT registration limit will concurrently increase from R50,000 to R120,000.
- The annual limit for Turnover Tax will also align at R2.3 million.
- SMEs deregistering for VAT must carefully evaluate the deemed output tax consequences on their retained assets.

A significant characteristic of the 2026 Budget is the increase in certain monetary thresholds to adjust for inflation and the decreasing value of money over time. This includes small and medium enterprises (SMEs), where the annual monetary threshold for the application of Turnover Tax under the Sixth Schedule of the Income Tax Act, No. 58 of 1962 (ITA) has been increased from R1 million to R2.3 million. Similarly, the monetary threshold for the compulsory registration of a person as a vendor under the VAT Act has also been increased from R1 million to R2.3 million.

The change to the VAT Act is particularly significant since this represents the first increase in the compulsory registration monetary threshold since 2009 and provides substantial relief to small businesses with a turnover of less than R2.3 million over a twelve-month period.

The monetary threshold for voluntary registration has also been increased from R50,000 to R120,000.

These changes are proposed to come into effect from 1 April 2026. SMEs will therefore from 1 April 2026 only be required to register as a VAT vendor if the total value of taxable supplies in a twelve-month period will exceed R2.3 million. In addition, those SMEs that were previously registered as a VAT vendor, but whose turnover does not exceed R2.3 million over a twelve-month period, may request the Commissioner to cancel their VAT registration, which will substantially reduce their administrative burden.

Before making the decision to request cancellation of their VAT registration, these vendors would be well advised to first consider the financial implications of the deemed output under section 8(2) of the VAT Act. This provision deems the person who ceases to be a vendor to have supplied any assets which form part of their enterprise and upon the acquisition of which input tax has previously been deducted. This deemed supply is generally regarded to be made for a consideration equal to the lesser of cost or market value of these assets. The financial impact of this deemed supply can be substantial, particularly if the vendor's enterprise includes a significant number of high-value assets such as fixed property.

Duane Shipp

5.2 Second-hand goods: Tighter documentation and notional input tax restrictions

Key takeaways:

- Notional input tax deductions on second-hand goods will be restricted to a tax period no later than when the supply actually takes place (subject to prescription rules).
- This aims to close a loophole where vendors export goods at a zero-rate by falsely relying on the premise that input tax had not been claimed.
- Additional documentation requirements for second-hand goods vendors will be introduced to combat fraudulent claims.

The supply of second-hand goods under the VAT Act signifies an area where the fiscus faces potential losses, prompting the Minister to propose legislative amendments to mitigate fraudulent tax claims.

A vendor is allowed a notional input tax deduction on the acquisition of second-hand goods when acquired under a non-taxable supply from a resident of South Africa for the purpose of making taxable supplies in terms of section 16(3) of the VAT Act. When the vendor subsequently exports the second-hand goods, the vendor may apply zero-rating in terms of section 11(1)(a) of the VAT Act unless the supplier of the second-hand goods or a connected person has deducted notional input tax.

The limitation on the refund and the implication on the zero-rating only apply when the supplier claimed the notional input tax, and the supplier currently has five years to claim the tax. This creates a risk that the fiscus will incur a financial loss if SARS refunds the full amount including the notional input tax portion on the basis that it was not claimed by the seller, and the vendor later claims the notional input tax.

To prevent this, the Budget proposes that section 16(3) of the VAT Act be amended to restrict the deduction of the notional input tax to a tax period not later than the tax period in which the supply of the second-hand goods takes place, subject to the five-year prescription rule. Under the new regime, if a vendor obtains a valid VAT 264 form indicating the seller did not claim notional input tax, the subsequent export of those goods cannot be zero-rated and must carry the standard VAT rate.

Duane Shipp

5.3 VAT base protection: Closing loopholes in gold, electronic services, and leaseholds

Key takeaways:

- Zero-rating for unprocessed gold supplied to listed entities will be repealed due to tracing and audit complexities.
- Intermediaries for electronic services will now be liable for VAT by default unless an explicit agreement states otherwise, resolving compliance issues with foreign principals.

- Leasehold improvement adjustments will be broadened so that lessors who are not VAT vendors can no longer benefit tax-free.

The 2026 Budget introduces several highly technical amendments aimed at protecting the VAT base and closing identified loopholes.

Refineries rely on pooled contributions from various depositors to achieve the required purity and volume of gold, combining primary-source gold and recycled bullion. Section 11(1)(f) of the VAT Act provides for the zero-rating of gold supplied to listed entities that has not undergone any manufacturing process other than refining. Because it is complex to trace or isolate unprocessed, primary-source gold, suppliers struggle to comply, and the Commissioner faces protracted audit procedures to confirm the validity of the zero-rating. In light of this, it is proposed that section 11(1)(f) of the VAT Act be repealed. This zero-rating repeal specifically impacts supplies made to the South African Reserve Bank (SARB), the South African Mint Company, and commercial banks registered under the Banks Act.

Furthermore, regarding electronic services, the 2024 amendments to section 54(2B) held the intermediary liable to account for VAT where a principal makes a supply of electronic services via their platform, utilising a written agreement. This poses compliance risks for SARS, as intermediaries may have difficulty entering into agreements with smaller, non-compliant foreign electronic principals. It is thus proposed that section 54(2B) be amended to state that the default situation is that the intermediary accounts for the VAT, unless there is an agreement to the contrary.

Lastly, a problem arises where leasehold improvements are supplied for no consideration to a lessor who is not a vendor. Based on the current wording of section 18C, if the lessor is not a vendor, the adjustment does not apply, meaning they receive the benefit of leasehold improvements in respect of VAT that was effectively not incurred. The VAT Act will be amended so that this treatment is no longer restricted to lessors who are vendors, supported by a specific declaration channel.

Duane Shipp

5.4 Uniformity in compliance: Harmonising VAT submission deadlines

Key takeaways:

- The government proposes harmonising VAT submission deadlines for all vendors.
- The previous 25th-of-the-month deadline will be abolished.
- All VAT returns and payments will now uniformly be due on the last working day of the month.

In a move to simplify administration and create uniformity in compliance, the Minister has proposed the harmonisation of VAT submission deadlines. Historically, vendors have faced differing deadlines for the submission of returns and payments depending on their submission method. Specifically, non-eFilers (manual submitters) faced an earlier 25th-day deadline. To streamline this process and reduce the administrative burden on both taxpayers and SARS, government proposes a move to a single, unified system.

Under the new framework, all vendors will be required to submit their VAT returns and make corresponding payments on the last working day of the month. This shift replaces the previous

25th-of-the-month deadline that applied to manual filers, permanently removing the statutory distinction between digital eFilers and manual filers and ensuring that all vendors operate on the same standardised compliance timeline.

This practical amendment not only simplifies the compliance calendar for businesses but also aligns with the broader objective of enhancing the efficiency of SARS's tax administration.

Duane Shipp

6 Tax Administration

6.1 Taxpayer rights: Safeguarding compliance status during penalty remission requests

Key takeaways:

- A legislative anomaly preventing taxpayers from reflecting as 'tax compliant' during a penalty remission request will be fixed.
- Taxpayers will soon retain their compliant status while a section 215(3) penalty remission request is pending.
- To streamline with debt suspension rules, the current 21-day penalty suspension period will be shortened to 10 days.

A tax clearance evidencing a taxpayer's good standing with SARS is a vital tool in the South African business landscape, as a valid tax clearance is often required for purposes such as securing contracts with government and to obtain funding. When a taxpayer owes money to SARS, its tax compliance status would typically reflect as 'non-compliant'.

Section 256(3) of the Tax Administration Act, No. 28 of 2011 (TAA), however, provides that a taxpayer's tax compliance status shall reflect as 'tax compliant' whilst the decision on the request for suspension of payment in relation to the outstanding tax debt is pending as contemplated in section 164(6) of the TAA (assuming, of course, that the taxpayer is otherwise compliant).

Section 164(6) suspends a taxpayer's obligation to pay tax pending SARS' decision on a request for suspension of payment of the relevant tax debt, which suspension remains in effect until 10 business days after SARS has given notice to the taxpayer of its decision in relation to the suspension request.

A lacuna in the legislation has been identified, in that section 215(3) of the TAA automatically suspends the payment of a penalty for the period from the day that SARS receives a request for the remission of that penalty, until 21 business days after SARS has given notice to the taxpayer of its decision in relation to the remission request.

A taxpayer enjoying such a suspension of payment will, however, not presently benefit from a tax compliant status under section 256(3), with the result that such a taxpayer would need to pay the penalty to SARS with the aim of securing a tax clearance.

It is proposed in the budget that the lacuna be remedied so that taxpayers enjoying the suspension of payment of a penalty under section 215(3) will also be reflected as tax compliant pending the outcome of the request for remission of that penalty.

It is further proposed that the 21 business day period referred to in section 215(3) be amended to 10 business days so as to align with the provisions of section 164(6).

The proposed amendments represent a rare enhancement of taxpayer rights under the TAA. Whilst the shortening of the period of suspension in section 215(3) arguably detracts from a benefit previously enjoyed by taxpayers, the alignment of the suspension of payment rules in the TAA is a step towards consistency and certainty for taxpayers.

Jané Visagie

6.2 Tax dispute resolution: Legislative authority for interest remission in VDP applications

Key takeaways:

- Historically, the Voluntary Disclosure Programme provided no mechanism for the remission of interest (confirmed by the recent *Medtronic* judgment).
- The Budget proposes allowing VDP applicants to simultaneously apply for a separate remission of interest under relevant tax acts.
- This will provide significant relief for qualifying taxpayers and is slated to become effective on 1 March 2026.

SARS' Voluntary Disclosure Programme (VDP), as regulated by sections 225 – 233 of the Tax Administration Act, No. 28 of 2011 (TAA), allows qualifying taxpayers to disclose tax defaults to SARS, whilst benefiting from relief against the imposition of understatement penalties and administrative non-compliance penalties (within certain parameters and limits), as well as protection from criminal prosecution in relation to the disclosed defaults.

Notably absent from the relief granted under a VDP, is the remission of interest. In fact, when a VDP agreement is entered into between SARS and a taxpayer, the agreement stipulates that tax capital and interest is payable and the VDP agreement typically stipulates a payment deadline.

Separate provisions in the TAA, the Income Tax Act, No. 58 of 1962 (ITA) and the Value Added Tax Act, No. 89 of 1991 (VAT Act) cater for the remission of interest, but only in circumstances where the interest is payable as a result of circumstances beyond the taxpayer's control.

In our February 2025 tax flash, A deal is a deal: Constitutional Court clarifies an interest(ing) VDP issue, WTS Renmere commented on the significance of the Constitutional Court's judgment in *Commissioner for the South African Revenue Service v Medtronic Trading S.A.R.L.* ZACC 26 (*Medtronic*), where the court found that in the context of VAT, a taxpayer is not entitled to the remission of interest under the now-deleted section 39(7) of the VAT Act, in circumstances where the taxpayer agreed to pay the interest to SARS under a VDP agreement.

In particular, the court concluded that SARS lacks the authority to remit interest under section 39(7) once the interest has been agreed to be paid in terms of a VDP agreement. Being a creature of statute, SARS would only be able to remit interest if statutorily authorised to do so.

It is proposed in the Budget that provision be made to specifically permit applicants for VDP relief to simultaneously apply for the separate remission of interest under the provisions of the relevant tax act, in respect of the defaults disclosed in the VDP application. Taxpayers must be explicitly warned that this statutory relief hinges entirely on the remission application being lodged concurrently with the initial VDP application. Under the *Medtronic* precedent, any attempt to seek remission after the VDA is signed remains strictly prohibited by law.

This proposal is certainly welcomed, but it remains to be seen how this amendment will be implemented to be effective from 1 March 2026 and without detracting from the sanctity of the VDP agreement, which the court in *Medtronic* describes as the 'centrepiece' of the VDP.

Jané Visagie

6.3 Provisional tax and refund security

Key takeaways:

- Fully exempt and certain partially exempt entities will be excluded from the definition of a 'provisional taxpayer,' easing their administrative burden.
- To avoid the 20% provisional tax underestimation penalty, taxpayers must now ensure their estimated amount is actually paid on time.
- The 'basic amount' cap allowing taxpayers to use historical assessments for estimates is increased from R1 million to R1.8 million.
- SARS and the banking sector will collaborate to actively screen tax refunds pre- or post-deposit to mitigate fraud.

Exclusion of exempt entities from provisional tax requirement

Under the current definition in the Fourth Schedule to the Income Tax Act, No. 58 of 1962 (ITA), any entity classified as a company is deemed a provisional taxpayer, regardless of its tax-exempt status. The proposed amendment excludes fully exempt entities and certain partially exempt entities from the definition of a provisional taxpayer.

This is a pragmatic move by National Treasury. Previously, entities that were only subject to partial taxation faced a compliance burden trying to calculate provisional tax on amounts that might ultimately fall under an exemption threshold. Exempt and partially exempt structures should enjoy a considerable reduction in their bi-annual compliance and administration burdens as a result of the proposal.

Updates to the provisional tax underestimation penalty regime

Currently, in order for SARS to impose an underestimation penalty, a taxpayer must submit a provisional tax estimate that falls outside of the required tolerances. This creates an opportunity for taxpayers to submit accurate estimates to avoid a 20% underestimation penalty but withhold the actual payment, resulting only in a 10% late payment penalty.

To neutralise this practice, it is proposed that the estimated amount must be paid on time to rely on it for avoiding the underestimation penalty. This stringent timely payment rule takes effect immediately on 25 February 2026.

Additionally, the taxable income cap that allows taxpayers to base their provisional tax estimate on historical assessments (without justifying a lower current-year estimate) will be increased from R1 million to R1.8 million. This relaxed threshold applies to years of assessment commencing on or after 1 March 2026.

This change will apply to a broader base of middle-income earners and small-to-medium enterprises, allowing them to rely on historical data and avoid the burden of accurately projecting mid-year profits.

Bank screening of tax refunds

A proposal exists to amend the Tax Administration Act, No. 28 of 2011 to permit banks to conduct pre- or post-deposit screening of tax refunds.

While banks are currently required to report suspicious refunds and hold them for up to two business days, the new proposal encourages SARS to actively collaborate with the banking sector to screen potential refunds before they clear into accounts.

This collaboration is intended to create a comprehensive frontline defense against refund fraud and potentially expedite legitimate refunds.

Arno van Wyk

7 Exchange Control

7.1 Cross-border regulatory and future policy: Easing the exchange control net

Key takeaways:

- The Single Discretionary Allowance is doubled to R2 million per year, allowing greater offshore capacity without requiring a SARS TCS PIN.
- Physical cross-border bank note limits are quadrupled to R100,000, and digital credit card limits increased to R100,000 per transaction.
- Interest rate caps on inward foreign loans are removed entirely, provided the rates are demonstrably market-related.
- Crypto assets will be formally integrated into the capital flows management regime to align with AML controls.

It is well-known that South Africa's exchange control regime has historically imposed significant administrative burdens on both individuals and corporate entities engaging in cross-border transactions. However, the 2026 Budget modernises the cross-border capital flow regime, systematically dismantling historical red tape to position the jurisdiction as a more frictionless financial hub. It is trite that the prolonged depreciation of the rand and rising inflation have eroded the real value of individual capital limits over the years. To address this mischief, the Budget introduces immediate and substantial relief.

The Single Discretionary Allowance (SDA), utilised by private individuals for travel, gifts, foreign investments, and remittances without requiring prior regulatory clearance, has been doubled from R1 million to R2 million per calendar year.

Crucially, this means taxpayers can now externalise up to R2 million annually for *bona fide* current transfers without the administrative friction of obtaining a Tax Compliance Status (TCS) PIN from

SARS. It is imperative to note that this R2 million allowance applies exclusively to South African tax residents.

Correspondingly, the physical limit for South African bank notes carried by travellers crossing borders has quadrupled from R25,000 to R100,000.

Commercial friction has also been eased, with limits for miscellaneous non-resident payments (such as demurrage or refunds) raised from R100,000 to R200,000, and cross-border digital subscription and credit card transaction limits increased from R50,000 to R100,000.

In a further development for corporate finance, the restrictive interest rate caps previously imposed on inward foreign loans have been abolished. Going forward, domestic entities can secure foreign capital without artificial ceilings, provided the loan rates are demonstrably market-related and appropriately reported to the South African Reserve Bank. This removal of interest rate caps is a welcome measure to promote foreign trade and investment, reducing the friction where pricing has historically been constrained by fixed regulatory caps.

Finally, the regulatory framework has formally embraced digital assets. Following the classification of crypto assets as financial products, upcoming draft regulations under the Currency and Exchanges Act will formally integrate crypto assets into the capital flow management regime. This aims to harmonise cross-border digital asset transfers with existing anti-money laundering controls, preventing the use of crypto assets to launder money and commit fraud. Concurrently, the domestic regulatory framework is being eased to allow domestic asset managers to manage portfolios of foreign assets, a critical step in enabling them to intermediate in global capital flows and establish South Africa as a hub for pan-African investment.

This suite of modernisations provides much-needed operational relief. It will be crucial for taxpayers and their advisors to stay informed and adapt to this changing landscape, ensuring that they fully leverage these relaxed thresholds while maintaining strict compliance with the updated reporting requirements.

Dr Hendri Herbst

8 Conclusion

The 2026 Budget introduces a complex array of adjustments across individual, corporate, international, and indirect tax domains, signalling a clear shift toward fiscal stability and heightened regulatory compliance.

Whether you are navigating the nuances of the new global minimum tax rules, restructuring corporate assets, managing historic shifts in VAT thresholds, or seeking to optimise your personal wealth through relaxed exchange controls, proactive planning remains essential.

As a proud member of WTS Global, our Transaction & Tax Advisory team is exceptionally well-equipped to help you decode and leverage these legislative shifts.

Contact WTS Renmere today for personalised, expert guidance on how these budget proposals will impact your business and personal financial strategies.

Please also follow us on:

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Kind regards,

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