National Treasury response to the Select and Standing Committees on Finance and Appropriations on the 2025 Budget

12 March | #BUDGET2025

2025 Budget

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

All submissions received are acknowledged and welcomed

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Developments since 2024 MTBPS

- In the run-up to the February Budget, Mincombud and Cabinet considered various spending pressures and it was decided that these needed to be addressed, among them:
  - Spending pressures in education (mainly educators and funding for early childhood development);
  - Spending pressures in health (mainly nurses, doctors (including unemployed doctors), goods and services, etc,)
  - Spending pressures in security functions (incl. defense and correctional services)
  - Growth enhancing infrastructure investments, including in commuter rail, hospital infrastructure, transport, etc
- The resulting net increase in non-interest expenditure is R142 billion. These spending decisions have implications for revenue choices, in terms of size, efficiency and equity.
- Most of the spending proposals are current or consumption-based spending (e.g. wages). This requires immediate and durable revenue measures.
- Borrowing to finance consumption-based expenditure will damage South Africa's fiscal credibility, resulting in higher interest rates, higher cost of borrowing for households and firms and higher debt-service costs, and therefore less funding for service delivery priorities.
- Other policy priorities are already adopted (growth-enhancing measures, spending reviews, additions to SARS budget, etc.), but these will take time to yield results.

Tax proposals raising R28 billion in 2025/26 and R14.5 billion in 2026/27 to alleviate spending pressures, with permanent revenue effects

Impact of tax proposals on medium-term revenue[1]

R million	2025/26	2026/27	2027/28
	Effect of tax proposals		
Gross tax revenue (before 2025 Budget tax proposals)	**1 978 132**	**2 119 319**	**2 259 354**
2025 Budget proposals[2]	**28 000**	**14 500**	
Direct taxes[3]	**19 500**	**20 634**	**21 960**
Personal income tax			
No inflationary adjustment to tax brackets and rebates	18 000	19 067	20 324
No inflationary adjustment to medical tax credits	1 500	1 567	1 636
Indirect taxes[3]	**8 500**	**23 523**	**24 885**
Value-added tax (VAT)			
Increase in VAT rate — 2025/26	13 500	14 344	15 196
Increase in VAT rate — 2026/27	–	15 500	16 420
Additional zero rating	-2 000	-2 128	-2 262
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 257	-4 535
Diesel refund relief for primary sectors	–	-1 000	-1 065
Specific excise duties			
Above-inflation increase in excise duties on alcohol and tobacco	1 000	1 064	1 131
Net impact of tax proposals	**28 000**	**44 158**	**46 845**
Gross tax revenue (after tax proposals)	**2 006 132**	**2 163 477**	**2 306 199**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. In-year tax increase with no carry through
3. Includes carry-through effect of tax policy proposals
Source: National Treasury

2025 Budget tax proposals

- A 0.5 percentage point increase in the VAT rate in each of 2025/26 and 2026/27
- No inflationary adjustment to personal income tax brackets, rebates and medical tax credits
- Above-inflation increases in excise duties on alcohol and tobacco products
- The general fuel levy and RAF levy are not increased – costing an initial R4 billion
- Diesel refund relief for primary sectors
- Additional items on the VAT zero-rated basket

These measures have permanent revenue effects, the net result of which is improved revenue collection.

Why this revenue package?

Tax principles inform our advice and **impacts from previous policy changes** form the main evidence base:

- **Revenue raising ability:** Previous increases to PIT and direct taxes did not raise expected revenue (indicated in this and previous Budget Reviews); CIT is highly cyclical and volatile – while we need certainty for budget planning.
- **Equity**: The fiscal system as a whole is highly progressive – particularly direct taxes. While indirect taxes are not as progressive, the bulk is still borne by higher income groups' spending. This is backed by fiscal incidence studies - though newer studies would be useful.
- **Efficiency**: Of the three main tax instruments available, VAT is the most efficient option at this point as it is least distortive of growth. Given opposition to larger VAT rate increases, the revenue shortfall was addressed by not adjusting PIT brackets for inflation.
- **Simplicity:** All taxes have compliance costs attached to them. While the rates change (including rate changes to zero for specific categories), it is not whole systems that have to be redesigned. This is a standard feature in most pricing systems that businesses have in place. Government recognises the compliance cost burden, and the potential challenges smaller companies may face with the timeframe linked to this rate change. Therefore, it was proposed that the rate change be implemented from 1 May 2025, rather than on the announcement date or 1 April 2025 to afford the taxpayers the same timeframe as was done in 2018.

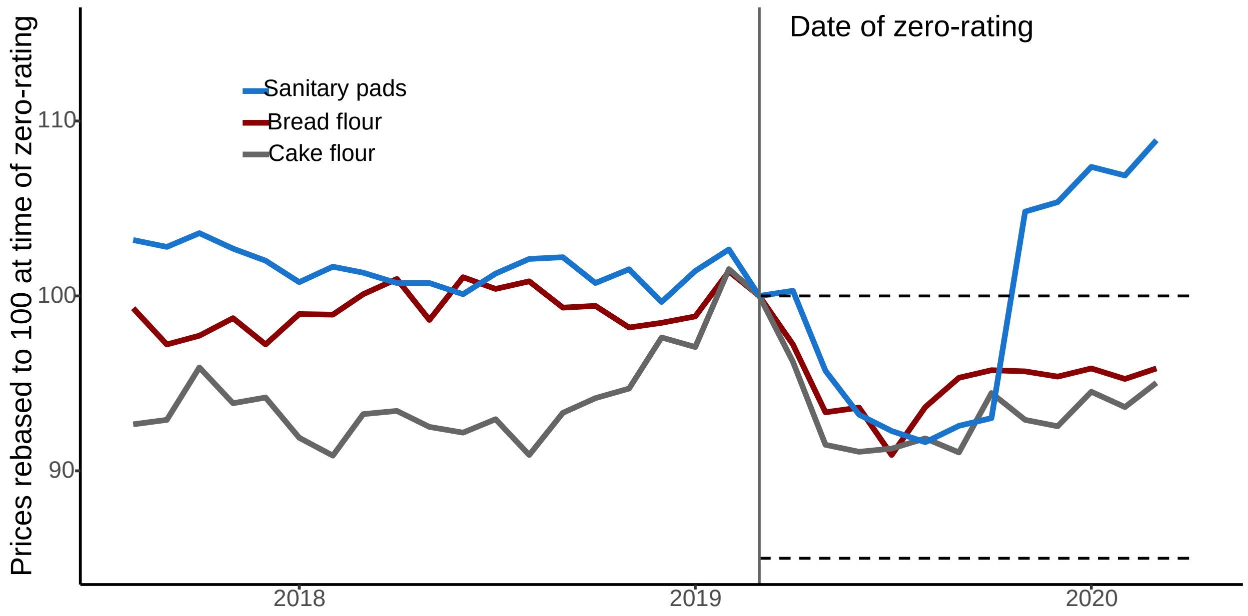
Do VAT zero-ratings mitigate impacts?

- Our approach identified items that are best positioned to assist lower-income households without leakage to higher income households
- We agree that tax is a very blunt tool – and often spending programmes are better targeted (Full article: Considering the efficacy of value-added tax zero-rating as pro-poor policy: The case of South Africa).
- These concerns were also raised in 2018 when zero-ratings were revisited. It is not guaranteed that the full benefit will be passed on to consumers.
- Technical comments on drafting of zero rating (e.g. from ENS) are welcome, and will be referred to process to consult on the Draft Rates and Monetary Amounts Bill (comments close on 31 March).

What has government done to mitigate the impact of the increase in the VAT rate?

- To mitigate the impact of the VAT increase on vulnerable households the old-age grant, the disability grant and the child support grants have been increased by an amount higher than expected inflation.
- The Pietermaritzburg Economic Justice and Dignity (PMBEJD) Group compiles a basket of food and has shown that for a food basket that costs R5 313, the VAT rate increase will add R11 to that cost. If the old age grant was increased by inflation, it would have gone up by R100 per month, but to cover the higher cost the grant was increased by an additional R30 per month.
- The basket of zero-rated items will also be expanded to include canned vegetables, edible offals of sheep, poultry and other animals, and dairy liquid blends to provide further relief. The PMBEJD calculate this will reduce the food basket cost by R59.
- The general fuel levy and RAF levy will also not be changed to limit cost-of-living increases.

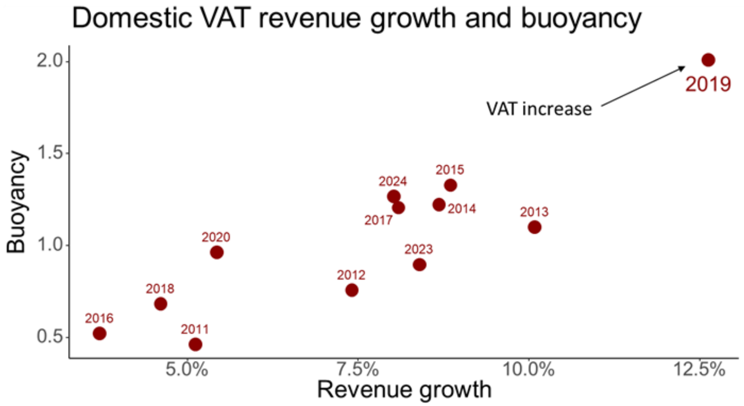
Price change of products that were zero-rated in 2019

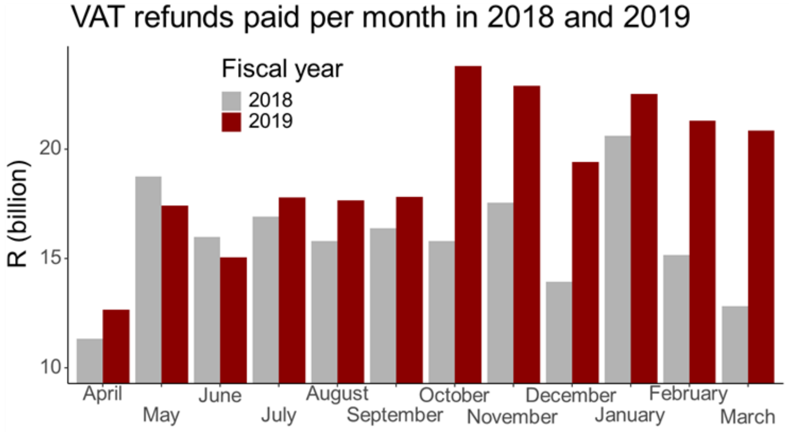


- The benefit from the previous items that were VAT zero-rated did not appear to be fully passed through to lower-income households, indicating that this is a blunt approach. However, prices did decrease to provide some benefit.
- PMBEJD - https://pmbejd.org.za/index.php/2025/03/14/budget-2025-hurts-people-the-economy/

Previous VAT rate increase in 2018 <u>did</u> raise substantial revenue, but net VAT figure was reduced by VAT refund payments from SARS

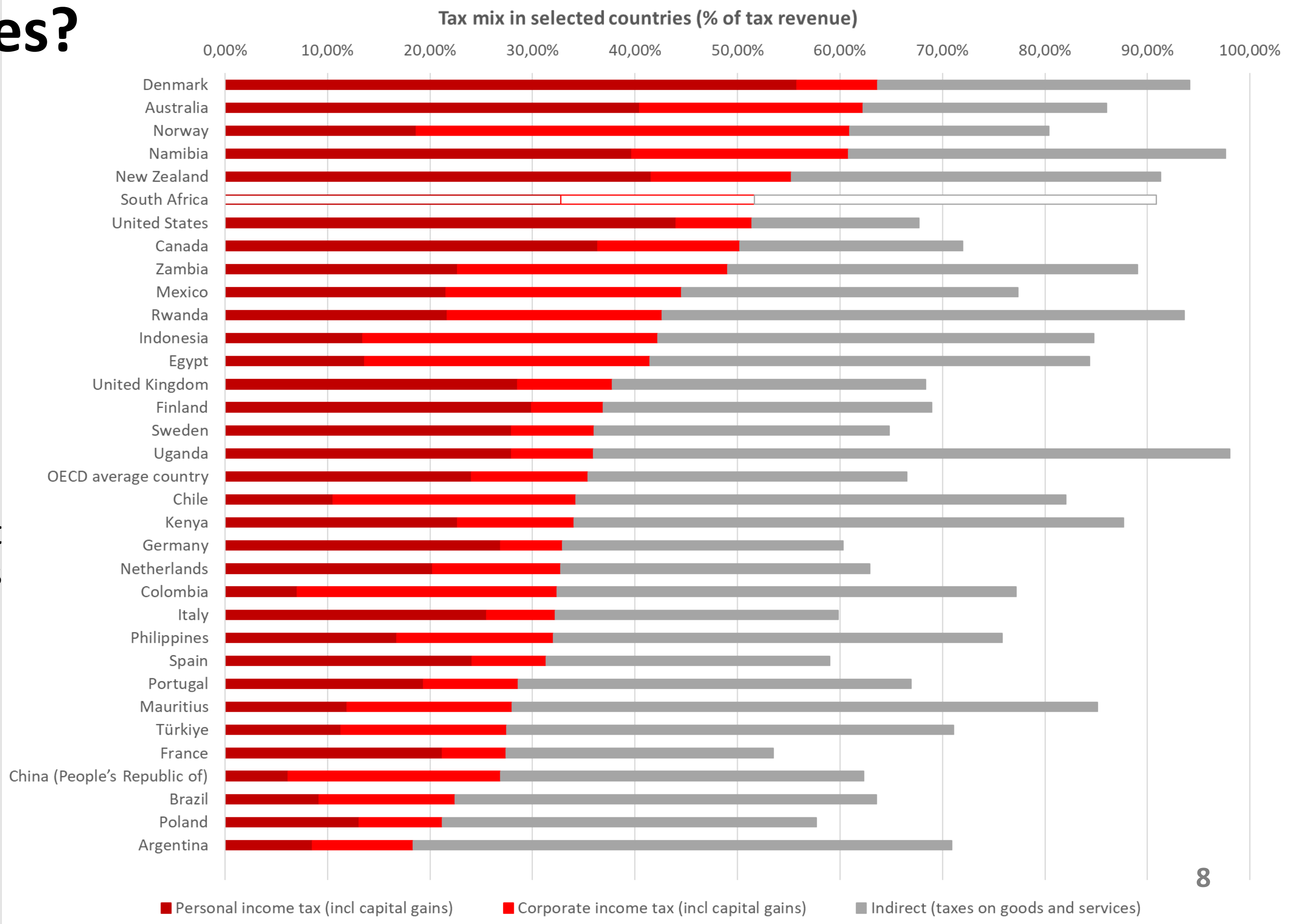
- Budget 2018 estimated that the increase in the VAT rate from 14% to 15% would raise around R22.9 billion
- Analysis suggests additional net VAT only increased by R7bn. However, this includes VAT refunds which experienced a once-off change from October 2018 onwards.
- At the time, SARS had withheld some VAT refunds and the VAT credit book (how much they owe taxpayers) had ballooned, but from October 2018 they paid out far more in refunds and reduced the VAT credit book from R41.8bn to R24.7bn by the end of the year (reduced by R17 billion).
- If there was no additional payout in VAT refunds, the revenue gained would have been around R23 billion.





Why not direct tax increases?

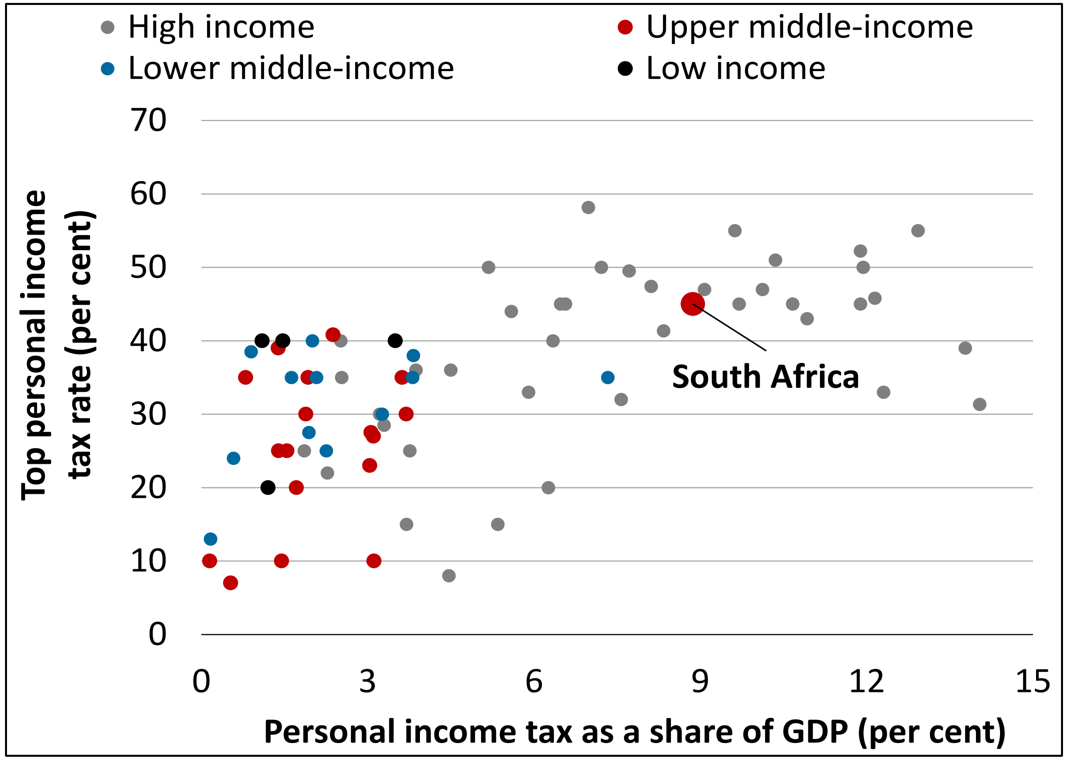
- **Personal income tax** was the fastest rising revenue source over the last 2 decades rising from 6.6% of GDP in 2004/05 to 9.8% in 2024/25
- **Corporate income tax** share of revenue is high relative to many other countries
  - Corporate tax base is narrow and mobile
  - Tax imposed on businesses, but ultimately paid by shareholders, workers or consumers
- Need to balance our **tax mix**
- Additional increases on top of previous increases bring in **proportionally less revenue**, as high rates are an incentive to avoid or evade taxes



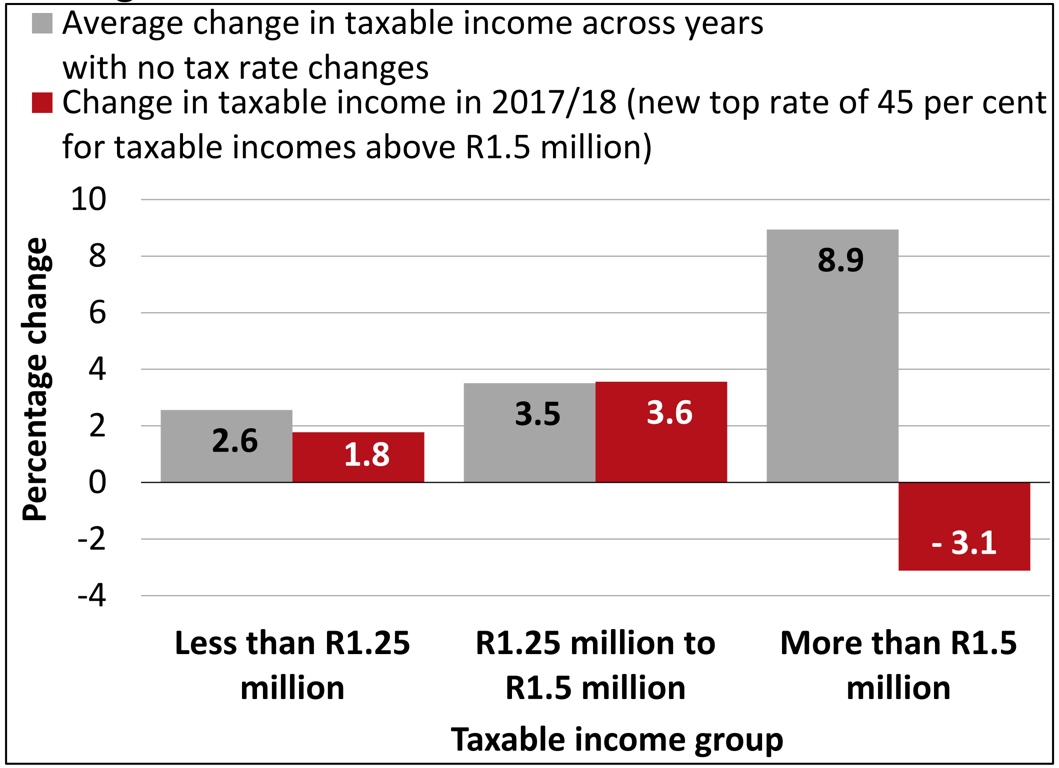
Why not increase the PIT rates?

- South Africa has a high share of personal income tax as a per cent of GDP and a high top tax rate, both of which are much higher than other developing economies.
- Previous tax rate increases for PIT did not raise the expected revenue as taxpayers changed their behaviour to avoid the tax. It is far harder to avoid a VAT rate increase and the behavioural responses are lower, reducing the impact on the economy.

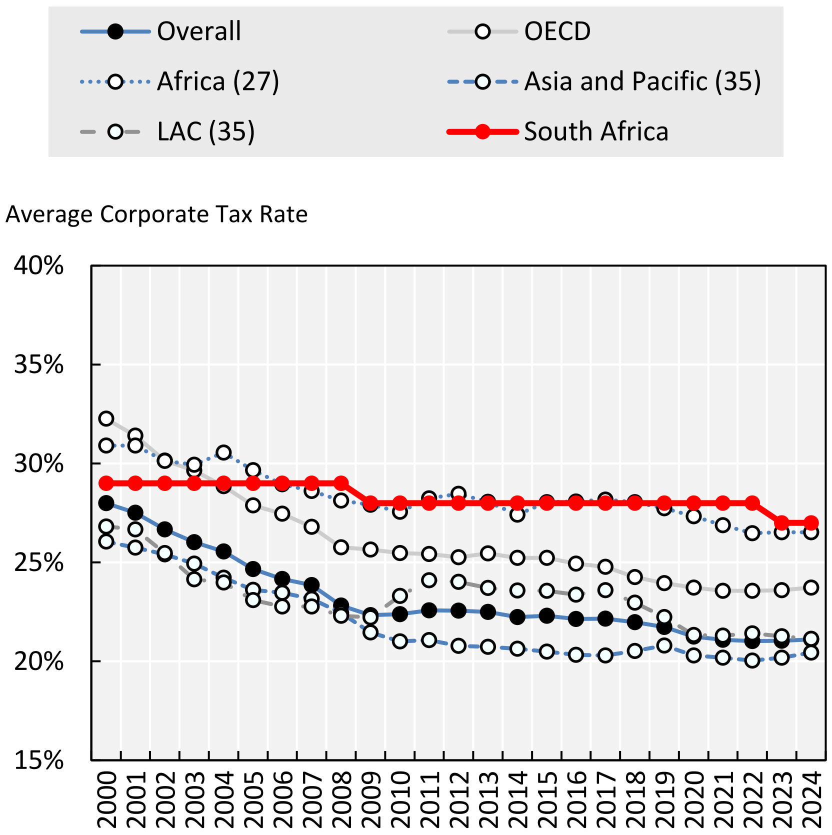
Personal income tax as a share of GDP and top rates, 2024



Change in real taxable income



Why not increase the CIT rate?



- Our CIT rate is too high – deterring investment and making South Africa uncompetitive
- Companies already contribute more corporate tax revenue as a share of GDP than in most other countries
- Alternative measures to raise CIT revenue within the ambit of tax policy and tax administration include broadening the CIT base and enhancing compliance
- Workers and consumers will feel the burden of a rate increase, not just shareholders
- Empirical studies show that corporate income taxes have a negative impact on growth, and often more so than other tax instruments
  - A National Treasury modelling exercise was conducted for the Davis Tax Committee to test the impact of raising R45 billion in 2014/15 with one of the three main tax instruments – PIT, CIT and VAT.
    - By 2017, the modelled increase in CIT yielded the largest negative impact on growth, followed by PIT and VAT. The estimated decline in real GDP from the CIT shock was -2.64 per cent (-1.44 and -0.64 per cent for PIT and VAT, respectively).

What about a wealth tax?

South Africa already taxes wealth. Annual tax revenue from 4 national taxes on wealth (excl property rates) amounted to R22 billion in 2021/22, R22.6 billion in 2022/23, R19.4 billion in 2023/24 and R21.3 billion in 2024/25.

- Estate duty on all assets (financial, real estate and land)
- Donation tax on asset donations
- Security transfer tax on all equity transfers
- Real estate transfers through transfer duty
- Property taxes on real estate at local level
- In addition, Capital gains tax raised R15.6 billion to the fiscus during 2019/20, and R16.4 billion in 2020/21.

Introducing a wealth tax will generate limited revenue and potentially endanger South Africa's income tax base

- Top three income tiers will pay over 60 per cent (R 488 billion) of all personal income tax in South Africa for 2025/26 (vs R21.3 billion from wealth taxes in 2024/25)
- This PIT base is critical for fiscal sustainability, and introducing a wealth tax may potentially erode it as high-net-worth individuals are internationally mobile
- If only 10 per cent of this tax base were to change their tax residency, South Africa could lose R 49 billion in income tax revenue annually, plus all the other taxes they currently contribute

Only 4 countries have wealth taxes. Several countries abandoned or significantly reduced the scope of their wealth taxes over the years as they were ineffective. Reasons for abolishing the wealth taxes:

- the high cost of collection
- administrative complexity
- risk of capital flight
- limited revenue gained from these taxes

Did our tax policy strategy change?

- Tax strategy over last 5 years was to avoid tax increases as far as possible, but once spending pressures became binding, tax increases would have to be considered
  - This was also indicated in the Budget response presentation in 2024
- See MTBPS 2024 pg 5-6: "***A sustainable fiscal approach requires that any permanent addition to spending must be funded through permanent revenue sources or reprioritisation from within the existing fiscal envelope.***"
- MTBPS 2024 also highlighted risks to the outlook including growth slowdowns to geo-political instability and higher-than-anticipated public wage settlements.
- Any tax increase comes with negative impacts, and the main policy question is about trade-offs of different options
- As expected, most commentators were critical of the VAT increases – but divergence on nuance
  - Some commentators advocate no tax increases, and suggest that spending reform rather be implemented (many of the comments from individuals)
  - Some commentators are critical of both VAT and PIT increase, and suggest that revenue collection efficiencies be pursued instead (COSATU)
  - Some commentators eschew VAT in favour of direct taxes (PBO, BJC etc)
  - Some commentators prefer no increases, but concede that VAT is potentially the safest option for revenue raising in the current context (PEP, SAIT)

Did our procedure to announce tax rates change this year?

- The coming into operation of the increase in the rate of VAT on 1 May 2025 is supported by section 7(4) of the VAT Act. The aspect concerning the legislative process does not compromise Parliament's oversight, as the Rates Bill, which represents the legislative portion, will still be presented in Parliament.
- In practice, it would be challenging to bring the Rates Bill to Parliament before the effective date of a change given the consultation processes involved.
  - Revenue shortages may well be immediate – which can compromise spending and fiscal balances
- Additionally, it has been customary over the years for the legislative process to follow the Minister's announcement of the rates in the annual national budget, as seen in 2018 and other Bills.
- Lastly, other countries (e.g. Zimbabwe, Kenya, and the UK) have comparable provisions to ours.

Comments on other tax proposals contained in the 2025 Budget

- **Critique on increases on excise taxes:**
  - Excise taxes are implemented to deal with public health and other externalities related to consumption of specific products, such as alcohol, tobacco and related products, and also raise revenue
  - From a policy perspective, it is important that excise duty rates are adjusted by inflation on an annual basis, as a minimum, to preserve the real or effective rates of excise duties
  - Above-inflation increases are necessary to reduce affordability and discourage consumption of these products over time and generate revenue
- **Illicit trade undermines health and excise policy objectives, and requires robust compliance and law enforcement mechanisms**
  - SARS is harnessing its capabilities to make non-compliance with legal tax obligations hard and costly to those who are engaged in these criminal pursuits
- **While the Health Promotion Levy (HPL) has shown some effectiveness, broader food environment reforms are needed to significantly impact non-communicable diseases (NCDs)**
  - A decision was made to delay increasing the levy to allow for industry restructuring, especially considering regional competition and the implementation of the Sugar Masterplan.
  - Further work is needed on proposals to extend the HPL to 100% fruit juice and lower the sugar threshold.

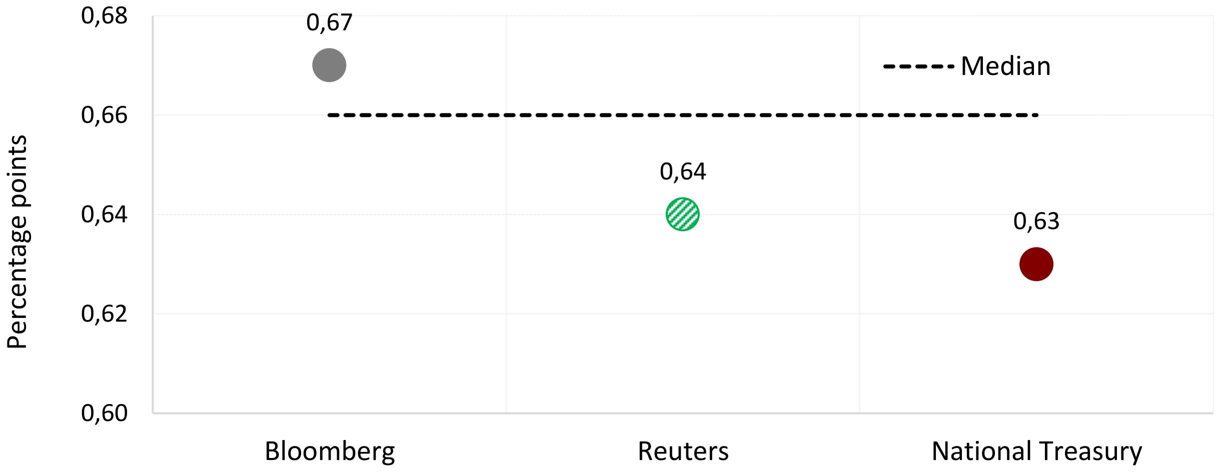
National Treasury's GDP forecast errors were lower compared to consensus

Comparison of GDP growth forecast

GDP forecast (per cent)				
Institution	Last update	2024	2025	2026
National Treasury	BR 2025	0.8	1.9	1.7
IMF	Jan-25	0.8	1.5	1.6
SARB	Jan-25	0.7	1.8	1.8
Bloomberg*	Feb-25	0.7	1.7	1.9
Average (excl. NT)		**0.8**	**1.8**	**1.8**

** Bloomberg projection is a weighted average consensus forecast*
Source: NT, IMF, SARB and Bloomberg

Forecast errors for in-year forecasts: (2011-2024)



Note: Bloomberg and Reuters numbers are consensus forecasts
Note: Higher mean absolute errors indicate larger forecast errors, and vice versa
Source: Bloomberg, NT and Reuters

- From 2011 to 2024, National Treasury's GDP in-year forecast errors have been lower compared to consensus, while in-line with comparator forecasts over the medium-term, highlighting the credibility of the macroeconomic forecast underpinning the macro-fiscal framework.
- The National Treasury subscribes to macroeconomic forecasting best practices, which entails conducting ongoing model improvement and maintenance. Investing in human capacity, research and utilizing other appropriate models also forms an integral part of enhancing forecasting ability.

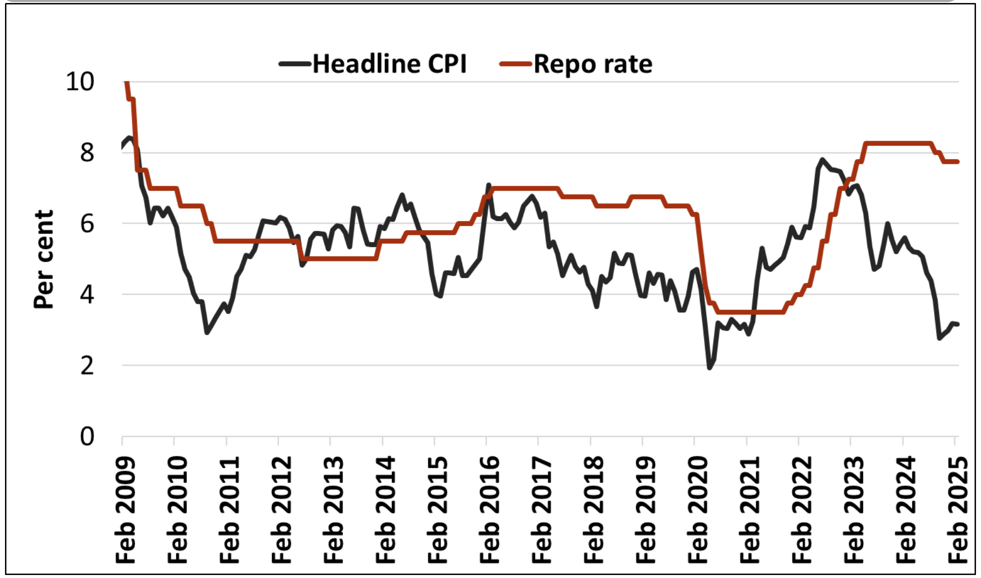
Current growth prospects are insufficient. Government's medium-term economic strategy addresses slow growth through four priorities

Action	
Maintain macroeconomic stability	To reduce volatility, to reduce the cost of living and encourage investment.
Implement structural reforms	To increase efficiency and promote a competitive economy, while addressing constraints to job creation and employment.
Build state capability	To identify and solve problems in the delivery of core functions, supported by digital transformation.
Invest in growth-enhancing public infrastructure	To increase productivity and long-term economic prospects.

Macroeconomic stability supports economic growth

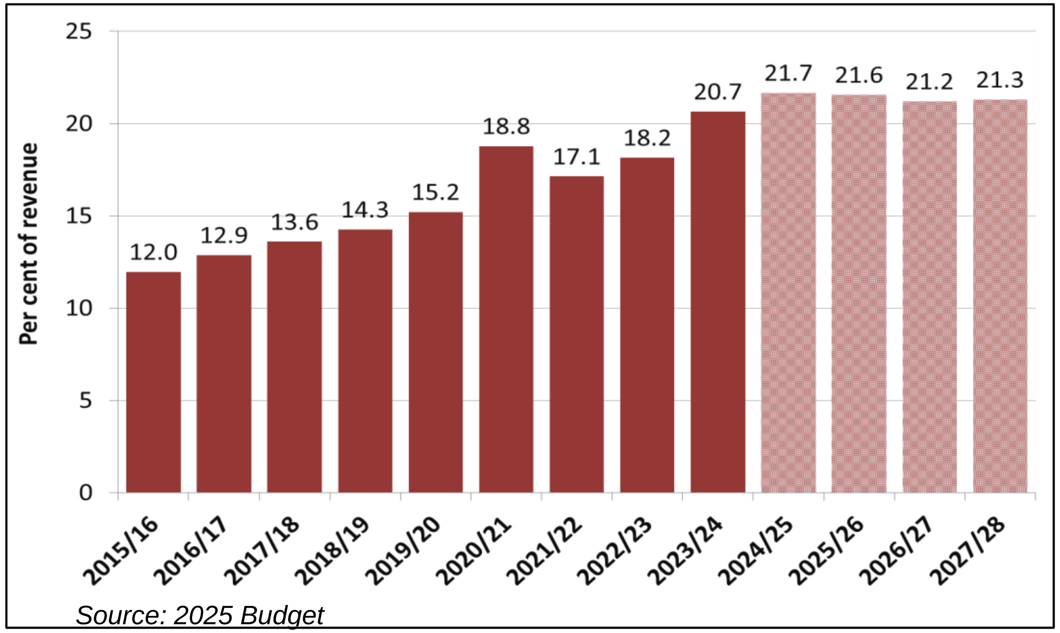
- Macroeconomic stability promotes a predictable macroeconomic environment by maintaining low and stable inflation while stabilising public finances will lower government and economy wide long-term borrowing costs.
- A predictable economic environment encourages investment and consumption spending by firms and households boosting economic growth.
- Since 2000, inflation and interest rates including their respective volatility have declined while elevated public debt levels have resulted in high debt service costs with 22 cents spent on servicing debt for every 1 rand collected.

Headline inflation and the repo rate



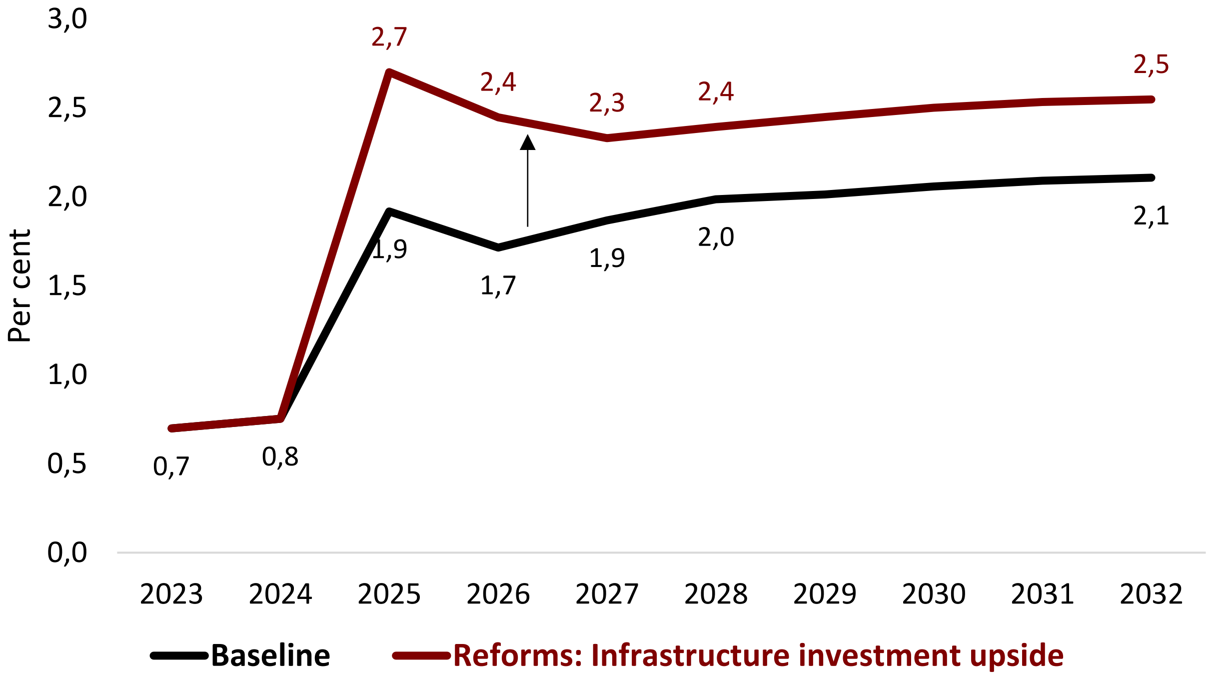
Source: Bloomberg, StatsSA

Debt-service cost as a share of main budget revenue



Structural reforms matter for growth. Additional energy, logistics and public entities capital investments raise growth prospects

Infrastructure scenario: real GDP growth



Source: National Treasury

- This scenario incorporates additional capacity from energy investments, coupled with rapid interventions by the National Logistics Crisis Committee to resolve problems in ports and certain rail corridors.
- Additionally, major public entities are assumed to successfully scale up capital expenditure over the medium-to-long term.
- In this scenario, economic growth is durably higher compared to the baseline forecast as supply-side constraints are alleviated, raising capital stock accumulation, yielding productivity improvements, boosting sentiment and reducing the cost of doing business.
- Together, these reforms also support increased trade volumes.
- Additional GDP generated over the simulation period amounts to **R1.06 trillion relative to the baseline.**

Improved state capability will enable better delivery of core functions and support economic growth

- Previous efforts to improve state capacity have focused on bettering individual skills through training programmes
- A capable state requires not only capacity (individual skills) but effective accountability arrangements, strategic goals, government systems and state organisation
- Interventions to improve state capability include *inter alia*:
    - institutional reforms to improve the delivery of infrastructure,
    - additional resources to support rebuilding the South African Revenue Service,
    - early retirement initiative to rationalise and rejuvenate the public service
- Digital transformation will provide critical support to service delivery and enhanced state capability

Infrastructure reform and investment will support growth over the medium term

Area	
Public Infrastructure Investment	Over the next three years, R1.03 trillion will be allocated to public infrastructure, with major allocations to roads (R402 billion), energy (R219.2 billion), and water and sanitation (R156.3 billion). The main budget adds R46.7 billion for infrastructure projects over the medium term.
Institutional Reform for Infrastructure Delivery:	A single structure overseen by the National Treasury will be established during 2025/26 to coordinate state participation in project preparation and planning, public-private partnerships (PPPs), funding and credit guarantees. It will consolidate two units currently in the Government Technical Advisory Centre that coordinate PPPs and capital appraisals with the Infrastructure Fund in the Development Bank of Southern Africa.
Public-Private Partnerships (PPP) Reform	PPP regulations have been streamlined, reducing approval requirements for projects below R2 billion from June 2025. A clear framework is being established to receive and process unsolicited PPP proposals or bids from the private sector. Revised manuals and guidelines on PPPs are being produced and will be made available to the public.
Budgeting and financing for Infrastructure	State-owned companies, public entities, and municipalities will fund 72.7 per cent (R748.5 billion) of total public-sector capital investment from their budgets. For the 2025 Budget cycle, the Budget Facility for Infrastructure has approved nine projects with a total value of R55.5 billion, of which R15.3 billion will funded by the Facility, supporting critical areas such as hospital infrastructure, transport and logistics, and water.
Performance-Based Financing	The 2025 Budget introduces a performance-based conditional grant for certain trading service entities that provide basic services, such as municipal water. This will incentivise financial and operational reforms to improve their functioning and sustainability.

Government is working to strengthen the Budget Process

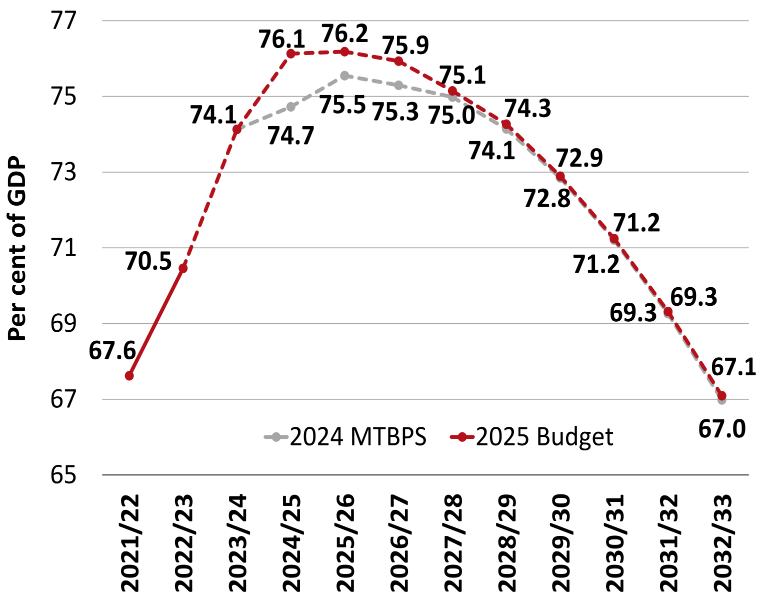
- The 2024 MTBPS announced that the National Treasury has initiated a comprehensive review of the medium-term budgeting process to bring it in line with current economic realities and ensure it remains fit for purpose.
- Reforms are being developed to:
  - Evaluate and strengthen budget structures
  - Enhance coordination and decision-making,
  - Manage unanticipated expenditures and improve the use of performance data and technology.
- A long-term debt sustainability framework has been developed to ensure that all spending and borrowing decisions are guided by a need to maintain sustainable finances over the long term.
- Further we have committed that the proposed reforms arising from this review will be implemented in 2025/26.

Consultation as part of the Budget process related issues

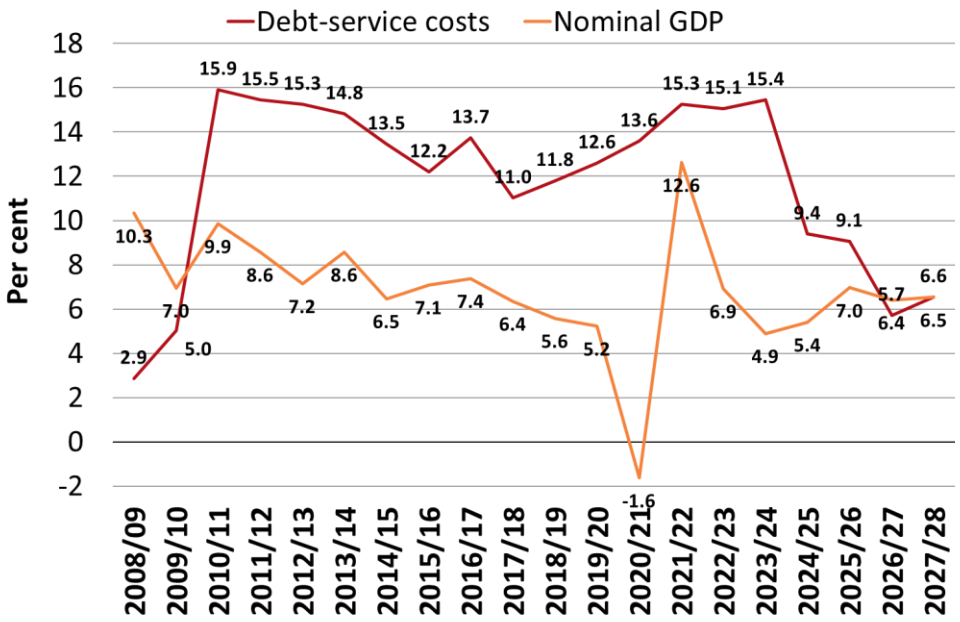
- **Was the FFC consulted before budget?**
  - Section 10 of the Intergovernmental Relations Act requires the contents as it relates to the Division of Revenue Bill to be submitted to the FFC at least 14 days prior to tabling (NB: this requirement is not stipulated for other budget documents).
  - This was done on 05 February 2025, and in this regard the provisions of the Act were complied with.
  - However, the postponement of the budget from 19 February to 12 March was an unforeseen political event.
  - Despite this, a resubmission made on 7 March 2025 and a second briefing was arranged for 10 March 2025 with the Commission, however the briefing never materialised due to the Commission's unavailability.
  - Nevertheless - and critically - there were no changes to the sub-national division of revenue or to allocations for provinces and municipalities (only the national sphere changed, as reflected in schedule 1).
  - The National Treasury agrees that risks to the budget process that were not envisaged when certain laws and regulations were enacted are materialising, and is engaging with the FFC on this matter, including to strengthen contingency planning.
- **Pre-budget consultations:**
  - South Africa continues to have one of the most transparent budget processes in the world.
  - Work is underway to design opportunities for more pre-budget consultation opportunities.
  - The National Treasury is reviewing the departments consultative processes with intent to develop a public participation framework
- **The National Treasury responds to parliamentary committees' recommendations in Annexure A of each Budget Review publication**

Key fiscal policy issues

Gross debt-to-GDP outlook



Growth in nominal GDP and debt-service costs



- South Africa's debt and debt-service costs continue to rise, and debt-service costs are projected to grow faster than economic growth, implying that even under an optimistic scenario the economy cannot sustain the level of debt
- In this regard, South Africa's debt trajectory remains unsustainable until government achieves and maintains a debt-stabilising primary fiscal surplus in 2025/26

Fiscal Policy related issues - Expenditure

- **What is allocated to SARS?**
  - R3.5 billion additions in 2024 MTBPS over the 2025 MTEF
  - R4 billion additional allocation to SARS in the budget speech will be used to strengthen tax administration
- **How is the contingency reserve determined?**
  - The contingency reserve is part of main budget non-interest expenditure envelope
  - The dilemma in determining the size of the contingency reserve — ensuring sufficient buffer to absorb justified uncertainty while maintain disciplining restriction in the budget
  - Factors affecting the size of the contingency reserve include time frame, policy composition, indexation schemes, extent of contingent liabilities
  - The size of contingency reserves varies across countries, ranging from less than 1 per cent to up to 3 per cent of total government expenditure.
  - In the 2025 Budget, the contingency reserve amounts to 0.9 per cent of main budget expenditure over the medium term.

Spending reviews updates

- Many of the ‘low-hanging fruit’ from the spending reviews have already been implemented.
- Further implementation of the remaining recommendations will require institutional and legislative reforms as well as government-wide decisions, which can be executed once endorsed by Cabinet.
- These reforms will take time to materialise and are unlikely to generate immediate fiscal relief.
- Realising meaningful savings will demand strong political will and difficult policy trade-offs.
- As a result, either spending pressures will need to be delayed until these spending reviews yield results or tax measures need to be implemented to generate revenue to pay for spending pressures.

DRC-withdrawal issue

- Important to note that the SADC secretariat has not yet issued an official withdrawal communique and detailed plan to the Department of Defence
- However, the withdrawal of South African troops will incur costs related to logistics, transport, and operational requirements in 2025/26 and this must be carefully managed.
- The National Treasury will work closely with the Department of Defence to assess the financial implications of the phased withdrawal of troops from the DRC once SADC issues an official withdrawal communiqué and detailed plan.

COVID-19 SRD

- Extended by a further year with an allocation of R35.2 billion for 2025/26, inclusive of administration (with a further provisional allocation over the MTEF)
- Current COVID-19 SRD costs over R35 billion per annum but could rise to R171 billion by 2032/33 if SRD becomes permanent, uptake increases and value approaches food poverty line
- Fiscus cannot afford these large increases without permanent large tax increases
- Future form and nature of COVID-19 SRD will be informed by the broader review of Active Labour Market Policies (ALMPs)
- Long-term economic participation is a critical objective, and government is working to find the best solution
- Solution will consider long-term benefits, affordability, complementarity with basic services, and employment promotion efforts

Are SACU payments to BELN countries sustainable?

- SACU payments have grown rapidly in recent years.
- In 2025/26 the SACU payments to the BELN countries will amount to R73.6 billion (of the R142.5 billion available in the available pool of funds, calculated in line with the agreement guidance).
- These payments are projected to rise further, reaching R91.8 billion by 2027/28.
- The ***contributions to*** the available pool of funds and ***payment out*** of the available pool of funds can be viewed in the joint NT and SARS Tax Statistics publications available on the Treasury and SARS websites.
- The reformed SACU agreement was finalised in 2002, with the current revenue-sharing formula (RSF) implemented in 2005. Since then, several challenges have emerged, particularly regarding the formula's complexity, rationale, and fairness.
- Although there have been discussions about reviewing the RSF, it is widely acknowledged that any revision that would negatively affect a member country's finances is unlikely to be accepted.
- Any revisions to the SACU agreement aimed at addressing concerns frequently raised in parliamentary hearings regarding the RSF would require engagement and agreement at the political level.

Other issues

- Employment programmes:
  - A complete review of government's active labour market ecosystem has been completed by the National Treasury and the Presidency (with technical support provided by GTAC and the engagement of sector departments).
  - The outcomes of this review, which includes recommendations on specific programmes, is ready to be shared with government and presented to Cabinet for guidance on implementation.

- SMME support:
  - The Department of Small Business Development is allocated R2.1 billion over the medium term to support about 120 000 competitive small businesses, particularly those owned by women, youth and persons with disabilities in marginalised areas such as townships and rural regions.
  - In addition, government has allocated R313.7 million over the medium term for the establishment of micro, small and medium enterprise hubs to support business expansion.

Treasury’s Funding Strategy

- Government borrowing is guided by three primary considerations: liquidity management, refinancing risk and managing the cost of borrowing. With these factors in mind, and supported by a strategic risk framework, government determines the best mix of debt instruments and maturities to finance the gross borrowing requirement.
- Government gross debt consist of domestic debt (89%) and foreign debt (11%). Foreign debt is within the strategic risk benchmark of 15%.
- In 2025/26, the gross borrowing requirement is expected to be R3 billion higher than projected in the 2024 Budget Review due to a higher budget deficit, partially offset by a reduction in Eskom debt relief.
- The final R70 billion Eskom debt takeover will now be replaced with two advances amounting to R50 billion: R40 billion in 2025/26 to redeem debt maturing in April 2026; and R10 billion in 2028/29 for debt maturing in May 2028.
- The requirement is also affected by the transfer to government of R100 billion in 2024/25 and R25 billion in each of the two following years from the Gold and Foreign Exchange Contingency Reserve Account, as discussed in the 2024 Budget Review. In terms of the GFECRA settlement agreement the SARB won't sell any of its foreign currency reserves.
- Over the next three years, net Treasury bill issuances will average R40 billion, with long-term borrowing averaging R366.1 billion.
- Over the medium term, government will raise about US$14.6 billion to meet its foreign exchange commitments. This funding will be sourced from multilateral development banks, international financial institutions and international capital markets.
- As at January 2025, the ownership of domestic government bonds consist of foreign investors (24.6%), pension funds (22.6%), monetary institutions (20.8%), other financial sector (23.3%) and insurers (7.5%).

Conclusion

- National Treasury will continue to consider all recommendations from stakeholders, including for future budget cycles.
- The 2025 Budget reaffirms government's commitment to raising living standards, growth and stabilising debt.
- Investing in growth-enhancing infrastructure, supporting job creation and maintaining a growth-friendly fiscal policy will underpin government policy over the medium term.

Annexure

Other issues raised

Wage bill issues

- Increases should be for lower-level staff in critical service delivery sectors, not more management.
  - The current wage agreement covers employees on salary levels 1 to 12 including those covered by OSDs.
  - Most of the employees in these categories are educators, police, nurses, medical practitioners, etc. Agreement doesn’t cover senior management members.
- Has NT taken a haircut or “lawnmower approach” to cutting public sector wages?
  - Government has been prioiritising frontline services. Additional funding amounting to R65.8 billion and R87.8 billion was allocated to sectors in education, health and the security cluster to deal with compensation pressures in the 2022 and 2023 MTEF periods respectively. Similarly, over the 2024 MTEF and 2025 MTEF period, R145.5 billion and R70.9 billion has been allocated respectively to deal with wage related matters, mainly in key service delivery sectors.
- Employee verification - The Minister has announced that govt will be conducting an audit of “ghost employees” (similar reviews were previously conducted in various provinces). This essentially translates into an employee verification process. A data driven mechanisms to carry out such an exercise is currently being developed and will need to be discussed with all relevant stakeholders, including the DPSA.
- Early Retirement - The matter is currently under discussion in the PSCBC. The Public Service Act (PSA) requires govt to enter into a bargaining process before introducing any new financial incentives for employees. Only Executive Authorities of depts have the powers to approve early retirement in terms of the PSA. Govt is only putting this as a measure to help depts manage their wage bill.

The levels of infrastructure investment that would influence economic growth and job creation, have not increased at the anticipated levels

- In 2013, the National Development Plan (NDP) set a target for infrastructure investment to increase and stay at a minimum of 30 per cent of GDP for south Africa to eradicate poverty and reduce unemployment to 6 per cent. The private sector would make up 20 per cent while the government contributed 10 per cent.
- Since 2013, there have been many challenges, that include weak growth, rising spending pressures, inefficient delivery and the financial support provided to state-owned companies have constrained government’s ability to optimally invest in infrastructure.
- However, since 2022 there has been a marginal recovery in infrastructure investment. Public-sector capital investment increased from 3.8 per cent in 2022 to 4.1 per cent in 2023, while private-sector capital investment rose from 10.3 per cent to 10.8 per cent of GDP. This higher total investment, measuring 14.9 per cent of GDP in 2023, remains well below the NDP target of 30 per cent.

Undertaking PPPs as a procurement option must demonstrate that the provision of an institutional function by a private party result in a net benefit to the institution

- Undertaking PPPs as a procurement option must demonstrate that the provision of an institutional function by a private party result in a net benefit to the institution, when compared to the institutional function procured through the conventional method.
- PPPs must ensure that there is value for money for the institution.
- The private sector tends to deliver projects within cost and on time which reduces inefficiencies that are common in traditional procurement.
- Conventional procurement tends to have cost overruns and delays which result in escalation of project cost. Key to the success of the PPPs is that significant risk should be transferred from government to the private party.
- In conventional procurement this risk is mostly retained by government and the full life cycle cost is not fully accounted and planned for. Whereas PPPs consider the full life cycle cost of the project.
- Given this consideration, conventional procurement seems to be less as the operational and maintenance costs will not be fully accounted for. This will result in deteriorating assets which will then require significant funding for rehabilitation and maintenance cost for those assets.

Suggested alternative funding

- **Tap into GEFCRA account – again?**
  - The core principles underlining the GFECRA act are designed to protect the credibility, independence, and stability of SARB and the economy. They guard against currency fluctuations to plug fiscal holes in ways that could backfire if the currency strengthens or external conditions deteriorate. Short term currency gains should not be used to finance long term spending commitments.
- **Take a GEPF Pension contribution holiday?**
  - The current legal and regulatory framework does not explicitly provide for a contribution holiday and the GEPF's funding policy states that trustees should strive to maintain the GEPF's long-term funding at or above 100 per cent. While the government benefits from the contribution relief, active members do not benefit and pensioners would face increased risks due to the deterioration of the GEPF's financial position. Since the GEPF is a defined benefit fund, any shortfalls in the fund will require a government bailout. Therefore, diminishing the solvency of the fund may require the GEPF to appear as a contingent liability on the fiscal framework, further weakening the state's balance sheet.
- **There are many funds like CARA etc. – why not use these funds to finance government debt?**
  - There are many specialized funds that were designed and legislated for a specific purpose.
  - If cabinet decides that these funds should be utilised for funding the gross debt – the acts related to these funds will have to be amended.
- **At the same time there are demands to create new funds which might be counterintuitive**

Gender Budget Statement

- The focus for the first GBS was on Economic empowerment hence the economic cluster departments
- This is a decision that was taken by the Gender Responsive Budgeting Interdepartmental Task team which includes STATSSA, DPME, DWYPD and NT
- Expansion will be informed by the readiness of the sectors in the mainstreaming Gender in their programmes

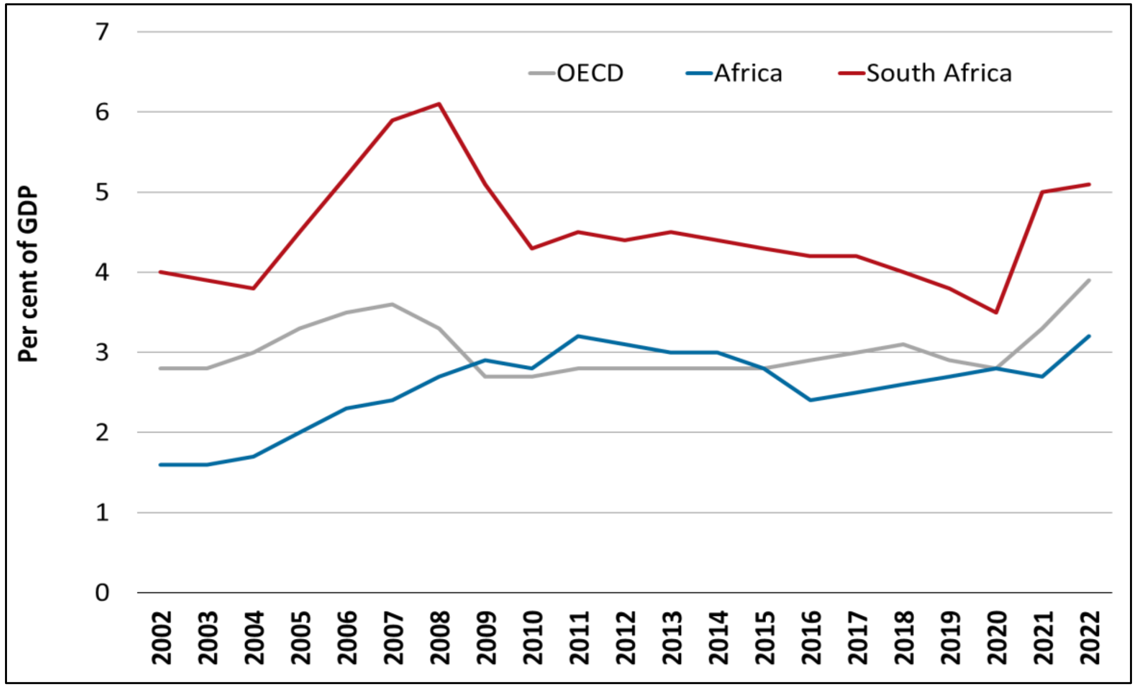
Why not increase the CIT rate?

- Arguments to say revenue was lost when the CIT rate was decreased from 28 to 27 per cent in 2022 are incorrect, and not a reason to reverse the decrease
  - Government introduced two base-broadening measures to increase CIT tax revenue at the same time as the CIT rate decrease – limitations on assessed losses and on interest deductions
  - The whole package had no negative impact on revenue
- If we wanted to raise R28 billion with CIT, the CIT rate would need to increase from 27 to 33 per cent, 9 percentage points higher than the OECD average

Why not increase the CIT rate (3)?

- Raising the CIT rate is not the only means of increasing CIT revenue
  - economic growth is the most important prerequisite for raising CIT revenue (commodity prices have a significant impact too)
- Alternative measures to raise CIT revenue within the ambit of tax policy and tax administration include broadening the CIT base and enhancing compliance
  - Several measures to protect the CIT base from base erosion and profit shifting (BEPS) have been implemented over time
  - South Africa's relatively generous accelerated depreciation allowances contribute to effective tax rates that are lower than the headline rate. While this necessitates a review, two recently implemented measures mitigate this by increasing effective tax rates.
  - One of the two base broadening measures that were designed to offset potential revenue loss from the decrease in the CIT rate aims to stop companies from continually reporting losses and paying no tax. As of 1 April 2022, companies are required to pay tax on at least a portion of profits in the year the company turns profitable before setting off prior losses.
  - The global minimum tax (GMT) will also increase effective tax rates for large South African and foreign MNEs operating in South Africa, resulting in SARS collecting more CIT revenue from 2026/27. These companies currently contribute more than one-third of total CIT revenue. Due to widespread implementation, no qualifying MNE can escape the minimum level of tax.
  - SARS is focused on enhancing taxpayer compliance, which can also increase yield additional tax revenue from businesses.

Why not increase the CIT rate?



- But we should recognise that companies already contribute more corporate tax revenue as a share of GDP than in most other countries
- Out of 123 countries reporting to the OECD, companies operating in South Africa contribute the 13th highest in terms of corporate income tax revenue as a percentage of GDP

Why not increase the CIT rate?

- Companies can respond to higher taxes in different ways:
  - They can try to reduce their reported profits (will be harder for those subject to the GMT)
  - They can disinvest or halt investment plans (negatively impacting growth and employment, and ultimately tax revenue)
  - they can pass on the additional cost to employees – either by retrenching or limiting salary and wage increases; and
  - they can pass on the cost to consumers by increasing the prices of products and services
- Workers and consumers will feel the burden of a rate increase, not just shareholders
  - Determining the economic incidence of CIT has been the subject of numerous theoretical and empirical studies. To date, the findings have been contradictory and inconclusive – ranging from capital bearing most of the burden to labour bearing most of the burden

Why not increase the CIT rate?

- Empirical studies show that corporate income taxes have a negative impact on growth, and often more so than other tax instruments.
  - OECD work on tax and growth shows that to facilitate economic growth, the tax system needs to be as efficient as possible by minimising distortions and obstacles to investment, innovation and employment. OECD (2010) states that "*corporate income taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful*".
  - OECD (2016) Tax design for inclusive growth has changed the narrative away from growth alone to inclusive growth and more explicitly recognises the challenges between efficiency and equity.
  - A National Treasury modelling exercise was conducted for the Davis Tax Committee to test the impact of raising R45 billion in 2014/15 with one of the three main tax instruments – PIT, CIT and VAT.
    - By 2017, the modelled increase in CIT yielded the largest negative impact on growth, followed by PIT and VAT. The estimated decline in real GDP from the CIT shock was -2.64 per cent (-1.44 and -0.64 per cent for PIT and VAT, respectively).

What about a "wealth tax"?

- **South Africa already has a multitude of instruments that taxes wealth comprehensively through property (asset) taxes:**
    - Estate duty is levied on all assets (financial, real estate and land) on a person's estate at death
    - Donation tax is levied for any asset donations
    - All equity transfers are taxed through securities transfer tax and
    - Real estate transfers through transfer duty
    - In addition, all real estate (land and buildings) is taxed at local level through property rates and taxes
    - The total annual tax revenue collected from the four national taxes on wealth (excluding the local property taxes) amounted to R22 billion in 2021/22, R22.6 billion in 2022/23, R19.4 billion in 2023/24 and R21.3 billion in 2024/25. This is a contribution of 1.15 per cent to total tax revenue, which compares favourably to the OECD average of 0.5 per cent for similar taxes
    - In addition, South Africa levies capital gains tax, which is essentially a tax on wealth gains. Capital gains contributed an additional R15.6 billion to the fiscus during 2019/20, and R16.4 billion in 2020/21.

- **Introducing a wealth tax will generate limited revenue and potentially endanger South Africa’s income tax base**
    - Estimates from the 2025 Budget indicate that the top three income tiers will pay over 60 per cent (R 488 billion) of all personal income tax in South Africa for 2025/26
    - In contrast taxes on wealth only generated R21 billion in revenue for 2024/25 (see above)
    - This personal income tax base is critical for South Africa’s fiscal sustainability, and introducing a wealth tax may potentially erode it as high-net-worth individuals are internationally mobile
    - If only 10 percent of this tax base were to change their tax residency, South Africa could lose R 49 billion in income tax revenue annually, plus all the other taxes they currently contribute

What about a "wealth tax"? (2)

- **The tax base of the super wealthy is small and mobile. An additional tax on wealth could spark capital flight and endanger investment flows and jobs**
  - Initial data indicates that there are 2 850 individuals with net assets above R50 million who have a total of R245 billion in local assets and R150 billion in foreign assets.
  - A 0.5% net wealth tax would at most collect R2 billion in revenue, but that is before any behavioural response. This group pays R7 billion in personal income tax (which is also on returns from foreign assets) and that revenue would be put at risk if they decided to change tax residency.
  - Should this group decide to relocate, it would impact negatively on capital and investment flows, as they often have business interests which generate employment and contribute towards economic growth and capital formation locally.
- **International examples show that several countries abandoned or significantly reduced the scope of their wealth taxes over the years as they were ineffective.** Currently, only four countries have what can be termed wealth taxes. Reasons for abolishing the wealth taxes:
  - the high cost of collection
  - administrative complexity
  - risk of capital flight
  - limited revenue gained from these taxes
- **Income tax is the most effective way to tax the wealthy, and it generates multiple times more revenue for the fiscus in a more efficient and cost-effective manner.**
  - A study “The role and design of Net Wealth Taxes in the OECD” (OECD 2018) on the effectiveness of wealth taxes found that a comprehensive income tax system which also taxes capital gains are more effective at generating revenue and redistributing wealth than taxes that specifically target the stock of wealth.
  - South Africa has a very comprehensive income tax system with progressive rates and high earners paying a top marginal rate of 45 per cent. In line with international best practice South Africa levies capital gains tax to make its income tax system even more progressive and comprehensive.

What about a "wealth tax"? (3)

- **Wealth taxes are complex and difficult to implement. Even more so without a clear picture of wealth holdings**
  - The Davis Tax Committee noted (April 2016 report on Estate Duty, March 2018 report on Wealth Tax & an article in 2020) that implementing a wealth tax in SA would not be possible without a reliable picture of wealth holdings in South Africa.
  - International experience has shown that most countries have discontinued wealth taxes as they were found to be costly to administer and generated limited revenue. SA's current wealth taxation regime generates similar revenue compared to countries that have wealth taxes.
  - It was proposed that in line with the DTC recommendations that all taxpayers including trusts be compelled to disclose all assets at market value in their tax returns.
- **Wealth is difficult to measure, adding to costs and complexity**
  - One of the components that add to administrative costs and complexity noted above is the issue of valuations. Wealth comes in various different asset types, and some are very complex to measure, open to interpretation. For instance, valuing private (non-listed) equity will require business valuations on an annual basis. These are costly for both the taxpayer and tax authorities, and are likely to lead to disputes about the accuracy of the valuations. The same is true for real estate holdings, beneficial ownership structures and many more.
  - There is also the issue of what to do when wealth holdings deteriorate in value, such as during a recession of stock market volatility. Would taxpayers be able to claim these losses against their wealth tax obligations? Would they be refunded?
- **Liquidity concerns related to wealth taxes tend to dilute them to such an extent that they become ineffective**
  - Unlike income flows, wealth holdings are typically illiquid. A taxpayer may be asset rich but cash poor, thereby not able to pay their wealth tax liabilities. This liquidity problem is one of the reasons why wealth taxes ultimately failed in many countries, since tax authorities were forced to extend the payment terms quite significantly and thereby diluting the impact and effectiveness of the wealth taxes.
- **Wealth taxes discourage savings**
  - South Africa has a very low gross savings rate of only 13.7 percent, well below its peers. Introducing a wealth tax will discourage people from saving, since they will fear that their accumulated wealth will be targeted with a wealth tax. Rather than save and add to South Africa's overall savings pool (critical for investment and economic activity), wealthy individuals will rather consume their income, or take it offshore. This will damage South Africa's long term development prospects.

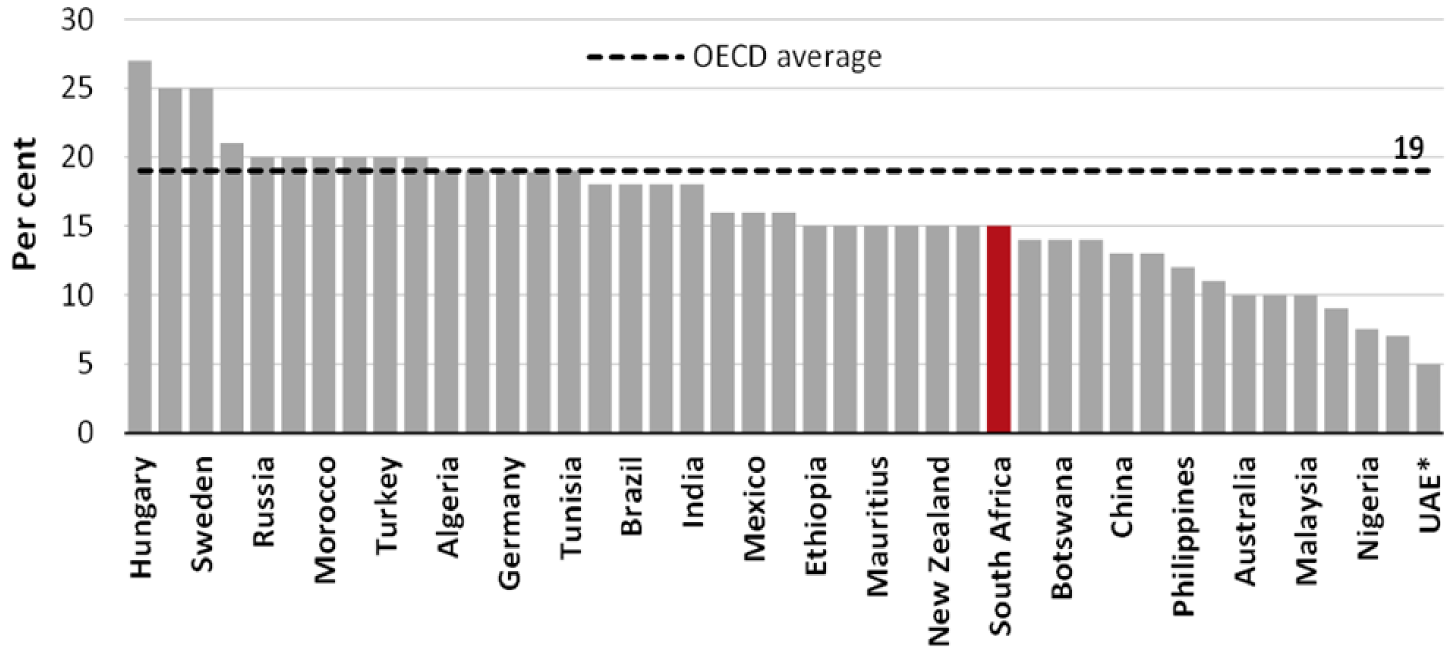
Review process of the Employment Tax Incentive

- **In summary:** *there are some impact assessments that find positive effects, but of a small magnitude – and there are some studies that find no significant impacts – so we try to be cautious about emphatic conclusions about macro employment impacts. On the micro level, many of the feared negative impacts did not materialize, and qualitative impact studies have shown that young people employed with ETI claims tend to remain in employment after the 2 year eligibility period.*
- National Treasury publishes monthly reporting on the revenue foregone - far in excess of the reporting requirement per the ETI Act of twice a year, in addition to regular feedback in budget review documents (including tax expenditure info in Annex B)
- National Treasury published a Descriptive report of claims in 2016, in part to inform the review.
- Since then, the Tax Statistics publication usually contains descriptive information about claims (pg 59).
- The reviews in 2016 and 2018 were convened by Nedlac, with an open invitation for evidence.
- Deliberations in Nedlac resulted in unanimous recommendations for extensions of the programme in 2016 and 2018. In the latter case, NT initially proposed a 5 year extension, while **social partners recommended a 10 year extension** (also indicated in the Framework agreement of the Presidential Jobs Summit in 2018), in order to give certainty and to encourage building systems to ease compliance burdens. In both cases, the reports from Nedlac were not only shared with SCOF, but were required before the committee assented to the draft legislation.
- Both reviews were informed by all available research: independent academic studies, commissioned research and surveys of claimants. Where final, published papers were available, we referred to them – but work-in-progress was also considered, as there are very long lags in data availability. Both reviews included critiques, arguments for and arguments against each potential finding. Both reviews included a survey of claiming firms.

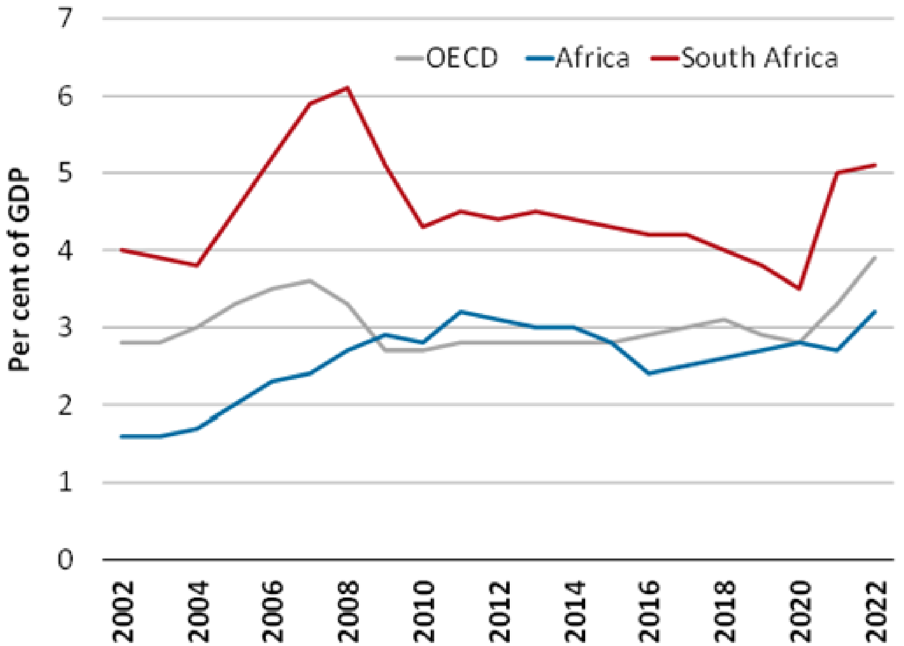
Why the increase in the VAT rate?

- Government considered different options to raise the required revenue.
- However, increases in PIT and CIT would been more negative for employment, savings, investment and growth than a VAT increase.
- CIT is imposed on businesses, but ultimately paid by shareholders, workers and consumers.
- South Africa already has a high contribution of CIT towards tax revenue and VAT is relatively low compared to our peers.

Comparative standard VAT rates by country, 2024/25



Corporate income tax as a share of GDP

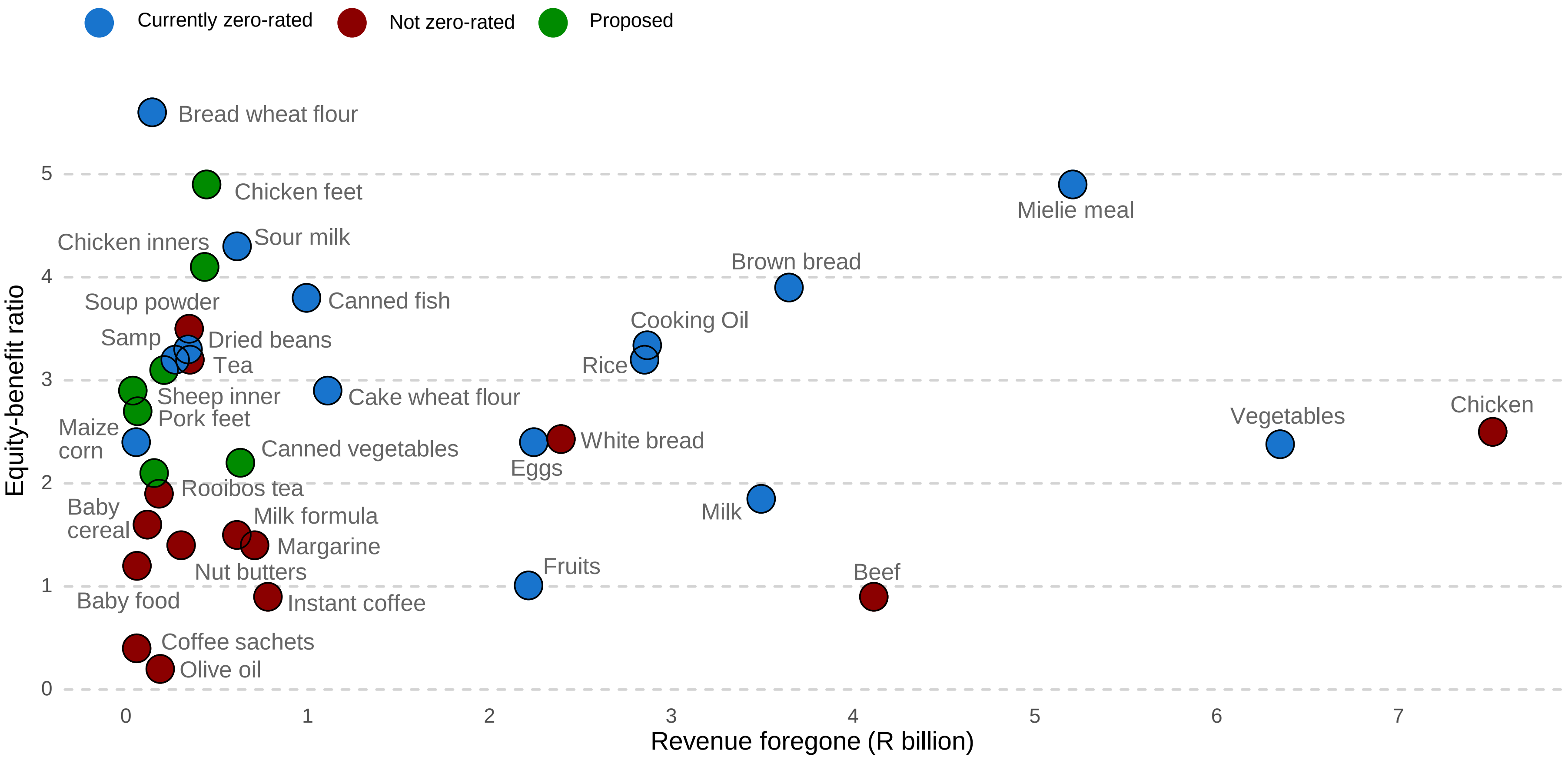


Criteria used for VAT zero-rated items additions

- VAT zero rating requests were evaluated against the revenue foregone to the fiscus, and the impact on lower-income households based on consumption and expenditure patterns using equity-gain ratio analysis.
- The equity-gain ratio divides the proportional expenditure of households in expenditure deciles 1 to 4 by the proportional expenditure of households in deciles 9 and 10 on specific items.
- This ratio provides a measure of the disproportionate consumption by lower-income households.
- Items with a higher equity-gain ratio indicates that lower-income households spend more on those items as a proportion of their expenditure than high-income households.
- Therefore, lower-income households will realise more benefits from zero rating these items than higher-income households (assuming pass-through of benefits).
- The additional food items proposed for zero rating in the 2025 Budget are well targeted, with relatively limited revenue forgone to the fiscus. Currently zero-rated items are similarly well targeted.

Criteria used for VAT zero-rated items additions (continued)

Equity-benefit ratio and revenue loss from zero-rating food items



Source: STATSSA, Income and Expenditure Survey 2022/23

NT projects growth of 1.9 per cent in 2025, from a revised estimate of 0.8 per cent in 2024

Macroeconomic performance and projections

Percentage change	2021	2022	2023	2024	2025	2026	2027
	Actual			Estimate	Forecast		
Final household consumption	6.2	2.5	0.7	1.0	1.9	1.5	1.7
Final government consumption	0.6	0.6	1.9	1.5	3.8	-0.1	0.3
Gross fixed-capital formation	-0.4	4.8	3.9	-3.6	5.0	5.2	3.7
Gross domestic expenditure	4.9	4.0	0.8	-0.0	2.6	1.7	1.8
Exports	9.7	6.8	3.7	-2.8	3.4	3.2	3.1
Imports	9.6	15.0	3.9	-5.3	5.7	3.1	2.7
Real GDP growth	**5.0**	**1.9**	**0.7**	**0.8**	**1.9**	**1.7**	**1.9**
GDP inflation	6.3	5.2	4.8	4.1	4.9	4.7	4.5
GDP at current prices (R billion)	**6 220**	**6 656**	**7 024**	**7 365**	**7 872**	**8 387**	**8 932**
CPI inflation	4.6	6.9	5.9	4.4	4.3	4.6	4.4
Current account balance (% of GDP)	3.7	-0.5	-1.6	-1.6	-2.3	-2.4	-2.6

Sources: National Treasury, Reserve Bank and Statistics South Africa

*Based on the GDP dataset released in December 2024. Although Stats SA released GDP figures on 4 March 2025,this information is insufficient for forecasting without the national income account scheduled for release at the end of March 2025

- National Treasury projects growth of 1.9 per cent in 2025, from a revised estimate of 0.8 per cent in 2024, which reflects the weaker than expected GDP outcome in the 3rd quarter, driven by a sharp contraction in the agricultural sector.
- Medium-term GDP growth is expected to average 1.8 per cent from 2025 to 2027, on par with the MTBPS forecast. Despite this, there are some compositional changes.
- Household consumption has been revised lower, while gross fixed capital formation and government consumption is revised higher. Furthermore, compared to MTBPS 2024, net trade is revised down due to increased import volumes following stronger gross domestic demand.
- Growth drivers: easing supply-side constraints, monetary policy easing, prudent fiscal policy, and base effects, especially on fixed investment and trade volumes.

Selection of external findings on the impacts of the ETI programme

- The 2018 review included the following independent research papers:
  - https://ideas.repec.org/a/bla/sajeco/v84y2016i2p199-216.html
  - Becoming Youthful? An Evaluation of the South African Employment Tax Incentive (ETI) (unu.edu)
  - UNU-WIDER : Working Paper : The effects of the Employment Tax Incentive on South African employment and ebrahim_a28067.pdf (iza.org)
  - https://ideas.repec.org/p/ctw/wpaper/202007.html
- Reseearch findigns since the review
- UNU-WIDER : Working Paper : Can a wage subsidy system help reduce 50 per cent youth unemployment?
- UNU-WIDER : Working Paper : Estimating employment responses to South Africa's Employment Tax Incentive(sound caution about the methodology for future impact assessments)
- Evidence for a YETI? A Cautionary Tale from South Africa's Youth Employment Tax Incentive - Muller - 2021 - Development and Change - Wiley Online Library
- Here is a link to the comparative report from DPME (Evaluation of Business Incentive Draft Summary Report V6 05112018 STC.pdf (dpme.gov.za)) Incentives Review that estimates that the ETI provides R74 000 of support on average per beneficiary firm, and that it is one of the most cost-effective incentives at around R3 500 per job supported.
- Lit review paper: The effectiveness of the Employment Tax Incentive (resbank.co.za)

The two pots pension reform is expected to support private consumption and ultimately GDP

- Internal analysis of this reform shows an increase in household disposable income, providing temporary boost to household consumption.
- As such, the current macroeconomic forecast incorporates the expected boost to household consumption and GDP as a result of the reform.
- Modelled in isolation:
  - Private consumption is estimated to have added 0.4 percentage points above the baseline in 2024, before tapering off as fund reserves are rebuilt, particularly for employees with relatively small retirement fund balances. Overall, this policy is estimated to add 0.2 percentage points to real GDP in 2024;
  - Similar work by the SARB estimates that household consumption boost would range from 0.3 percentage points relative to the baseline in 2024, while real GDP would range between 0.1 percentage points higher.
  - ***Note that the above analysis was done prior to the 3 March 2025 GDP release***

How has the change in the VAT proposal since 19 Feb affected the Budget details?

- VAT rate increase from 15 per cent to 16 per cent over the two years is proposed
- Adjustments to the VAT rate proposal has required a reduction in the spending proposals and a different mix of revenue measures.
- Additional mitigation from higher revenue estimates and smaller contingency reserve
- Changes on the spending side:
  - Lower net increase in non-interest expenditure
  - Lower contingency reserve
- Changes on the revenue side:
  - Different mix of revenue measures
  - Lower main budget revenue estimates
- Fiscal strategy remains on track. Debt stabilising primary surplus is achieved in 2025/26
- However, fiscal buffers are weaker, including due to a smaller contingency reserve.