4

2024 BUDGET REVIEW

REVENUE TRENDS AND TAX PROPOSALS

national treasury

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REPUBLIC OF SOUTH AFRICA

In brief

- Revenue collection in 2023/24 has weakened significantly relative to projections in the 2023 Budget, and tax revenue for 2024/25 is expected to amount to R1.86 trillion.
- In combination, tax proposals will raise revenue of R15 billion in 2024/25. The main tax proposals include no inflation adjustments for personal income tax brackets and above-inflation adjustments to some excise tax rates. No increase is proposed to the fuel levy.
- Two long-term tax reforms – the two-pot retirement system and the minimum corporate tax rate – will be implemented in 2024/25.
- Over the next three years tax revenue is expected to grow by R401.7 billion, reaching R2.13 trillion and a tax-to-GDP ratio of 25.3 per cent in 2026/27.

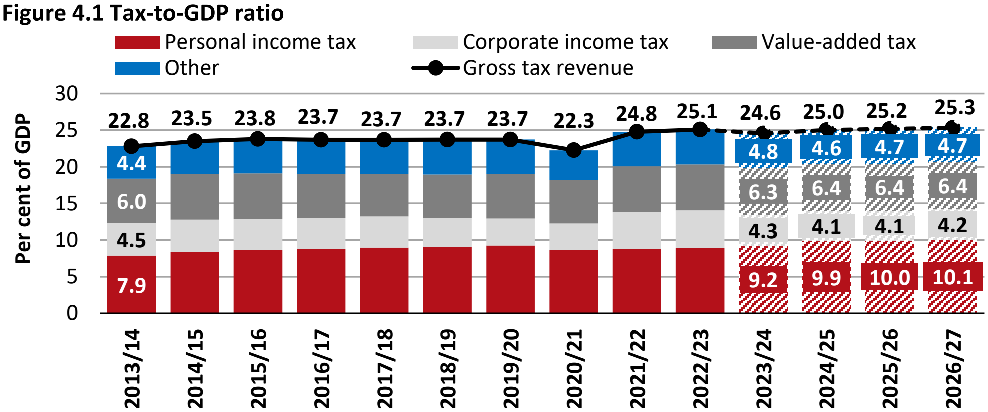
OVERVIEW

Tax revenue performed better than expected in 2021/22 and 2022/23, largely as a result of higher commodity prices. Over the past year, however, many of the risks identified in the 2023 *Budget Review* have materialised. Tax revenue for 2023/24 is now expected to amount to R1.73 trillion, which is R56.1 billion less than expected in the 2023 Budget.

The 2024 Budget tax proposals and longer-term reforms improve the medium-term revenue outlook, with the tax-to-GDP ratio reaching 25.3 per cent by 2026/27. An enduring improvement in revenue performance, however, is contingent on higher GDP growth rates.

Many tax bases remain resilient, but underlying vulnerabilities limit the extent to which taxes can be increased sustainably. Revenue from both corporate income tax and value-added tax (VAT) is expected to remain subdued due to low profitability in many sectors and the adjustment costs of new investments in energy generation and storage. Recent personal income tax collections have outpaced expectations, but rate increases could threaten economic growth and prompt negative taxpayer behaviours.

Figure 4.1 Tax-to-GDP ratio



Source: National Treasury and SARS

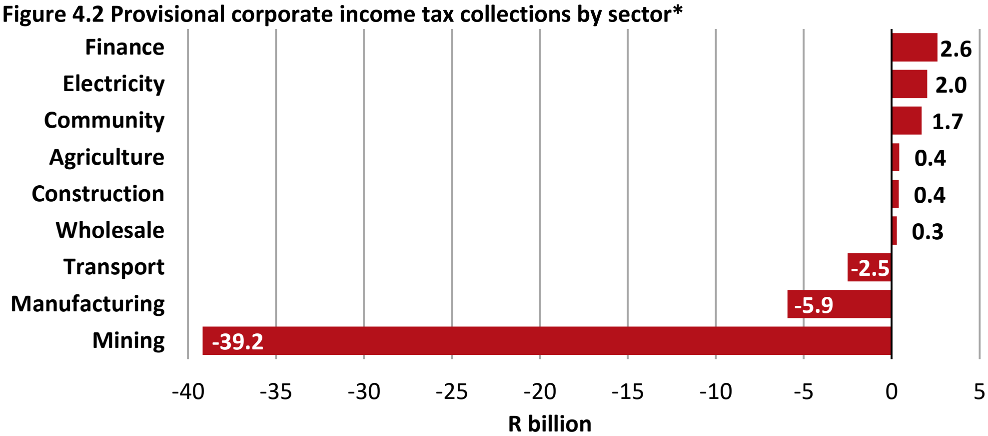
In line with the 2023 *Medium Term Budget Policy Statement* (MTBPS), tax increases are proposed to alleviate immediate fiscal pressures. The proposals include no inflation adjustments for personal income tax tables and medical tax credits, and higher excise duties on alcohol and tobacco products. No increase in the fuel levy is proposed. These measures will contribute to a more stable fiscal position with long-term benefits for the economy.

REVENUE COLLECTION AND OUTLOOK

Revenue collection has deteriorated substantially over the past year due to weak economic conditions. Tax revenue for 2023/24 is expected to reach R1.73 trillion, an upward revision of R0.7 billion from the 2023 MTBPS estimate. The tax-to-GDP ratio is expected to decline to 24.6 per cent in 2023/24.

While earnings have remained resilient, corporate profits have declined. Tax revenue slowed in 2023/24 as corporate tax collections contracted by close to 14 per cent over the first 10 months of the financial year relative to the same period in the previous year.

Figure 4.2 Provisional corporate income tax collections by sector*



**First 10 months of 2023/24 relative to same period in prior year*
Source: National Treasury and SARS

Windfall tax gains from high commodity prices over the last two years have come to an end, leading to a sharp fall in mining tax revenue. For the first 10 months of 2023/24, mining provisional corporate tax collections fell by R39.2 billion or 50.4 per cent relative to the same period in 2022/23. Lower commodity prices, weaker global growth, increased power cuts and operational problems at South Africa's ports have weighed heavily on the sector.

Although commodity prices are expected to stabilise, corporate profitability is projected to remain weak in 2024/25. Collections from the manufacturing sector also contracted over the period, while the finance sector registered marginal growth. Following robust growth over the two prior years, import VAT and customs duties collections slowed considerably. Net VAT collections for 2023/24 have been revised down by R26.1 billion compared with 2023 Budget expectations.

Table 4.1 Budget estimates and revenue outcomes[1]

	2022/23			2023/24			Percentage
R million	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	change[3]
Taxes on income and profits	**989 877**	**988 505**	**-1 371**	**1 021 213**	**997 924**	**-23 289**	**1.0%**
Personal income tax	601 649	600 367	-1 283	640 300	649 783	9 483	8.2%
Corporate income tax	344 944	344 660	-285	336 119	301 367	-34 751	-12.6%
Dividends tax	38 515	38 119	-396	39 819	39 705	-114	4.2%
Other taxes on income and profits[4]	4 768	5 360	592	4 975	7 069	2 094	31.9%
Skills development levy	**21 238**	**20 892**	**-346**	**23 027**	**22 713**	**-314**	**8.7%**
Taxes on property	**22 656**	**21 238**	**-1 418**	**23 863**	**19 486**	**-4 377**	**-8.3%**
Domestic taxes on goods and services	**581 871**	**579 990**	**-1 881**	**642 765**	**616 951**	**-25 814**	**6.4%**
Value-added tax	426 283	422 416	-3 867	471 477	445 340	-26 136	5.4%
Specific excise duties	55 228	55 155	-73	58 956	53 942	-5 014	-2.2%
Health promotion levy	2 320	2 195	-125	2 476	2 254	-222	2.7%
Ad valorem excise duties	4 461	5 520	1 059	4 699	7 782	3 083	41.0%
Fuel levy	79 131	80 473	1 342	90 408	93 372	2 964	16.0%
Other domestic taxes on goods and services[5]	14 448	14 231	-217	14 750	14 261	-489	0.2%
Taxes on international trade and transactions	**76 535**	**76 068**	**-468**	**76 588**	**74 279**	**-2 309**	**-2.4%**
Customs duties	74 176	73 945	-230	74 221	72 492	-1 729	-2.0%
Health promotion levy on imports	114	110	-3	114	107	-6	-2.7%
Diamond export levy	151	151	0	150	155	4	2.2%
Export tax	819	844	25	815	401	-414	-52.5%
Miscellaneous customs and excise receipts	1 276	1 017	-259	1 288	1 124	-165	10.5%
Gross tax revenue	**1 692 177**	**1 686 697**	**-5 479**	**1 787 456**	**1 731 353**	**-56 104**	**2.6%**
Non-tax revenue[6]	55 078	56 205	1 127	51 583	61 294	9 711	9.1%
of which:							
Mineral and petroleum royalties	*25 483*	*25 338*	*-145*	*22 469*	*15 718*	*-6 751*	*-38.0%*
Less: SACU[7] payments	-43 683	-43 683	–	-79 811	-79 811	–	82.7%
Main budget revenue	**1 703 571**	**1 699 219**	**-4 353**	**1 759 229**	**1 712 836**	**-46 393**	**0.8%**
Provinces, social security funds and selected public entities	189 176	197 189	8 012	199 678	208 587	8 908	5.8%
Consolidated budget	**1 892 747**	**1 896 407**	**3 660**	**1 958 907**	**1 921 423**	**-37 485**	**1.3%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2023 Budget Review estimates
3. Percentage change between outcome in 2022/23 and revised estimate in 2023/24
4. Includes interest on overdue income tax and interest withholding tax
5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax and International Oil Pollution Compensation Fund
6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
7. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

High VAT refund payments resulted from increased investment in embedded generation and higher costs of doing business, including the use of more expensive road transport due to operational and maintenance failures in the rail network. Stronger import VAT collections partially offset VAT refund payments.

Table 4.2 Budget revenue[1]

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Taxes on income and profits[2]	**718 180**	**912 870**	**988 505**	**997 924**	**1 084 989**	**1 157 045**	**1 248 687**
of which:							
Personal income tax	*487 011*	*553 951*	*600 367*	*649 783*	*738 749*	*787 476*	*850 473*
Corporate income tax	*202 123*	*320 447*	*344 660*	*301 367*	*302 702*	*323 482*	*349 611*
Skills development levy	12 250	19 336	20 892	22 713	24 500	26 441	28 582
Taxes on property	15 947	22 033	21 238	19 486	20 600	21 876	23 282
Domestic taxes on goods and services	455 867	549 806	579 990	616 951	654 290	702 478	743 865
of which:							
VAT	*331 197*	*390 895*	*422 416*	*445 340*	*476 749*	*510 130*	*539 785*
Taxes on international trade and transactions	47 455	59 719	76 068	74 279	78 655	83 370	88 607
Gross tax revenue	**1 249 711**	**1 563 754**	**1 686 697**	**1 731 353**	**1 863 035**	**1 991 210**	**2 133 023**
Non-tax revenue[3]	52 053	46 485	56 205	61 294	41 856	33 461	32 696
of which:							
Mineral and petroleum royalties	*14 228*	*28 456*	*25 338*	*15 718*	*16 000*	*16 930*	*17 850*
Less: SACU[4] payments	-63 395	-45 966	-43 683	-79 811	-89 871	-77 246	-79 714
Main budget revenue	**1 238 369**	**1 564 273**	**1 699 219**	**1 712 836**	**1 815 020**	**1 947 425**	**2 086 004**
Provinces, social security funds and selected public entities	171 548	187 385	197 189	208 587	221 602	228 970	237 592
Consolidated budget revenue	**1 409 917**	**1 751 657**	**1 896 407**	**1 921 423**	**2 036 623**	**2 176 395**	**2 323 596**
As percentage of GDP							
Tax revenue	*22.3%*	*24.8%*	*25.1%*	*24.6%*	*25.0%*	*25.2%*	*25.3%*
Main budget revenue	*22.1%*	*24.8%*	*25.3%*	*24.3%*	*24.4%*	*24.6%*	*24.8%*
GDP (R billion)	*5 615.9*	*6 312.0*	*6 721.8*	*7 049.0*	*7 452.2*	*7 913.8*	*8 422.3*
Tax buoyancy	*4.62*	*2.03*	*1.21*	*0.54*	*1.33*	*1.11*	*1.11*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividends tax, interest withholding tax and interest on overdue income tax
3. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
4. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and SARS

Personal income tax collection has remained buoyant as earnings and employment recovered in the wake of the COVID-19 pandemic, with employees' tax from the finance sector driving strong year-to-date growth. Fuel levy collections benefited from increased demand for road bulk transport, notwithstanding the tax relief provided since 2022. Specific excise duty collections from cigarette and cigarette tobacco remain well below pre-pandemic levels, weighing down overall collections.

Medium-term revenue outlook

The medium-term revenue outlook has been revised up by R45.6 billion relative to the 2023 MTBPS. Even though there are weaker growth projections in many tax bases, the tax proposals in this budget and long-term reforms under way improve the revenue outlook.

The buoyancy of tax revenue for a given level of economic growth is expected to be slightly higher over the medium term, mainly due to revenue-raising proposals amounting to

R15 billion in 2024/25. The economic recovery remains slow, however, and careful consideration will be given to ensuring tax increases do not undermine tax base growth.

The tax-to-GDP ratio is expected to reach 25.3 per cent by 2026/27. Gross tax revenue collections are expected to increase by 7.6 per cent, 6.9 per cent and 7.1 per cent over the next three years respectively as economic growth gradually improves. This translates into gross tax revenue increasing from an expected R1.73 trillion in 2023/24 to R2.13 trillion in 2026/27. Higher revenue collection requires sustained investment and economic growth, supported by continued improvements in tax administration.

TAX POLICY

Government relies on the tax system to raise revenue while supporting economic growth, employment and policy objectives such as climate action. High levels of inequality in income and wealth, reinforced by concentration in key economic sectors, render South Africa highly reliant on direct and progressive taxation.

Since 2020, tax rates have remained stable while the economy suffered a series of shocks, including the COVID-19 pandemic and the associated lockdown, outbreaks of public violence, high inflation, elevated fuel prices and increased power cuts. Tax policy responded to these shocks with targeted temporary measures. Although the tax bases have remained remarkably resilient, they are under pressure from the weak economy, and the commodity price cycle has turned. The resultant deceleration in revenue growth has added pressure to an already strained fiscal position.

Government's long-term tax policy strategy remains focused on broadening the tax base while improving tax compliance and administrative efficiency. In combination, this approach will raise long-term revenue in a sustainable manner while limiting tax rate increases where possible.

Two longer-term policy reforms are in the final stages of refinement before coming into effect, namely the two-pot retirement reform and international corporate tax reform. While these reforms will not yield immediate revenue, they may alleviate some revenue pressures once implemented. Both reforms are discussed later in this chapter.

Government has given careful consideration to the proposed tax adjustments. Raising revenue in a constrained economic environment comes with significant risks that need to be weighed against the effects of large spending adjustments and an unsustainable debt trajectory. Making these adjustments will establish a more sustainable balance between revenue and spending. Delaying revenue increases now could require larger increases in future, particularly if spending cannot be further reduced.

The choice of revenue proposals is informed by the negative feedback effects of tax increases on economic growth and the tax bases, the distributional effects of specific instruments and the buoyancy of tax instruments. To ensure revenue can be raised reliably, the most stable and resilient tax base, personal income tax, is targeted for the largest increases. Where possible, opportunities to improve the equity and efficiency of tax instruments are targeted in tandem with revenue objectives.

Tax administration update

The South African Revenue Service (SARS) continues to rebuild and implement recommendations from the Nugent Commission of Inquiry following the period of state capture. Over the past four years, SARS has raised revenue collection by improving debt collection, expanding the tax register, curbing trade valuation fraud and issuing additional assessments where tax is underdeclared. Its focus remains on collecting all revenues due, enhancing compliance and facilitating legitimate trade while curbing illicit activities. Taxpayers can meet their tax obligations more easily due to improved service offerings and digital platforms. During the last tax season, about 4 million taxpayers were auto-assessed. Using big data and artificial intelligence, SARS's automated risk engines prevented over R60 billion in impermissible refunds and fraud this past year. SARS is also raising awareness of tax requirements through outreach to small and medium enterprises.

TAX PROPOSALS

This budget contains tax increases of R15 billion in 2024/25 to alleviate immediate fiscal pressure and support faster debt stabilisation. Nearly all of the increase in revenue is effected through direct taxes, with no rate increases (Table 4.3). Personal income tax is increased by not adjusting the tax brackets, rebates and medical tax credits for inflation. The remainder will be collected through increased indirect taxes. The fuel levies will not be increased, resulting in R4 billion in tax foregone, partially offset by above-inflation increases in excise duties on alcohol and certain categories of tobacco products.

Table 4.3 Impact of tax proposals on medium-term revenue[1]

	2024/25	2025/26	2026/27
R million	Effect of tax proposals		
Gross tax revenue (before 2024 Budget tax proposals)	**1 848 035**	**1 975 277**	**2 108 458**
2024 Budget proposals[2]	**15 000**		**7 500**
Direct taxes[3]	**18 200**	**19 330**	**28 182**
Personal income tax			
No inflationary adjustment to tax brackets and rebates	16 300	17 342	18 603
No inflationary adjustment to medical tax credits	1 900	1 989	2 079
Corporate income tax			
Global minimum corporate tax			8 000
Electric vehicles tax incentive			-500
Indirect taxes	**-3 200**	**-3 397**	**-3 617**
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 248	-4 521
Specific excise duties			
Above-inflation increase in excise duties on alcohol	800	851	904
Net impact of tax proposals	**15 000**	**15 933**	**24 565**
Gross tax revenue (after tax proposals)	**1 863 035**	**1 991 210**	**2 133 023**

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

The introduction of global minimum tax rules in line with the Organisation for Economic Co-operation and Development's base erosion and profit-shifting framework is expected to increase corporate tax collection by R8 billion in 2026/27. This is partially offset by the initial cost of providing investment incentives for the production of electric vehicles.

Expanding the tax proposal impact table

Table 4.3 expands the table showing the effect of tax proposals to provide revenue estimates over the medium-term expenditure framework (MTEF) period, rather than only for the year ahead. The revised table captures the impact of proposed tax measures for each year and gives a better indication of their temporary or permanent nature. The table shows:

- **Revenue before 2024 tax proposals,** indicating the expected revenue before new tax proposals are taken into account, including proposals that were announced in prior periods but have revenue effects that flow through to the current MTEF period. The numbers assume full inflation-related adjustments of rates and brackets for each year.
- **Tax proposals** announced in the current Budget and their revenue effects over the MTEF period. For example, a policy decision not to increase tax rates or brackets for inflation in a particular year will have permanent revenue effects. Even though the revenue outlook for the following years assumes full adjustment for inflation, those future adjustments are based on a lower amount than without the policy proposal.
- **Revenue after 2024 tax proposals,** which is the sum of the previous two categories and corresponds to Table 4.2 as the expected revenue that flows into the fiscal framework. From a technical perspective, this revenue indicates the buoyancy of the tax system, as it includes changes in both the economic environment and tax policy.

Personal income tax thresholds

The personal income tax tables are reviewed annually to limit the effects of inflation on taxpayers.

Table 4.4 Personal income tax rates and bracket adjustments

2023/24		2024/25	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R237 100	18% of each R1	R0 - R237 100	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R673 001 - R857 900	R179 147 + 39% of the amount above R673 000	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		**Rebates**	
Primary	R17 235	Primary	R17 235
Secondary	R9 444	Secondary	R9 444
Tertiary	R3 145	Tertiary	R3 145
Tax threshold		**Tax threshold**	
Below age 65	R95 750	Below age 65	R95 750
Age 65 and over	R148 217	Age 65 and over	R148 217
Age 75 and over	R165 689	Age 75 and over	R165 689

Source: National Treasury

Table 4.5 Estimates of individuals and taxable income, 2024/25

Taxable bracket	Registered individuals		Taxable income		Income tax before any relief		Tax relief from proposals		Final income tax payable	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R96[1]	6 832 031	–	286.9	–	–		–		–	
R96 - R150	1 596 335	21.5	193.3	5.9	16.3	2.2	–	0%	16.3	2.2
R150 - R250	1 514 988	20.4	299.5	9.2	21.9	3.0	–	0%	21.9	3.0
R250 - R350	1 132 341	15.3	336.5	10.3	42.9	5.8	–	0%	42.9	5.8
R350 - R500	1 315 092	17.7	548.9	16.9	92.5	12.5	–	0%	92.5	12.5
R500 - R750	988 658	13.3	599.6	18.4	132.2	17.9	–	0%	132.2	17.9
R750 - R1 000	371 316	5.0	322.3	9.9	87.6	11.9	–	0%	87.6	11.9
R1 000 - R1 500	292 810	4.0	351.4	10.8	109.1	14.8	–	0%	109.1	14.8
R1 500 +	197 866	2.7	605.1	18.6	236.2	32.0	–	0%	236.2	32.0
Total	**7 409 406**	**100.0**	**3 256.7**	**100.0**	**738.7**	**100.0**	**–**	**0%**	**738.7**	**100.0**
Grand total	**14 241 437**		**3 543.6**		**738.7**		**–**		**738.7**	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

This year no adjustment will be made, raising additional revenue of R16.3 billion. As a result, the annual tax-free threshold for a person under the age of 65 will remain at R95 750 from 1 March 2024. In addition, medical tax credits will remain at R364 per month for the first two members and R246 per month for additional members.

Policy update: Two-pot retirement reforms

The two-pot retirement reform allows pre-retirement access to a portion of one's retirement assets. This can assist fund members in times of need while encouraging higher savings rates and ensuring preservation of the remainder of savings to retirement. It will harmonise permissible pre-retirement withdrawals across funds.

From 1 September 2024, contributions to retirement funds will be split, with one-third going into a "savings component" and two-thirds going into a "retirement component". Contributions remain tax deductible and tax free while growing in the fund. Retirement fund members will be able to withdraw amounts from the savings component before retirement, while the retirement component will remain protected.

Savings accumulated up to the date of implementation will not be affected, except for the initial seed capital amount. This amount will be the lower of 10 per cent of the fund value on 31 August 2024 or R30 000, and will be transferred from accumulated retirement savings to the savings component to assist fund members who may prefer an immediate withdrawal due to a financial emergency. This seeding will be a once-off event. If not used, it will still be available in the future.

Pre-retirement withdrawals from the savings component will be taxed at marginal rates, like all other income. However, when taxable income is lower, taxpayers will be taxed at lower rates. Only one withdrawal may take place in a tax year, and the minimum withdrawal amount is R2 000.

The optimal option is still to preserve retirement savings as long as possible, as the amounts grow at compound rates and can attract lower tax rates. Amounts left in the savings component on retirement can be withdrawn and will be taxed according to the retirement lump sum table, which includes a tax-free lump sum of R550 000.

The reforms will be implemented through amendments contained in the Revenue Laws Amendment Bill and the Pension Fund Amendment Bill, both currently before Parliament. This will enable changes to fund rules of retirement funds.

An estimated R5 billion is likely to be raised in 2024/25 due to tax collected as fund members access once-off withdrawals due to the two-pot retirement reform. The seed capital transfer is a once-off event, so this revenue will not flow into the following fiscal years.

Incentivising local electric vehicle production

To encourage the production of electric vehicles in South Africa, it is proposed that an investment allowance be made available for new investments from 1 March 2026. Producers will be able to claim 150 per cent of qualifying investment spending on production capacity for electric and hydrogen-powered vehicles in the first year of investment. The tax expenditure is estimated to amount to R500 million for 2026/27.

Learnership tax incentive extension

The section 12H learnership tax incentive is aimed at supporting workplace education, skills development and employment. The sunset date for this incentive will be extended by three years to 31 March 2027 to allow sufficient time for the incentive to be evaluated before a decision is made on its future.

Implementing the global minimum corporate tax

Implementation of the global minimum tax is gathering pace. It aims to limit the race to the bottom of effective corporate tax rates for large multinationals, with countries competing to attract income by offering low tax rates and tax incentives. Implementing the minimum tax in South Africa will bolster the corporate tax base.

South Africa helped develop tax rules to address base erosion and tax challenges arising from the digitalisation of the economy as a member of the Steering Group of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. These rules are designed to limit the channels that multinationals use to shift profits from high- to low-tax countries.

The 2023 *Budget Review* outlined the two pillars of this framework, which were endorsed by more than 135 countries in 2021. The first focuses on the digital economy and the coherent tax treatment of multinationals. It will be implemented through a multilateral convention to ensure that the biggest and most profitable multinationals reallocate part of their profit to all countries where they sell their products and provide their services.

The second pillar introduces the global minimum tax. It ensures that any multinational with annual revenue exceeding €750 million will be subject to an effective tax rate of at least 15 per cent, regardless of where its profits are located. Government proposes to introduce two measures to effect this change – an income inclusion rule and a domestic minimum top-up tax – for qualifying multinationals from 1 January 2024.

The income inclusion rule will enable South Africa to apply a top-up tax on profits reported by qualifying South African multinationals operating in other countries with effective tax rates below 15 per cent. The domestic minimum top-up tax will enable SARS to collect a top-up tax for qualifying multinationals paying an effective tax rate of less than 15 per cent in South Africa.

The Explanatory Memorandum and Draft Global Minimum Tax Bill will contain more details on these proposals as well as a request for public input.

Excise duties on alcoholic beverages and tobacco-related products

The guideline excise tax burdens for wine, beer and spirits are 11 per cent, 23 per cent and 36 per cent respectively of the weighted average retail price. Excise duties have increased more than inflation in recent years, resulting in a higher tax incidence. Government proposes to increase excise duties on alcoholic beverages by between 6.7 and 7.2 per cent for 2024/25.

The guideline excise tax burden as a percentage of the retail selling price of the most popular brand within each tobacco product category is currently 40 per cent. Government proposes to increase tobacco excise duties by 4.7 per cent for cigarettes and cigarette tobacco and by 8.2 per cent for pipe tobacco and cigars for 2024/25.

Government implemented an excise duty on electronic nicotine and non-nicotine delivery systems, colloquially referred to as vaping, with effect from 1 June 2023 at a flat excise duty rate of R2.90 per millilitre on both nicotine and non-nicotine solutions. Government proposes to increase these excise duties in line with expected inflation to R3.04 per millilitre for 2024/25.

Table 4.6 Changes in specific excise duties, 2024/25

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	6.67	2.00
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.67
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.67
Unfortified wine	R5.20 / litre	R5.57 / litre	7.17	2.50
Fortified wine	R8.77 / litre	R9.40 / litre	7.17	2.50
Sparkling wine	R16.64 / litre	R17.83 / litre	7.17	2.50
Ciders and alcoholic fruit beverages	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	R135.89 / litre of absolute alcohol (231,02c / average 340ml can)	6.67	2.00
Spirits	R257.23 / litre of absolute alcohol (R82.96 / 750ml bottle)	R274.39 / litre of absolute alcohol (R88.49 / 750ml bottle)	6.67	2.00
Cigarettes	R20.80 / 20 cigarettes	R21.77 / 20 cigarettes	4.67	–
HTPs sticks	R15.60 / 20 sticks	R16.33 / 20 sticks	4.67	–
Cigarette tobacco	R23.38 / 50g	R24.47 / 50g	4.67	–
Pipe tobacco	R6.96 / 25g	R7.53 / 25g	8.17	3.50
Cigars	R116.40 / 23g	R125.91 / 23g	8.17	3.50
ENDS/ENNDS	R2.90 / ml	R3.04 / ml	4.67	–

Source: National Treasury

Fuel taxes and levies

The general fuel levy remained unchanged in the 2022 and 2023 Budgets to mitigate the effects of higher inflation arising from fuel price increases. Fuel prices have remained high, with diesel retail prices reaching R27/litre in October 2023. No increases to the general fuel levy are proposed for 2024/25, resulting in tax relief of around R4 billion. The Road Accident Fund levy and the customs and excise levy will also remain unchanged.

Carbon tax

The carbon tax increased from R159 to R190 per tonne of CO_2 equivalent from 1 January 2024. The carbon fuel levy will increase to 11c/litre for petrol and 14c/litre for diesel effective from 3 April 2024, as required under the Carbon Tax Act (2019). Effective

1 January 2024, the carbon tax cost recovery quantum for the liquid fuels sector increased from 0.66c/litre to 0.69c/litre.

In the 2022 Budget government proposed a gradual reduction of the carbon tax's basic tax-free allowance from 1 January 2026 to 31 December 2030. To provide policy certainty, a discussion paper outlining proposals for the second phase of the carbon tax will be published for public comment later in the year.

Table 4.7 Total combined fuel taxes on petrol and diesel

	2022/23		2023/24		2024/25	
Rands/litre	93 octane petrol	Diesel	93 octane petrol	Diesel	93 octane petrol	Diesel
General fuel levy	3.85	3.70	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.18	2.18	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.09	0.10	0.10	0.11	0.11	0.14
Total	**6.16**	**6.02**	**6.17**	**6.03**	**6.18**	**6.06**
Pump price[2]	22.85	23.14	23.01	21.46	22.92	21.36
Taxes as percentage of pump price	*27.0%*	*26.0%*	*26.8%*	*28.1%*	*27.0%*	*28.4%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2022/23 and 2023/24 years. The 2024/25 figure is the Gauteng pump price in February 2024. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Aligning the carbon tax and carbon budget

The Climate Change Bill remains under consideration in Parliament. The 2022 Budget announced a higher carbon tax rate of R640 per tonne of CO_2 equivalent on all greenhouse gas emissions exceeding the carbon budget. The amendments were to be legislated once the Climate Change Bill was enacted. It is now proposed that the higher tax rate on emissions exceeding carbon budgets come into effect after the bill is enacted and the Department of Forestry, Fisheries and the Environment gazettes the relevant regulations. Implementation is expected from 1 January of the calendar year after the legislation is finalised.

The carbon budget allowance of 5 per cent would fall away once the mandatory carbon budgeting system comes into effect. Government proposes that once that allowance falls away, there is an equivalent increase of the carbon offset allowance by 5 per cent to encourage investment in green energy projects.

Embedded generation initiatives

Government proposes to increase the threshold for eligible renewable energy projects from 15 megawatts to 30 megawatts installed capacity for purposes of the carbon offset allowance. The amendments are effective from 1 January 2024.

The Department of Mineral Resources and Energy aims to finalise the framework for the approval of domestic carbon offset standards this year. This will reduce the cost burden on carbon offset project developers for the registration and approval of offset projects.

Plastic bag levy and incandescent globe taxes

Government proposes to increase the plastic bag levy from 28c/bag to 32c/bag from 1 April 2024. To encourage the uptake of more efficient lighting such as light-emitting diode bulbs and reduce electricity demand, it proposes to raise the incandescent light bulb levy from R15 to R20 per light bulb from 1 April 2024. This complements the phase-out of inefficient light bulbs and promotes compliance with the new energy efficiency standards published in May 2023 by the Department of Trade, Industry and Competition.

Motor vehicle emissions tax

Government proposes to increase the motor vehicle emissions tax rate for passenger vehicles from R132 to R146 per gram of CO_2 emissions per kilometre and the tax rate for double cabs from R176 to R195 per gram of CO_2 emissions per kilometre from 1 April 2024.

Other matters under consideration

Tax treatment of certain infrastructure projects. To encourage infrastructure investment, government will investigate the feasibility of a flow-through tax treatment, similar to what is afforded to trusts and other investment vehicles, for certain clearly defined infrastructure projects under specified circumstances.

12B renewable energy allowance. Currently, embedded solar photovoltaic energy production assets with generation capacity not exceeding 1 megawatt are written off in one year. This was linked to the private electricity generation threshold. However, the private threshold has since been lifted due to the electricity crisis. As a result, government will reconsider the generation threshold and leasing restrictions of section 12B. Any proposals will be designed to take effect from 1 March 2025.

Interest limitation rules. Current law limits interest deductions when there is a relationship between a debtor and a creditor, and the corresponding interest income is not taxed fully. An unintended consequence of this rule may unfairly prejudice tax-exempt investors, such as pension funds, when they lend to a related party. Government will consider this matter further, with the possibility of including amendments in the 2024 Taxation Laws Amendment Bill.

CONCLUSION

A combination of prudent tax increases, long-term base-broadening initiatives, improved tax compliance and strengthened revenue administration positions South Africa well to face near-term challenges. The stable, resilient and progressive tax system will enable sustainable increases in tax revenue as economic growth improves.