B

2025 BUDGET REVIEW

TAX EXPENDITURE STATEMENT

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

The primary aim of the tax system is to raise sufficient revenue for government spending. It can also promote socioeconomic objectives through targeted tax exemptions, deductions or credits. Tax expenditures are estimates of the total revenue forgone due to this preferential tax treatment. This annexure presents government's latest estimates of the fiscal cost of tax expenditures as well as the methodology used to produce these estimates.

Tax expenditure documents promote transparency and accountability. They help government and the public assess the costs, benefits and overall effectiveness of this expenditure. In 2022/23 – the latest year for which data is available – tax expenditures were estimated at R286.6 billion or 4.2 per cent of GDP.

TAX EXPENDITURE ESTIMATES

The estimates presented in tables B.1 and B.2 are calculated using the "revenue forgone" method. This entails comparing actual revenue collections with the revenue that would have been collected without the incentive in place.

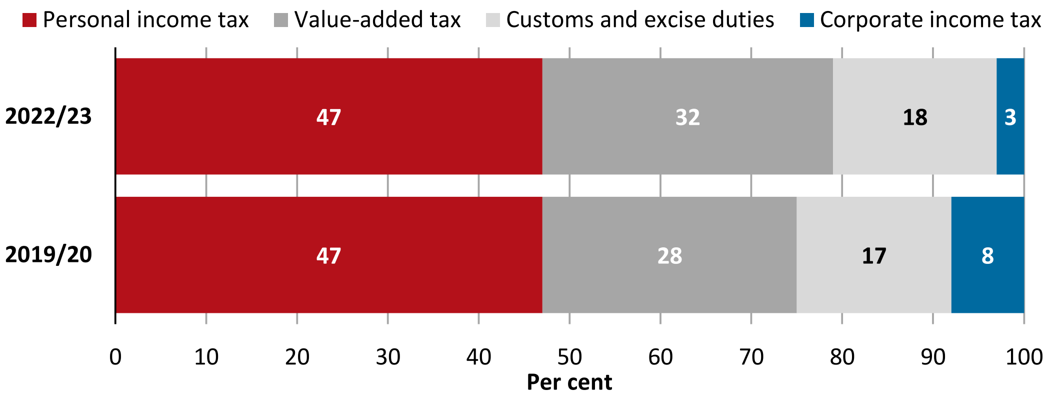
The revenue forgone approach assumes that taxpayers do not change their behaviour in response to a tax expenditure being withdrawn. However, behaviour is likely to change if an incentive is withdrawn, so the additional revenue collected may be less than estimated.

Most of the personal income tax and corporate income tax estimates are calculated using administrative data from the South African Revenue Service (SARS), which allows tax expenditure estimates to be accounted for on an accrual basis.

Trends in tax expenditure: 2019/20 – 2022/23

This section uses historical data to analyse trends in tax expenditure at an aggregate level between 2019/20 and 2022/23. The numbers presented for the latest fiscal year reported in each tax expenditure statement are generally lower than previous fiscal years because the number of taxpayers that SARS has assessed is not close to 100 per cent. Tax expenditures remained relatively constant as a share of nominal GDP over the period, decreasing from 4.7 per cent in 2019/20 to 4.2 per cent in 2022/23. The 2022/23 share will be more accurate in the 2026 *Budget Review* once levels of assessment are higher.

Figure B.1 Share of total tax expenditure per tax type



Source: National Treasury

Sectoral trends in tax expenditure: 2019/20 – 2022/23

The SARS tax administrative data is aligned with the Standard Industrial Classification, rather than SARS sector codes, for the sectoral analysis.

Research and development (R&D) tax incentive (section 11D of the Income Tax Act, 1962)

The R&D tax incentive aims to encourage more private-sector companies to invest in R&D by providing a 150 per cent deduction for expenditure on eligible scientific or technological R&D carried out in South Africa.

Table B.1 shows the five sectors that have benefited the most from this tax incentive over the reporting period. More than 65 per cent of the tax expenditure has supported the financial intermediation, insurance, real estate and business services sector and the manufacturing sector. The agricultural sector has also benefited, highlighting that this incentive encourages R&D in sectors that are important for job creation.

Participation exemption in terms of foreign dividends and share sales (section 10B(2) of the Income Tax Act)

To qualify for the participation exemption, a resident company (or group of companies) must hold 10 per cent or more of the total equity shares and voting rights of a company declaring a foreign dividend. The exemption aims to encourage resident companies to repatriate dividends and prevent economic double taxation (if dividend withholding tax is due in the foreign country, for example). Qualifying companies are also exempt from capital gains tax on the sale of shares.

Table B.1 shows the five sectors that benefited the most between 2019/20 and 2022/23. The reported numbers relate solely to the exempt foreign dividend element, as there is insufficient information to publish the tax expenditure associated with the capital gains tax element.

The financial intermediation, insurance, real estate and business services sector benefits the most – both in respect of the number of taxpayers and the monetary value of the exemption. Between 2019/20 and 2022/23, an average of 1 871 taxpayers benefited from the participation exemption (limited to dividends).

Table B.1 Selected corporate tax expenditure estimates by sector

R million	2019/20	2020/21	2021/22	2022/23
Research and development	**234**	**294**	**359**	**40**
Financial intermediation, insurance, real estate and business services	59	119	140	17
Manufacturing	95	102	120	13
Agriculture, hunting, forestry and fishing	21	26	22	3
Community, social and personal services	19	15	16	2
Mining and quarrying	19	9	29	0
Other	20	23	32	4
Participation exemption	**12 640**	**10 864**	**12 187**	**925**
Financial intermediation, insurance, real estate and business services	8 245	5 360	5 668	890
Mining and quarrying	1 765	2 472	2 259	8
Transport, storage and communication	1 554	1 604	2 062	8
Community, social and personal services	375	420	297	4
Manufacturing	328	345	903	8
Other	373	663	998	8

Source: National Treasury

Table B.2 Tax expenditure estimates

R million	2019/20	2020/21	2021/22	2022/23
Personal income tax				
Retirement fund contributions[1]	79 603	77 486	80 751	82 694
Pension contributions – employees	*20 478*	*22 788*	*21 274*	*19 746*
Pension contributions – employers	*29 597*	*27 010*	*29 308*	*31 133*
Provident contributions – employees	*5 179*	*5 102*	*5 251*	*6 009*
Provident contributions – employers	*12 401*	*11 452*	*12 539*	*13 030*
Retirement annuity	*11 948*	*11 134*	*12 379*	*12 776*
Medical	35 571	36 070	37 169	39 391
Medical tax credits on contributions	*27 207*	*27 833*	*28 922*	*30 360*
Medical tax credits on out-of-pocket expenditure	*8 364*	*8 237*	*8 247*	*9 031*
Interest exemptions	3 933	3 263	3 285	4 302
Secondary rebate (65 years and older)	3 902	4 758	4 923	4 671
Tertiary rebate (75 years and older)	319	415	423	325
Donations	485	477	481	511
Capital gains tax (annual exclusion)	625	525	682	539
Venture capital companies	854	1 001	1 328	–
Foreign remuneration exemption	531	1 863	2 276	2 747
Total personal income tax	**125 823**	**125 858**	**131 318**	**135 179**
Corporate income tax				
Small business corporation tax savings	3 415	3 271	3 627	3 441
Reduced headline rate	*3 341*	*3 216*	*3 566*	*3 382*
Section 12E depreciation allowance	*74*	*56*	*61*	*58*
Research and development	234	294	359	40
Learnership allowances	498	404	384	159
Strategic industrial projects (12I)	16	2	0	–
Film incentive[2]	19	1	16	23
Urban development zones	267	159	194	69
Employment tax incentive	4 754	7 165	6 167	4 791
Energy-efficiency savings	181	121	216	3
Participation exemption[3]	12 640	10 864	12 187	925
Total corporate income tax	**22 024**	**22 283**	**23 150**	**9 450**

Table B.2 Tax expenditure estimates *(continued)*

R million	2019/20	2020/21	2021/22	2022/23
Value-added tax				
Zero-rated supplies	71 752	61 584	74 444	88 847
22 basic items [4]	*31 834*	*27 960*	*31 494*	*34 439*
Petrol [5]	*20 003*	*14 730*	*20 705*	*24 916*
Diesel [5]	*8 212*	*6 592*	*9 321*	*13 006*
Paraffin [5]	*838*	*740*	*1 741*	*2 992*
Municipal property rates	*10 528*	*11 235*	*10 766*	*12 837*
Reduced inclusion rate for commercial accommodation	*336*	*328*	*416*	*657*
Exempt supplies (public transport and education)	1 687	1 525	1 717	1 836
Total value-added tax	**73 439**	**63 109**	**76 161**	**90 683**
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs)[6]	34 107	26 189	34 165	42 738
Textile and clothing (duty credits – DCCs)[6]	725	709	869	917
Furniture and fixtures	168	138	144	114
Other customs[7]	625	1 409	1 147	1 004
Diesel refund[8]	8 767	7 090	7 347	6 508
Total customs and excise	**44 393**	**35 534**	**43 672**	**51 281**
Total tax expenditure	**265 679**	**246 783**	**274 301**	**286 594**
Tax expenditure as % of total gross tax revenue	**19.6%**	**19.7%**	**17.5%**	**17.0%**
Total gross tax revenue	**1 355 766**	**1 249 711**	**1 563 754**	**1 686 697**
Tax expenditure as % of GDP	**4.7%**	**4.4%**	**4.3%**	**4.2%**

1. Retirement benefits are taxable once they are paid out, therefore a portion of the revenue is deferred rather than forgone, unlike most other tax expenditures. Some of the revenue forgone is also recouped through taxes on lump sum withdrawals before or on retirement
2. Tax expenditure for all years is attributable to allowances under section 24F and exemptions under section 12O
3. Tax expenditure only attributable to foreign dividends. Capital gains tax on shares sales not included
4. VAT relief in respect of basic food items based on 2010/11 Income and Expenditure Survey data, and two food items and sanitary towels (pads) added from 1 April 2019
5. Based on fuel volumes and average retail selling prices
6. Motor Industry Development Programme (MIDP), replaced in 2013 by the Automative Production Development Programme (APDP); import rebate credit certificate (IRCC); duty credit certificate (DCC)
7. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted
8. Diesel refund previously offset against domestic VAT has been added
Source: National Treasury