

B 2026 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 2023/24 – the latest year for which data is available – tax expenditures were estimated at R285.4 billion or 4 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revenue forgone approach assumes that taxpayers do not change their behaviour in response to a tax expenditure being withdrawn. In reality, behaviour is likely to change if an incentive is withdrawn, so the additional revenue collected may be less than estimated.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 expenditure estimates to be accounted for on an accrual basis.

Changes to estimation methods since the 2025 Budget

Special economic zones – section 12R of the Income Tax Act (1962)

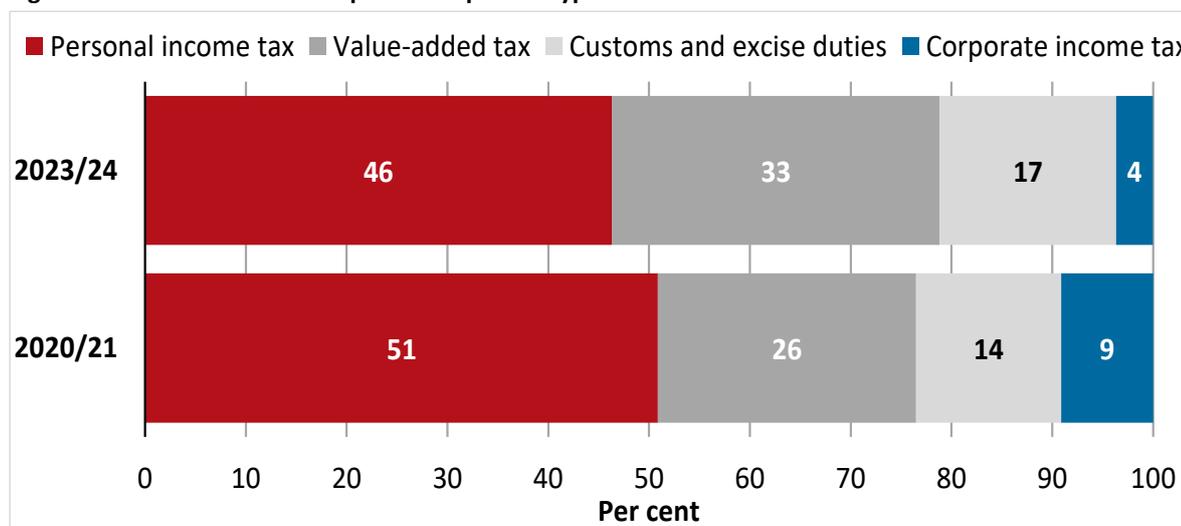
This annexure incorporates the estimated revenue forgone due to the special economic zones (SEZ) tax incentive for the first time. This relates only to the reduced headline corporate income tax rate of 15 per cent in terms of section 12R. The SEZ tax incentive is intended to encourage investment in targeted sectors, particularly the manufacturing and tradeable services sectors, to support export competitiveness, economic growth and job creation. The estimated revenue forgone relates only to the six SEZ that have been approved by the Minister of Finance in terms of section 12R of the Income Tax Act.

An average of 18 companies benefited from the reduced headline corporate income tax rate for the first three fiscal years presented (the latest year has a low level of assessment). Qualifying companies in a loss position were excluded, as they do not impact the estimated revenue forgone.

Trends in tax expenditure: 2020/21 – 2023/24

This section uses historical data to analyse trends in tax expenditure at an aggregate level between 2020/21 and 2023/24. 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 have submitted tax returns to SARS is not close to 100 per cent. Tax expenditures remained relatively constant as a share of nominal GDP over the period, reducing from 4.4 per cent in 2020/21 to 4 per cent in 2023/24. The 2023/24 share will be more accurate in the 2027 *Budget Review* once levels of tax returns filed and tax assessments are higher, and tax expenditure estimates for that fiscal year are revised.

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



Source: National Treasury

Sectoral trends in tax expenditure: 2020/21 – 2023/24

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)

The R&D tax incentive aims to encourage 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 most from this tax incentive over the reporting period. More than 65 per cent of the tax expenditure has supported the manufacturing sector and the financial intermediation, insurance, real estate and business services 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 (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 2020/21 and 2023/24. 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 2020/21 and 2023/24, an average of 1 425 taxpayers benefited from the participation exemption (limited to dividends).

Table B.1 Selected corporate tax expenditure estimates by sector

R million	2020/21	2021/22	2022/23	2023/24
Research and development	295	353	368	141
Financial intermediation, insurance, real estate and business services	123	155	141	22
Manufacturing	99	117	104	32
Agriculture, hunting, forestry and fishing	26	23	19	2
Community, social and personal services	11	12	10	8
Mining and quarrying	9	9	8	1
Other	27	37	85	75
Participation exemption	10 885	12 290	9 574	1 533
Financial intermediation, insurance, real estate and business services	5 374	5 769	3 803	1 129
Mining and quarrying	2 472	2 259	2 800	–
Transport, storage and communication	1 604	2 062	1 755	10
Community, social and personal services	435	303	19	39
Manufacturing	345	903	843	215
Other	655	994	354	139

Source: National Treasury

Table B.2 Tax expenditure estimates

R million	2020/21	2021/22	2022/23	2023/24
Personal income tax				
Retirement fund contributions ¹	77 045	80 457	82 453	80 980
<i>Pension contributions – employees</i>	22 788	21 274	19 746	19 724
<i>Pension contributions – employers</i>	27 010	29 308	31 133	32 245
<i>Provident contributions – employees</i>	5 102	5 251	6 009	6 144
<i>Provident contributions – employers</i>	11 453	12 539	13 030	12 852
<i>Retirement annuity</i>	10 693	12 085	12 534	10 015
Medical	36 071	37 169	39 392	37 542
<i>Medical tax credits on contributions</i>	27 833	28 922	30 360	29 531
<i>Medical tax credits on out-of-pocket expenditure</i>	8 237	8 247	9 031	8 010
Interest exemptions	3 299	3 333	4 467	5 311
Secondary rebate (65 years and older)	4 758	4 923	4 671	5 068
Tertiary rebate (75 years and older)	477	481	511	322
Donations	415	423	325	391
Capital gains tax (annual exclusion)	540	741	609	503
Venture capital companies	1 001	1 328	–	–
Foreign remuneration exemption	1 863	2 276	2 747	2 021
Total personal income tax	125 468	131 134	135 175	132 137
Corporate income tax				
Small business corporation tax savings	3 403	3 880	4 387	3 937
<i>Reduced headline rate</i>	3 285	3 746	3 707	3 463
<i>Section 12E depreciation allowance</i>	118	134	680	474
Research and development	295	353	368	141
Learnership allowances	398	379	398	206
Strategic industrial projects (12I)	2	–	–	–
Film incentive ²	1	16	25	25
Urban development zones	158	198	97	79
Employment tax incentive	7 165	6 617	4 791	4 462
Energy-efficiency savings	130	274	277	18
Participation exemption ³	10 885	12 290	9 574	1 533
Special economic zones	26	37	65	38
Total corporate income tax	22 463	24 044	19 982	10 438

Table B.2 Tax expenditure estimates (continued)

R million	2020/21	2021/22	2022/23	2023/24
Value-added tax				
Zero-rated supplies	61 584	74 444	88 846	90 919
22 basic items ⁴	27 960	31 494	34 439	36 491
Petrol ⁵	14 730	20 705	24 916	24 686
Diesel ⁵	6 592	9 321	13 006	12 229
Paraffin ⁵	740	1 741	2 992	2 941
Municipal property rates	11 235	10 766	12 837	14 011
Reduced inclusion rate for commercial accommodation	328	416	657	560
Exempt supplies (public transport and education)	1 525	1 717	1 836	1 946
Total value-added tax	63 109	76 161	90 682	92 864
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs) ⁶	26 189	34 165	42 738	41 198
Textile and clothing (duty credits – DCCs) ⁶	709	869	917	426
Furniture and fixtures	138	144	114	146
Other customs ⁷	1 409	1 147	1 004	906
Diesel refund ⁸	7 090	7 347	6 508	7 280
Total customs and excise	35 534	43 672	51 281	49 955
Total tax expenditure	246 574	275 011	297 121	285 394
Tax expenditure as % of total gross tax revenue	19.7%	17.6%	17.6%	16.4%
Total gross tax revenue	1 249 711	1 563 754	1 686 697	1 740 870
Tax expenditure as % of GDP	4.4%	4.4%	4.4%	4.0%

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 Automotive 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

ANNEXURE B
TAX EXPENDITURE STATEMENT

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