



AIDC

Alternative Information & Development Centre

*Strengthening Alliances for a Wage-led, Low-Carbon, Sustainable and
Equitable Development Path for Southern Africa*

SUBMISSION TO NATIONAL TREASURY ON SUBSTANTIVE TAX PROPOSALS FOR THE 2027 BUDGET

30 September 2026

Attention: Minister of Finance Enoch Godongwana (National Treasury) and
Commissioner Dr. Ngobani Johnstone Makhubu (SARS)

Email: taxpolicyproposals@treasury.gov.za

For further information, contact:

Name: Chloé van Biljon

Position: Tax Justice Project Officer

Email address: chloe@aidc.org.za

Name: Jaco Oelofsen

Position: Senior Project Officer

Email address: jaco@aidc.org.za

1. Introduction

- 1.1. The Alternative Information & Development Centre (AIDC) is a grassroots-based non-governmental organisation located in Cape Town, South Africa. AIDC was established in 1996 to contribute to supporting social movements and trade unions to advance campaigns for a just transition to a wage-led, low-carbon development path.
- 1.2. The AIDC thanks the National Treasury and SARS for the opportunity to make a submission on tax proposals for the 2027 Budget.
- 1.3. A country's tax system is an essential tool to finance public spending as well as to distribute a country's resources in a fair manner. South Africa is faced with complex crises of unemployment, poverty, inequality, and economic stagnation, all of which call on the state to use every resource at its disposal.
- 1.4. South Africa is losing hundreds of billions of Rand to cross-border corporate tax avoidance and evasion each year, enabled by a combination of our exposure to global financial flows, a network of tax treaties with tax havens, and a lack of coordinated commitment to dealing with the issue of illicit financial flows.
- 1.5. We put forward recommendations for how the tax system can be shifted to reduce unfair benefits, improve its progressivity, and raise more revenue for the state.
- 1.6. The structure of the submission will include comments on the taxation of income for individuals and corporations, taxation of property and wealth, as well as South Africa's international tax framework.

Income Tax - Individuals

2. Medical Aid Tax Credit

- 2.1. In 2024, this cost the fiscus R30 billion.

- 2.2. However, only 16% of South Africans belong to a medical aid, and they are overwhelmingly from higher-income households. 39% of the total benefit flows to those with taxable income above R500,000 per year.¹
- 2.3. South Africa's public health care system is chronically underfunded, resulting in a crisis in public health care.
- 2.4. When the state provides a subsidy to those who choose to opt out of public care and use private services, it is effectively handing a grant to the privileged few, at the expense of the public system used by the vast majority.
- 2.5. We propose winding down the medical aid tax credit. The R30 billion per year this frees up should be directed into improving public healthcare, benefiting all South Africans, not just those who can afford private cover.

3. Retirement Fund Tax Deduction

- 3.1. In the current design higher earners receive larger tax savings for the same retirement contribution than lower-income earners.
- 3.2. Research shows that the current retirement fund tax deduction policy reduces the overall redistributive effect of the income tax system.²
- 3.3. We propose converting the retirement fund deduction to a tax credit.³ This allows the same tax saving for low and high earners for the same contribution, making the benefit fair and equal. Research by Jansen et al. finds this reform would improve tax savings for lower-income earners and raise an additional R23 billion in Personal Income Tax (PIT) revenue annually.⁴

¹ AIDC, "Tax in the World's Most Unequal Country: The South African Fair Tax Monitor on Opportunities for Resource Mobilisation," *Alternative Information & Development Centre*, November 6, 2025, <https://aidc.org.za/tax-in-the-worlds-most-unequal-country-the-south-african-fair-tax-monitor-on-opportunities-for-resource-mobilisation/>.

² Mashekwa Maboshe and Ingrid Woolard, "Revisiting the Impact of Direct Taxes and Transfers on Poverty and Inequality in South Africa," *WIDER Working Paper* (Helsinki: UNU-WIDER, 2018), <http://www.wider.unu.edu/publication/revisiting-impact-direct-taxes-and-transfers-poverty-and-inequality-south-africa>

³ Jansen et al. suggest a conversion rate of 26% (the second PIT bracket rate), meaning every R1 contributed to a retirement fund saves 26 cents in tax.

⁴ Jansen et al., *A Reform Option for Pension Fund Contribution as Tax Expenditure in South Africa: A Microsimulation Model Approach Using Tax Administrative Data*, WIDER Working Paper (2023), <https://www.econstor.eu/handle/10419/283835>.

- 3.4. Research on similar reforms in other countries (the US, UK, Spain, Denmark) suggests that this change is unlikely to significantly reduce retirement savings among high earners, who tend to substitute rather than eliminate saving when tax incentives are reduced.⁵

4. Dividend Tax

- 4.1. Income from dividends is taxed at a flat rate of 20%,
- 4.2. The ownership of dividend-paying assets like stocks and bonds is heavily skewed toward the wealthiest: in 2017, the top 10% of South Africans held over 99.8% of such assets.⁶ A preferential tax rate on dividends is, therefore, overwhelmingly a tax benefit for the already wealthy.
- 4.3. We propose taxing all local and foreign dividend income received by residents as part of their normal income (under PIT for individuals, at 45% for trusts) rather than at a flat preferential rate. This means dividend income is taxed at the recipient's marginal PIT rate. We estimate that this would raise an additional R17.5 billion.⁷
- 4.4. To protect compliance, the current withholding mechanism (where the distributing entity deducts the tax at source) should be retained. The current 20% rate would become a floor, those with higher effective income tax rates would pay the additional amount directly to SARS.
- 4.5. Effect on investment

⁵ Orazio P. Attanasio et al., *Effectiveness of Tax Incentives to Boost (Retirement) Saving: Theoretical Motivation and Empirical Evidence*, IFS Working Paper (London: Institute for Fiscal Studies, 2004), <https://www.econstor.eu/handle/10419/71528>.

Juan Ayuso et al., "The Effects of the Introduction of Tax Incentives on Retirement Saving," *SERIEs* 10, no. 3 (2019): 211–49, <https://doi.org/10.1007/s13209-019-0195-7>.

Raj Chetty et al., "Active vs. Passive Decisions and Crowd-Out in Retirement Savings Accounts: Evidence from Denmark," *The Quarterly Journal of Economics* 129, no. 3 (2014): 1141–1219.

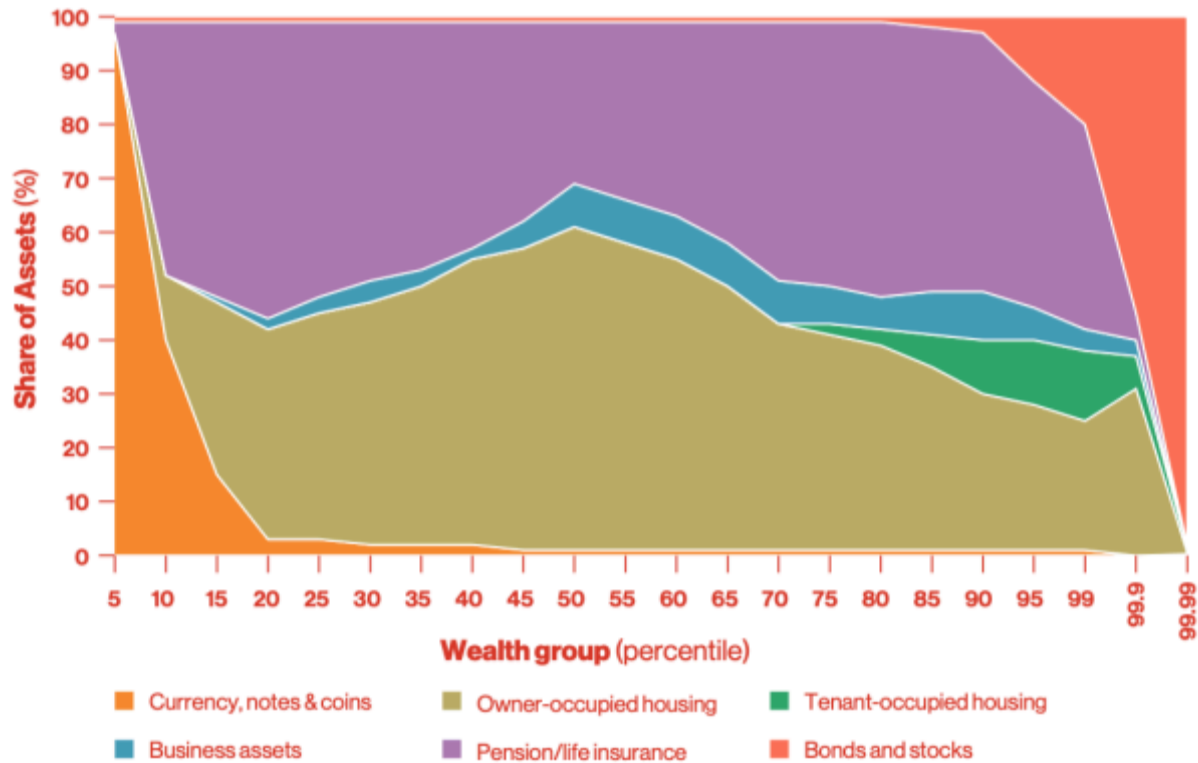
⁶ Aroop Chatterjee et al., *Estimating the Distribution of Household Wealth in South Africa*, 45th ed., vol. 2020, WIDER Working Paper (UNU-WIDER, 2020), <https://doi.org/10.35188/UNU-WIDER/2020/802-3>.

⁷ AIDC, *Taxation of Income from Wealth in South Africa: A Review of Dividends Tax* (Alternative Information & Development Centre, 2026), <https://aidc.org.za/taxation-of-income-from-wealth-in-south-africa-a-review-of-dividends-tax/>.

- 4.5.1. Some argue that lower taxes on dividends encourage companies to pay out profits to shareholders rather than reinvesting them.⁸ Therefore, a higher dividends tax could incentivise more productive investment by companies through retained profits used for expansion in operations and workforce.
- 4.5.2. This positive effect, however, is only possible if a higher dividends tax rate does not simultaneously discourage savings from being invested into equity in the first place. Higher dividend tax rates can also be beneficial in this regard. Policy could be designed with differential dividend rates to specifically encourage investment in productive, labour-intensive industries, while disincentivising investment in sectors like finance, insurance, and real estate, that cause financialisation of the economy and provide little prospects in terms of large-scale job creation for South Africans.

⁸ Adrien Matray and Charles Boissel, "Higher Dividend Taxes, No Problem! Evidence from Taxing Entrepreneurs in France," *Princeton University, Department of Economics, Center for Economic Policy Studies*, Working Paper no. 276 (September 2020), <https://ideas.repec.org/p/pri/cepsud/276.html>.
Zimbali Mncube, "Navigating the Taxation of Wealth: Insights from Theory to International Experience," *Institute for Economic Justice*, June 12, 2025, <https://iej.org.za/navigating-the-taxation-of-wealth-insights-from-theory-to-international-experience/>.

Figure 1: The composition of assets by wealth group in 2017.⁶



5. Personal Income Tax (PIT) Schedule

- 5.1. To further enhance the progressivity of personal income tax, we propose increasing the tax rates in PIT brackets 3 to 6 by 1 percentage point each, and lower the entry threshold for the top tax band from R1.82 million to R1.27 million.⁹
- 5.2. Research shows this can raise up to between R3.9 billion and R9.1 billion in additional revenue depending on (R3.9 billion accounting for behavioural responses) and, if invested in programmes like the child support grant, could meaningfully reduce poverty and inequality.⁹

Taxes on Wealth

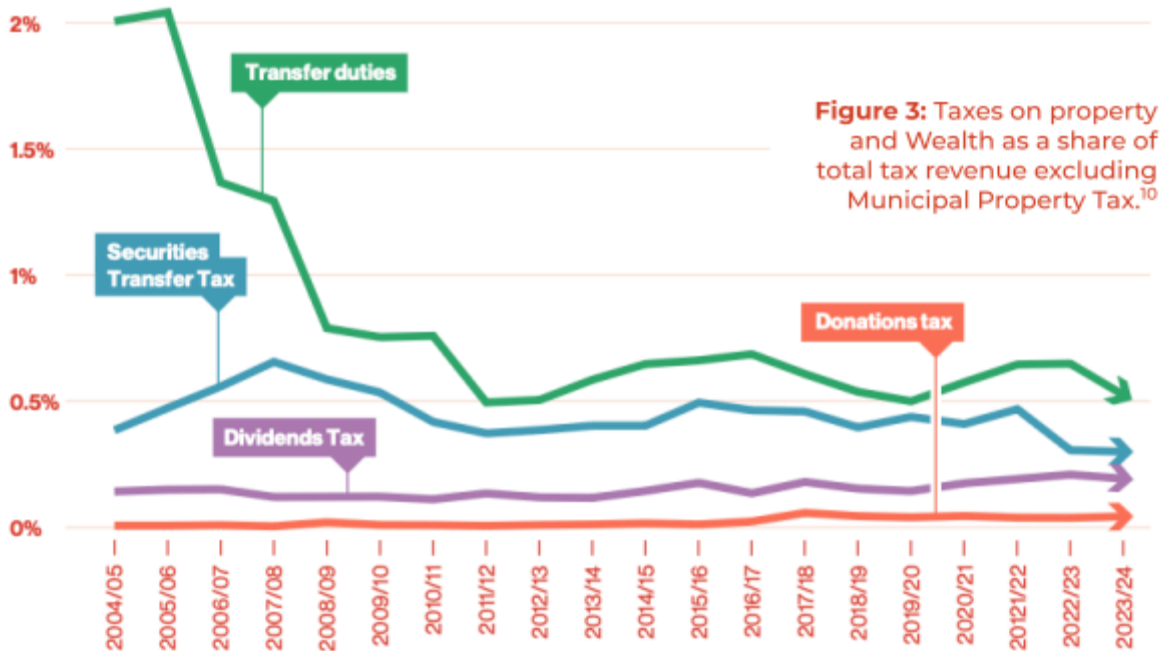
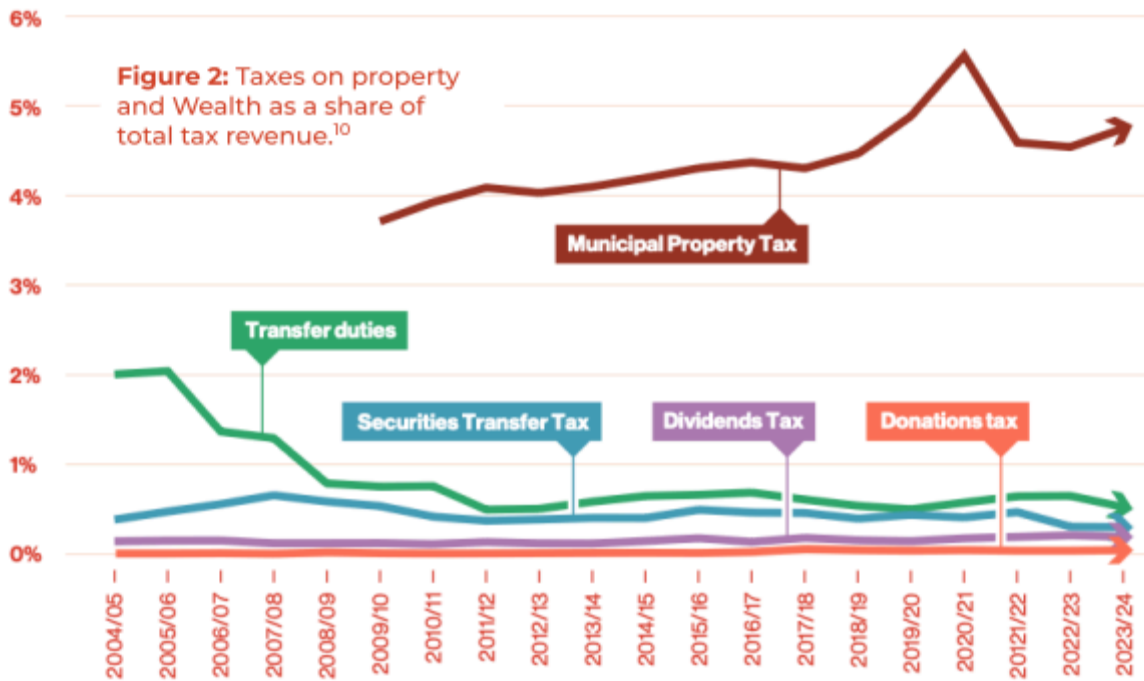
6. A Net Wealth Tax

⁹ Gemma Clare Wright et al., "Exploring Options to Deepen and Broaden the Personal Income Tax Base in South Africa," *WIDER Working Paper 2023/147* (2023), <https://www.econstor.eu/handle/10419/283843>.

- 6.1. Despite the fact that the apartheid regime concentrated vast amounts of wealth in white hands through explicit expropriation and exclusion, and despite three decades of democracy, the top 1% still own 55% of all wealth. The bottom 50% have net negative wealth: they owe more than they own.
- 6.2. The tax system collects barely any revenue from wealth. All wealth-related taxes combined, estate duty, transfer duty, donations tax, the securities transfer tax, and municipal property rates, amount to just 5.8% of South Africa's total tax revenue and 1.5% of GDP.¹⁰ A comprehensive approach is urgently needed.
- 6.3. The most powerful tool available to address wealth inequality is an annual tax on total net wealth.
- 6.4. AIDC supports the proposal developed by Chatterjee et al., which calls for a recurring annual wealth tax on the wealthiest 1% of South Africans.¹¹
- 6.5. Chatterjee et al. estimate that a moderate wealth tax with rates of 3–7%, applied only to the top 1% of wealth holders. Could raise R100–235 billion per year (in 2026 rand terms), accounting for evasion.¹¹

¹⁰ AIDC, "Tax in the World's Most Unequal Country: The South African Fair Tax Monitor on Opportunities for Resource Mobilisation," *Alternative Information & Development Centre*, November 6, 2025, <https://aidc.org.za/tax-in-the-worlds-most-unequal-country-the-south-african-fair-tax-monitor-on-opportunities-for-resource-mobilisation/>.

¹¹ Aroop Chatterjee et al., "A Wealth Tax for South Africa," *PSE Working Papers*, PSE Working Papers, January 2021, halshs-03131182, <https://ideas.repec.org/p/hal/psewpa/halshs-03131182.html>.

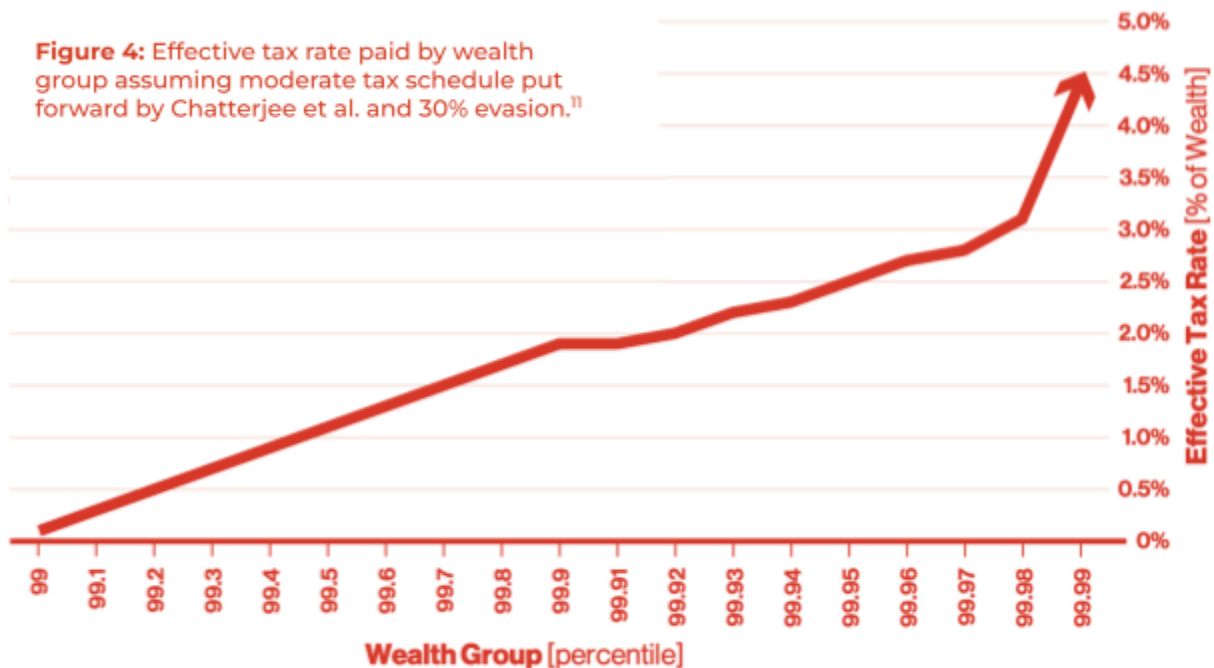


6.6. Design Principles

6.6.1. Target only the top 1% of wealth holders, roughly 350,000 individuals, those with net wealth above R5.6million.¹²

¹² R3.8 million in 2017 terms inflation-adjusted to R5.6 million in 2026 terms.

- 6.6.2. Apply marginal rates with higher levels of wealth facing higher tax rates. Tax wealth only above the threshold.
- 6.6.3. Cover all forms of wealth, stocks, bonds, property, pension funds, trusts. Exempting any category creates distortions and evasion opportunities.
- 6.6.4. Make it a recurring annual tax, this is more effective than a once-off levy for reducing long-term wealth concentration.



6.7. Responding to Common Concerns

6.7.1. High Tax Burden on the Wealthy

6.7.1.1. The 2024 Global Tax Evasion Report by the EU Tax Observatory shows that for the very wealthiest individuals globally, effective income tax rates can approach zero.¹³

6.7.1.2. South Africa's own six dollar-billionaires (Rupert, Oppenheimer, Bekker, Motsepe, le Roux, and Wiese) have a

¹³ Annette Alstadsæter et al., "Global Tax Evasion Report 2024," *EU Tax Observatory*, 2024, <https://www.taxobservatory.eu/publication/global-tax-evasion-report-2024/>.

combined estimated wealth of R553 billion. A 2% annual tax would yield approximately R11 billion, much less than the growth in their wealth in a single year.¹⁴

6.7.2. Illiquid Wealth

6.7.2.1. Research shows that the top 1% in South Africa hold a significant share of their assets in liquid stocks and bonds, not in illiquid fixed assets like factories or farms.¹⁵ The average return on these assets has been 7.5% to 17% per annum over the past two decades, well above any proposed tax rate.¹⁶ The effective tax rate would only exceed 1% for individuals in the top 0.5%, with wealth higher than R10 million.¹⁷ For the rare case of genuine illiquidity, SARS could allow payment by instalments.

6.7.3. Capital Flight

6.7.3.1. Evidence from South Africa's existing top PIT bracket shows that very few high earners actually emigrated when tax rates were increased.¹⁸

6.7.3.2. However, ultimate solution is internationally coordinated wealth taxation, which the G20 is actively discussing. Within South Africa, capital controls that disincentivise, or place restrictions on, capital leaving the country can be considered to mitigate flight risks.

6.7.4. Implementation

¹⁴ Michael Marchant, "Nibble the Rich? A Case for Taxing the Wealthiest South Africans," *Open Secrets*, March 25, 2025, <https://www.opensecrets.org.za/nibble-the-rich-a-case-for-taxing-the-wealthiest-south-africans/>.

¹⁵ Aroop Chatterjee et al., *Estimating the Distribution of Household Wealth in South Africa*, WIDER Working Paper (Helsinki: UNU-WIDER, 2020), <https://www.econstor.eu/handle/10419/229269>.

¹⁶ Fairbairn Consult, *Investment Horizons: An Analysis of Asset Class Performance and Portfolio Strategies* (2025), https://www.oldmutual.co.za/v3/assets/blt0554f48052bb4620/blt9820fd5aaa0977d7/681c76754576980d22716c1f/Investment_Horizons.pdf.

¹⁷ Chatterjee et al., "A Wealth Tax for South Africa."

¹⁸ BusinessTech, "South Africa's Tax Base Isn't Shrinking: SARS," *Finance*, accessed June 27, 2025, <https://businesstech.co.za/news/finance/667817/south-africas-tax-base-isnt-shrinking-sars/>.

6.7.4.1. Implementation has become considerably more feasible thanks to the digital infrastructure already in place. Stocks are held in a central securities depository; banks already report interest income; financial institutions already provide clients with pension fund valuations. A wealth tax would build on these existing reporting systems. The administrative cost of implementation would be around 10% of the potential revenue, a highly favourable return on investment.¹⁹

6.7.5. International Evidence

6.7.5.1. Where European wealth taxes failed, the primary causes were weak administration and reliance on uncorroborated self-reported data, not the concept itself. Success stories include Argentina's one-off pandemic wealth tax, and France's historic Solidarity Tax (ISF), which helped fund its social safety net.²⁰ The lesson is not that wealth taxes cannot work, but that they require strong administrative capacity and international cooperation, both achievable goals for South Africa.

¹⁹ Chatterjee et al., "A Wealth Tax for South Africa."

²⁰ Zimbali Mncube, "Navigating the Taxation of Wealth: Insights from Theory to International Experience," *Institute For Economic Justice*, June 12, 2025, <https://iej.org.za/navigating-the-taxation-of-wealth-insights-from-theory-to-international-experience/>

Figure 5: Potential wealth tax revenue relative to other tax revenue in South Africa, 2017.¹⁹

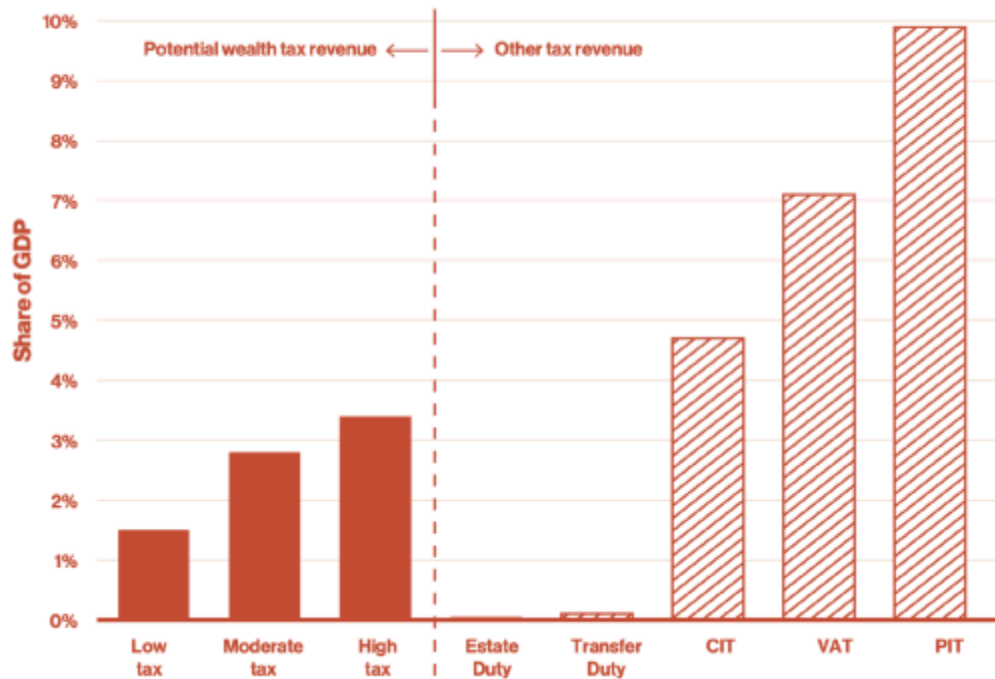
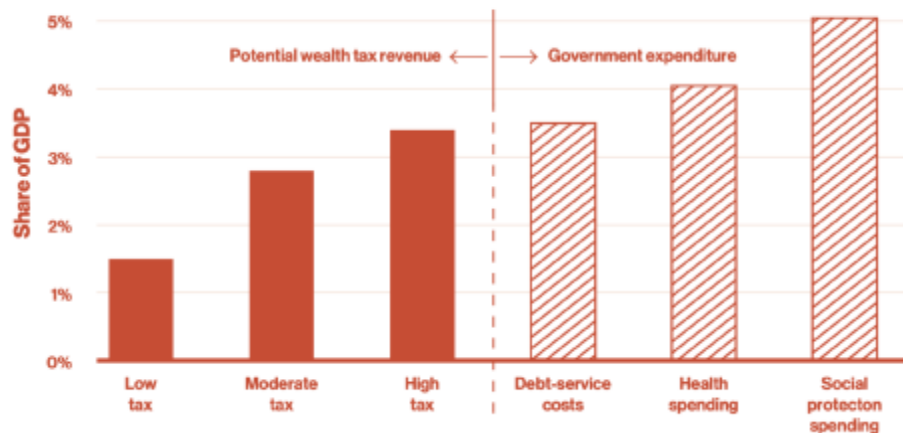


Figure 6: Potential wealth tax revenue relative to government spending 2017.¹⁹



7. Estate Duty

- 7.1. Estate duty is one of the most important tools available for preventing the intergenerational transmission of extreme inequality. It is also one of the most underperforming taxes in South Africa.

- 7.2. In 2023/24 revenue from estate duty was R3.5bn, 0.19% of total tax revenue, or 0.05% of GDP, barely changed since 2004. The OECD average is four times higher at 0.2% of GDP.²¹
- 7.3. A key reason for this underperformance is the widespread use of trusts and other mechanisms to shift wealth out of personal estates before death, so that it escapes estate duty entirely. The Davis Tax Committee, the government's own advisory body, has acknowledged that many wealthy individuals escape estate duty through these means.²²
- 7.4. Recommendations
- 7.4.1. Increase the number of estate duty brackets, applying progressively higher rates to larger inherited estates. The current system, with just two rates (20% up to R30 million, 25% above), is insufficiently progressive.
 - 7.4.2. Deploy and train specialist SARS estate duty assessors to ensure the existing law is enforced.
 - 7.4.3. Seriously explore and research a Capital Transfer Tax (CTT), a more comprehensive form of inheritance tax that also captures wealth transferred through trusts during a person's lifetime.

8. Trusts

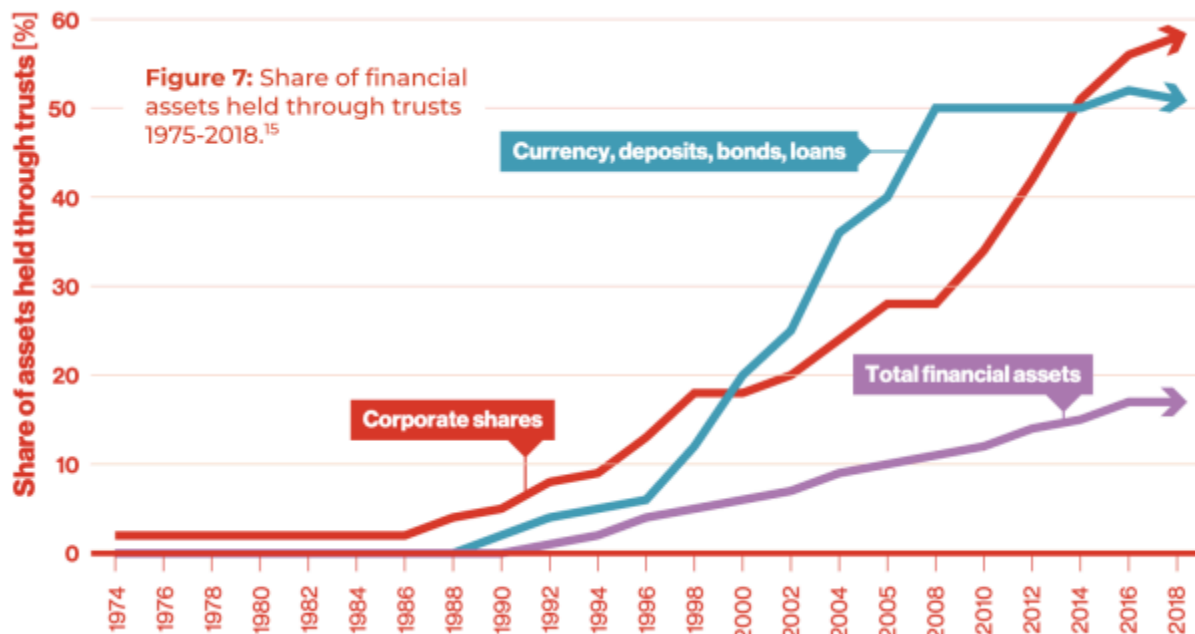
- 8.1. 60–65% Of trusts registered with the Master of the High Court have not registered with SARS for tax purposes, meaning they pay no tax on their income whatsoever.
- 8.2. In 2018, close to 60% of all corporate shares in South Africa were held through trusts.

²¹ AIDC, "Tax in the World's Most Unequal Country: The South African Fair Tax Monitor on Opportunities for Resource Mobilisation," *Alternative Information & Development Centre*, November 6, 2025, <https://aidc.org.za/tax-in-the-worlds-most-unequal-country-the-south-african-fair-tax-monitor-on-opportunities-for-resource-mobilisation/>.

²² Davis Tax Committee, *First Interim Report on Estate Duty* (Pretoria: Davis Tax Committee, 2015), <https://www.taxcom.org.za/docs/20150723%20DTC%20First%20Interim%20Report%20on%20Estate%20Duty%20-%20website.pdf>

- 8.3. By placing assets in a trust during their lifetime, wealthy individuals can effectively remove those assets from their estate, meaning no estate duty is paid when they die, and no transfer duty when assets pass to the next generation.
- 8.4. The Davis Tax Committee found that the attribution principle, which allows trust income to be passed through to beneficiaries at lower tax rates, has become a “concession to high-net-worth individuals” that should be repealed.²³
- 8.5. What We Propose
 - 8.5.1. Repeal the attribution provisions for South African resident trusts, trust income should be taxed at the trust rate, not passed through to lower-bracket beneficiaries.
 - 8.5.2. Critically re-examine the necessity of certain types of trusts, with a view to phasing them out entirely. Special trusts for persons with disabilities and minor dependants should be preserved.
 - 8.5.3. Ensure SARS proactively pursues the registration of all unregistered trusts for tax purposes.

²³ Davis Tax Committee, *First Interim Report on Estate Duty* (Pretoria: Davis Tax Committee, 2015), <https://www.taxcom.org.za/docs/20150723%20DTC%20First%20Interim%20Report%20on%20Estate%20Duty%20-%20website.pdf>



9. Financial Transactions Tax

- 9.1. A Financial Transaction Tax (FTT) is a levy applied to each purchase or sale of financial assets. FTTs serve to decrease excessive financial speculation, volatility in investment flows, and incentivise long-term holding of assets.
- 9.2. South Africa's more limited Securities Transfer Tax (STT) applies a 0.25% levy when shares are bought and sold. This is narrower than most comparable countries; it does not apply to bonds or derivatives, and it raises only R5.5 billion (0.3% of tax revenue). In comparison, Brazil's financial transaction tax raises 2.43% of total tax revenue.
- 9.3. South Africa's stock market is deeply overvalued relative to the size of the economy; the Buffet Indicator stands at 320%, compared to 54% for the EU and 155% for the US. This signals an oversized financial sector that is not adequately contributing to productive investment and employment.
- 9.4. By increasing the costs associated with short-term investment activities, such as high-frequency trading and speculative currency movements, FTTs can discourage excessive short-term financial activity. This, in turn, can make

long-term investments more attractive, thereby encouraging sustainable economic growth.²⁴

9.5. Recommendations

9.5.1. Expand the STT into a comprehensive Financial Transaction Tax covering stocks, bonds, and all derivatives.

9.5.2. Apply an additional tax surcharge on high-frequency trades, short-term speculative transactions that contribute to market volatility without creating real economic value, to discourage harmful speculation and encourage long-term productive investment.

Corporate Income Tax

10. Effective Corporate Income Tax (CIT) Rate

10.1. The gap between South Africa's statutory rate of 27% and its effective corporate income tax rate of 9% is 18 percentage points. The global average gap is 15 percentage points.²⁵

10.2. This suggests that the deductions, allowances and incentives available to South African companies are more generous than the international norm.

10.3. According to a 2024 World Bank study, the average tax expenditure across 79 countries comes to 0.63% of GDP by 2019, while South Africa's came close to 2%.²⁶ However, the estimates in the Treasury's tax expenditure report come in far below the global average, at around 0.38% for 2019/20. This inconsistency can be partly attributed to the fact that South African companies are able to take advantage of various tax measures that do not count as tax incentives, particularly depreciation allowances. A 2020 study estimated that these depreciation allowances cost the fiscus an average of R43bn each year in the

²⁴ Sarah Anderson, "Financial Transactions Taxes and the Global South," *Institute for Policy Studies* (Washington, DC: Institute for Policy Studies, 2011), https://unfccc.int/files/cooperation_support/financial_mechanism/long-term_finance/application/pdf/financial_transactions_taxes_and_the_global_south.pdf.

²⁵ AIDC, "Tax in the World's Most Unequal Country" *Alternative Information & Development Centre*, 2025, Chapter 3.

²⁶ Pierre Bachas et al., *Effective Tax Rates, Firm Size and the Global Minimum Tax*, World Bank Working Paper (Washington, DC: World Bank, 2024).

years 2014 – 2017.²⁷ The financial services sector received the greatest share of the tax benefit over this period.

- 10.4. CIT incentives in South Africa amounted to a minimum of R23.17 billion in foregone revenue in 2021/22.
- 10.5. A 2018 review of CIT incentives by DNA Economics found that the majority of incentives reviewed were not designed on the basis of substantial evidence or research, and that in no cases was there confirmation of economic cost-benefit analysis or regulatory or socio-economic impact assessment.²⁸
- 10.6. While this review is dated, several of the incentives it examined remain in effect, and there is no evidence that the design process for new incentives has improved substantially
- 10.7. The Tax Expenditure Statement includes a review of an incentive ahead of its sunset date. But the analyses that underpin incentive design and review are not published by default, and the public participation process tends to be dominated by lobbyists and debates over excise taxes. This limits democratic oversight over decisions that cost the public billions of Rands every year.
- 10.8. The participation exemption is one example of an incentive which would benefit from cost-benefit analysis. This incentive exempts South African companies from CIT on dividends and from capital gains tax on the sale of shares in foreign companies, where the local company holds at least a 10% stake. It costs over R12.2 billion per year in foregone revenue, and its benefits flow primarily to large corporations in the finance, insurance and real estate (FIRE) industries. Its stated purpose is to encourage the repatriation of dividends and to prevent economic double taxation. However, no publicly available studies examine whether it achieves these goals, and no data on its full fiscal cost (capital gains as well as dividends) has been published. Given that South Africa's economy is already considered over-financialised by a number of economists,²⁹ the

²⁷ Estian Calitz, Eva Muwanga-Zake, Alexius Sithole, and Wynnona Steyn, *Depreciation Allowances in South Africa*, SA-TIED Working Paper 107, (UNU-WIDER, 2020). Available at: <https://sa-tied.wider.unu.edu/sites/default/files/pdf/SA-TIED-WP-107.pdf>

²⁸ DNA Economics, *Report on the Evaluation of Government Business Incentives*, (Pretoria: Department of Planning, Monitoring and Evaluation, 2018).

²⁹ Sam Ashman et al., *The Relevance of Financialization for African Economies: Lessons from South Africa* (London: SOAS Department of Economics, 2022).

disproportionate benefit flowing to FIRE sector firms is a concern that warrants scrutiny.

10.9. Another incentive worth closer scrutiny is the designation of Special Economic Zones (SEZs). SEZs offer companies a reduced CIT rate of 15%, alongside accelerated depreciation and various customs, VAT and excise benefits. A World Bank study found that the 1,525 firms in South African SEZs had a mean effective tax rate of 5.3%, well below the national average.³⁰ According to the 2026 National Budget, SEZs only account for R37mn in tax expenditure in 2021/22, which does not seem to accord with the World Bank estimates. The other fiscal costs of SEZs are also substantial. SEZs are more likely than comparable firms to underreport their CIT liability, leading to undercollection and high enforcement costs.³¹ In addition, transfers from National Treasury to SEZs rose from R600 million in 2013 to R1.4 billion in 2019, and provinces have contributed additional sums of up to R500 million per year. Research by Neva Makgetla concluded that despite these expenditures, both manufacturing value added and national formal employment had stagnated even before the pandemic.³²

10.10. Recommendation: Mandatory Cost-Benefit Analysis for Tax Incentives

10.10.1. There should be legislation requiring a mandatory cost-benefit analysis as a condition of designing, renewing or expanding any corporate tax incentive. This analysis should be conducted on a regular basis (at a minimum, every five years for existing incentives), and the results should be published as part of the annual Tax Expenditure Statement accompanying the National Budget Review.

10.11. Recommendation: A Public Register of Incentive Beneficiaries

³⁰ Pierre Bachas et al., *Effective Tax Rates, Firm Size and the Global Minimum Tax*, World Bank Working Paper (Washington, DC: World Bank, 2024).

³¹ Chloé van Biljon, Amina Ebrahim, Zoleka Jaxa, Tumelo Mohale, and Nadine Riedel. *South Africa Corporate Tax Gap Study: A Bottom-up Approach Based on Audit Assessments*. SA-TIED, 2026.
<https://sa-tied.wider.unu.edu/article/south-africa-corporate-tax-gap-study-a-bottom-up-approach-based-on-audit-assessments>.

³² Neva Makgetla, *Learning from Experience: Special Economic Zones in Southern Africa* (Helsinki: UNU-WIDER, 2021)

- 10.11.1. A publicly searchable database of companies claiming specific corporate tax incentives, and the amounts claimed, should be created.
- 10.11.2. The model for this already exists: Washington State's Department of Revenue requires companies claiming certain tax benefits to file an Annual Tax Performance Report, and publishes the results on a public database.
- 10.11.3. This reform is particularly urgent given the proposals to expand incentives for critical minerals mining.
- 10.11.4. Public funds used to subsidise private enterprises should be visible to the public.

10.12. Addressing Common Concerns

10.12.1. The effect on Investment

- 10.12.1.1. None of these recommendations require an increase in the statutory CIT rate.
- 10.12.1.2. They concern transparency, accountability, and the design of mechanisms that already exist in comparable economies.
- 10.12.1.3. The recommendation for a public register of incentive beneficiaries imposes an administrative cost on the state, but not a higher tax burden for companies.

10.12.2. South Africa already conforms to International standards

- 10.12.2.1. South Africa's incentive expenditure at 0.36% of GDP is well below the 79-country average of 0.63%.
- 10.12.2.2. However, this does not include all tax expenditure, and a moderate total does not mean every individual incentive is justified or well-designed.
- 10.12.2.3. The R12.2 billion participation exemption benefits primarily the Finance, Insurance and Real Estate sector and has no publicly available evaluation of its effectiveness.

10.12.2.4. SEZ incentives cost billions in direct transfers and foregone CIT, and their performance record is poor.

10.12.2.5. There could well be room for introducing targeted, performance-based incentives in key areas - including research and development, where South Africa lags behind comparable economies.

10.12.3. We have existing review processes

10.12.3.1. The existence of a review process is welcome.

10.12.3.2. The problem is that these reviews are not mandatory in law, are not always published, and take place typically one year before a sunset date, giving little time for meaningful public input.

10.12.3.3. The design process for new incentives remains unregulated.

10.12.3.4. The recommendation is not to replace the existing review process but to formalise, mandate and publish it, and to apply equivalent standards to the design of new incentives.

11. CIT Revenue from the the Mining Sector

11.1. South Africa's CIT revenues are highly exposed to global commodity price cycles.

11.2. The mining sector constitutes roughly 6% of GDP, but in years of surging commodity prices its contribution to corporate tax is significant: in 2021, mining accounted for 50% of all CIT collections. CIT as a share of total tax revenue peaked at 26.5% in 2008, another year of high commodity prices, and has since fallen to 17%.

11.3. The South African tax system has no windfall tax mechanism to capture excess profits during commodity price booms, nor any dedicated vehicle to save or invest the proceeds.

11.4. When commodity prices fall, the resulting drop in CIT revenue is often absorbed through spending cuts elsewhere.

11.5. Recommendation: A Windfall Tax on the Mining Sector

11.5.1. National Treasury should develop and implement a windfall tax on the mining sector, designed to capture excess profits during periods of surging commodity prices.

11.5.2. Such a mechanism would improve the equity of the tax system at moments when mining companies are making extraordinary returns, and would provide an additional revenue stream precisely when the broader fiscal position is most likely to be under pressure from other global economic forces.

11.6. Recommendation: A Sovereign Wealth Fund

11.6.1. Treasury should investigate the establishment of a Sovereign Wealth Fund, funded in part through the ringfencing of mineral royalties and revenues from a windfall tax.

11.6.2. Such a fund would serve multiple purposes: it would enable economic diversification, account for the long-term depletion of South Africa's mineral resources, and insulate public finances from the fiscal volatility created by commodity price cycles.

11.7. Addressing Common Concerns: The effect on Investment

11.7.1. The windfall tax and Sovereign Wealth Fund proposals are specifically aimed at extractive industries, where investment decisions are primarily driven by the availability and grade of mineral resources, not by marginal differences in the tax rate.

12. Withholding Taxes

12.1. South Africa levies the withholding taxes at the following rates:

- 15% on royalties, such as those from the use of licensed software or corporate branding

- 20% on dividends from JSE-listed shares
 - 15% on interest from loans
 - 0% on service fees, such as management and technical services
- 12.2. South Africa has no withholding tax on service fees, although international service transactions are a notorious means by which multinational corporations shift profits to tax havens.³³
- 12.3. Recommendation: Reinstate a Withholding Tax on Cross-Border Service Fees
- 12.3.1. Introduce a withholding tax on fees paid for services rendered to non-residents, consistent with the approach taken by many comparable developing economies.
- 12.3.2. Renegotiate tax treaties with reference to the UN Model Double Tax Convention, which is a fairer model for developing countries to use as it grants them more taxing rights than the standard OECD model used in South Africa's tax treaties
- 12.4. Addressing Common Concerns: Investment
- 12.4.1. One concern is that a withholding tax on services would deter investment.
- 12.4.2. However, countries including Zambia, India, China, Mozambique and Kenya all apply such taxes without forgoing productive investment.
- 12.4.3. The argument is also undermined by the current international landscape: there is clear agreement on the need for stronger action against international tax evasion, as expressed through countries' participation in the OECD's Inclusive Framework, the United Nations Framework Convention for International Tax Cooperation, and the Seville Platform for Action.

³³ Alternative Information & Development Centre (AIDC), "Illicit Financial Flows: Four South African Case Studies and What They Tell Us," *AIDC*, October 18, 2024, <https://aidc.org.za/illicit-financial-flows-four-south-african-case-studies-and-what-they-tell-us/>.

12.4.4. A withholding tax on service fees is a practical solution to address the issue until the ongoing United Nations Tax Convention process can deliver a workable proposal.

13. Tax Havens

- 13.1. South Africa currently has no specific measures targeting tax havens. This is a significant omission.
- 13.2. Research finds that large South African firms owned by a parent company registered in a tax haven report up to 80% less profit than comparable firms without haven-based ownership. The most plausible explanation for this dramatic gap is systematic profit shifting.³⁴
- 13.3. Germany adopted a Tax Haven Defence Act in 2021, establishing a domestic list of non-cooperative jurisdictions and applying a range of defensive measures to transactions with those jurisdictions.
- 13.4. Ecuador imposes a higher withholding tax rate of 37% on dividends paid to non-residents in tax havens or to entities that have not disclosed their ownership structure.
- 13.5. Recommendation: Enact a South African Tax Haven Defence Act
 - 13.5.1. Establish a domestic list of tax haven jurisdictions, updated annually through a transparent review process as part of the annual tax law amendment cycle.
 - 13.5.2. Disallow deductions for expenses arising from transactions with haven-based entities, or alternatively impose higher withholding tax rates on dividends, interest, royalties, and service fees paid to haven-based entities.
 - 13.5.3. Exclude haven-based firms from eligibility for the participation exemption (the tax break that exempts South African companies from

³⁴ Ludvig Wier and Hayley Reynolds, *Big and 'Unprofitable': How 10% of Multinational Firms Do 98% of Profit Shifting*, SA-TIED Working Paper 14 (Helsinki: UNU-WIDER, 2018), <https://sa-tied-archive.wider.unu.edu/sites/default/files/pdf/WP-24-December-2018-Wier-Reynolds.pdf>.

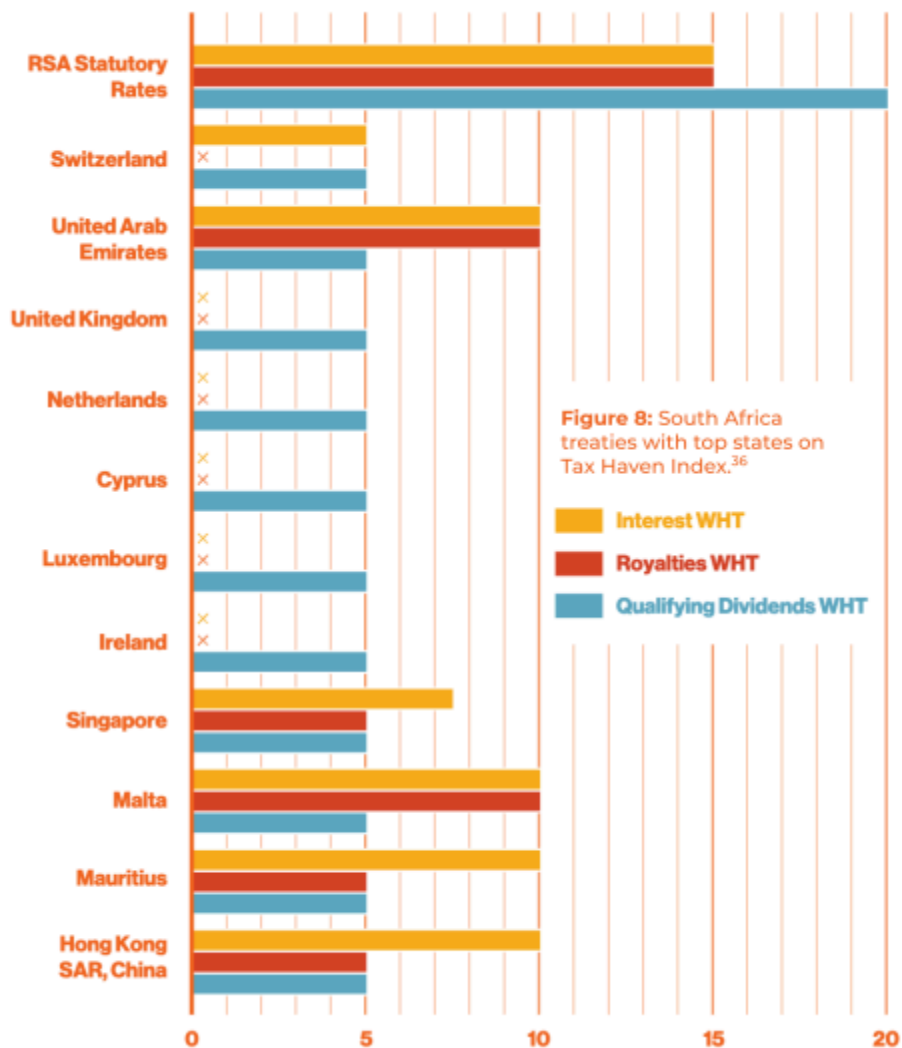
paying income tax on dividends received from foreign subsidiaries they control).

- 13.5.4. Impose enhanced reporting requirements on all transactions with entities in listed jurisdictions.

14. South Africa's Tax Treaty Network

- 14.1. South Africa has 79 bilateral tax treaties, also known as Double Tax Agreements (DTAs).
- 14.2. Bilateral tax treaties have become one of the primary mechanisms multinational corporations use to avoid paying their fair share.
- 14.3. South Africa uses the OECD Model Tax Convention as the basis for most of its treaties. The OECD Model has been found to protect the interests of capital-exporting (wealthier) countries by shifting taxing rights away from the countries where income is actually generated.³⁵

³⁵ Martin Hearson, *Imposing Standards: The North–South Dimensions to Global Tax Politics* (Ithaca, NY: Cornell University Press, 2021), <https://www.cornellpress.cornell.edu/book/9781501755989/imposing-standards/>.



- 14.4. South Africa has the highest number of restrictive tax treaties with OECD countries of any Global South country.³⁶
- 14.5. Scholars and the IMF have noted that the investment-promotion benefits of tax treaties are frequently overstated: most capital-exporting countries already provide unilateral relief for double taxation, meaning the treaties give away taxing rights without offering investors much they did not already have.³⁷

³⁶ Aiwei Feng, Shristi Joshi, and Quinn McGannon, *Analysis of Imbalanced Tax Treaties of Developing Countries* (Geneva: South Centre, 2024), <https://www.southcentre.int/wp-content/uploads/2024/09/Graduate-Institute-South-Centre-Tax-Report-2024-1.pdf>.

³⁷ Sebastien Leduc and Geerten Michiels, "Chapter 8: Are Tax Treaties Worth It for Developing Economies?," in *Corporate Income Taxes under Pressure* (Washington, DC: International Monetary Fund, 2021), accessed August 6, 2025, <https://doi.org/10.5089/9781513511771.071.ch008>.

Investors also do not tend to rank them high in subjective perceptions of investment attractiveness.

- 14.6. A particular concern is the practice of treaty shopping. Research shows that countries with a tax treaty with a tax haven or conduit country experience more than three times as much revenue loss from profit shifting as countries without such a treaty.
- 14.7. South Africa has problematic treaties with major conduit countries, including the Netherlands and the United Kingdom, as well as with major tax havens such as Luxembourg, Ireland and Switzerland.
- 14.8. Using foreign direct investment data and an established methodology, AIDC has estimated that revenue South Africa forfeits between R7-10 billion in revenue each year as a result of reduced treaty withholding tax rates on interest and dividend payments, for the top ten tax haven and conduit jurisdictions alone.³⁸
- 14.9. The Netherlands and the United Kingdom together account for the overwhelming majority of this loss (R5.8bn to R8.5bn, depending on the method). Both are recognised conduit countries and major global enablers of corporate tax avoidance. South Africa's strong historical and economic ties to both countries may justify some degree of treaty accommodation, but cannot justify treaty rates that reduce withholding taxes to zero.
- 14.10. These estimates are almost certainly lower than the real cost. They cover only two types of payment, interest and dividends, and say nothing about royalties, service fees, or the additional revenue loss from profit shifting that these treaties enable. Beyond forgone withholding tax revenue, South Africa also faces the risk of being used as a conduit country itself, enabling profit shifting from other African states.
- 14.11. According to the Tax Justice Network, South Africa is responsible for enabling 1.3% of global tax abuse, equivalent to \$4.62 billion in 2024, even though it loses more than it gains from its role as an investment hub.

³⁸ See *Tax in the World's Most Unequal Country* for a methodological note, available on <https://aidc.org.za/tax-in-the-worlds-most-unequal-country-the-south-african-fair-tax-monitor-on-opportunities-for-resource-mobilisation/>.

- 14.12. Recommendation: Conduct a Full Review of the Double Tax Agreement Network
 - 14.12.1. Audit all bilateral tax treaties for provisions that reduce withholding taxes below statutory rates, prioritising treaties with known tax havens and conduit countries.
 - 14.12.2. Renegotiate the most problematic treaties, starting with those covering the Netherlands, the United Kingdom, and jurisdictions with little real economic relationship with South Africa. At minimum, no treaty should reduce any withholding tax rate to zero.
 - 14.12.3. Use the UN Model Tax Convention as the reference framework in renegotiations, rather than the OECD Model, as it better protects the taxing rights of source countries.
- 15. Illicit Financial Flows
 - 15.1. Beyond the revenue losses created by the legal framework discussed above, South Africa also faces significant losses from illicit financial flows (IFFs).
 - 15.2. Conservative estimates suggest corporate tax revenue losses of over R25 billion per year as a result of profit shifting and related practices, with R130 billion in total profits shifted offshore in 2019 alone.³⁹ However, other estimates place the amount of tax revenue lost each year at over R100 billion.⁴⁰
 - 15.3. These losses are enabled by a combination of factors, including South Africa's open macroeconomic framework, the complexity of the financial sector, and critical weaknesses in state capacity and coordination.
 - 15.4. Underfunding of SARS
 - 15.4.1. SARS is the primary institution responsible for detecting and recovering revenue lost to tax avoidance and evasion. Yet SARS has been chronically underfunded.

³⁹ *Global profit shifting, 1975–2019*, Ludvig Wier and Gabriel Zucman (2022).

⁴⁰ Wu, Y and K. Nicolaou-Manias, *Illicit Financial Flows for Africa: Measuring the Risks Associated with Trade Mis-invoicing and Trade Mispricing*, (2023)

- 15.4.2. There has been a 12.5% real-terms shrinkage in SARS funding over the past decade. SARS' revenue would be approximately R1.9 billion higher in 2025 if its budget had merely kept pace with inflation, without accounting for the additional cost of rebuilding from the state capture years in which its capacity was deliberately dismantled.
- 15.4.3. The results of SARS' recent rebuilding, despite inadequate funding, are visible in major tax claims against Christo Wiese (R3.7 billion), Adidas (R1.9 billion), Coronation Investments (R800 million) and BP (R274 million). These cases confirm both that large-scale corporate tax avoidance is widespread, and that a better-resourced SARS can and does recover significant revenue. They are almost certainly the tip of the iceberg.

15.5. Fragmentation Between Agencies

- 15.5.1. South Africa's response to financial crime suffers from a severe lack of coordination.
- 15.5.2. Combating commercial illicit financial flows requires cooperation between the Financial Intelligence Centre, the Reserve Bank's Prudential Authority, the National Prosecuting Authority, SARS, and SAPF.
- 15.5.3. These agencies have poor information-sharing practices, and the powers required for a successful investigation are divided between them. This fragmentation was explicitly identified as a key deficiency that led to South Africa being graylisted by the Financial Action Task Force in 2023.
- 15.5.4. A further problem is that the coordinated state response to financial crime has been largely focused on criminal IFFs, proceeds from drug trafficking, smuggling, and similar offences, while commercial IFFs (tax avoidance and profit shifting by corporations) have been left primarily to SARS. This means that the strategic and investigative resources of the broader law enforcement community are not systematically deployed against corporate tax avoidance.

15.6. Transparency Gaps

- 15.6.1. Until 2023, beneficial ownership information was collected only within the financial services sector.
- 15.6.2. The General Laws Amendment Act of 2023 introduced broader beneficial ownership requirements, but without providing for a centralised, publicly accessible beneficial ownership registry.
- 15.6.3. Instead, beneficial ownership data will be held separately by different registrars for trusts, companies, and non-profit organisations.
- 15.6.4. This maintains the fragmentation problem and denies civil society, trade unions, investigative journalists, and the public the ability to scrutinise corporate structures. Importantly, a centralised public register also benefits state officials: the National Prosecuting Authority, for example, could access company information directly rather than submitting formal inter-departmental requests.

15.7. Recommendation: Close the Enforcement and Transparency Gap

- 15.7.1. Provide SARS with adequate funding to meet its mandate, including the costs of rebuilding post-state capture. Treasury should commission an independent assessment of the gap between SARS' current budget and a fully capacitated one, and fund accordingly.
- 15.7.2. Expand interagency coordination to cover commercial IFFs and BEPS, not just criminal financial flows. Establish a shared strategic framework with a dedicated unit drawing on the FIC, NPA, Reserve Bank, and SARS.
- 15.7.3. Establish a methodology for systematically measuring and tracking commercial IFFs and profit shifting in line with UN Sustainable Development Goal 16.4.1, to provide a baseline and allow performance to be assessed.
- 15.7.4. Establish a centralised, publicly accessible beneficial ownership registry covering all legal entities. Public access is both a democratic

accountability measure and a practical tool for law enforcement and regulatory agencies.

- 15.7.5. Engage actively in the UN Framework Convention on International Tax Cooperation to push for a reformed transfer pricing system that more effectively protects the taxing rights of source countries.

We request to participate in the workshops with stakeholders.