SIMEKA

member of Sanlam group

2025
Budget Review

Introduction

Tax revenue for 2024/25 is expected to amount to R1.85 trillion, which is R16.7 billion less than projected at the time of the 2024 Budget. In light of new and persistent spending pressures, government has decided to raise the VAT rate by 0.5 percentage points in each of the next two years, which will bring VAT to 16 per cent in 2026/27, and to not adjust the personal income tax brackets and rebates for inflation in 2025/26. A VAT increase affects everyone, and government is mitigating the adverse effects for lower-income households, including through above-inflation increases to social grants, not increasing the general fuel levy, and expanding the list of foods zero rated for VAT. Other tax proposals include no inflation adjustments to medical tax credits, above-inflation increases on alcohol and tobacco excise duties, and diesel refund relief for primary sectors.

Proposals affecting the retirement fund industry

- **Two-pot retirement system**

A member of a retirement fund, including a member who is retrenched, cannot withdraw any portion of their retirement component until retirement. During the public comment process on the two-pot retirement system legislation, government received requests to allow access to the retirement component when a member is retrenched. The restructuring required for this proposed reform is complex and therefore forms part of the second phase of the two-pot retirement system reforms.

Government started work and discussions on measures that may allow access to the retirement component if a member has been retrenched and is in financial distress. It is suggested that strict conditions will apply to this access such as providing proof that the member has no alternative source of income after a period of time, such as payments from the Unemployment Insurance Fund, and limiting access to a percentage of income rather than a cash lump sum. The National Treasury will engage stakeholders, including labour and industry, once the research is concluded.

The budget review further confirmed that to date, the tax on savings withdrawal benefits has surpassed the initial estimate of R5 billion for 2024/25, with tax collections amounting to R11.6 billion as of end-January 2025.

Comment: *While one has sympathy for the financial hardship often caused by retrenchment, it is of paramount importance that the principle of preservation underlying the two-pot retirement system is not undermined. Any possible access to the retirement component should further be based on objective criteria, and as the boards of management of retirement funds already have a considerable workload, in our view no onus should be placed on them to establish whether the member experiences financial hardship.*

- **Clarifying payment of death benefits from the savings component**

With the enactment of the Revenue Laws Second Amendment Act (2024), a lump sum payable as a result of the death of a member is still a retirement fund lump sum benefit. However, the definition of "savings component" only makes provision for the treatment of the remaining balance in the savings component on retirement and not on death. As a result, the wording in the current legislation creates the impression that any value in the savings component is only payable as a savings withdrawal benefit on death and will be taxed according to the marginal tax rates.

It is proposed that an amendment be made that, on the member's death, should the nominees or dependants choose to receive a lump sum benefit, such lump sum benefit will be considered part of the retirement fund lump sum benefit for Income Tax Act purposes.

The 2025 Revenue Laws Amendment Bill, dealing with this proposed clarification and other amendments to the two-pot legislation, has been presented to Parliament today.

- **Unclaimed assets**

In September 2022, the Financial Sector Conduct Authority (FSCA) published a paper on unclaimed assets across the financial sector, titled *A Framework for Unclaimed Financial Assets in South Africa*. Following responses to, and consultation on, the recommendations put forward in the paper, the FSCA published a response document on the paper in March 2024. The National Treasury and the FSCA will work with the financial services industry to develop the recommendations from these papers, including a framework to manage unclaimed assets and the establishment of a central unclaimed assets fund.

Comment: *It is critical that sufficient time is allowed for the tracing of beneficiaries before assets are transferred to a central unclaimed assets fund, where active tracing is unlikely to occur. The central unclaimed assets fund will further have to be subject to rigorous regulation and oversight to ensure the proper functioning thereof and to prevent possible corruption and fraud.*

- **Financial inclusion and the ombud system**

The National Treasury will develop a national strategy on financial inclusion in 2025 based on the policy paper *An Inclusive Financial Sector for All*, which Cabinet approved in 2023. The National Treasury is also reforming the financial sector ombud system to make it simpler, accessible, comprehensive, efficient and effective. As part of these reforms, a National Financial Ombud Scheme was established and began operating on 1 March 2024 after being granted recognition by the Ombud Council. The National Financial Ombud is an umbrella financial services ombud scheme formed by the amalgamation of four ombud schemes: the Banking Ombud; the Credit Ombud; the Long-Term Insurance Ombud; and the Ombudsman for Short-Term Insurance.

Comment: *The Pension Funds Adjudicator will remain separate, but will in due course be renamed the Retirement Funds Ombud.*

- **Conduct of Financial Institutions (COFI) Bill**

National Treasury is finalising the Conduct of Financial Institutions Bill (the Bill) together with comprehensive amendments to the Financial Sector Regulation Act and the Pension Funds Act and repealing various financial sector laws that are conduct focused. The Bill will streamline and harmonise the legal landscape that financial institutions will operate within and provide a single, holistic legal framework for market conduct regulation in South Africa that is consistently applied to all financial institutions.

The final draft of the Bill is awaiting certification from the Office of the Chief State Law Adviser, whereafter it will be submitted to Cabinet for approval to be tabled in Parliament.

The FSCA has started informal engagements on some of the regulatory frameworks it intends to make once the Bill is passed, and these will continue over the next budget period.

Comment: *The Conduct of Financial Institutions Bill, once enacted, will fundamentally change the regulatory landscape, and will have significant implications for the financial services industry.*

The amendments to the Pension Funds Act, initially proposed in the Bill, not relating to the conduct of funds and fund officers, will be contained in an Omnibus Bill, which may only be published in 2026.

- **Cross-border tax treatment of retirement funds**

The current cross-border tax treatment of retirement funds may result in double non-taxation, particularly where South Africa is granted the taxing right by treaty. It is proposed that changes be made to the rules that currently exempt lump sums, pensions and annuities received by South African residents from foreign retirement funds for previous employment outside South Africa, with amendments in the current legislative cycle.

- **Clarifying the inclusion of an amount assigned to a non-member spouse under religious tenets**

In 2024, the Pension Funds Act was amended to recognise court orders pertaining to the division of marital assets in accordance with religious tenets. However, the Income Tax Act requires a consequential amendment to paragraph 2(1)(b)(iA) of the Second Schedule to the Act, which deals with the taxation of pension interest allocations to non-member spouses in terms of a divorce order, to include amounts assigned to a non-member spouse in compliance with the tenets of a religion.

- **Early retirement programme for public servants**

The 2024 Medium Term Budget Policy Statement (MTBPS) announced that government would offer an early retirement incentive. Over the next two years, the 2025 Budget provides R11 billion in funding to incentivise public servants to retire early. Those wishing to pursue this option will have to apply, with approvals given only by the relevant executive authority. Up to 30 000 state employees are expected to opt for early retirement. The programme aims to manage staff headcount in a targeted manner and revitalise the public service.

- **Capital flows management framework**

The 2024 Budget Review indicated that research will be undertaken to investigate the impact of recent reforms to modernise the foreign-exchange system and in turn promote trade and investment.

As part of this research, the International Monetary Fund conducted a technical review of the increase and harmonisation of foreign exposure limits for institutional investors to 45 per cent in 2022. The review stated that the increase could have been implemented in a more transparent and phased manner, but the depth of South African financial markets meant that capital outflows could be absorbed without significant impact on the exchange rate and bond prices. The review recommended that the institutional limit not be reduced from 45 per cent as the reputational, implementation and administrative costs would outweigh any potential benefits.

Other matters of interest

- **Increasing the VAT rate**

The first 0.5 percentage point increase in the VAT rate will take effect on 1 May 2025 and the second 0.5 percentage point increase will take effect on 1 April 2026. In making this decision, government carefully considered the potential contributions of each of the main tax instruments to the fiscus.

- **Collective investment scheme (CIS) taxation**

In a discussion paper on collective investment scheme (CIS) taxation, three main proposals were made: to make CIS fully tax-transparent, to provide a threshold for CIS and to remove hedge funds from the framework. Government acknowledges the administrative concerns raised with respect to the fully tax-transparent proposal and confirms that it does not intend to tax all CIS returns as revenue. Consultations will continue in 2025.

- **Infrastructure funding**

Government intends to publish a consultation paper on unlocking institutional funding for infrastructure. It will propose that certain investment vehicles be enabled to facilitate such investments and would offer a flow-through tax regime. Further consultations will take place during 2025.

Comment: *Clarification on what infrastructure funding entails and making it easier for retirement funds to invest in infrastructure in a sustainable manner would be welcomed.*

- **Financial Action Task Force (FATF) grey list**

Government continues to address the 22 action items in the action plan agreed with the FATF. Once all items have been implemented and the improvements deemed sustainable, the FATF will reconsider the country's grey listing. South Africa provides a progress report every four months. The last progress report was submitted in March 2025.

The February 2025 plenary confirmed that two action items remain. These relate to demonstrating a sustained increase in the investigation and prosecution of complex money laundering and terror financing. South Africa is working to address both outstanding action items by June 2025 to exit grey listing by October 2025.

- **Government Employees Pension Fund**

Membership in the Government Employees Pension Fund (GEPF), a defined benefit pension fund for public-sector employees, grew by 0.8 per cent in 2023/24. At end March 2024, the GEPF recorded its highest membership to date, with 1 777 902 active members and 544 765 pensioners and beneficiaries. The GEPF is solvent, with statutory actuarial valuations confirming that its assets exceed its best estimate of liabilities. Total benefits paid for claims increased from R137.4 billion in 2022/23 to R142.5 billion in 2023/24, primarily due to higher pensionable salaries in 2023/24. Contributions income rose from R83.1 billion in 2022/23 to R92.2 billion in 2023/24, strengthening the GEPF's financial position. At end March 2024, the GEPF reported a net cash flow position of R59.7 billion.

Personal income tax

- **Income tax brackets**

Personal income tax brackets and rebates will not be adjusted for inflation in 2025/26. The personal income tax proposals are effective from 1 March 2025 and expected to raise revenue of R19.5 billion. The personal income tax rates will remain as per the table below:

Taxable Income (R)	Rates of tax
R0 - R237 100	18% of each R1
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
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
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

Taxable Income (R)

Rebates	2025/2026 Rates of tax
Primary	R17 235
Secondary	R9 444
Tertiary	R3 145

Tax threshold	2025/2026 Rates of tax
Below age 65	R95 750
Age 65 and over	R148 217
Age 75 and over	R165 689

Source: National Treasury

Comment: *The fact that the income tax brackets will not be adjusted for inflation increases the inflationary pressure on house-holds. The maximum annual tax-deductible retirement fund contribution has been R350 000 since 2016, despite the National Treasury's commitment to reconsider the limit from time to time. The review of the limit is long overdue, and the continued failure in this regard is regrettable.*

- **Medical tax credits**

No changes to medical tax credits are proposed – these will remain at R364 per month for the first two beneficiaries and at R246 per month for the remaining beneficiaries.

- **Social grants**

The budget for social grants is increased by R8.2 billion over the medium term to account for higher costs of living. In April 2025, the old age grant, war veterans grant, disability grant and care dependency grant will each increase by R130.

The foster care grant will increase by R70 in April 2025 to R1 250. The child support grant and grant-in-aid grant will both rise by R30 in April 2025 to R560.

The COVID-19 social relief of distress grant (SRD) will be extended by another year until 31 March 2026. An amount of R35.2 billion is allocated to extend the payment at the current R370 per month per beneficiary, including administration costs. As announced by the President in the State of the Nation Address, the SRD will be used as a basis for the introduction of a sustainable form of income support for unemployed people. The future form and nature of the SRD will be informed by the outcome of the review of active labour market programmes. This is expected to be completed by September 2025.

The increases are as per the table below:

Average monthly social grant values	2024/2025	2025/2026	Percentage increase
Old age	2 185	2 315	5.9%
War veterans	2 205	2 335	5.9%
Disability	2 185	2 315	5.9%
Foster care	1 180	1 250	5.9%
Care dependency	2 185	2 315	5.9%
Child support	530	560	5.7%
Grant-in-aid	530	560	5.7%

Source: National Treasury

Comment: *The budget review indicates that in the current tax year 4 138 million people receive the state old age grant. The SA census of 2022 indicates that 9.2 per cent of the population are over the age of 60, meaning approximately over 72 per cent of people over the age of 60 are dependent on the state for income in retirement.*

Budget Speech 2025 by the Minister of Finance

2025 Budget Highlights