

The Budget: the momentum is building

Last year's annual Budget speech was mired in controversy as the vote was delayed three times by major disagreements within the GNU over fiscal policy, especially an increase in the rate of VAT. That threw the cat amongst the pigeons, but by the time of the Medium-Term Budget in November, those disagreements had been forgotten. Treasury unveiled a far more proactive Budget with all metrics moving in the right direction. Consequently, there were high expectations ahead of this year's Budget, evidenced by the significant rally in bonds over the past few months. That was always going to create a high hurdle. In the end, the Budget offered relatively few fiscal surprises but was broadly supportive of our view of improving local growth.



Michael Porter

As I alluded to in my introduction, there were high expectations going into the Budget, thanks to the good news delivered in November last year and the surge in commodity prices since. Mostly, that good news was delivered – our country is moving in the right direction. But as the saying goes, “Rome wasn't built in a day”. Neither will Pretoria!

Nonetheless, we are moving in the right direction. Starting with government finances, this Budget built on the good news last year to cement the trends already in place. Gross tax revenue is forecast to be almost R29 billion higher than expected, thanks to higher corporate tax and VAT,

SA BOND YIELDS



The improvement in government finances has spurred a significant rally in bonds. Yields are now at their best levels in ten years. This in turn is reducing pressure on government borrowing and interest repayments, further contributing to the virtuous cycle of improving government finances.

SPEED READ

- Tax revenue is forecast to be R29 billion higher, largely driven by higher commodity prices.
- The extra revenue has given Treasury leeway to reverse the previously announced personal tax increases. Instead, personal income tax brackets have been adjusted for inflation (of 3.4%).
- Treasury has also used this Budget to announce major threshold adjustments for various taxes and allowances – some of which have not changed for years. Examples include an increase in the tax-free savings allowance to R46,000 per year, an increase in the deduction for retirement fund contributions from R350,000 to R430,000, and an increase in the annual donation exemption to R150,000.
- Importantly, debt is expected to peak this year at 78.9% of GDP (higher than previously forecast), but to fall to 76.5% over the next three years. Interest costs will also peak this year. They should fall from an eye-watering 21.3% of tax revenue this year to 20.2% by March 2029.

offset marginally by weaker personal tax collections. Higher mining royalties have contributed to this revenue overrun, but Treasury note that the benefit of higher commodity prices is expected to be less pronounced than in 2021 given that higher prices are limited to a narrower set of commodities – mainly precious metals. Coal and iron ore are not seeing the same tailwinds.

Despite the revenue overrun, Treasury now expects Debt as a percentage of GDP to peak this year at 78.9% - a full 1% higher than the prediction just a few months ago. Despite the higher starting point, the Debt/GDP ratio is still expected to fall to 76.5% over the next 3 years. Nonetheless, the higher ratio

this year caught us by surprise, but a dive into the detail offers an explanation. Due to the significant rally in bond yields over the past 6 months, Treasury has used the opportunity to save its cash balances and rather issue more debt than required – an extra R38 billion – to take advantage of what they describe as “the best market conditions in fifteen years.” This must be applauded, especially in light of the large bond redemptions that come due over the next five years. There has been a notable lack of forward planning for years, so it is very encouraging that Treasury is actively making use of the tailwinds at its disposal. To that end, Treasury announced after the Budget that weekly debt issuance would fall by R500 million from next week onwards. That sent bond yields down further.

A few other notable points include:

1. Treasury is expecting GDP growth of 1.8% on average over the next 3 years. Interestingly, they are expecting 1.6% this year, higher than our current forecasts, and accelerating into 2027 and 2028. That very much aligns with our modelling that growth is accelerating. Remember that we have hardly achieved a growth rate over 1% for the past ten years, so whilst the growth rate is still modest, at least it is accelerating.
2. Treasury has earmarked R12 billion of savings from its savings initiative – through cuts to ineffective public transport, tighter controls on social grants and eliminating ghost employees. Unfortunately, these savings are being spent in other areas – defence, PRASA and disaster rehabilitation, amongst others. But at least they are not raising new debt to pay for those items.
3. Social grants remain a huge cost. Grants will generally rise with inflation this year, and will cost R292 billion, which includes R37 billion for a further extension of the “Social Relief of Distress” grant (Covid grant) for another year. Once again, government has made no provision for this grant to be extended, but every year they do extend it. It is impossible to take away the punch bowl! Including the SRD grant, 26.5 million people will be the recipients of grants this year.
4. Eskom continues to receive debt relief. This was announced previously – there are no new bailouts for Eskom. However, Treasury highlighted the dire fiscal position of many municipalities. Total debt owing to Eskom from municipalities has now reached R110 billion. Of the 71 municipalities that have elected to participate in the Municipal Debt Relief Programme, only 15 have consistently met their obligations. The Budget outlined a much tougher stance going forward. This remains a major focus area for reform and intervention, and a major risk to higher growth.
5. Building on the momentum of last year, this Budget seeks to shift the composition of spending away from current consumption towards more productive fixed investment. For example, capital payments are the fastest-growing spending item at 9.7% p.a over the next three years. In

contrast, the wage bill is forecast to increase by 4.4% p.a. and spending on goods and services by just 2.7% p.a.. That should be celebrated as we start to reinvest in our economy.

Moving the focus away from the fiscus, what does the Budget mean for you and I? This is where the Budget really delivered. Last year, the Budget included proposals for R20 billion worth of tax increases this year – largely through bracket creep. Thanks to the commodity windfall, not only were those increases scrapped, but personal income tax brackets have been adjusted for inflation (albeit a modest 3.4%). That is equivalent to a tax cut of R13.5 billion. In addition, medical tax credits have also been adjusted for inflation, adding a further R1.5 billion of tax relief. Taxpayers over the age of 75 will only start paying tax if they have an income greater than R171,300. Taken together, the consumer is R35 billion better off than they would have been had the 2025 Budget proposals been followed.

This goes hand in hand with statistics showing just how narrow our tax base has become. Nearly half of all personal income tax is paid by those earnings more than R1 million per year – just 7.7% of all registered taxpayers in the country. Expanding that by one level, the top 13% of taxpayers contribute 60% of all personal income tax.

The other big news was the adjustment to thresholds and allowances that haven’t changed for years. The full list is shown in the diagram, but a few relevant to your savings and investments are worth highlighting:

- An increase in the annual contribution limit for tax-free investments from R36,000 to R46,000. It is not clear from the current documents whether the R500,000 lifetime limit has been adjusted.
- An increase in the retirement fund contribution deduction limit from R350,000 to R430,000.
- The exemption for donations made by individuals from R100,000 to R150,000.
- The annual exclusion for Capital Gains Tax from R40,000 to R50,000.
- The exclusion of capital gains or loss on the disposal of your primary residence has been increased from R2 million to R3 million.

Unfortunately, it is never all good news. As is to be expected, there were inflationary adjustments to sin taxes (wine, spirits, beer, and cigarettes), and increases to the fuel levy of 21c per litre in total (a combination of the fuel levy, RAF contributions and carbon taxes.) Treasury is also finalizing proposals for further gambling taxes in response to the surge in online gaming.

In conclusion, this is another solid Budget which builds on the good work laid down in 2025. For us, it is clear that the GNU

has introduced fresh thinking to the Budget process, which was long overdue and most welcome. It is encouraging that we are using the opportunities afforded by markets – weaker Dollar, stronger Rand, higher commodity prices, and stronger bond yields – to make long term structural changes for the better. Furthermore, Treasury aims to propose legislation in November that will institutionalize a fiscal anchor – a responsible rolling 3-year strategy – to try and prevent the wanton spending that characterized the Zuma era. That is

encouraging and should underpin the nascent recovery in both business and consumer confidence.

However, as is so often the case, the proof of the pudding is in the eating. This Budget isn't perfect, and spending pressures are everywhere. Government savings at R12 billion over three years might sound like a lot, but they are a drop in the ocean. So much more needs to be done. But one step at a time – and right now, at least this step is in the right direction.

Table 4.6 Tax thresholds and limits reviewed

Description (R)	Last amended	Current monetary amount	Proposed monetary amount
Small businesses			
Value-added tax (VAT) compulsory registration threshold	2009	1 000 000	2 300 000
Annual turnover limit for the turnover tax	2009	1 000 000	2 300 000
Voluntary VAT registration threshold	2009	50 000	120 000
Capital gains tax (CGT)			
CGT exclusion for small business asset disposal	2012	10 000 000	15 000 000
Exclusion amount on disposal of small business when person over 55 years	2012	1 800 000	2 700 000
Exclusion at death	2012	300 000	440 000
Exclusion in respect of disposal of primary residence	2012	2 000 000	3 000 000
Annual exclusion	2017	40 000	50 000
Savings and retirement			
Tax-free investments: annual limit	2021	36 000	46 000
Retirement fund contribution deduction limit	2016	350 000	430 000
Retirement interest de minimis threshold for annuitisation	2016	247 500	360 000
Living annuity commutation	2020	125 000	150 000
Donations tax			
Exemption for donations made by entities	2002	10 000	20 000
Exemption for donations made by individuals	2007	100 000	150 000
Tax-exempt employment benefits			
Bursaries / Scholarships: annual remuneration ceiling for all employees including persons with disabilities (PwD) ¹	2017	600 000	900 000
Bursaries / Scholarships: annual ceiling for employee relatives' primary / secondary education (PwD)	2017	20 000 (30 000)	30 000 (45 000)
Bursaries / Scholarships: annual ceiling for employee relatives' tertiary education (PwD)	2017	60 000 (90 000)	90 000 (130 000)
Remuneration proxy (cap): employee loans for immovable property	2018	250 000	360 000
Market value of property: employee loans for immovable property	2018	450 000	650 000
Maximum compensation exemption for employees dying in fulfilment of duties	2007	300 000	800 000
Awards for bravery and long service	2003	5 000	16 000

1. Thresholds in brackets are for persons with disabilities (PwD)

Source: National Treasury



The topic for our first Insight presentation for the year, to be held in March, is “The Trend is Your Friend”. More detail will follow but we will explore trends across various topics



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Topic: **The trend is your friend.**

Natal Midlands

Date: 12 March 2026

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 10 March 2026

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: n/a

Venue: SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor

Time: 7.30am

Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West

Time: 5.30pm for 6pm



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