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# CONCEPT NOTE | Why is National Treasury so scared to tax wealth in South Africa, the most unequal country in the world?

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**Topic:** Why is National Treasury so scared to tax wealth in South Africa, the most unequal country in the world?  
**Moderator:** Sizwe Mpofu-Walsh  
**Panel:** Liso Mdutyana, Thoko Madonko, and C.P. Chandrasekhar

## Summary

The upcoming tabling of the Medium Term Budget Policy Statement (MTBPS) in November by the Minister of Finance will serve to signal National Treasury's fiscal plans heading into the national budget in February 2026 and over the medium term. Furthermore, the question of resource mobilisation has added importance in the context of the ANC's new Economic Action Plan, which arguably sees the dominant political party continuing on the trajectory of a private sector-led model of economic growth and development. The past decade has seen a gradual retreat of the government in the provision of public goods and in financing a state-led development agenda. This has been motivated by claims that the public purse has shrunk to such an extent that the realisation of the National Development Plan's promises and constitutional obligations must be delayed. However, with rampant levels of poverty, continued underdevelopment, and the opportunity for green industrialisation presented by the need for climate transition, this is an untenable position. Instead, the National Treasury should look to expand the fiscal envelope, which should give the government the ability to kick-start economic growth and to immediately spend on alleviating poverty. This episode will look to critically evaluate the nature of the fiscal options available to the country and assess the various revenue-raising measures that the government has at its disposal.

## Background and context

Over the last ten years, 2015 – 2024, the average annual rate of economic growth has stagnated at below 2%. This has led to a decline in the growth of government revenue. The slow growth in revenue and the failure to unleash new sources of revenue, coupled with higher debt service costs (due to credit rating downgrades, refinancing of maturing debt, and increased borrowing following the Covid-19 pandemic, among other things), appear to have put public finances in disarray. Moreover, the country has had to contend with a shifting global macroeconomic environment that has accentuated the weaknesses in the domestic economy. Most recently, the U.S. tariff policies are anticipated to make export-oriented industries face difficulties. The climate crisis has increased the pressure on countries to rapidly undergo decarbonisation. Simultaneously, however, other global pressures have been easing - for example, global inflation peaked after the easing of hard lockdowns but has now subsided, and subsequently global interest rates have also declined. Nonetheless, the ability and willingness of the government to expand the provision of public services and social protection have been challenged by moves to privatise aspects of public service provision, and the government's attempts to roll back social grants such as the Social Relief of Distress (SRD) grant.

The stagnation in economic growth has kept the unemployment rate at extremely high levels, peaking at more than 43% in the second quarter of 2025. With a growing number of economically active adults, the high unemployment rate has kept millions of people in poverty and destitution. The promise of economic transformation and development is under threat. In particular, there appears to be a rolling back on the promise of a comprehensive system of social protection. Furthermore, the government has entrenched the private provision of public goods through the growing privatisation of services in the electricity and freight rail sectors, with an increase in the prominence of public-private partnerships in areas such as water infrastructure and housing.

Throughout this crisis, certain insidious narratives have emerged. First, unless the government reverses the trend in the growth of debt, the country will head towards a fiscal crisis. Second, South Africa has exhausted the use of personal income tax and corporate income tax as avenues to increase revenue, with further rate hikes only resulting in lower economic growth and thus lower tax revenue for the government, thereby betraying its efforts to provide public services. Lastly, the National Treasury has promoted the idea that the only viable solution to stabilising public finances is to limit expenditure growth and to cut expenditure in targeted areas, including frontline service delivery. The public, and civil society in particular, has challenged the government's austerity response to South Africa's fiscal problems.

Civil society has argued that austerity is an unconscionable and irrational response given the socioeconomic crisis faced by the population, and especially in the presence of viable

revenue-raising alternatives. In recent years, public pressure has forced the government to look at its balance sheet, resulting in the first use of the gains made through its Gold and Foreign Exchange Contingency Reserve Account (GFECRA). In 2025, the National Treasury increased allocations to SARS, which is expected to improve its capacity to enforce tax compliance and thus increase tax revenue. Plenty of other options exist. These include the possibility of implementing a tax on wealth, including the speculative trading of financial instruments, recouping revenues lost to illicit financial flows (mostly perpetrated by large corporations), and the reduction or removal of tax breaks handed out to high-income individuals and corporations. National Treasury has so far resisted the use of most of these alternatives.

On corporate income tax, the National Treasury has claimed that the statutory rate on corporate income is already too high, and further increases would serve to make South Africa less competitive in its ability to retain and attract businesses. Similarly, the National Treasury views the top personal income tax rate as already too high and argues that further increases would encourage high-income individuals to engage in tax avoidance or evasion in order to decrease their tax liability. On wealth taxation, they argue that there are already wealth taxes in South Africa – for example, estate duty – and that direct taxation of net wealth would yield too little revenue relative to the high administrative costs.

Statutory tax rates, in general, are a misleading measure of the tax burden on different units. Individuals, corporations, and other units of taxation are accorded tax breaks which make their tax liability below what would be suggested by the statutory rate. First, small businesses are taxed at a sliding scale, with small businesses that get lower income being taxed at lower rates. Second, medium and large corporations receive differentiated tax incentives depending on which industries they operate in and what activities they undertake. Tax expenditures for corporations – or money that could have otherwise accrued to the fiscus – amounted to R23.1 billion in 2021/22 and R9.4 billion in 2022/23. Taking into account the complex system of tax breaks, the Parliamentary Budget Office found that the effective tax rates for medium and large companies across different industries are 18.2% (in 2017), far below the statutory rate of 27% or 28%.

Third, large corporations, especially those in the mining industries and those which have a presence in multiple countries ('multinationals'), have been documented as perpetrators of tax avoidance and evasion. Tax avoidance (legal) and evasion (illegal) are schemes companies use to unethically divert or underreport profits so as to reduce their tax liability. The most recent estimates from UNCTAD suggest that the extent of illicit financial outflow due to trade misinvoicing (by corporations) in South Africa was US\$40.4 billion in 2017. In sum, this undermines the National Treasury's claim that corporations are facing an unduly high tax burden.

Meanwhile, the personal income tax system features a similar set of tax breaks. In addition to tax avoidance and evasion strategies, which are often committed by high-net-worth individuals,

the fiscus loses out on hundreds of billions of rands from tax breaks given for medical aid and pension scheme contributions. Tax expenditures, or tax breaks, for individuals who are liable for personal income tax come out at R135 billion. Arguably, the tax expenditures attributable to medical aid and retirement contributions should not be extended to high-income individuals – those who earn in excess of R750 000 per year. This is because, regardless of the tax break, these individuals have enough disposable income that they would have contributed to pension funds and medical aid schemes. The statutory tax rate on dividend income (income derived from the ownership of company shares) stands at a measly 20%, but this does not capture the extent of relief accorded to earners of capital income. 40% of dividend income is tax-exempt, meaning that only 60% is subject to income tax. This tax exemption comes out to a tax expenditure or subsidy of R539 million in 2022/23.

In addition, the government must consider using the GEPF to lower its borrowing costs. The GEPF, whose assets stand at R2.3 trillion as of 2024, already invests a substantial amount of its assets in public sector bonds, holding 24.7% in South African national government bonds and 4.9% in parastatal bonds as a share of the GEPF's investment portfolio.<sup>1</sup> Investing in government bonds at concessional rates would be in line with the GEPF's 'development investment policy' where the fund seeks to obtain good returns for its beneficiaries, and to positively contribute to the long-term socioeconomic outcomes of the country.

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<sup>1</sup> Government Employees Pension Fund. 2024. Annual Report 2023/24. Pp. 129-133