MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

UNLOCKING MINING'S POTENTIAL WOULD GUARD AGAINST FURTHER TAX RISES

Cape Town, 12 March 2025. The Minerals Council South Africa (MCSA) notes the tabling of the (delayed) 2025 National Budget. As in previous budgets, the steps announced by Finance Minister Enoch Godongwana highlighted the imperative of higher rates of growth in the domestic mining sector, as well as the overall economy.

Sustained higher growth rates are the only way to ensure a durable improvement in South Africa's public finances. Appropriately, this point was also emphasised in the opening lines of the minister's budget speech.

Amid pedestrian real GDP growth, for the second year in a row, the National Treasury was forced to announce notable stop-gap measures in the budget. This was necessary to ensure that South Africa meets ever-increasing demands on the public purse, contains the rise in public debt, and addresses investor anxiety about fiscal sustainability.

Last year, the Treasury utilised valuation gains from the South African Reserve Bank's (SARB) Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to lower South Africa's public borrowing requirement. This year's Budget proposes a 0.5 percentage point increase in the **value-added tax (VAT) rate** on 1 May 2025, followed by another 0.5 percentage point increase on 1 April 2026. This means that from April 2026, the VAT rate will increase to 16%, from the current 15%. The VAT rate was last increased in 2018, at that stage from 14% to 15%.

Other revenue raising, or tax, measures announced in the budget include that **personal income tax (PIT) brackets** and **rebates** will not be adjusted for the impact of inflation. Effectively, although marginal PIT rates will remain the same, this means a higher personal income tax burden for all taxable employees.

Amongst others, the budget proposals will have the following impacts on mining sector employees:

- **Higher personal income tax payments**. As an example, employees with a taxable income of R350,000 in 2024 who received a 5% salary increase in early-2025, will from 1 March 2025 pay an estimated R380 per month more in personal income tax. In the case of a 6% salary increase, the monthly PIT burden will increase by R455.
- **A mixed bag on cost-of-living expenses**. All else equal, relative to earlier expectations, the 0.5 percentage point VAT increase in 2025 could lift the **headline consumer inflation** rate by roughly 0.2 percentage points in calendar 2025. If it proceeds, the additional VAT hike in 2026 will also be inflationary. *In both 2025 and 2026, Treasury proposes to soften the impact of the VAT hike by expanding the basket of VAT zero-rated foodstuffs. From 1 May 2025, several categories of edible offal, as well as tinned or canned vegetables, will also be zero rated.* As per normal, excise

duties on **alcohol** and **tobacco** will see above-inflation increases. In contrast, the **fuel and Road Accident Fund (RAF) levies** will not be increased in 2025. This removes some upside pressure on the **price of fuel**.

- **Less scope for further interest rate relief**. Along with global uncertainties brought about by US President Donald Trump's trade wars, the upward tilt in domestic inflation from the VAT increase suggests reduced wiggle room for the SARB to reduce the policy interest rate further. *The SARB's next interest rate decision is on Thursday, 20 March.*

The tax measures in the 2025 Budget should be seen in a context where mining sector profitability has been under pressure, reducing Treasury's tax take from mining. Stats SA's latest **gross operating surplus** (GOS) data, which provides a broad measure of profitability, indicated that for the second consecutive year, mining profits declined on an annual basis in 2024. After plunging by 18.5% in 2023, the GOS for mining declined by a further 1% during 2024.

Against this backdrop, provisional tax data in the Budget showed that **corporate tax collections** from the mining industry are expected to contract by a significant 28% year-on-year during 2024/25 (April 2024 to March 2025). The Treasury estimates that revenue from **mining and petroleum royalties** will be down by a similar (large) magnitude, from R15.9 billion in 2023/24 to a revised estimate of R11.3 billion in 2024/25. Treasury had banked on R16 billion in royalty payments during 2024/25.

"Sustained weak real GDP growth, in part as a result of an underperforming mining sector, means that the economy is unable to generate sufficient revenue to, amongst others, finance large pro-poor expenditure, as well as a bulging public sector wage bill. The only way to break the sub-optimal cycle of tax hikes or spending cutbacks to frontline services is through higher rates of GDP growth that is inclusive," said Hugo Pienaar, chief economist at the Minerals Council.

In the interim period as growth picks up, the Minerals Council supports the additional funding to the SA Revenue Service (SARS) to improve tax efficiency and broaden the tax base.

Notwithstanding the tax hikes, as a result of additional spending allocations, **gross government debt** as a percentage of GDP is projected to peak at a somewhat higher level of 76.1% in 2025/26. This compares to Treasury's forecast at the time of the Medium Term Budget Policy Statement (MTBPS) in October 2024 that public debt would peak at 75.5% of GDP in 2025/26.

On a positive note, the Budget outlined government plans to spend R1.29 trillion on **public infrastructure** over the medium-term expenditure framework (MTEF), i.e., the period from 2025/26 to 2027/28. However, of concern is that after a projected solid increase in 2025/26, Treasury pencils in an outright decline (in real terms) for the rate of growth in public sector infrastructure expenditure in the final two years of the MTEF.

Furthermore, no budget allocations were made to support **Transnet's large capital expenditure (capex) requirements** to improve the quality of rail infrastructure for the major mineral export corridors. From a mining industry perspective, this is a concern. The lack of support means that Transnet will need to find other funding sources, including through private sector participation on the major commodity corridors. Another potential avenue is direct capex contributions from the mining sector to maintain and upgrade rail infrastructure.

Through the **Budget Facility for Infrastructure** (BFI), the Treasury earmarked R1.3 billion over the MTEF for the expansion of the land-side container terminal at Cape Town port and R2 billion for improvements on the freight rail corridor between Gauteng and the Eastern Cape that serves the automotive sector. This should benefit the agricultural and vehicle export sectors.

"As alluded to in the minister's speech, going forward, through the BFI, we hope to see more finance for infrastructure projects that will also directly benefit the mining industry," noted Pienaar.

The budget did provide some welcome support to the mining sector. Starting 1 April, primary sectors like mining will qualify for a refund of *all* eligible **diesel purchases** declared to the SA Revenue Service (SARS). Currently, the refund is capped at 80% of eligible diesel purchases.

In addition, regarding the **carbon tax**, the Minerals Council supports and welcomes the five-year extension (to 31 December 2030) of the commitment to electricity price neutrality, as well as the three-year extension of the basic tax-free allowance. Electricity price neutrality refers to a regulation that disallows Eskom from making provision in its electricity tariff application for the carbon tax. A further positive development is the proposed increase in the carbon offset allowance by 5 percentage points from 1 January 2026.

Conclusion

To prevent additional tax rises in coming years, the full potential of mining needs to be unlocked. This would be an important catalyst for improved government revenue. The global scramble to secure critical minerals provides a golden opportunity for mining to increase its already sizeable contribution to the South African economy. However, to realise its full potential, amongst others, the mining sector requires:

- A stable and predictable mining policy environment that is fit-for-purpose.
- A stable supply of, and affordable, electricity.
- Further progress to improve rail and port performance.
- Improved infrastructure for better access to water resources.
- Enhanced local government efficiency.
- An uncompromising stance against crime and corruption.

For further queries:
Allan Seccombe
Tel: 064 650 4636
Email: aseccombe@mineralscouncil.org.za
Web: www.mineralscouncil.org.za