

## 2026 Budget Update: Strategic Implications for South African Expats

March 2, 2026



### 1. EXECUTIVE SUMMARY

The 2026 South African Budget presents a calibrated fiscal landscape, characterised by a combination of routine inflationary adjustments and targeted policy shifts that carry significant weight for South Africans living abroad. While many updates focus on bracket creep and threshold alignment, two primary changes demand immediate attention: the doubling of the Single Discretionary Allowance (SDA) and a rigorous new restriction on spousal donations designed to neutralise aggressive residency planning.

This report serves as a strategic roadmap for Financial Advisors, providing the necessary intelligence to navigate these changes, protect client wealth, and ensure total tax compliance. As we dissect these updates, it is imperative to recognise that the practical impact of every fiscal change mentioned herein is fundamentally dictated by a client's specific tax residency status.

### 2. THE RESIDENCY FRAMEWORK: DEFINING THE SCOPE OF IMPACT

Tax residency remains the "master key" for interpreting South African fiscal policy. For the expatriate client, determining this status is not merely a compliance exercise but a strategic necessity to avoid the pitfalls of double taxation and to understand the specific reach of the South African Revenue Service (SARS).

The 2026 changes affect three distinct groups based on their fiscal footprint:

- **South African Tax Residents (Living Abroad):** Individuals who remain tax residents despite living overseas continue to be taxed on their worldwide income. For this group, nearly all Budget adjustments—from retirement contribution caps to increased investment allowances—are directly applicable.
- **Non-Residents for Tax Purposes:** For those who have already formalised their non-resident status, tax exposure is strictly limited to South African-sourced income (such as local rental income) and South African assets (specifically immovable property). Most 2026 adjustments do not apply to this group beyond their specific SA-sourced interests.



- **Individuals Planning Cessation:** Clients currently strategising an end to their South African tax residency must pay particular attention to the timing of these changes. The interaction between new thresholds and the Section 9H "Exit Tax"—which treats worldwide assets as a deemed disposal the day before residency ceases—has become significantly more complex.

This residency status provides the lens through which we must view the following adjustments to asset-related exclusions, beginning with Capital Gains Tax.

### 3. CAPITAL GAINS TAX (CGT): ADJUSTED EXCLUSIONS AND EXIT REALITIES

The 2026 Budget has introduced several increases to CGT exclusions. In a high-inflation environment, these exclusions serve as a vital buffer, protecting a portion of investment growth during asset disposal or the cessation of residency. However, advisors should view these as "routine" adjustments; if a client's wealth is growing faster than these thresholds, they are effectively facing a stealth tax on real-term value.

#### 2026 CGT Threshold Comparisons

Exclusion Category	Previous Limit	2026 Threshold
Annual CGT Exclusion	R40,000	<b>R50,000</b>
Primary Residence Exclusion	R2 million	<b>R3 million</b>
Small Business Disposal (Age 55+)	R1.8 million	<b>R2.7 million</b>
Death Exclusion	R300,000	<b>R440,000</b>

*The maximum effective CGT rate for individuals remains unchanged at 18%.*

**Strategic Impact Analysis** For tax residents, these higher exclusions offer tangible benefits when rebalancing portfolios or disposing of South African property. However, for those facing the Section 9H exit tax upon ceasing residency, these adjustments provide only limited relief. While the thresholds are higher, the core obligation to pay tax on the deemed disposal of worldwide assets remains a significant liquidity event that requires proactive capital management.

These inflationary adjustments extend beyond general assets into the realm of formal retirement and savings vehicles.

### 4. RETIREMENT FUNDS AND SAVINGS: THRESHOLD AND CONTRIBUTION SHIFTS

For clients who remain South African tax residents, maximizing local tax-incentivized structures remains a cornerstone of wealth preservation. The 2026 Budget provides expanded room for these contributions while adjusting the administrative rules for accessing smaller accounts.

#### Key updates for Residents:

- **Retirement Fund Deductions:** The cap for deductible contributions has been raised from R350,000 to **R430,000** (limited to 27.5% of the greater of remuneration or taxable income).



- **Tax-Free Savings Accounts (TFSAs):** The annual contribution limit has increased to **R46,000**, though the lifetime limit remains capped at R500,000.

### **Annuity And Lump Sum Access**

The Budget has increased the thresholds for accessing retirement funds as lump sums, offering flexibility for clients with multiple smaller policies. Crucially, the National Treasury will enforce these thresholds **per insurer or fund**, allowing for strategic portfolio consolidation:

- **De Minimis Threshold:** Increased to **R360,000** (from R247,500), allowing a full lump-sum withdrawal instead of compulsory annuitisation.
- **Living Annuity Commutation:** The threshold for full commutation has moved to **R150,000** (from R125,000).

**The Three-Year Rule:** The "three-year rule" for accessing retirement funds after ceasing tax residency remains unchanged. Advisors must also caution non-resident clients that while TFSAs are tax-free in South Africa, the growth within these accounts is frequently subject to taxation in the client's new country of residence.

## **5. ENHANCED CAPITAL MOBILITY: THE SINGLE DISCRETIONARY ALLOWANCE (SDA)**

One of the most impactful changes for resident clients is the doubling of the Single Discretionary Allowance (SDA). This shift significantly enhances liquidity and the ease of offshore wealth accumulation.

- **The Change:** The SDA has increased from R1 million to **R2 million per calendar year**.
- **The Strategic "So What?":** This allows residents to move substantial capital offshore without the immediate friction of a special tax clearance.
- **Exit Tax Liquidity Strategy:** For clients planning to eventually cease residency, this expanded allowance should be used to **pre-fund the anticipated Section 9H Exit Tax liability** offshore. By moving capital into hard currency now, clients can mitigate the liquidity risk associated with the "deemed disposal" of assets that occurs the moment they exit the South African tax net.

It is important to note that this change has no effect on individuals who have already completed formal cessation of their tax residency.

## **6. THE SPOUSAL TRANSFER PIVOT: CLOSING THE RESIDENCY LOOPHOLE**

The 2026 Budget introduces a targeted policy change regarding donations tax, framed specifically to prevent aggressive tax avoidance during the residency cessation process.

**Policy Detail:** While the annual tax-free donations limit has risen to **R150,000** (up from R100,000), a significant restriction has been placed on spousal exemptions. Previously, the exemption for donations between spouses was unconditional. Under the new rules, the exemption applies **only if the receiving spouse remains a South African tax resident**.



**Strategic Analysis:** This change effectively nullifies the common strategy where couples would "stagger" their residency cessation. In the past, a couple might transfer assets to the spouse remaining a resident for a longer period to avoid immediate Section 9H exit taxes or donations tax. Now, if the receiving spouse is a non-resident (or intends to become one), these transfers may trigger immediate tax liabilities. The "rules of the game" for exiting the South African tax net have become markedly more restrictive.

## 7. AREAS OF CONTINUITY: STABILITY IN THE FISCAL LANDSCAPE

Amidst these shifts, several key areas remain stable, providing a degree of fiscal predictability for long-term planning:

- **Dividends Tax:** Remains at 20%.
- **Interest Exemptions:** No changes to current thresholds.
- **Estate Duty:** Rates remain unchanged.

Advisors must remind clients that while the rates are static, **Estate Duty** applies to the **total worldwide asset value** of South African residents. For non-residents, it applies only to South African-based assets. This distinction underscores why the residency audit remains the most critical step in the advisory process.

## 8. ADVISOR ACTION PLAN: STRATEGIC RECOMMENDATIONS

To convert this data into tangible client value, Financial Advisors should implement the following prioritised checklist:

- **Conduct a Residency Audit and SARS Status Reconciliation:** Review all expatriate clients to confirm their formal status with SARS. This is the foundation upon which all other strategic advice rests.
- **Strategise Exit Timelines in Light of Spousal Transfer Restrictions:** Re-evaluate clients planning to cease residency. Ensure that previous "staggered" exit plans do not inadvertently trigger a donations tax event due to the new spousal residency requirement.
- **Mitigate Exit Tax Liquidity Risk via SDA Expansion:** For resident clients looking to diversify, utilise the new R2 million SDA limit to expatriate capital. This builds an offshore pool of hard currency to cover the eventual Section 9H "Exit Tax" without requiring eleventh-hour tax clearances.
- **Review and Consolidate Retirement Portfolios:** Identify clients with multiple smaller "nest eggs" that now fall under the R360,000 *de minimis* threshold. Evaluate the benefits of full lump-sum withdrawals versus compulsory annuitisation on a per-fund basis.

In an evolving regulatory environment, proactive planning and meticulous professional compliance are the only ways to ensure that South African expatriates protect their global wealth against the shifting tides of tax law.