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THE ISSUE OF “TAX BRACKET CREEP” IN SOUTH AFRICA: POTENTIAL SOLUTIONS

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SUMMARY

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The majority of South Africans felt relieved when Finance Minister, Enoch Godongwana, did not announce any noticeable tax hikes during his annual National Budget Speech on 21 February 2024. Nevertheless, the same South Africans were probably in a worse financial situation after the fact, due to a lesser-known tax principle called “tax bracket creep”. This hidden tax increase in the 2024 Budget Speech was the absence of any changes to the progressive tax rate table for individuals to account for inflation.

Furthermore, the Minister did not increase the tax rebates for individual taxpayers from the rates set in the previous year – South African taxpayers were thus doubly pressed. If a person received a salary increase tied to inflation, they may have ended up worse off, because their higher taxable income may have pushed them into a higher tax bracket and resulted in them being taxed at a higher rate due to tax bracket creep. Simultaneously, the taxpayer’s tax rebate was also not adjusted upward to account for inflation.

The phenomenon of tax bracket creep is recognised globally but remains unregulated in numerous countries. I believe it presents a simple way for governments to collect more taxes subtly. It is solely the government’s decision whether or not to adjust the South African progressive tax rate table for inflation, as there is no automatic link between the tax rate table and inflation. In my paper, I analyse the principle of tax bracket creep, and also consider the global situation regarding the regulations required to address such a tax bracket creep (such as automatic tax indexation of the personal income tax table). I further consider if regulations or relief can be put into place in South Africa to address the detriment of the tax bracket creep to the South African individual taxpayer.

Keywords: Tax, Bracket Creep, Fiscal drag, stealth tax, Automatic tax indexation



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1. INTRODUCTION

A primary consideration when considering the concept of “tax bracket creep” is understanding that it is a form of “stealth tax”. It is often labelled as a stealth tax because it is a subtle, opaque manner in which governments collect extra revenue from taxpayers, without relying upon legislative amendments to, for example, increase tax rates.¹

1 Carling & Potter 2016:44.

But what precisely is tax bracket creep? Tilley describes “tax bracket creep” as “the effect where the interaction of nominal income growth with a progressive tax rate scale pushes personal income taxpayers onto higher tax rates”.²

Effectively, tax bracket creep occurs where individuals are taxed on a progressive tax rate system. In other words, depending upon the individual taxpayer’s taxable income for a specific tax year, that taxpayer would fall within a particular tax bracket. The higher the tax bracket (by implication, the higher the taxpayer’s taxable income), the higher the taxpayer’s tax liability. Thus, under the progressive tax rate system the higher the income the taxpayer earns, the higher the taxpayer’s applicable tax rate. This is based upon the “ability-to-pay” principle, where each citizen is tasked to contribute to the fiscus according to their capacity.³

A shift into a higher tax bracket may occur naturally for a taxpayer, for example where an employee is promoted and accordingly receives a notable salary increase (real growth). Assuming the tax brackets are adjusted for inflation, a significant increase in salary – or if the taxpayer is at the higher end of the existing tax bracket – could push a taxpayer into the next, higher tax bracket. The natural effect is that the taxpayer now earns a higher taxable income, resulting therein that the taxpayer naturally moves into a higher marginal tax bracket, and must pay a greater percentage of tax to the fiscus.

Occasionally, however, the shift into a higher tax bracket does not occur naturally due to a real growth in personal income, but due to nominal growth. The nominal growth occurs due to tax bracket creep. Tax bracket creep arises when the personal income tax brackets are not adjusted by government (or are only partially adjusted) to account for inflation and a taxpayer is, in essence, artificially pushed into a higher tax bracket.⁴ An illustrative example in par. 2.1 below demonstrates the practical effects of tax bracket creep.

Tax bracket creep is further also linked to “fiscal drag”, specifically nominal fiscal drag. Nominal fiscal drag is caused by personal income tax revenue increasing faster than real personal income, resulting in a drag in the economy as there is a decrease in consumer spending due to the decrease in consumers’ disposable income.⁵ The Organisation for Economic Co-operation and Development (OECD) explains nominal fiscal drag as:

2 Tilley 2024(4).

3 Dorn *et al.* 2017:35.

4 Dorn *et al.* 2017:34-39. Tax bracket creep in the narrow sense of “bracket creep” relates to the thresholds or brackets not being adjusted for inflation. The broader meaning of the term “tax bracket creep” includes the fact that the personal income tax thresholds/brackets are not adjusted for real wage income. Carling and Potter present that there are two components to tax bracket creep: inflation and real wage growth. As real wage growth is oftentimes below or equal to inflation, the focus of the paper will be on tax bracket creep caused by inflation. See Carling & Potter 2016:44-53.

5 Speckman “How fiscal drag saves the state”, <https://www.timeslive.co.za/sunday-times/business/2017-02-12-how-fiscal-drag-saves-the-state/> (accessed on 10 January 2025); Fischer-French “Taxing through inflation”, *City Press* 25 February

'Nominal' fiscal drag occurs when the absolute value of thresholds and tax brackets is not adjusted automatically to the full extent of inflation.

Most authors agree that tax bracket creep is a politically driven phenomenon, as it produces additional revenues, without the government being subject to parliamentary processes and oversights to amend tax rates or introduce new taxing provisions.⁶ Tax bracket creep, essentially, offers governments the opportunity to derive additional unlegislated taxes.⁷

It is therefore not surprising that the 2024 South African Budget Speech contained tax bracket creep, in a National and Provincial election year. The 2024 election resulted in the first-ever national coalition government in South Africa⁸ and one may speculate the impact on the election if the Minister of Finance had announced in his National Budget Speech transparent, publicly debated, legislated tax increases prior to election day.

In the following paragraphs, I discuss the concept and effect of tax bracket creep in further detail, considering the South African perspective with a reflection on the adjustments made to the personal income tax tables, the tax thresholds, and tax rebates for the past eight tax years (2018–2025). I further consider certain global positions, in search of possible viable solutions to address the issue of tax bracket creep in South Africa.

2. UNPACKING THE CONCEPT OF TAX BRACKET CREEP

2.1 An illustrative example of tax bracket creep

South Africa, like most countries, has a progressive tax rate for individual taxpayers, meaning that tax rates increase as the taxpayer's taxable income increases.⁹

Below is the personal income tax table for personal income tax, for the 2024/2025 tax year. The table below remained unchanged from the previous tax year (2023/2024), as announced by the Minister of Finance in the 2024 National Budget Speech, as there was no adjustment made to account for inflation. In the revised 2025 National Budget Speech (the so-called Budget Speech 3.0) the personal income tax brackets also remained unchanged, meaning these rates also apply for the 2025/2026 tax year.

2024, p. 16. Real fiscal drag is not a direct result of inflation as it may occur even when the tax systems are perfectly indexed to inflation. See OECD 2023:45.

6 Musviba 2023:10. Also see Dorn *et al.* 2017:34-39.

7 This is referred to as "unlegislated taxes" as any adjustments made to the personal income tax table need not to go through the general process of amending or introducing new legislation.

8 Lukiv *et al.* "South Africa's new coalition government unveiled", BBC 1 June 2024, <https://www.bbc.com/news/articles/cw9yx5w9577o> (accessed on 29 August 2024).

9 Musviba 2023:8.

Table 1: Personal Income Tax Table for the 2023/2024 and 2024/2025 tax years

Taxable Income (ZAR)	Rates of Tax (ZAR)
1 – 237 100	18% of taxable income
237 101 – 370 500	42 678 + 26% of taxable income above 237 100
370 501 – 512 800	77 362 + 31% of taxable income above 370 500
512 801 – 673 000	121 475 + 36% of taxable income above 512 800
673 001 – 857 900	179 147 + 39% of taxable income above 673 000
857 901 – 1 817 000	251 258 + 41% of taxable income above 857 900
1 817 001 and above	644 489 + 45% of taxable income above 1 817 000

Source: SARS' website

Assume John Doe (a South African tax resident) earns R350 000 taxable income in the 2023/2024 tax year. He would, per the above personal income tax table, have a personal income tax liability of R72 032 [42 678 + 26%*(350 000 – 237 100)]. As the above table had not been adjusted for inflation, the table remains unchanged for the following tax year (2024/2025). If in the 2024/2025 year of assessment, John Doe receives a 6 per cent inflation-adjusted salary increase at work, he would be earning a taxable income of R371 000. As illustrated by Table 1 above, John Doe now, due to his salary increase, falls within a higher tax bracket.

Where he previously paid tax at a rate of 26 per cent, he is now liable for tax at a rate of 31 per cent. For the 2024/2025 tax year, John Doe's tax liability will be R75 967. Effectively, John Doe's “before tax” income went up with 6 per cent (with the inflation-related increase), but his “after tax” income only increased 5.2 per cent, meaning his disposal income (real wage) is less than his before-tax income, due to tax bracket creep.¹⁰

10 Also see Jericho “When it comes to tax, what is bracket creep – and is ‘fixing’ it really that important?”, <https://www.theguardian.com/business/grogonomics/2024/jan/30/when-it-comes-to-tax-what-is-bracket-creep-and-is-fixing-it-really-that-important> (accessed on 31 May 2025).

Effectively, the result of tax bracket creep is that governments derive a higher than proportionate share of the taxpayer's increase in income, leaving the taxpayer with less disposable (post-tax) income, even after the taxpayer had, for example, received an inflation-related salary increase at work.¹¹

2.2 The impact of tax bracket creep

Tax bracket creep is a fundamental tool used by governments, essentially an effective and opaque revenue-raising instrument.¹² In periods when spending cuts or legislated tax increases are not feasible options, or where a budget repair is required, tax bracket creep can serve as an effective solution to close the fiscal gap.¹³ This, nevertheless, comes at a cost.

As mentioned above, tax receipts growing faster than the economy causes nominal fiscal drag. Effectively, households are also poorer due to tax bracket creep, as it lowers their disposable income. This can be seen as regressive, as less disposable income also means less opportunity to grow the economy.

Tax bracket creep also has behavioural impact on taxpayers, as it may disincentivise taxpayers to work and to save. To understand this concept, one must first consider the Laffer Curve. Essentially, the Laffer Curve shows that where the tax rate is 100 per cent, production in the money economy will cease, as citizens would not work if all the fruits of their labour were confiscated by their government and therefore the government tax revenues would be nil.¹⁴ Yet, if the tax rate is zero per cent the government would also be unable to collect any tax revenues. In between these two extremes lies the curve, and it is argued that the ideal point is where both revenues and production are maximised (at the top of the curve).¹⁵

In microeconomics, in response to an increase in tax rates, two effects can come into play: the income effect and the substitution effect.¹⁶ In terms of the income effect, where there is an increase in the tax rate (and by implication a decrease in a person's real after-tax wage) the person would work more, to compensate for the higher taxes due and lower take-home wages and in order to maintain his or her standard of living.¹⁷ The substitution effect can be seen where, in response to an increased tax rate, the taxpayer is encouraged to replace work with more leisure.¹⁸ While taxpayers prefer consumption over effort (work), the taxpayer must exert some effort in order to be able to

11 Carling & Potter 2016:45.

12 PwC March 2016.

13 PwC March 2016; Australian Parliamentary Budget Office, <https://www.pbo.gov.au/sites/default/files/2023-03/Bracket%20creep%20and%20its%20fiscal%20impact%20PDF.pdf> (accessed on 10 January 2025).

14 Wanniski 1978:3-5.

15 Wanniski 1978:3-5.

16 Salin 1996:95.

17 Salin 1996:95.

18 Otte "I'm reducing my hours': fiscal drag's impact in the cost of living crisis, <https://www.theguardian.com/politics/2023/nov/21/im-reducing-my-hours-fiscal-drags-impact-in-the-cost-of-living-crisis> (accessed 31 May 2025).

consume.¹⁹ Taxpayers will balance these desires to arrive at a labour supply decision, and increased taxes will affect this decision made by the taxpayer.

It shows a fundamental human behavioural response to higher tax rates: for example, if the substitution effect trumps the income effect when the tax rate increases, the quantity of work decreases, as higher tax rates reduce the desire for work (meaning less revenue collection as a result).²⁰

For example, the United Kingdom (UK), which previously automatically indexed the personal tax thresholds in line with the Consumer Price Index (CPI), is currently in a six-year “tax freeze” on their personal income taxes until 2028.²¹ This means that for a six-year period, there are no adjustment to the UK’s personal income tax thresholds/brackets to account for inflation.

Due to the six-year freeze, there have been suggested reports of UK employees reducing their working hours to keep their taxable earnings down to avoid the fiscal drag (substitution effect), and even reports of taxpayers opting to not make any pension fund contributions due to the existing high taxes.²² An Institute for Fiscal Studies (IFS) report in 2023 estimates that this UK tax freeze will represent “the largest single tax-raising measure” since the near doubling of the VAT rate in 1979.²³

Effectively, tax bracket creep may fill a fiscal gap in an opaque manner over the short term, but over the long term the nominal fiscal drag negatively impacts the economy and is therefore counterproductive and regressive in nature.

3. A SOUTH AFRICAN VIEW OF TAX BRACKET CREEP

3.1 Historical background

In 1994, a Commission of Inquiry into certain aspects of the tax structure of South Africa (commonly referred to as the “Katz Commission”) was appointed to review the South African tax system in light of the country’s new democracy. In its third report, the Katz Commission recommended that many aspects of the tax system needed to be revised. This included reducing the

19 Lehnert *Macroeconomics* 1999, Chapter 13 “The effect of taxation” p.137, https://faculty.wcas.northwestern.edu/mdo738/textbook/dls_ch13.pdf (accessed on 10 January 2025).

20 Van Den Hauwe 2000:142.

21 Deloitte “Personal tax thresholds frozen until April 2028”, <https://taxscape.deloitte.com/measures-autumn-statement-2022/personal-tax-thresholds-frozen-until-april-2028.aspx> (accessed on 3 December 2024).

22 Otte “I’m reducing my hours fiscal drags impact in the cost-of-living costs”, <https://www.theguardian.com/politics/2023/nov/21/im-reducing-my-hours-fiscal-drags-impact-in-the-cost-of-living-crisis> (accessed on 2 September 2024).

23 UK House of Commons Library “Fiscal Drag: An explainer 1”, <https://commonslibrary.parliament.uk/research-briefings/cbp-9687/#:~:text=When%20thresholds%20and%20allowances%20are,remain%20so%20until%20April%202028> (accessed on 2 September 2024).

number of marginal tax rate brackets for personal income tax (from ten to six tax brackets) and further that there must be regular adjustments made to tax brackets, credits, standard deductions and similar nominal amounts to account for inflation.²⁴

It was already identified by the Katz Commission in 1994 that tax bracket creep has a negative impact on taxpayers and can be addressed, to a degree, by reducing the number of tax brackets and in effect broadening each tax bracket. With fewer and broader tax brackets, fewer people will be pushed into higher tax brackets as a result of bracket creep.²⁵ Essentially, the effect of tax bracket creep would be more pronounced where there are more tax brackets or where a large difference exists between the rates of the various tax brackets.²⁶ South Africa had reduced the number of tax brackets from ten to six, but introduced a seventh tax bracket in 2017 for the highest taxable income earned, at a rate of 45 per cent.

3.2 An analysis of tax bracket creep in South Africa from 2018 – 2025 tax years

In my research I conducted a high-level analysis of the adjustments to various personal income tax thresholds, personal income tax brackets and rebates from the 2017/2018 year of assessment to the 2024/2025 year of assessment. In South Africa, the tax year (year of assessment or “YoA”) for individuals is from 1 March to 28 or 29 February of the following year. For example, the tax year that stretches from 1 March 2017 to 28 February 2018 is referred to as the 2017/2018 tax year or year of assessment.

The CPI is often used as an inflation measure and is applied in this paper to measure the year-on-year average inflation.²⁷ For the 2024/2025 tax year, I used the Average CPI rate for the period January to June 2024.

24 “Final Draft Report of the Joint Standing Committee on Finance on the Third Interim Report of the Katz Commission of Inquiry into Taxation”, <https://www.treasury.gov.za/publications/other/katz/3.pdf> (accessed on 29 August 2024).

25 Immervol 2000:1- 30. Also see Beer *et al.* 2023:1-32.

26 Beer *et al.* 2023:7.

27 It is noted that Kemp (2020) proposes that although the consumer price index is a popular inflation measure, nominal wage growth may be a more accurate inflation measure, as it has been seen in the past that nominal wage growth sometimes exceeds inflation. As a result, if using CPI, one may be at risk of underestimating the extent of the nominal income changes from year to year. See Kemp 2020:424-425.

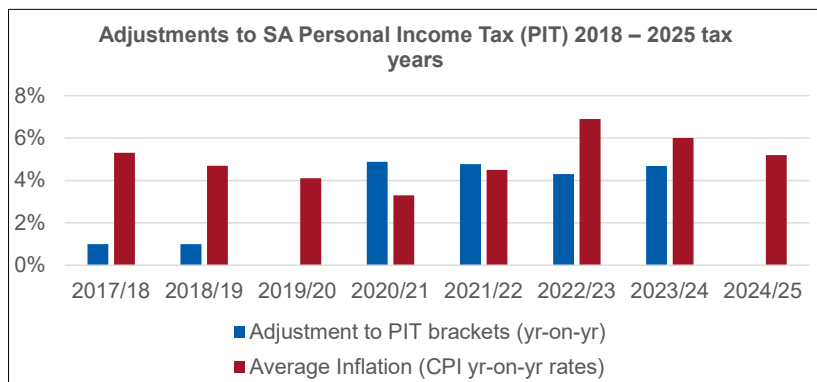


Chart 1: South African tax bracket creep occurring 2018 – 2025

Source: Stats SA CPI History & SA Tax Guide

From the above Chart it is clear that in four of the considered eight years there had been a partial adjustment to the personal income tax table’s thresholds, yet not a sufficient enough adjustment to fully address the inflation for that year per the CPI rates. In the 2019/2020 and 2024/2025 years of assessment there was no adjustment made to the thresholds to account for inflation. Following the lack of an adjustment to the 2019/2020 bracket, there are two years where the bracket thresholds are adjusted above the CPI’s average inflation, namely 2020/2021 and 2021/2022.

This may be attributed to an attempt to reverse some of the previous year’s lack of any inflationary related adjustment. Carling and Potter indicate that several times after a period of tax bracket creep, governments announce “tax cuts” (or in this case an above-inflation adjustment), when in fact such relief is merely a return of some of the proceeds derived from the prior year’s bracket creep.²⁸ Krugel states that the 2020 adjustment above inflation came as a surprise and was hailed as “a brave move” by the Minister of Finance to exhibit a pro-growth approach.²⁹ She, however, adds that the adjustment does not offer real relief to taxpayers, due to the fact that the private sector wage increases were on average zero that year.³⁰

In the 2021 Budget Speech the above inflation adjustment for the 2021/2022 tax year is credited, to an extent, to revenue collections being higher than expected in the 2020 Medium Term Budget Policy Statement.³¹

28 Carling & Potter 2016:50.

29 Buthelezi “How so-called bracket creep adjustments will benefit consumers” *News* 24. 27 February 2020.

30 Buthelezi “How so-called bracket creep adjustments will benefit consumers” *News* 24. 27 February 2020.

31 Budget Review 2021. <https://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf> (accessed on 29 August 2024).

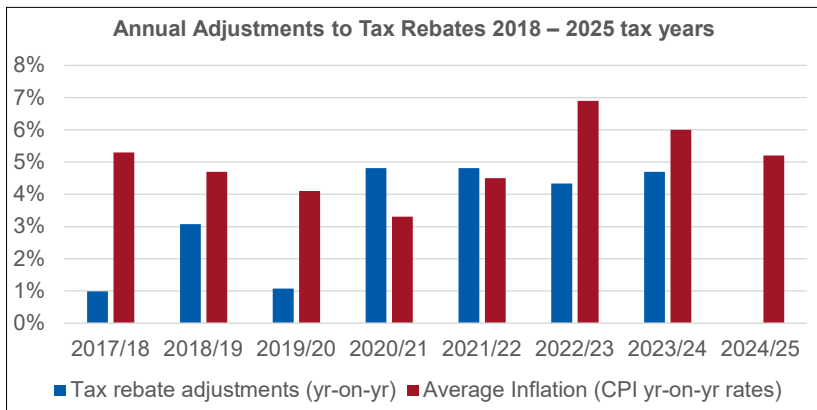


Chart 2: Annual adjustments to the primary tax rebates 2018 – 2025 tax years

Source: Stats SA CPI History & SA Tax Guide & SARS' website

The primary tax rebate is available annually to any taxpayer who is a natural person and is deductible against the normal tax payable as determined per the progressive tax table.³² A natural person becomes liable for normal tax to the amount that their taxable income exceeds the value of the primary rebate multiplied by the lowest tax rate for natural persons (currently 18 per cent).³³ The *Income Tax Act* further provides for secondary and tertiary rebates for natural persons who are 65 years or older, and 75 years and older, respectively.³⁴ From Chart 2 it is clear that although there were annual adjustments made to the tax rebate table, each year over the eight years, the annual adjustments remained below inflation.

The rebate adjustments do not match inflation in any of the above years, and by implication nor does the tax threshold (see Chart 3 below). It is interpreted to mean that in certain years South African taxpayers suffer a “dual hit”, due to the lack of adjustment to match inflation with regard to the personal income tax brackets as well as the tax rebates and the tax thresholds.

32 *Income Tax Act* 58/1962:sec. 6(2).

33 Stiglingh 2024:168.

34 *Income Tax Act* 58/1962:sec. 6(2).

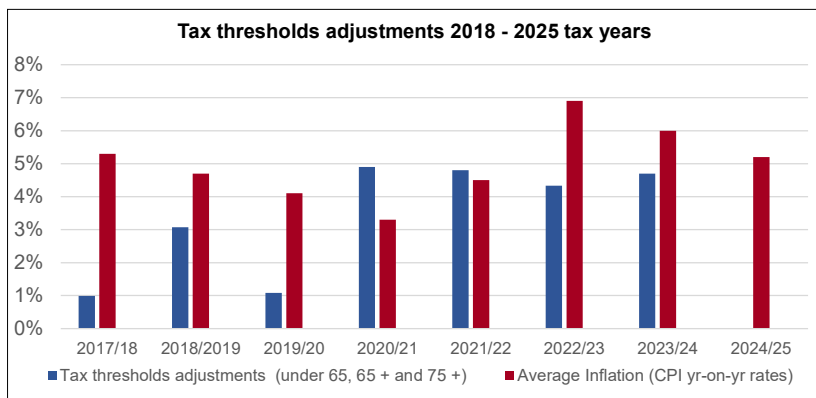


Chart 3: Tax Threshold – YoA 2018 – 2025

Source: SARS’ website & SA Tax Guide

Chart 3 illustrates the tax thresholds for each tax year from 2018 – 2025, with the effect that individuals earning below a specific amount of taxable income are not subject to tax. Over the past eight tax years, there were five years where the thresholds were adjusted below inflation, and in 2020/2021 and 2021/2022 the adjustment to the minimum tax threshold was adjusted higher than inflation. A stark omission is visible in the 2024/2025 tax year as there is no adjustment for inflation.

The obvious non-adjustment of the threshold in the 2024/2025 year of assessment means that the tax net may be cast wider to include a lower income-earning person who subsequently may need to register for tax and file tax returns if they now meet this minimum threshold.

3.3 The 2024 Budget Speech

For purposes of this paper, I consider and use as an example the 2024 Budget Speech which contained tax bracket creep. In his 2024 Budget Speech, the Minister of Finance estimated that in the 2024/2025 tax year an additional R15 billion would be collected by “exploiting” the fiscal drag by not adjusting the personal income tax tables, medical tax credits nor the rebates.³⁵ Many South Africans missed this subtle, non-transparent announcement, which effectively causes tax bracket creep in its full force, as there is no adjustment made to these thresholds or tax rebates or to the medical tax credits.³⁶ This serves as a clear example of the stealthy nature of tax bracket creep.

35 2024 Budget Speech, p. 11: “*This budget contains tax measures that will raise R15 billion in 2024/25 to alleviate immediate fiscal pressure and support faster debt stabilisation. Revenue is mostly raised through personal income tax by not adjusting the tax brackets, rebates and medical tax credit for inflation.*”

36 I have not considered the medical tax credits in my charts as it is opined that the credits will fall away in any event in future due to the introduction of the National Health Insurance (NHI).

For South Africans the situation may yet worsen, as from the projections made in the 2024 Budget Speech it appears that this freeze on the adjustments for inflation may remain in place for the next three years (see Table 2 below).³⁷ Some advisors have warned against seeing ghosts where there are none, as there has been no formal announcement by the Minister of Finance in the 2024 Budget Speech about a three-year freeze and that the budget cycle remains an annual event, so such a commitment to a multiple year tax freeze is unlikely.³⁸

Nevertheless, from my research, each year the Budget Speeches' supporting documents contain a table displaying the impact of the tax proposals on the medium-term revenue. Considering ten years' worth of supporting documentation (2014 – 2024), there had never been a table with a three-year projection. The previous tables merely showed the projection for the relevant tax year, so it is interesting to note the change in the table template for the 2024 Budget Speech, which shows a three-year projection of taxes to be collected if no adjustments are made to account for inflation. Refer to Table 2 below.

I agree full well that one should not jump to unnecessary conclusions, but coupled with the 2024 Medium Term Budget Policy Statement that showed weaker than expected revenue collection, cause for concern is nonetheless warranted.³⁹ As seen from the Revised 2025 Budget Speech delivered on 21 May 2025, bracket creep is again evident for the 2025/2026 tax year.⁴⁰ It remains to be seen if tax bracket creep will re-appear for the third year in a row in the 2026 Budget Speech.

The projection for this proposal for no adjustments to the personal income tax brackets for the next three years is to collect R17.3 billion in the 2025/2026 tax year and R18.6 billion in the 2026/2027 tax year.⁴¹ If implemented, such a tax freeze could span beyond the personal income tax brackets and would imply a freeze on tax rebates and medical tax credits for a three-year period.⁴²

37 Business Tech "The big tax change for South Africa that flew under the radar", <https://businesstech.co.za/news/finance/754331/the-big-tax-change-for-south-africa-that-flew-under-the-radar/> (accessed on 29 August 2024).

38 Business Tech "Some relief for taxpayers in South Africa – for now", <https://businesstech.co.za/news/business-opinion/754973/some-relief-for-taxpayers-in-south-africa-for-now/> (accessed on 3 December 2024).

39 Medium Term Budget Policy Statement 2024, p. 20. <https://www.treasury.gov.za/documents/mtbps/2024/mtbps/FullMTBPS.pdf> (accessed on 10 January 2025).

40 Budget Speech, Chapter 4, p. 37. www.treasury.gov.za/documents/National%20Budget/2025May/review/Chapter%204.pdf (accessed on 21 May 2025).

41 Budget Speech, Chapter 4 Table 4.3. Also see Business Tech "The big tax change for South Africa that flew under the radar", <https://businesstech.co.za/news/finance/754331/the-big-tax-change-for-south-africa-that-flew-under-the-radar/> (accessed on 29 August 2024). In terms of the 2025 Budget, specifically Table 4.3, the revenue collection projections for 2025/2026 and 2026/2027 are higher at R19.5 billion for 2025/2026 and R20.6 billion for 2026/2027.

42 Budget Speech, Chapter 4 Table 4.3. Also see Business Tech "The big tax change for South Africa that flew under the radar", <https://businesstech.co.za/news/>

The impact of these tax freezes on the medium-term revenue was published with the 2024 Budget Speech, as set out in Table 2 below.⁴³

Table 2: Table of the impact of the 2024 tax proposal on the medium-term revenue

R million	2024/25	2025/26	2026/27
	Effect of tax proposals		
Gross tax revenue (before 2024 Budget tax proposals)	1 848 035	1 975 277	2 108 458
2024 Budget proposals²	15 000		7 500
Direct taxes³	18 200	19 330	28 182
Personal income tax			
No inflationary adjustment to tax brackets and rebates	16 300	17 342	18 603
No inflationary adjustment to medical tax credits	1 900	1 989	2 079
Corporate income tax			
Global minimum corporate tax			8 000
Electric vehicles tax incentive			-500
Indirect taxes	-3 200	-3 397	-3 617
Fuel levy			
No adjustment to general fuel levy	-4 000	-4 248	-4 521
Specific excise duties			
Above-inflation increase in excise duties on alcohol	800	851	904
Net impact of tax proposals	15 000	15 933	24 565
Gross tax revenue (after tax proposals)	1 863 035	1 991 210	2 133 023

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
2. In-year tax increase with no carry through
3. Includes carry-through effect of tax policy proposals

Source: National Treasury (2024 Budget Speech, Chapter 4)

As 2024 was an election year in South Africa, it may have been the best option available to the Minister of Finance, politically speaking, to not announce significant tax changes that would be publicly debated, prior to election day.⁴⁴ Kemp also found in his study on the elasticity of taxable income that since tax bracket creep is a non-legislative change the behavioural response of the taxpayer to the tax bracket creep may be muted, as it is by nature a stealth tax.⁴⁵ If the response to tax bracket creep is muted, as argued by Kemp, it is submitted that it would have a minimal impact for government, particularly in an important period such as an election year.

finance/754331/the-big-tax-change-for-south-africa-that-flew-under-the-radar/ (accessed on 29 August 2024).

43 Interestingly, the 2025 Budget Document in Chapter 4 also contains a table with a three-year projection on medium-term revenue collection. In Table 4.3 there are line items for “no inflationary adjustments to tax brackets and rebates” and “no inflationary adjustments to the medical tax credits”. The projected revenue collection for 2027/2028, solely from such non-adjustment measures, is R21.9 billion.

44 Visser “Budget 2024: How the inflation monster will affect taxpayers”, <https://www.moonstone.co.za/budget-2024-how-the-inflation-monster-will-affect-taxpayers/> (accessed on 5 December 2024). Also see Dorn *et al.* 2017:38-39.

45 Kemp 2020:429.

Nevertheless, from an economic perspective, although the freeze of thresholds, tax rebates and medical credits generate “easy” revenues for government, in a struggling economy, it is submitted to be counterproductive.⁴⁶ Sachs in Joffe argues that tax bracket creep is a pro-cyclical move, as it cuts the consumer’s disposable incomes in “an already weak economy”.⁴⁷

The South African Reserve Bank’s inflation target is set at 4.5 per cent, but surveys indicate that inflation for the coming years to be 5 per cent (2025) and 4.9 per cent (2026) respectively.⁴⁸ With no adjustment to the thresholds for inflation planned for the coming years, it is submitted that the effect could negatively impact South African taxpayers.

Ultimately, the non-adjustment is a step further than the previous discretionary adjustments that have in recent years been mostly below inflation. Taxpayers will bear the brunt of the non-adjustments from both sides (in terms of their liability on their taxable income and deductible tax rebates and medical credit) from the 2024/2025 tax year due to:

- i. No adjustment made to the progressive income tax table thresholds;
- ii. No adjustment made to the primary, secondary and tertiary rebates;
- iii. No increase in the tax threshold (referring to widening the net to catch more low-income earners to register for tax), and
- iv. No adjustment made to the medical tax credits.

I now turn to the global practices to briefly consider what other jurisdictions have implemented to address tax bracket creep.

4. GLOBAL PRACTICES REGARDING TAX BRACKET CREEP AND OTHER POSSIBLE SOLUTIONS

4.1 Automatic Indexation

The primary solution to tax bracket creep suggested by economists is automatic tax indexation. A tax indexation would mean an automatic annual adjustment to the income tax rate/thresholds.⁴⁹ Dorn *et al.* find that in many countries – such as Canada, the Netherlands and the United States – such an annual automatic adjustment is legally binding and in most of these countries it

46 Joffe “Economists warn fiscal prudence going off the rails”, <https://www.businesslive.co.za/bd/economy/2024-02-15-economists-warn-fiscal-prudence-is-going-off-the-rails/> (accessed on 10 January 2025).

47 Joffe “Individual taxpayers bear the brunt of ‘stealth tax’”, <https://www.businesslive.co.za/bd/opinion/columnists/2024-03-08-hilary-joffe-individual-taxpayers-bear-brunt-of-stealth-tax/> (accessed on 10 January 2025). Also see Public Economy Project to Parliamentary hearing on the budget (pre-submission) “Budget 2024 Austerity mission accomplished?” p. 7, <https://bit.ly/4dU0WjV> (accessed on 10 January 2025).

48 “Statement of the Monetary Policy Committee” 18 July 2024, <https://bit.ly/4jF5Hiw> (accessed on 3 September 2024).

49 OECD 2023:45-46.

extends also to the automatic indexation of amounts of tax-deductible items.⁵⁰ In countries where there is no legally binding tax indexation, the governments sporadically update the tax rates/thresholds.⁵¹

Beer *et al.* found in their working paper that only a few countries adjust personal income tax thresholds automatically for inflation and that most countries do not. If adjustments are made to the personal income tax thresholds, it is done so on an *ad hoc* basis, which may or may not be aligned with inflation.⁵² In their working paper in 2023 the authors found that of the 160 countries considered, 131 countries do not adjust the income tax brackets thresholds “regularly” (defined as almost every year). The remaining 29 countries do adjust it regularly, but only ten countries⁵³ had explicit legal or administrative reference to a process that adjusts for inflation.⁵⁴ South Africa was listed as one of the countries that made regular adjustments to the income tax thresholds, yet the paper found that South Africa’s process is unclear as there is no explicit legal or administrative reference to a process in making the adjustments for inflation.⁵⁵

As mentioned above, the data from Beer *et al.*’s working paper suggests that a limited number of countries have adopted an automatic tax indexation. The authors suggest that while indexation seems to offer a simple solution to tax bracket creep, it “may face political obstacles” as the annual adjustment of thresholds creates the perception that government is providing tax relief, while with automatic indexation it would be clear that the tax system is merely being kept stable.⁵⁶

4.2 Employers to provide non-tax benefits to employees

An alternative possibility to address tax bracket creep, at least in part, is for employers to consider the current employee packages and include suitable non-taxable fringe benefits.⁵⁷ Adding such non-taxable fringe benefits would effectively reduce the employees’ taxable income and avoid the potential bracket creep that the employee may suffer if the employer opted for an inflation-related salary increase.

50 Dorn *et al.* 2017:35.

51 Dorn *et al.* 2017:35.

52 Beer *et al.* 2023:7.

53 Countries identified in the working paper to have automatic adjustments: Austria, Canada, Chile, Denmark, Israel, the Netherlands, Serbia, Taiwan, the United States and Venezuela. The OECD’s publication *Taxing Wages* (2023) indicates that, based on questionnaire responses the following countries also have automatic tax indexation of personal income tax thresholds: Belgium, Colombia, Costa Rica, Iceland, Israel, Lithuania, Mexico, Slovak Republic, Slovenia, Sweden, Switzerland and Turkey.

54 Beer *et al.* 2023:7.

55 Beer *et al.* 2023:7.

56 Beer *et al.* 2023:9.

57 Potgieter “The Weight of Fiscal Drag on South Africa’s Dwindling Taxpayer Population”, <https://fluxmans.com/article/weight-fiscal-drag-on-taxpayers> (accessed on 2 September 2024).

Some examples of such non-taxable fringe benefits include:

- i. Increased portion of contributions by the employer to the employee's pension or provident fund;⁵⁸
- ii. Increased portion of contributions by the employer to the employee's medical scheme;⁵⁹
- iii. Monetary long service awards;⁶⁰
- iv. Provision of meals to employees (canteen);⁶¹
- v. Subscription fees to professional bodies if such membership is a condition of the employee's employment.⁶²

The employee can also reduce his or her own taxable income by making the maximum annual investment in the form of contributions to a retirement annuity.⁶³

However, given the existing strain of a weak economy and the high levels of personal debt in the country,⁶⁴ it may be that employees would rather opt to have the cash in their pockets, as opposed to investing for the future or receiving a non-taxable fringe benefit. The recent introduction of the two-pot retirement system allows South Africans to make an emergency withdrawal of their pension fund savings, which is itself subject to tax.⁶⁵ Since the introduction of the two-pot system in September 2024, a significant number of taxpayers have made withdrawals from their retirement funds, despite the withdrawal being subject to tax.⁶⁶ This may be indicative of desperate times for taxpayers and an economic environment that is unfavourable for a proposed restructuring of employees' take-home salary packages.

58 Seventh Schedule of the *Income Tax Act 58/1962*:paras. 2(l), 2(h) and 12D and 13.

59 *Income Tax Act 58/1962*:sec. 6A and Seventh Schedule of the *Income Tax Act 58/1962*:paras. 2(j) and 12A.

60 Seventh Schedule of the *Income Tax Act 58/1962*:paras. 5(2), 6(4) and 10(2). Some requirements of the long service award include: "The employee must have completed an initial unbroken period of 15 years' service with the employer, and any subsequent unbroken period of 10 years' service with that same employer; and ... the total value of the long service award must not exceed R5 000."

61 Seventh Schedule of the *Income Tax Act 58/1962*:paras. 2(c) and 8. In terms of this non-tax benefit, employees' tax is deducted from the cash equivalent of the benefit.

62 Seventh Schedule of the *Income Tax Act 58/1962*:paras. 2(h) and 13.

63 Seventh Schedule of the *Income Tax Act 58/1962*:paras. 2(h) and 13.

64 Libera "Red flags for South Africans earning over R20 000 per month", <https://businesstech.co.za/news/finance/788609/red-flags-for-people-earning-over-r20000-per-month-in-south-africa/> (accessed on 2 September 2024).

65 One withdrawal per year of assessment, R2 000 minimum amount withdrawal.

66 SARS "More than 1 million taxpayers withdraw from their savings pot", <https://www.sars.gov.za/media-release/more-than-1-million-taxpayers-withdraw-from-their-savings-pot/> (accessed on 3 December 2024).

4.3 Tax cuts

Some countries have recognised the negative impact that tax bracket creep has on household incomes and have implemented tax cuts to alleviate some of the burden created by tax bracket creep. For example, Australia has recently implemented stage 3 tax cuts with effect from July 2024.⁶⁷ These tax cuts are aimed at reducing the personal income tax rates as well as lowering the income tax brackets. For example, one of the personal income tax rates in 2023/2024 was 19 per cent; now with the tax cuts this tax rate has been reduced to 16 per cent.⁶⁸ In terms of the highest personal income tax bracket in 2023/2024 persons earning over AUD180 000 was taxed at a rate of 45 per cent, but due to the tax cuts, this threshold has been pushed upward to AUD190 000.⁶⁹

In Germany the tax relief provided to combat the effects of tax bracket creep is twofold. First is the implementation of the *Inflation Compensation Act 2022*, which saw adjustments of the tax rates for the 2024 tax year to compensate for tax bracket creep (also referred to as “cold progression”) and raising of the basic personal tax allowance.

Secondly, Germany has incorporated short-term relief in the form of an inflation compensation premium (bonus payment). Although a detailed discussion on this premium falls outside the scope of this paper, it is interesting to note that the premium was available for a window period of two years (ending December 2024), where employers may elect to pay the employees a tax-free bonus of up to EUR3 000. This bonus must be paid additionally to the employees’ salary and could have been paid in instalments or as a benefit-in-kind.

A news article issued in January 2024 indicated that the statistics show that the majority of German companies opted to pay the inflation compensation premium, with only 12 per cent of the surveyed companies stating it did not want to pay the bonus.⁷⁰ The main reason cited for paying the bonus is to increase employee motivation. This may be attributable to the substitution effect that could have occurred in Germany’s labour market due to tax bracket creep.

67 Australian Government “Tax Cuts”, <https://taxcuts.gov.au/> (accessed on 10 January 2025).

68 Australian Government “Tax Cuts”, <https://taxcuts.gov.au/> (accessed on 10 January 2025).

69 Australian Government “Tax Cuts”, <https://taxcuts.gov.au/> (accessed on 10 January 2025).

70 Ifo Institute “Skills shortage has a major impact on Companies’ HR strategies”, <https://www.ifo.de/en/facts/2023-11-24/skills-shortage-has-major-impact-companies-hr-strategies-4th-quarter-2023> (accessed on 10 January 2025).

5. CONSIDERING AUTOMATIC TAX INDEXATION IN SOUTH AFRICA

It is argued that a once-off tax cut is only a symptomatic solution to tax bracket creep, and that such once-off changes to thresholds and rates, or even something such as the German tax-free premium, only provide temporary relief.⁷¹ As such, the relief offered by these tax cuts will be eroded over time.

The only genuine solution to personal income tax bracket creep is automatic tax indexation.⁷² As highlighted above, there are few countries that opt for automatic indexation of the tax thresholds. Most governments prefer to make discretionary adjustments to these thresholds. This allows governments to decide to either make an adjustment that matches inflation or real wages, or to only make a partial adjustment, or, as seen in South Africa in the 2024/2025 and 2025/2026 tax years, to make no adjustment.

Kemp points out that in South Africa the individual tax brackets are often adjusted to compensate for inflation; the degree of the adjustment, however, is dependent upon policy and revenue requirements at the time of the adjustment.⁷³

Nevertheless, if the adjustments remain below inflation (for example, below CPI) the adjustment would ease the blow, but would not adequately address the negative effect of tax bracket creep.⁷⁴ Even so, it seems that many countries do not want to relinquish the tax bracket creep that serves as a “hidden source of additional tax revenue”.⁷⁵

In 1980, when the United States considered indexation of the personal income tax thresholds, the Budgetary Office compiled a Background Paper in which it proposed indexing as a remedy for the effect of inflation on tax liabilities. The paper set out the basic issue before Congress: “Should the effects of inflation on tax liabilities be handled automatically, according to some predetermined rule, or should they be adjusted by periodic, discretionary tax cuts?”⁷⁶ Some arguments for and against automatic tax indexation is considered below.

5.1 Arguments for automatic indexation of the personal income tax

An argument considered for automatic tax indexation, is that it does not perpetuate inflation, like wage and price indexation. A threshold indexation merely “prevents inflation from leading to arbitrary changes in real taxes” and is therefore neither inflationary nor disinflationary.⁷⁷

71 PwC 2016.

72 Carling & Potter 2016:50.

73 Kemp 2020:2.

74 Musviba 2023:8.

75 Dorn *et al.* 2017:35.

76 Congress of United States Congressional Budget Office “Indexing the Individual Income Tax for Inflation”, September 1980, <https://bit.ly/4436kOt> (accessed on 6 December 2024).

77 Beer *et al.* 2023:9.

The reality is that it is the lower- and medium-income earners that are hit hardest by tax bracket creep as taxpayers being taxed at the top rate are least affected by it. This is due to the fact that taxpayers at the highest bracket cannot be pushed into a higher tax bracket; they may, however, see a decline in value of their rebates and deductions.⁷⁸ It is submitted that it is regressive to target such lower-income earners in lower tax brackets with tax bracket creep.

A further argument for automatic indexation is that it does not rule out discretionary tax changes, it just creates a more meaningful and transparent starting point for the discretionary adjustments and differentiates between what adjustments are genuine tax increases or tax cuts.⁷⁹

One may argue that tax bracket creep is contrary to the “ability-to-pay” principle applied in the progressive tax rate system, where each citizen should contribute to the fiscus according to his or her own capacity.⁸⁰ The point of having marginal tax brackets is to ensure that taxpayers who earn more should effectively pay more, not to excessively extract more tax from taxpayers in such a manner by stealth.

Another argument for indexing is seen in the Background Paper, where it is suggested that indexing “would eliminate an upward influence on federal spending by curbing the automatic rise in federal revenues during inflationary periods”.⁸¹ In essence, the argument is that indexing could serve as a tool in curbing excessive government spending.

In the end, the effect of tax bracket creep is that governments are collecting a disproportioned amount of taxes from taxpayers, implying that taxpayers are in essence poorer due to their tax brackets not keeping pace with inflation. It creates a fiscal drag on the economy (by in effect hindering economic growth) and dampens consumption. This in turn also affects the revenue collections from other consumption taxes such as Value-Added Tax (VAT) and even customs and excise duties.

Carling and Potter further argue that governments are generally not disinclined to indexation in terms of government budgeting. For example, one sees indexation of excise duties, such as alcohol, tobacco and fuel (to avoid revenue collection to decrease due to inflation).⁸² Yet, governments appear to be reluctant to apply the same principle and index the personal income tax tables as, in effect, it would dismantle an “easy” avenue for the collection of additional revenue.⁸³ The authors conclude that indexation, as illustrated, is found in many areas of government taxation and spending, yet

78 Swanepoel “FROZEN TAX TABLES: How a second year of inaction could impact South African taxpayers in 2025”, https://www.up.ac.za/taxation/news/post_3290650-frozen-tax-tables-how-a-second-year-of-inaction-could-impact-south-african-taxpayers-in-2025 (accessed on 20 May 2025).

79 Carling & Potter 2016:50.

80 Dorn *et al.* 2017:35.

81 Congress of United States Congressional Budget Office “Indexing the Individual Income Tax for Inflation”, <https://www.govinfo.gov/content/pkg/GOVPUB-Y10-PURL-gpo126522/pdf/GOVPUB-Y10-PURL-gpo126522.pdf> (accessed on 5 December 2024).

82 Carling & Potter 2016:48.

83 Carling & Potter 2016:48.

the largest exception to this is the indexation of personal taxes, which the authors contribute to political reasons.⁸⁴

A further example in this vein can be seen in South Africa, where the interest rate for tax debt due to SARS is adjusted to be much higher than inflation (the interest rate for outstanding tax debt is currently at the prime lending rate of 11.75 per cent), to ensure SARS does not suffer the effects of inflation relating to outstanding tax debts.⁸⁵ Simultaneously, a different interest rate applies to SARS where credit amounts are payable (overpayment of provisional tax), which is at 7.75 per cent.⁸⁶

This suggests that governments are very much aware of indexation when budgeting where the indexation effectively fills the coffers of the state but seems disinclined to apply the same tax indexing to tax thresholds or rebate amounts on an annual basis to account for inflation.

5.2 Arguments against automatic indexation

Carling and Potter propose that there are two main arguments against tax indexation:

- i. It diminishes the government's "budget flexibility to respond to changed economic circumstances";⁸⁷
- ii. Bracket creep should be used addressing chronic budget deficits.⁸⁸

The authors argue that these views are misguided as it ignores the substantial costs of bracket creep and that these views are not appropriate reasons for a regressive tax increase. Often the extra funds generated from the tax bracket creep are used for higher government spending, while, in order to abstain from tax bracket creeps, governments should in fact aim to decrease government spending.

The OECD report indicates that countries that have automatic tax indexation do not by implication have a tax system which is more responsive to inflation than a country that adopts discretionary indexation.⁸⁹ One may therefore argue that discretionary adjustments to personal income tax tables allow governments to be more responsive to sharp increases in inflation.⁹⁰ Indexing can also be argued to limit the government's budgetary policy and the government would be left with fewer options to generate revenue, such as legislated tax increases and spending cuts.⁹¹

84 Carling & Potter 2016:49.

85 Musviba 2023:10.

86 SARS "Interest rates – Table 2", <https://www.sars.gov.za/wp-content/uploads/Legal/Rates/Legal-Pub-IRT-02-Interest-Rates-Table-2.pdf> (accessed on 29 August 2024).

87 "The tax bite" *The Sydney Morning Herald*, 7 May 1981.

88 Carling & Potter 2016:48.

89 OECD 2023:45-46.

90 OECD 2023:45-46.

91 Congress of United States Congressional Budget Office "Indexing the Individual Income Tax for Inflation", <https://www.govinfo.gov/content/pkg/GOVPUB-Y10->

An interesting argument against indexation is that bracket creep itself is a tool to reduce inflation. The argument is that adjusting tax thresholds would amplify inflation pressures given the rapid price increase.⁹² According to this argument, providing taxpayers with automatically adjusted tax brackets would “feed money back into the economy, making it more difficult to bring inflation under control.”⁹³ Although additional disposable income could bring about higher prices, it is submitted that this argument is flawed. In essence, the progressive tax system is an automatic stabiliser for the economy.⁹⁴ Where there is economic expansion, generally these progressive tax rates would generate higher revenue for governments. Conversely, in an economic downturn tax revenues generally decrease, while providing taxpayers with more disposable income to boost the economy.

6. CONCLUSION

As illustrated in this paper, tax bracket creep is a worldwide phenomenon and something many countries experience⁹⁵ and many countries seem disinclined to introduce an automatic tax indexation as it would cut into an additional revenue stream for governments. This leaves limited relief options for individual taxpayers as tax cuts serve only as a short-term solution to the symptomatic problem of tax bracket creep.

Due to fiscal drag, the taxpayer’s purchasing power is reduced due to having less disposable income, meaning there is lower consumption and therefore also lower collection of consumption taxes (such as VAT), which negatively impacts on business and economic growth.⁹⁶

PURL-gpo126522/pdf/GOVPUB-Y10-PURL-gpo126522.pdf (accessed on 5 December 2024).

- 92 Wright “You might not like it, but bracket creep is aiding the inflation fight: Treasury boss”, https://www.theage.com.au/politics/federal/you-might-not-like-it-but-bracket-creep-is-aiding-the-inflation-fight-treasury-boss-20240530-p5jhyy.html?utm_medium=Social&utm_source=Facebook#Echobox=1717051483 (accessed on 3 September 2024).
- 93 Wright “You might not like it, but bracket creep is aiding the inflation fight: Treasury boss”, https://www.theage.com.au/politics/federal/you-might-not-like-it-but-bracket-creep-is-aiding-the-inflation-fight-treasury-boss-20240530-p5jhyy.html?utm_medium=Social&utm_source=Facebook#Echobox=1717051483 (accessed on 3 September 2024).
- 94 Faster Capital “Automatic Stabilizers and Fiscal Drag: The Balancing Act”, <https://fastercapital.com/content/Automatic-Stabilizers-and-Fiscal-Drag--The-Balancing-Act.html#:~:text=Fiscal%20drag%20occurs%20when%20the,than%20providing%20a%20stabilizing%20effect> (accessed on 6 December 2024).
- 95 Wood *et al.* “Number of UK income tax payers leaps by 4.4m in three years due to threshold freeze”, <https://www.theguardian.com/money/article/2024/jun/27/income-taxpayers-leaps-in-three-years-due-to-threshold-freeze> (accessed on 2 September 2024).
- 96 Faster Capital “Automatic Stabilizers and Fiscal Drag: The Balancing Act”, <https://fastercapital.com/content/Automatic-Stabilizers-and-Fiscal-Drag--The-Balancing-Act.html#Understanding-Automatic-Stabilizers-and-Fiscal-Drag> (accessed on 3 September 2024).

The situation in South Africa is severe, as the country already has a dwindling taxpayer base. For the 2024/2025 tax year, of a working-age population in South Africa ranging from 20 to 69 years old consisting of approximately 37.6 million people,⁹⁷ the tax statistics show that only approximately 6.6 million are registered taxpayers who submitted personal income tax returns (assessed taxpayers).⁹⁸ This means that roughly only 17.5 per cent of the working age population is contributing to personal income tax.

Personal income tax is the largest contributor to the gross revenue collection as it accounted for 37.4 per cent of the gross tax revenue collection in the 2023/2024 fiscal year, with a projection of 38 per cent for the 2024/2025 year.⁹⁹ In addition, many South African taxpayers seem to be immigrating and ceasing their South African tax residency, shrinking this tax base even further.¹⁰⁰

This implies that a small tax base that is carrying the existing strain of personal income tax revenues may potentially have to shoulder the added burden of not having any of the tax thresholds adjusted, as implied in the 2024 Budget Speech, for the next three tax years.

97 Statistics South Africa. Statistical Release P0302, Mid-year population estimates, 2024, www.statssa.gov.za/publications/P0302/P03022024.pdf p. 21 (accessed on 20 May 2025). The working age used for this study is from 20 to 69 years old, as published by Statistics South Africa.

98 SARS "2024 Tax Statistics Highlights", <https://www.sars.gov.za/wp-content/uploads/Docs/TaxStats/2024/Tax-Statistics-2024.pdf> (accessed on 10 January 2025); Also see "Compliance effort of SARS bears fruit and underpin the positive revenue results despite the tough economic conditions", <https://bit.ly/4dSoDJH> (accessed on 30 August 2024).

99 2024 Medium Term Budget Policy Statement, Table C8, p. 60, <https://www.treasury.gov.za/documents/mtbps/2024/mtbps/FullMTBPS.pdf> (accessed on 10 January 2025). Wood *et al.* "Number of UK income tax payers leaps by 4.4m in three years due to threshold freeze", <https://www.theguardian.com/money/article/2024/jun/27/income-taxpayers-leaps-in-three-years-due-to-threshold-freeze> (accessed on 2 September 2024). Faster Capital "Automatic Stabilizers and Fiscal Drag: The Balancing Act", <https://fastercapital.com/content/Automatic-Stabilizers-and-Fiscal-Drag--The-Balancing-Act.html#Understanding-Automatic-Stabilizers-and-Fiscal-Drag> (accessed on 3 September 2024).

Statistical Release P0302, Mid-year population estimates, 2024, www.statssa.gov.za/publications/P0302/P03022024.pdf p. 21 (accessed on 20 May 2025). The working age used for this study is from 20 to 69 years old, as published by Statistics South Africa.

SARS "2024 Tax Statistics Highlights", <https://www.sars.gov.za/wp-content/uploads/Docs/TaxStats/2024/Tax-Statistics-2024.pdf> (accessed on 10 January 2025); Also see "Compliance effort of SARS bears fruit and underpin the positive revenue results despite the tough economic conditions", <https://bit.ly/4n0eLJ> (accessed on 30 August 2024).

2024 Medium Term Budget Policy Statement, Table C8, p.

100 Tax Statistics 2024, www.sars.gov.za/wp-content/uploads/Docs/TaxStats/2024/Tax-Statistics-2024.pdf reveal that between 2017 and 2023, 38 000 South African taxpayers have ceased their tax residency; Jacobs "Wealthy taxpayers flooding out of South Africa", <https://dailyinvestor.com/finance/46635/wealthy-taxpayers-flooding-out-of-south-africa/> (accessed on 10 January 2025).

It is submitted that there is already a disproportionate tax burden upon these taxpayers and due to no adjustment to the personal income tax tables for the 2024/2025 and 2025/2026 tax year, one may argue that it is a bridge too far to generate additional revenues. Let us hope that we are just seeing ghosts, that there will not be a three-year tax freeze as some have speculated, as it would have a significant and negative impact on our already struggling economy and overburdened tax base.

As explained above, many authors would argue that tax bracket creep is a politically driven phenomenon, and as such, few governments have been inclined to automatically index the personal income tax thresholds. In most countries it remains in the government’s discretion to increase these thresholds (or not), and by how much.

Dorn *et al.* aptly present this viewpoint on tax bracket creep and its political incentive:

From an economic policy viewpoint, the phenomenon of bracket creep is a welcomed gift to politicians seeking re-election, since it generates tax increases that do not require parliament’s approval and are not the outcome of a public policy debate. What is more, these tax increases are “hidden”. The negative voter reactions that are to be expected from any public debate over tax increases are sidestepped as a result. Rising tax revenues help satisfy voter wishes without creating budget deficits. Consequently, politicians favouring the expansion of state activity will take little interest in a reform that eliminates bracket creep. This does not mean, however, that a reform is not necessary.

With the first Government of National Unity (GNU) in 2024 in South Africa, we would have to wait and see what the future holds. Perhaps we will see a tax reform, given the existing rising tax rates creating a drag on economic growth.¹⁰¹ Ultimately, the GNU will need to consider how to stimulate economic growth with the available financial resources to the benefit of all its citizens.

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101 Kantor “A new fiscal order beckons”, *ZA Economist*. 20 February 2024. <https://www.zaeconomist.com/fiscal-policy/a-new-fiscal-order-beckons/> (accessed on 10 January 2025).

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