# SAVCA REGULATORY UPDATE

**4 March 2026**

## Withdrawal of the Proposed Amendment to Section 23N

### 1. Introduction

The Southern African Venture Capital and Private Equity Association (SAVCA) wishes to formally notify members that National Treasury has **withdrawn the 2024 amendment to section 23N of the Income Tax Act**, which had been scheduled to take effect on 1 January 2027. The proposed amendment sought to align the interest-limitation formula in section 23N with the revised 30% used in section 23M. This withdrawal was confirmed in the **2026 National Budget Speech**, following sustained engagement and submissions from SAVCA and broader industry stakeholders.

### 2. Background to the Proposed Amendment

Section 23N governs the limitation of interest deductions arising from **acquisition and reorganisation transactions**, typically relevant in private equity, venture capital, and M&A environments. The formula in section 23N is referenced to the repo rate and it currently limits the interest deduction to **43%** of 'adjusted taxable income' / EBITDA.

By contrast, section 23M applies to **interest on debt owed to persons not fully subject to South African tax**, where the debt is **owed to a person in a 'controlling relationship'** with the borrower. The interest deduction limit in section 23M is a **flat 30%** of 'adjusted taxable income' / EBITDA.

In the **2024 Taxation Laws Amendment Act (TLAB)**, National Treasury proposed aligning the two formulae to ensure consistency across interest-limitation provisions. However, the private equity and venture capital ecosystem raised several substantive concerns:

- **The policy objectives of sections 23M and 23N differ materially**, and therefore a uniform formula is not necessarily appropriate.
- Section 23N already contains targeted anti-avoidance measures specific to acquisition debt, making further restrictions unnecessary.
- The alignment would have **reduced debt capacity** for acquisition transactions, potentially constraining legitimate deal-financing structures.
- The proposed formula risked creating unintended distortions for mid-market transactions, where financing arrangements are often narrower and more sensitive to deductibility limits.

These issues collectively indicated that the proposed change would not achieve its intended simplification and could have **introduced uncertainty into deal structuring** across the industry.

## 3. SAVCA's Engagement and Advocacy Efforts

Over the past two years, SAVCA has actively engaged with National Treasury and SARS to articulate the implications of the proposed amendment and advocate for its withdrawal.
This work included:

- **2024 TLAB Submission**, outlining initial concerns regarding policy misalignment
- **December 2024 Annexure Submission**, providing further technical detail and industry examples
- **December 2025 Annexure C Submission**, reinforcing the practical impact on fund structuring
- **Participation in all National Treasury public workshops and engagements** on interest-limitation reforms during 2024 and 2025

Throughout this process, SAVCA emphasised that the proposed alignment risked **over-regulating acquisition-related debt unnecessarily** and could harm the competitiveness of the South African private equity and venture capital markets.

This engagement was **led by Mark Linington of Bowmans**, who supported SAVCA with technical modelling, legal interpretation, and policy analysis. SAVCA thanks Mark for his leadership and his significant contribution to achieving a positive outcome for the sector.

## 4. Confirmation from the 2026 Budget Speech

National Treasury confirmed the withdrawal of the amendment with the following statement from the 2026 Budget Speech:

"In 2024, the Taxation Laws Amendment Act included amendments to align the formula contained in the rules that limit interest deductions in terms of section 23N… Over the past two years, concerns have been raised that the proposed alignment… is not necessary given the distinct nature of the rules and transactions… It is proposed that the 2024 amendment to align the formulas be withdrawn."

This means that **section 23N will remain unchanged**, and the proposed 2027 effective date falls away.

## 5. Implications for SAVCA Members

The withdrawal removes the risk of unintended restrictions on financing structures used in private equity and venture capital transactions. It also ensures continuity and certainty for dealmaking and reflects the effectiveness of the industry's collective advocacy.

## 6. Next Steps

SAVCA will continue monitoring developments in interest limitation reforms, engaging with National Treasury and SARS on tax policy matters, and keeping members informed of any further proposed changes.