

Benchmark transition and tax:

Official vs. negotiated CAS



April 2026

Introduction

Johannesburg Interbank Average Rate (JIBAR) is a term interbank rate containing a built-in credit risk and term premium, whereas the South African Rand Overnight Index Average (ZARONIA) is an overnight risk-free rate based on actual transactions. As a result, ZARONIA yields are lower than JIBAR for the same tenor. Simply replacing JIBAR with ZARONIA on existing loans would unfairly reduce interest flows. To address this, the draft general finance amendment bill introduces Credit Adjustment Spreads (CAS) to be applicable on legacy contracts after the JIBAR cessation date.

Legislative formalisation of the CAS

The General Finance Laws (Official Benchmarks and Procurement) Amendment Bill proposes the insertion of a new Chapter 2A in the Financial Sector Regulation (FSR) Act, which will govern benchmark transitions and codify these market conventions into law. Under this proposed Chapter 2A the South African Reserve Bank (SARB) is empowered to designate replacement benchmarks and spreads. Specifically, SARB notice will fix the designated replacement benchmark (e.g. ZARONIA) and a designated adjustment spread (the CAS) for JIBAR cessation. On the benchmark cessation date, that designated replacement (ZARONIA) “as adjusted by the designated adjustment spread” becomes the new official rate for all relevant legacy contracts. Importantly, any contractual fallback tied to the old JIBAR (other than applying the official CAS) is treated as void.

In effect, this means taxpayers must use the SARB-published CAS; they cannot unilaterally impose a different spread and still claim the benchmark transition rules of the Act.

CAS and section 24J (interest accruals)

Interest expense/income are generally calculated in terms of section 24J of the Income Tax Act No.58 of 1962. Section 24J requires that financial instrument issuers/buyers use an accrual-yield method. A change in the reference rate, by itself, does not alter past accruals; it merely requires a fresh yield-to-maturity (YTM) calculation going forward. The SARB’s published CAS should be regarded as forming part of “interest” for purposes of section 24J.

Negotiated CAS – tax uncertainty

If parties agree a different CAS for, say, an unlisted loan, the tax treatment becomes uncertain as negotiated CAS signals a departure from the legislated mechanism. Where a negotiated CAS is higher than the official CAS the key issue is whether the excess amount constitutes “interest” for purposes of the Income Tax Act, or whether it represents another form of payment that must be assessed under different provisions of the Act.

Where taxpayers consider the SARB-published CAS not reflective of their economic reality, they should consider applying to the South African Revenue Service for a binding private ruling to seek confirmation that the negotiated CAS should be treated as interest for tax purposes.

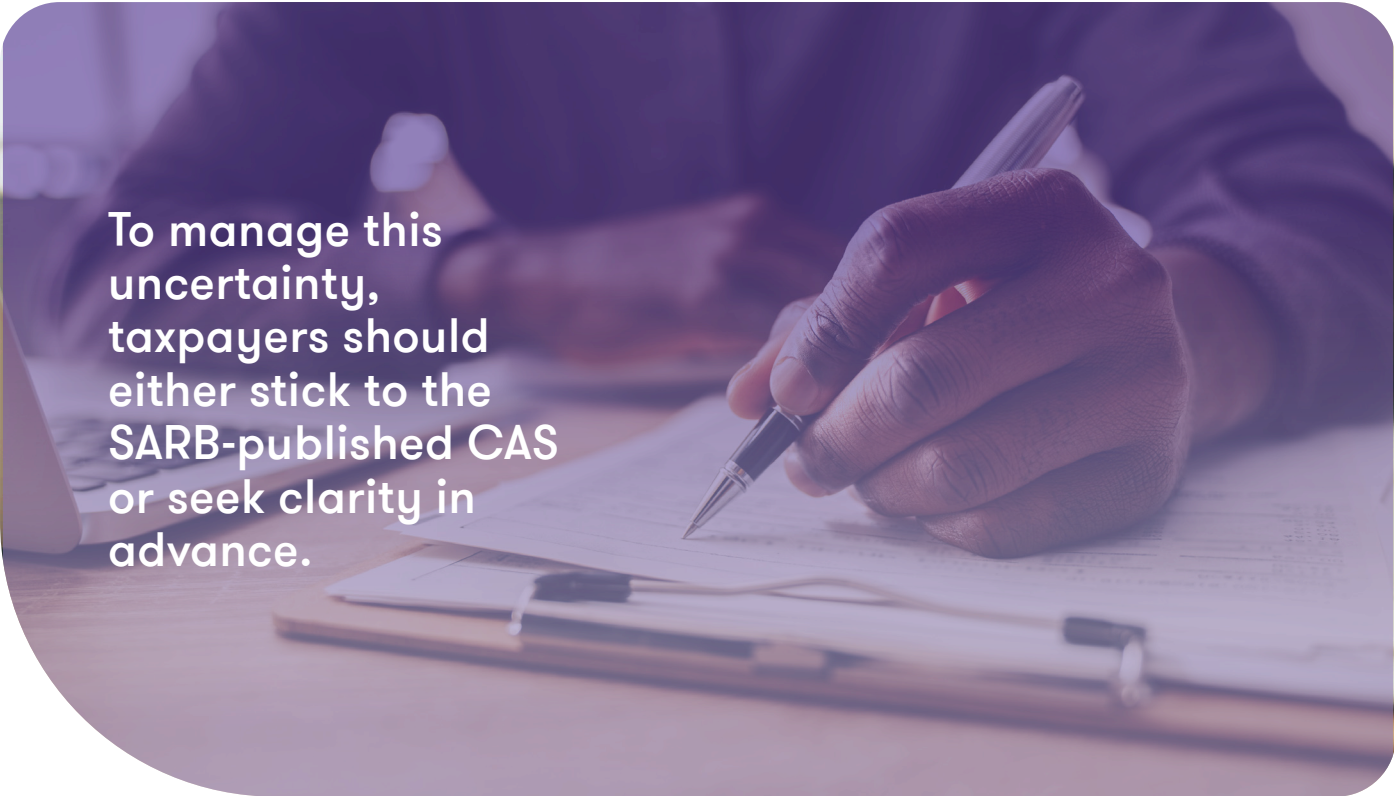
¹ National Treasury (2025) Draft General Finance Laws (Official Benchmarks and Procurement) Amendment Bill, 2025. Section 31C(1)(a).

² Ibid section 31D(1).

Mitigating measures

To manage this uncertainty, taxpayers should either stick to the SARB-published CAS or seek clarity in advance. A binding private ruling from SARS could confirm that a particular negotiated spread (which equalises loan economics) will be treated as interest and therefore deductible for tax purposes. In the ruling application, taxpayers should emphasise:

- Economic equivalence: That the negotiated CAS truly preserves the loan's present value (matching the official CAS outcome for issuers of financial instruments) and
- That applying the official CAS will have negative impact on the buyer and issuer of the impacted financial instrument.



To manage this uncertainty, taxpayers should either stick to the SARB-published CAS or seek clarity in advance.

Conclusion

In conclusion, once the legislation is final, using the SARB's published CAS should lead to no adverse tax effect: the loan's economics are maintained and only the yield is redetermined (as intended). By contrast, a negotiated CAS (outside the statutory framework) introduces ambiguity. Absent formal guidance, it could be challenged as a material alteration. Our advice is to rely on the official CAS or to obtain a binding ruling if any deviation is contemplated, ensuring the tax treatment remains aligned with legislative intent.

Contributors to this article



Khanyisa Cingo-Ngandu

Director and Head: Tax Advisory Services
Khanyisa.Cingo@sng.gt.com



Cavin Mothobi

Tax Consultant
Cavin.Mothobi@sng.gt.com

For general enquiries please contact us at info@sng.gt.com



© 2026 SNG Grant Thornton - All rights reserved.

“Grant Thornton” refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. SNG Grant Thornton is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another’s acts or omissions.