KPMG

Tax Alert

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A tough 2018 budget – where are the Incentives?

In his maiden Budget Speech yesterday, Finance Minister Malusi Gigaba announced an increase in the VAT rate from 14% to 15%, amongst other tax increases. Containing inflation is not an easy task and further pressure will also be placed on the economy through the introduction of Carbon Tax (which will be implemented from 1 January 2019), increases in the fuel levy, and the "Sugar" Tax. These impact all areas of the economy – so what relief are businesses able to access?

Incentivising the economy towards growth

R18.8 billion has been allocated for industrialisation incentives, with an additional R3.3 billion for the economic competitiveness and support package over the next three years. From this budget, R4.9 billion has been allocated towards infrastructure in SEZs (of which six have been approved by the Minister of Finance, namely Coega, Dube Trade Port, East London, Maluti-a-Phofung, Richards Bay and Saldanha Bay).

Based on the above statistics, there is clearly still room to access the incentives that are available to businesses, and companies should take advantage of this!

However, the devil lies in the detail.

The majority of incentives require that an application is submitted before any costs for a project are incurred, or even before any purchase orders are placed. In the case of SEZs, the principle of "Additionality" applies, and companies cannot simply relocate their operations to a SEZ to benefit from reduced tax rates.

The data – room to improve incentives

While government and tax incentives for business were not specifically addressed in the budget speech, (other than Special Economic Zones ("SEZs"), which already exist), the Annexures to the 2018/19 Budget set out government's medium term plan for incentivising the economy for growth and job creation, albeit very vaguely.

Below is an excerpt from Table B.1 of Annexure B (Tax Expenditure Statement) released by National Treasury ("NT"), that reflects a 20% share of total support as at 2015/16*.

Tax Expenditure Estimates - R billion	2012/13	2013/14	2014/15	2015/16
Research and development	0.2	0.2	0.1	0.2
Learnership allowances	0.9	0.8	0.5	0.7
Strategic industrial projects[1]	0.5	0.2	0.03	0.02
Film incentive	0.4	0.04	0.01	0.02
Urban development zones	0.3	0.3	0.3	0.2
Employment tax incentive	-	0.1	2.4	4.1
*Motor Vehicles *(includes MIDP/APDP* including IRCC's)	15.8	18.4	23.5	26.9
Total Incentive Tax Expenditure	**17.9**	**20.1**	**26.8**	**32.1**
Total Tax Expenditure all taxes	**123.1**	**135.1**	**145.5**	**159.3**

(Revenue forgone by NT)				
Corporate incentive support as % of Total tax foregone by NT	**15%**	**15%**	**18%**	**20%**

**2015/16 is the latest figures available to report on by NT.*

[1] *Strategic industrial projects includes allowances under section 12I (Industrial Policy Projects)*

Breaking it down

This percentage share of support sees a steady increase over the last three years. Expenditure related to the Automotive Production Development Programme is currently the largest tax expenditure item, at 83.8% for 2015/16, with the Employment Tax Incentive following at 12.6%.

Spending on Research and Development more than doubled from 2014/15 to 2015/16, and Government's commitment to using this avenue to increase productivity and higher levels in economic growth is shown not only with the Department of Science and Technology working on reducing an application backlog that occurred, but also with Government considering revising aspects of the legislation that have created complexity.

The decline in the tax expenditure for the section 12I Industrial Projects incentive indicates an apparent slow-down in the uptake of this incentive. Based on the budget allocated to Industrialisation incentives, this could signal that, together with the extension of the expiry date of the incentive from 2018 to 2020, the amount available for companies to access this incentive not yet been depleted.

Urban Development Zones, which allows for accelerated depreciation allowances on buildings, has received less attention than Special Economic Zones, with expenditure being reduced from R283m in 2014/15 to R182m in 2015/16. The proposed expenditure allocated to SEZs for 2018/19 is R350m. Qualifying companies located in SEZs are granted, amongst other benefits, a reduced corporate tax rate and an employment tax incentive for workers of all ages.

Expenditure on the Employment Tax Incentive nearly doubled from 2014/15 to 2015/16. This incentive will be reviewed before it expires on 28 February 2019. We note that no specific reference has been made to the 12L Energy Efficiency Allowance.

In 2017, reviews into the tax incentives were set in motion to assess their effect on investment, job creation and growth. The evaluation is still under way, and focuses on both tax and non-tax financial incentives, such as subsidies. This review will inform the extension of the section 12I Industrial Projects Incentive beyond 2020, among others.

Contact us

Careful consideration should be given, when investing, expanding or starting new operations, as to what incentives are on offer. We are happy to answer any queries you may have, and give your business the best possible advantage in an ever-increasing competitive environment.

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