

March 2018

A new dawn for innovation

The Department of Science and Technology (“DST”) facilitated a meeting with the new Minister of Science and Technology, National Treasury (“NT”), and key business stakeholders on Friday 2nd March 2018 regarding the Research & Development (“R&D”) tax incentive. The purpose of the meeting was to provide feedback to the Business sector on the progress made in implementing the Task Team’s recommendations on the R&D Tax Incentive, as well as to understand and discuss further potential improvements.

In 2015, the then Minister of Science and Technology, Miss Naledi Pandor, established a joint Government-Industry Task Team to review the R&D Tax Incentive scheme and advance recommendations related to its administration and competitiveness. The Task Team, which included a representative from KPMG, tabled a report in April 2016 with findings and 17 recommendations on improving the administration and implementation of the R&D Tax Incentive in South Africa.

Last Friday, our new Minister of Science and Technology, Miss Mmamoloko Kubayi-Ngubane, continued the interaction with Business and reiterated Government’s support for innovation holistically across business in South Africa.

Key highlights from the meeting included:

- ❖ Following the Task Team report, 15 of the 17 recommendations made by the task team have been implemented (either in full or with modifications), representing a welcomed positive shift in policy and commitment to ensuring that the incentive is more accessible to business in South Africa. The recommendations provided by the Task Team centred on simplifying the administration of the incentive and clarifying uncertainty on what is considered eligible R&D or eligible R&D activities.
- ❖ The current exclusion relating to software development for internal use (i.e. **internal business processes**), is being evaluated. Any changes to this will be communicated through the Draft Taxation Laws Amendment Bill, and based on the recent Budget 2018 speech – it is expected that the complexity pertaining to this area will be simplified.
- ❖ NT is currently re-evaluating the current guidelines for **what constitutes innovation or an innovative activity**. It is recommended that NT reframes the focus of what constitutes innovation, to focus on the technological advancements that the R&D activity will bring in the local context and economy, rather than on a “first to the world” basis. This is especially pertinent for a developing nation like South Africa. The Minister re-affirmed her predecessors’ commitment to improve uptake of the R&D incentive in this regard;
- ❖ The DST have implemented a process whereby companies will be given 14 days to provide further information, should there be a risk of non-approval by the committee. This additional step in the process **increases dialogue and trust in the adjudication process**

– and is a needed change from the previous “rejection letter” that was issued without any consultation (a very welcoming change indeed).

- ❖ In line with simplifying the administration of the R&D Tax Incentive, the turnaround time for application processing has been reduced to a targeted **90 business days**. This is a massive improvement from the previous year(s) backlog and is testament to better processes within the DST in this regard.

The progress that the DST and NT has made while working collaboratively with key stakeholders over the past two years is encouraging. The changes proposed are expected to be tabled in the Draft Tax Bill in mid-2018.

We will unpack this for you when it happens – and as always, the devil is in the detail but judging from Friday’s Minister briefing – it certainly appears that the DST is taking a more business friendly approach.

Impact assessment to be undertaken as part of broader Incentive Review

The Minister noted that the DST is preparing a White Paper that is aimed at consolidating the range of cash and tax incentives and this will be part of the current review of all government incentives that are underway by the Department of Monitoring and Evaluation. In conjunction with these reviews, the DST has highlighted that it will continue to engage with the different sectors to determine what can be done further to support and encourage R&D undertaken in South Africa holistically. This will include compiling an “Impact Assessment” of the R&D incentive during 2018.

In the current “innovation” incentive landscape in South Africa, the primary direct Incentives are in the form of cash grants for innovation and are administered through the Technology Innovation Agency (TIA) and the Support Programme for Industrial Innovation (SPII). Indirect incentives for innovation, namely the R&D Tax Incentive, is administered by the DST. To build a progressive innovation landscape and economy, both cash grants and tax incentives need to work as complimentary instruments. Getting the right mix is not easy in an environment of budget deficits.

While this is a complex problem, it is not uncommon in other jurisdictions with Incentive schemes. Developed and other developing nations have had similar issues and have attempted to resolve it with limited impact to the fiscus. KPMG will continue to assist NT and DST to propose solutions to address these complex policy issues.

It is also noted that while SA may not be in the similar financial position to other developed or developing nations, a similar method could be considered by Government as the Ministries develop a white paper on incentive policies across government as a whole, to increase our R&D expenditure from current levels of 0.8% of GDP to the targeted 1.5% of GDP.

From a policy perspective – we should create the conditions in which the next Elon Musk choses to actually stay in South Africa, rather than move abroad to fulfil their scientific and innovation endeavours.

Contact us

Our R&D Tax Incentive team comes from a wide variety of industry backgrounds, including science, engineering, accounting and legal. This diversity gives us the unique capability to fully understand your R&D projects and maximise your tax benefits.

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