
February 2019

# 2019 Budget Incentives for Business – "Please Sir, may I have some more?"

In his maiden Budget Speech on 20 February 2019, current Finance Minister Tito Mboweni announced that the 2019 budget proposals will not increase taxes in any category - in the interests of achieving a higher rate of economic growth. Regardless of this, the introduction of carbon tax (effective 1 June 2019) and increases in, for example, the fuel levy, impacts all areas of the economy. In South Africa's current weakened economic state, what relief is available to businesses?

**Private sector incentives – is there more?**

The Minister acknowledged that the private sector is the key engine for job creation, and that expenditure must be shifted to investment. As part of government's continued drive for inclusive economic growth and creating jobs, R19.8 billion has been allocated for industrialisation incentives (up from R18.8 billion last year), of which R600 million will go to the Clothing and Textile Competitiveness Programme.

During 2018, the Employment Tax Incentive, which benefits young workers, was reviewed and extended to February 2029. In addition, the 2019/20 budget increases the eligible income bands for the incentive. From 1 March 2019, employers will be able to claim the maximum value of R1 000 per month per employee earning up to R4 500 (previously R4 000) monthly, tapering to zero at the maximum monthly income of R6 500.

An additional incentive for Special Economic Zones (SEZs) came into effect from 1 August 2018, which removed the age limitation which normally applies to the Employment Tax Incentive. Six SEZs were approved by the Minister of Finance on 6 July 2018.
Taxpayers in these zones are entitled to a reduced corporate tax rate of 15%, other tax concessions and building allowances.

The most notable announcement affecting corporations is the implementation of carbon tax, which will come into effect from 1 June 2019. Affected taxpayers will be required to submit environmental

levy accounts and payments on an annual basis for every tax period. However, to minimise the initial impact of the Carbon Tax Bill on industry, the section 12L energy efficiency savings tax incentive, which was due to expire on 31 December 2019, has been extended until 31 December 2022. Under this incentive, taxpayers are entitled to a tax deduction of 95 cents per kilowatt hour or kilowatt hour equivalent of verified energy efficiency savings. However, this deduction only applies to *non-renewable* energy sources, and may not be claimed if the taxpayer receives any concurrent benefit in respect of energy savings.

### The figures behind the facts

The Annexures to the 2019/20 Budget set out government's medium term plan for incentivising the economy for growth and job creation, albeit very vaguely.

The below excerpt from Table B.1 of Annexure B (Tax Expenditure Statement) released by National Treasury (NT), reflects a 17% share for incentives of total government tax support as at 2016/17*, and is indicative of where the incentive spend is being made.

| Tax Expenditure Estimates - R billion | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|
| Research and development | 0.2 | 0.2 | 0.3 | 0.2 |
| Learnership allowances | 0.9 | 0.9 | 1 | 0.9 |
| Strategic industrial projects[1] | 0.5 | 0.4 | 0.5 | 0.7 |
| Film incentive | 0.04 | 0.01 | 0.005 | 0.005 |
| Urban development zones | 0.3 | 0.2 | 0.3 | 0.1 |
| Employment tax incentive | 0.1 | 2.4 | 4.1 | 4.7 |
| Energy-efficiency savings | 0.7 | 0.1 | 1 | 1 |
| Motor Vehicles (includes MIDP/APDP including IRCC's[2]) | 18.4 | 23.5 | 26.9 | 28.4 |
| **Total Incentive Tax Expenditure** | **21.1** | **27.7** | **34.1** | **36** |
| **Total Tax Expenditure all taxes (Revenue forgone by NT)** | **157.2** | **169.2** | **190.8** | **209** |
| **Corporate incentive support as % of Total tax foregone by NT** | **13%** | **16%** | **18%** | **17%** |

*2016/17 is the latest figures reported by NT.*
*[1]Strategic industrial projects line item includes allowances under section 12I (Industrial Policy Projects)*
*[2]Motor Industry Development Programme (MIDP); Automotive Production and Development Programme (APDP); Import Rebate Credit Certificates (IRCCs)*

### Digging deeper into the reality

The percentage share of incentive support by government increased steadily from 2013/14 to 2015/16, with a decrease occurring during 2016/17. Expenditure related to the Automotive Production Development Programme remains the largest tax expenditure item, at 79% of total incentive tax expenditure for 2016/17, the Employment Tax Incentive following at 13%.

Other than an increase in 2015/16, spending on Research and Development has remained constant since 2013/14. In a meeting between the Department of Science and Technology (DST) and NT, the mining and manufacturing sectors have been identified as industries of focus within which the DST wants to increase the uptake of the R&D tax incentive. The DST is also looking to identify how it can enhance the efficiency and impact of the R&D tax incentive

During 2017, the expiry date of the section 12I Industrial Projects incentive was revised from 2018 to 2020. Since then, an extensive evaluation of this incentive has been undertaken by the Department of Trade and Industry, which included confirmation from approved applicants who had not yet started investment or production as to whether their projects are adhering to the approved timelines and investment. Although extended to 2020, this detailed investigation indicates that funding for this incentive may be running out. Funding for the Manufacturing Competitiveness Enhancement Programme (MCEP) was depleted in 2015, and although the incentive was "temporarily suspended",

there has been no further communication regarding the renewal or formal withdrawal of the MCEP. As it stands, the future of manufacturing incentives beyond 31 March 2020 is uncertain.

The Urban Development Zone incentive, which allows for accelerated depreciation allowances on buildings, has received less attention than Special Economic Zones. This is evidenced by the expenditure on this incentive decreasing by more than half from 2013/14 to 2016/17. A review of the Urban Development Zone tax incentive will be performed during 2019 to determine whether it should be extended, as it is due to expire on 31 March 2020.

Expenditure on the Employment Tax Incentive continues to increase. Although the most recent review revealed that the benefits are more pronounced in small enterprises, the success of this incentive is evidenced in its extension by another 10 years.

Climate change is at the forefront of almost every conversation, and industry is no exception. The section 12L Energy Efficiency tax allowance encourages businesses to contribute to South Africa's environmental goals (per the nationally-determined contribution in terms of the 2015 Paris Agreement on climate change) while reducing energy costs. The uptake of this incentive between 2014/15 and 2015/16 increased by 900%, and will most likely increase significantly again after the introduction of the Carbon Tax Bill, as businesses try to minimise the impact of carbon tax to their bottom line. Government will review the design and administration of the incentive to improve its ease of use, effectiveness and economic impact.

The automotive industry accounts for 14% of total tax expenditure for 2016/17. The Automotive Production Development Programme will be replaced by the South Africa Automotive Masterplan, which will run until 2035. The exact extent of this incentive will only be known once the official guidelines are released, expected to be before February 2020.

In 2017, reviews into the tax incentives to assess their effect on investment, job creation and growth, were set in motion. Government continues to monitor and evaluate incentives to prevent wasteful spending, and is drawing on SARS' administrative data to estimate the cost of tax incentives more accurately.

## Contact us

Companies should take advantage of the incentives that are available to them – while always taking note of the fine print! The majority of incentives requires an application before any costs for a project are incurred, or even before any purchase orders are placed.

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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