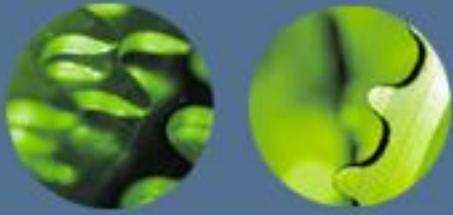




# **R&D Tax Incentives in South Africa**

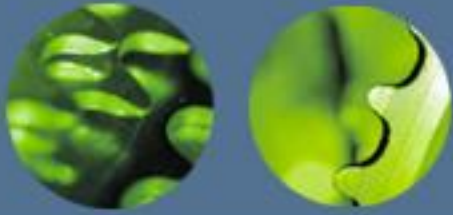
**DEPARTMENT OF  
SCIENCE AND  
TECHNOLOGY**

**William Mabogoane  
Deputy Director: R&D Tax Incentive**



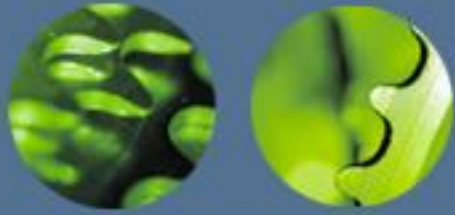
## CONTENTS

- Background of the programme
- Benefits of the programme
- Qualifying criteria
- Non qualifying criteria
- Administration of the programme
- Reporting



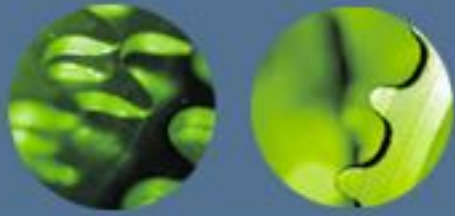
## INTRODUCTION

- The South African National Research and Development Strategy in 2002 identified the following:
  - Low R&D intensity compared to other countries of the same economic size
  - Declining R&D investment by private companies



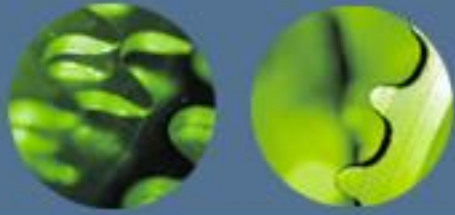
## **R&D TAX INCENTIVE OVERVIEW**

- In 2006 improved R&D Tax Incentive was introduced through an amendment of the Income Tax Act (Section 11D) to encourage private sector investment in R&D
- Administered by DST, in conjunction with SARS and NT



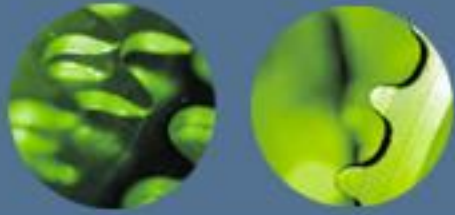
## Benefits of the programme

Components	New R&D Tax Incentive	R&D Tax Incentive before Nov 2006
Tax Allowance	150% deduction on current expenditure	100% deduction on current expenditure
Depreciation of R&D Capital Assets	Over 3 years at rate of 50:30:20	Over 4 years at rate of 40:20:20:20



## Benefits of the programme

- The main effect is to increase the after tax-return of the investment to the firm – For every R1 spent on R&D 14c is saved
- The Incentive is specific-the taxpayer benefits only if an appropriate investment has been made – minimal tax base erosion compared to across the board reduction in the corporate tax rate

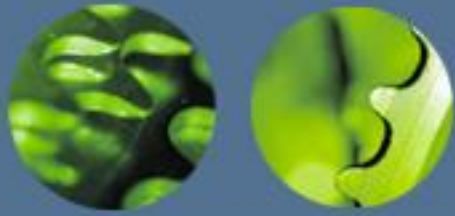


# The effect of the R&D Tax Incentive

An illustration (Tax payer spends R10m on qualifying R&D)

	Sect 11B 100% Deduction	Sect 11D 150% Deduction	For Investor
	(Rm)	(Rm)	(Rm)
Operating Income	200	200	200
Operating expenses (60%)	$(120-10)+(10 \times 1)$ 120	$(120-10)+(10 \times 1.5)$ 125	120
Operating profit	80	75	80
Tax Payable (28%)	22.4	21	21
<b>NPAT</b>	<b>57.6</b>	<b>54</b>	<b>59</b>

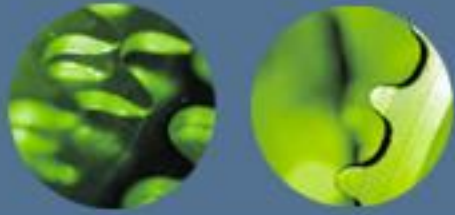
For each R1 spent on R&D, 14c is saved from taxes (R59m – R57.6m = R1.4m)



## Depreciation deduction on capital expenditure

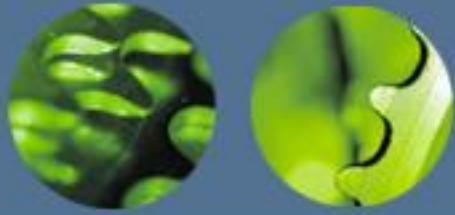
- Capital Allowance;
  - Any building, part thereof, machinery, plant, implement, utensil or article or improvement thereto which –
    - Is owned or acquired by the taxpayer
    - Is new and unused when first brought to use by the taxpayer and solely and directly for purposes of R&D qualifies for:
      - 50:30:20 accelerated depreciation
      - Recoupment provision if building is no longer used for R&D





## Allowable Operating Expenditure

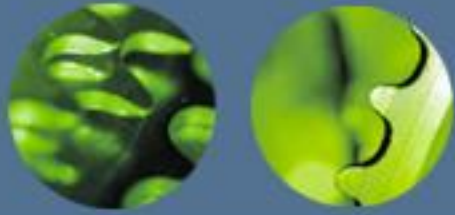
- Allowable Operating Expenditure:
  - Salaries (Employees directly engaged in R&D)
  - Materials
  - Overheads
  - Contractors – South African
  - All these expenses incurred qualify for a deduction of 150%



## Entitlement to the Incentive

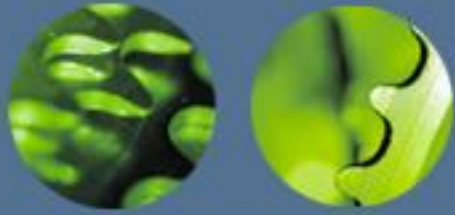
**The taxpayer is entitled to the incentive if that taxpayer:**

- Is carrying on any trade
- Has actually incurred the expenditure;
- Directly for R&D activities undertaken in the Republic
- Directly for an R&D purpose and that R&D purpose-
  - Is of a scientific and/or technological nature



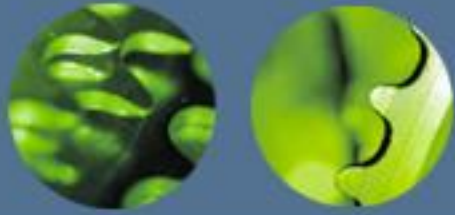
## **Entitlement to the Incentive cont**

- Is intended to be used by the taxpayer in the production of his or her income; or
- Is discovered, devised, developed or created by the taxpayer for the purposes of deriving income



## Supporting Information and Record Keeping

- Types of technical reports or documents to keep over the course of the work:
  - Laboratory Notebooks
  - Progress Reports
  - Minutes of the Meetings
  - Employee Activity Reports – accurate time sheets for time spent on R&D
  - Prototypes or pilot run results
  - New Products
- Keep Records per project
  - Costs should be captured per project



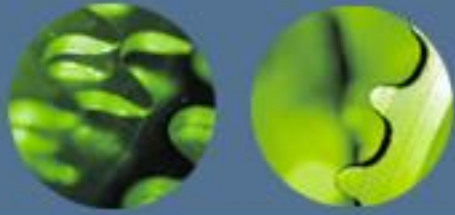
# Ineligible Activities and Limitations

## Non-qualifying activities:

- Exploration and prospecting
- Management or internal business processes
- Development of trade marks
- Research in social science and humanities
- Marketing research or sales promotion.

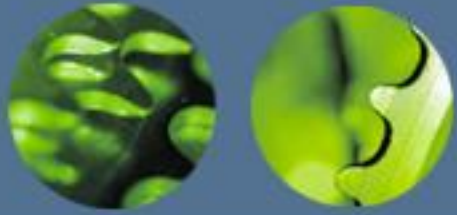
## Limitations:

- Person conducting R&D on behalf of an eligible South African company is limited to 100%.
- Partnership with government for R&D, only the amount less twice the government grant/fund will qualify.



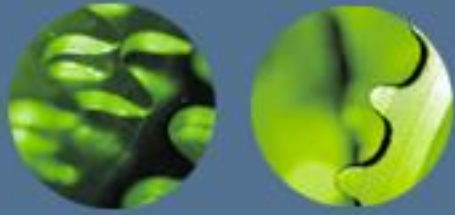
## Claiming procedure

- Companies submit Income Tax Return Form to SARS
- Submit R&D Tax Incentive Form to The Minister of Science and Technology within six months from the end of the financial year



## Reporting

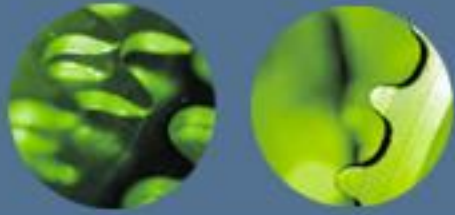
- The Minister of Science and Technology is required to report to Parliament on the direct impact of the incentive programme in terms of:
  - Economic growth
  - Employment
  - Other broader government objectives (exports, competitiveness)
  - Aggregate expenditure of reported R&D Activities.



# Additionality

- **Input or direct** – Are companies investing more on R&D than they receive in tax bonuses? Or does the programme generate more R&D? (R&D Expenditure and Human Resources)
- **Output or results** – What are the effects? (innovations, profits, publications, patents etc)
- **Impact** – Innovation, Social impact
- **Behavioural** – Do firms change their R&D Strategy? (Decisions)
- **Administrative Costs and efficiency** – Is it cost effective to administer the tax incentive and is it still relevant
- **Technology Transfer Indicators** – technology balance of payment





- **DANKIE**
- **SIYABONGA**
- **THANK YOU**



science  
& technology

Department:  
Science and Technology  
REPUBLIC OF SOUTH AFRICA