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Tax and Legal News

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Budget Speech 2021 – Are we seeing the slow demise of incentives?

Listening to Finance Minister Tito Mboweni delivering the 2021 Budget Speech, you may have been surprised that incentives did not feature – especially in light of the announcement that the corporate tax rate was to reduce to 27%. It is only when we delve into Chapter 4 of the 2021/22 Budget Review that we see that the reduction in the corporate tax rate may impact the incentives that are on offer in South Africa.

2017 saw the commencement of a review into various tax incentives. On the recommendation of the David Tax Committee, the review was to assess the effect on investment, job creation and growth. The intention was that all redundant, inefficient and inequitable incentives should be repealed.

Since then, the effects of this review have come to the fore – the main one being the lapsing of the section 12I manufacturing tax incentive. However, this is not the only incentive being impacted.

A tough decision

South Africa's budget is a balancing act – in order to improve the nation's global competitiveness and increase foreign investment through the reduction of the corporate tax rate, sacrifices have to be made. In order to make a reduced corporate tax rate viable, the corporate income tax base has to be broadened by limiting interest deductions and the carry forward of assessed losses, as well as reducing the number of tax incentives.

Affected incentives

The 2021 Budget proposes to limit, or let lapse, the incentives that either erode the equity of the tax system or do not meet their intended objectives. Proposed amendments are as follows:

- The following tax incentives will come to an end on the dates specified:
    - Sections 12DA (Rolling stock), 12F (Airport and port assets) and 13*sept* (Low cost housing on loan account): 28 February 2022
    - Section 12O (Films): 1 January 2022

  National Treasury has, however, invited stakeholders to make submission by 31 March 2021 as to why these incentives should not lapse on reaching their respective sunset dates.

- The venture capital company tax incentive will cease on 30 June 2021.

- The section 13*quat* Urban Development Zone and section 12H Learnership Agreement tax incentives will be extended by two years (until 31 March 2023 and 31 March 2024 respectively), until Government's effectiveness review has been completed.

- The section 11D Research and Development tax incentive currently expires on 1 October 2022. A discussion document on the future of the incentive will be published during 2021 for public comment.

The future of incentives

The rest of Africa is steadily catching up with South Africa's economy. In part, this has been driven by their increasing use of incentive programmes to encourage investment in their countries. A comprehensive and compelling incentive regime is therefore, in our view, an essential part of South Africa remaining competitive and an attractive destination for foreign direct investment.

In an uncertain incentive landscape, we welcome the publishing of public discussion documents and the opportunity to give ongoing input to these initiatives. It highlights Government's willingness to engage collaboratively as they determine a tax policy that creates an environment conducive to broad-based economic growth. And it is important that incentives are continually monitored and evaluated to ensure they continue to meet their set objectives. Finding the optimal incentives balance is key for South Africa's continued growth in an ever-increasing competitive environment.

We will provide insight as and when further information becomes available.

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.

For additional information, please contact us:

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Regards
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