



## Tax and Legal News



July 2021

# Revised Automotive Investment Scheme Guidelines

The Department of Trade, Industry and Competition (dtic) has, this month, issued the long-awaited revised Automotive Investment Scheme (AIS) guidelines, which are effective from 1 July 2021.

### What prompted this revision?

South Africa's most important manufacturing sector, the automotive industry, has been heavily supported by the national government in the form of the Motor Industry Development Programme (1995 to 2012) and the Automotive Production and Development Programme (**APDP**) (2013 to 2020). The significance of this support is quantified in the latest figures released by National Treasury<sup>[1]</sup> for the 2015/16 to 2018/19 financial years. On average, approximately 80% of National Treasury's total incentive spend was geared towards the APDP.

In order to provide long-term stability and certainty, and in recognition of the central importance of the domestic automotive industry to South Africa's economy, the dtic commissioned the development of the South African Automotive Masterplan (**SAAM**), with the objective of defining a vision and associated key objectives for this industry through to 2035.

The APDP post-2020 (**APDP Phase II**) and revised AIS incentives were, therefore, designed with the objective of supporting the key targets and vision of the SAAM, to create a "globally competitive and transformed automotive industry".

### Who can benefit?

<sup>[1]</sup> Table B.3 of Annexure B (Tax Expenditure Statement) released by National Treasury on 24 February 2021.

The AIS is a non-taxable, reimbursable cash grant in respect of qualifying investment in productive assets used in South African operations by:

- Original equipment manufacturers (**OEMs**) with a qualifying investment greater than R50 million and a minimum production volume of 50 000 units per annum per plant<sup>[2]</sup> (20% grant);
- Automotive component manufacturers (**CMs**) with a qualifying investment greater than R2 million and a local or international OEM supply chain turnover of at least 25% of total entity turnover or R10m in OEM supply chain invoicing per annum; OR a contract has been awarded of above R2 million by an entity with a turnover of at least R50 million for the manufacture of components to supply directly into an automotive investment project locally and/or internationally<sup>[3]</sup> (25% grant);
- Automotive tooling manufacturers<sup>[4]</sup> (25% grant);
- New energy vehicle (**NEV**) manufacturers (30% grant); and
- Energy efficient (**EE**) vehicle manufacturers (30% grant).

## What changed?

The following key changes have been introduced in the revised guidelines:

### — Qualifying investment thresholds

The minimum qualifying investment threshold for OEMs has been increased from R30 million to R50 million; for CMs, this threshold has been increased from R1 million to R2 million.

### — Broad-Based Black Economic Empowerment (B-BBEE):

The requirement to achieve certain B-BBEE levels was a contentious issue when the previous AIS guidelines were first released. To address industry concerns, Interpretation Note 01/2015 was issued. It stated that qualifying applicants must be B-BBEE compliant (i.e. B-BBEE levels 1 to 8). However, in terms of the revised guidelines effective July 2021, applicants must achieve the following in order to qualify for the AIS incentive:

- OEMs: At least B-BBEE level 6 as of July 2021, and at least B-BBEE level 4 by 31 December 2022;
- CMs: At least B-BBEE level 8 as of July 2021, at least B-BBEE level 6 by 31 December 2022, and at least B-BBEE level 4 by 31 December 2023.
- New manufacturing entities: At least B-BBEE level 8 for the initial 36 months after incorporation; thereafter, at least B-BBEE level 4.

We expect that stakeholders will, once again, engage with the dtic on this matter, as the targets can be challenging to achieve for international role-players.

### — Employment:

The requirement for base year (i.e. the 12 month period prior to start of (commercial) production (**SOP**)) employment levels to be maintained has not changed. However, the dtic has specified that, in respect of subsequent

<sup>[2]</sup> Achieved within twenty-four (24) months after the anticipated start of production date and maintained throughout the claim cycle.

<sup>[3]</sup> The revised AIS guidelines provide for alternative qualifying criteria.

<sup>[4]</sup> Automotive tooling manufacturers are included under the CM umbrella.

applications, an applicant must demonstrate that they have maintained (or increased) base employment per previous applications.

— **Application Period:**

The previous guidelines provided a maximum application period. The revised AIS guidelines now allow for applicants to submit applications further in advance:

- Completed applications must reach the dtic at least 120 calendar days prior to SOP for all OEMS; and
- Completed applications must reach the dtic at least 90 calendar days prior to SOP for all CMs.

A transitional provision is in place for applicants with a SOP between 1 August 2021 and 30 November 2021, whereby applications should reach the dtic within 60 calendar days from SOP.

— **Additional grant benefit:**

The revised AIS guidelines have removed the additional 5% or 10% grant in respect of strategic projects or projects that fulfil certain economic criteria (i.e. there is only the base cash grant (set out above) that is available to applicants).

— **Alternative qualifying criteria for CMs:**

As mentioned above, the following has been added as an alternative qualifying criterion for CMs:

*“A contract has been awarded of above R2 million by an entity with a turnover of at least R50 million for the manufacture of components to supply directly into an automotive investment project locally and/or internationally”.*

## The early bird gets the worm

As with any South African incentive, it is critical to submit an application to the relevant government department within the specified timeframe - the AIS incentive is no exception. Any qualifying manufacturer investing in new operations, or expanding existing operations, should investigate whether they may benefit from the AIS incentive well before the 120 / 90 calendar day deadlines specified above.

## Contact us

For additional information, or for assistance with submitting an AIS application, please contact us:

Contact us



Elizabeth Lombaard

Director

Email: [elizabeth.lombaard@kpmg.co.za](mailto:elizabeth.lombaard@kpmg.co.za)

M: +27827191988



**Nicole de Jager**  
Senior Manager: Corporate Tax  
Email: [Nicole.deJager@kpmg.co.za](mailto:Nicole.deJager@kpmg.co.za)  
M: +27827174762

Regards  
KPMG Tax and Legal

### Notes

- <sup>1</sup> Table B.3 of Annexure B (Tax Expenditure Statement) released by National Treasury on 24 February 2021.
- <sup>2</sup> Achieved within twenty-four (24) months after the anticipated start of production date and maintained throughout the claim cycle.
- <sup>3</sup> The revised AIS guidelines provide for alternative qualifying criteria.
- <sup>4</sup> Automotive tooling manufacturers are included under the CM umbrella.

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