February 2022

Budget Speech 2022 – The future of incentives

In the 2021 Budget Review, Government proposed to limit, or let lapse, incentives that either erode the equity of the tax system or do not meet their intended objectives. Although not specifically addressed in Finance Minister Enoch Godongwana's maiden Budget Speech on 23 February 2022, the 2022 Budget Review reiterates Government's stance.

In 2017, reviews into the tax incentives to assess their effect on investment, job creation and growth, were set in motion. Since then, Government has continued to assess, on an annual basis, whether existing incentives are effective in creating the intended benefits for which they were designed.

Expired (and expiring) incentives

The following tax incentives, which were already earmarked in the 2021 Budget Review, will come to an end on the dates specified:

- 28 February 2022: Sections 12DA (Rolling stock), 12F (Airport and port assets) and 13sept (Low cost housing on loan account)
- 1 January 2022: Section 12O (Films)

Incentives under review

The section 11D Research and Development (**R&D**) tax incentive, which provides for a 150% deduction for expenditure on eligible scientific or technological R&D undertaken by companies in South Africa, currently expires on 30 September 2022. The long-awaited discussion paper on the future of the incentive was released for public comment on 15 December 2021. The objective of the discussion paper was to evaluate whether the incentive should continue beyond the current end date of 30 September 2022 and, if it continues, whether the current design is still suitable.

To allow for proper stakeholder consultation on the future of the incentive, the incentive will be extended in its current form until 31 December 2023. The extension will be included in the 2022 Taxation Laws Amendment Bill (which is expected to be published later this year).

What is worth noting is that the 2022 Budget Review acknowledges the role that the R&D tax incentive plays in terms of job creation:

"*Roughly half of the total R&D tax expenditure has supported the manufacturing sector over this period [2016/17 – 2019/20]. The large share of support directed towards manufacturing and, to a lesser extent, the agricultural sector, shows that this incentive encourages R&D within sectors that are important for creating jobs*."

This is encouraging amidst the uncertainty surrounding the future of the R&D tax incentive.

Incentive extension

Climate change is at the forefront of almost every conversation, and the 2022 Budget Speech is no exception. The section 12L energy efficiency tax allowance, which encourages businesses to contribute to South Africa's environmental goals through reducing energy costs, has been extended from 1 January 2023 to 31 December 2025. The extension compliments the Finance Minister's announcement of the extended first phase of Carbon Tax, which will now end on 31 December 2025.

Government commitment

Government's willingness to determine a tax policy that creates an environment conducive to broad-based economic growth and job creation is highlighted in Chapter 5 of the Budget Review document, whereby R17.8 billion has been allocated over the next three years to support business investment in new equipment and infrastructure. This is to be done through incentive programmes such as the automotive investment scheme, the global business services incentive, the film and television production incentive, special economic zones, the clothing and textile competitiveness programme and the industrial park revitalisation programme.

It is, however, important that incentives are continually monitored and evaluated to ensure they continue to meet their objectives. Finding the optimal incentives balance is key for South Africa's continued growth in an ever-increasing competitive environment.

Contact

Elizabeth Lombaard
Director (Partner), Corporate Tax
Email:elizabeth.lombaard@kpmg.co.za
M: +27 82 719 1988

Nicole de Jager
Senior Manager, Incentives and Carbon Tax
Email:Nicole.deJager@kpmg.co.za
M: +27827174762