

Incentives 2009  
Complex issues,  
comprehensive  
solutions



**Tax Management Consulting**

Audit . Tax . Consulting . Financial Advisory . Corporate Finance .

Contents page || [Next ▶](#)

# Contents

Research and Development Incentives .....	2
Investment and Enterprise Development Incentives .....	4
Competitive Enhancement Incentives .....	12
Export Incentives - Non-Industry Specific .....	13
Export Incentives - Industry Specific.....	15
Preferential Trade Agreements/Preferences.....	18
Skills Development Incentives .....	20
Financing Programmes.....	21
Social Responsibility.....	25
Industrial Participation .....	26
Other Incentives .....	27

---

## Contact:

### **Newton Cockcroft**

Deloitte Tax

Tel: +27 (0)11 806-5298

Fax: +27 (0)11 388-1332

e-mail: [ncockcroft@deloitte.co.za](mailto:ncockcroft@deloitte.co.za)

# Research and Development Incentives

## Support Programme for Industrial Innovation (SPII)

**Objective:** Promote technology development in South Africa through provision of financial assistance to all South African registered enterprises in manufacturing or software development that engage in development of innovative, competitive products and/or processes.

## SPII Matching Scheme

**Applicability:** The Matching Scheme is exclusively available to all South African registered Small and Medium Enterprises (SME): (employees < 200, turnover < R51 million, assets < R19 million) in the private sector that are engaged in a manufacturing or an information technology related project.

**Benefit:** A grant of between 50% to 75% of the qualifying cost incurred during the technical development stage up to a maximum of R1,5 million per project. For enterprises with <25% black shareholding – the grant amount is 50%, for enterprises with >25% ≤50% black shareholding or women/physically challenged shareholding – the grant amount is 65%, and for enterprises with black shareholding >50% - the grant amount is 75%.

## SPII - Partnership Scheme

**Applicability:** All private sector enterprises engaged in a manufacturing or an information technology related project.

**Benefit:** A conditional repayable grant of 50% of the qualifying cost incurred during development activity with a minimum grant amount of R1,5 million per project, repayable on successful commercialisation of the project.

## Product Process Development Scheme

**Applicability:** All small and micro private sector enterprises (employees less than 50, turnover less than R13 million, total gross assets less than R5 million) whose members are actively involved in the management of a business that is engaged in a manufacturing or an information technology-related project.

**Benefit:** A grant of between 50% and 85% of the qualifying cost incurred during the technical development stage with a maximum grant amount of R500 000 per project. For enterprises with <25% black shareholding - the grant amount is 50%, for enterprises with >25% ≤50% black shareholding or women/physically challenged shareholding - the grant amount is 75%, and for enterprises with black shareholding >50% - the grant amount is 85%.

### Technology and Human Resources for Industry Programme (THRIP)

**Objective:** To boost South African industry by supporting research and technology development, and by enhancing the quality and quantity of appropriately skilled people.

**Applicability:** THRIP supports all companies undertaking science, engineering and technology (SET) research collaboration with educational institutions that aims to address the technology needs of the participating firms. THRIP also encourages and supports the development of research personnel and students among participating organisations.

**Benefit:** THRIP will contribute between 30% and 50% of the funds invested by a company in research projects. The maximum level of THRIP funding per grant holder will be set at R8 million across any number of projects per annum.

### Innovation Fund (IF)

**Objective:** Promote technological innovation within the research community and cross-sectoral collaboration and to support protection of and commercialisation of innovations emanating from South African enterprises.

**Applicability:** Companies who undertake research and development in all economic sectors. The IF provides funding through the following different programmes:

- Technology advancement programme; Missions in technology programme; Patent support fund; Seed fund; Patent incentive fund.

**Benefit:** The maximum grant is limited to R15 million over a three year period.

### Research and Development (R&D) - Tax Incentives (Section 11D of the Income Tax Act)

**Objective:** To stimulate scientific research or technological research and development.

**Applicability:** Expenditure incurred in the discovery of novel, practical and non-obvious information or devising, developing or creating any patent, design or computer program or any knowledge essential to the use of the invention, design or computer program.

**Benefit:** Deduction increased to 150% for expenditure incurred on or after 2 November 2006. Accelerated allowance on R&D assets (50/30/20).

# Investment and Enterprise Development Incentives

## Developmental Electricity Pricing Programme (DEPP)

**Objective:** To contribute to economic growth and employment by attracting industrial investment projects which would in the absence of DEPP not invest in the Republic by providing them with competitive internal electricity prices.

**Applicability:** Industrial investment projects that will facilitate the beneficiation of downstream industries by applying equivalent pricing policy and a domestic supply policy.

**Benefit:** Developmental electricity tariff at preferential rates for a minimum period of seven years that will enable an internal rate of return to ensure that the project can invest in South Africa. This programme was discontinued.

Recommendations have been made that investment by companies in energy efficient equipment be given an additional allowance of up to 15% on condition that there is documentary proof of the resulting energy efficiencies (after a 2 or 3 year period) certified by the Energy Efficiency Agency.

## Critical Infrastructure Programme (CIP)

**Objective:** Support the competitiveness of South African industries by lowering business costs and risks and to provide targeted financial support for physical infrastructure that will leverage strategic investment with a positive impact on the economy.

**Applicability:** New or expanding enterprises investing in infrastructure such as roads, railways, electricity transmission and distribution, water pipelines, telecommunication networks, sewage systems etc. Available to municipalities, public sector enterprises and private enterprises.

**Benefit:** Cash grant incentive that covers between 10% and 30% of the infrastructure development costs.

## Public Transport Infrastructure and Systems Grant (PTIF)

**Objective:** To provide for accelerated planning, establishment, construction and improvement of new and existing public transport, priority transport and non-motorised transport infrastructure and systems.

**Applicability:** Projects that meet the dual objective of long-term mobility and support for 2010 FIFA World Cup, that prioritise public over private transport and reinforce public transport policies.

**Benefit:** Specific purpose grant with sustained funds for four years with certain specific distribution criteria.

### National Electrification Programme (Municipal)

**Objective:** To provide capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

**Applicability:** All metro, district and local municipalities in South Africa.

**Benefit:** Conditional grant allocations are made to municipalities each year and are published in the Division of Revenue Act.

### Municipal Infrastructure Grant (MIG)

**Objective:** To supplement municipal capital budgets through the funding of basic municipal infrastructure backlogs for the provision of basic services to primarily service poor households. This infrastructure must be provided in such a way that employment is maximised and opportunities are created to support enterprise development.

**Applicability:** All metro-, district- and local municipalities in South Africa.

**Benefit:** Conditional grant allocations are made to municipalities each year and are published in the Division of Revenue Act.

### Neighbourhood Development Partnership Grant (NDPG)

**Objective:** To create enabling economic infrastructure in dormitory townships across South Africa that will attract private sector investment.

**Applicability:** All metro-, district-, and local municipalities in South Africa.

**Benefit:** Benefits are in the form of the technical assistance grant and the capital assistance grant, to assist municipalities in implementing community facility projects that are not presently funded through the equitable share or other grants.

### Local Economic Development (LED) Programme

**Objective:** Creating an enabling environment for investment into the area and encouraging the development of the market to facilitate linkages between established and emerging sectors.

**Applicability:** Local government, private sector enterprises, enterprises forming partnerships with government agencies, donors and other enterprises aiming to develop clusters to strengthen their sector.

**Benefit:** Up to 70% grant-based funding. Funding available in KwaZulu-Natal and the Eastern Cape provinces.

### Business Process Outsourcing and Offshoring Investment Incentive (BPO&O)

**Objective:** To attract investment in the BPO&O sector that creates employment opportunities.

**Applicability:** Local and foreign investors (new and expanding projects) that aim to serve offshore clients (offshore revenue > 90%).

**Benefit:** The investment grant ranges between R37 000 and R60 000 per seat, depending on the level of qualifying investment costs and employment creation. The grant is disbursed in four stages (25% in each stage) subject to achieving the performance requirements at each claim stage.

### Business Process Outsourcing and Offshoring Training and Skills Support Grant

**Objective:** To assist the company's costs for specific training, costs of in-house trainer development, costs for the development of learning materials, costs for trainer secondment into South Africa as well as costs of purchasing and installing training equipment and facilities.

**Applicability:** Approved BPO&O investment projects.

**Benefit:** 50% of qualifying training and skills development expenditure limited to a maximum of R12 000 per agent.

### Manufacturing Investment Programme (MIP)

**Objective:** To encourage local and foreign capital investment in productive qualifying assets (plant and machinery, land and buildings (owned or rented), commercial vehicles).

**Applicability:** Enterprises investing capital in new projects or expanding an existing project.

**Benefit:** A tax exempt cash grant of between 10% - 30% of the qualifying investment cost up to a maximum grant of R30 million.

### Foreign Investment Grant

**Objective:** To encourage foreign businesses to invest in manufacturing companies by assisting in the cost of transporting productive qualifying assets to South Africa.

**Applicability:** South African incorporated companies with a foreign direct shareholding of at least 50%. Qualifying costs associated with transporting new plant and machinery (excluding vehicles) from abroad. FIG is conditional on the approval of a project under the MIP.

**Benefit:** The lower of the actual qualifying transportation costs or 15% of the cost of new plant and machinery acquired abroad, limited to R10 million.

### Tourism Support Programme

**Objective:** To stimulate growth within the tourism industry.

**Applicability:** The establishment of new or the expansion of existing tourism facilities.

**Benefits:** A tax exempt cash grant of between 10% - 30% of the qualifying investment cost up to a maximum grant of R30 million.

## Industrial Policy Projects

A tax incentive was launched in early 2009 by the government which is intended to promote local and foreign direct investment in industrial policy projects in South Africa. The proposed new tax incentive programme is regulated in terms of section 12I of the Income Tax Act (the Act). The new programme is intended to replace the former Strategic Industrial Project Programme (SIP) under section 12G of the Act.

R20 billion has been allocated for additional tax deductions under this new incentive, with a focus on large industrial projects.

Manufacturing assets must be used in South Africa and qualify for a deduction in terms of section 12C(1)(a), 13 or 13quat which covers plant or machinery that will be brought into use for the first time by the taxpayer and will be used in a process of manufacture and the cost for the construction or refurbishment of buildings if certain conditions are met.

A project will be allocated points based on the following criteria if:

- 1) It upgrades an industry within the Republic by:
  - i. Utilising innovative processes; or
  - ii. Utilising new technology that result in improved environmental protection as a result of:
    - a) Improved energy efficiency;
    - b) Cleaner production technology.
- 2) Generates general business linkages by acquiring goods or services from small, medium and micro enterprises.

- 3) Creates direct employment.
- 4) Provides skills development in the Republic; or
- 5) Is located in an IDZ.

### Benefit:

Additional tax allowance of:  
55% of the cost of any manufacturing asset used in a qualifying industrial policy project determined to have preferred status; or

35% of the cost of any manufacturing asset used in any other qualifying industrial policy project limited to:

- R900 million in the case of any Greenfield project with preferred status;
- R550 million in the case of any other Greenfield project;
- R550 million in the case of any Brownfield project with preferred status;
- R350 million in the case of any other Brownfield project;
- Cost of training provided to employees in the furtherance of the Industrial Policy Project. The training allowance may not exceed R36 000 per employee and R20 million in the case of projects with qualifying status or R30 million in the case of projects with preferred status.

Minimum investment required to qualify for this incentive:

- R200 million in the instance of a Greenfield project
- The higher of R30 million or 25% of the value of the manufacturing assets in the case of Brownfield projects.

#### Staple Food Fortification Incentive Scheme (SFFP)

- Objective:** To assist with the compliance needed for staple food fortification of the food fortification regulations by offering a once-off subsidy for the purchase and installation of fortification equipment.
- Applicability:** Private sector enterprises in the grain milling industry.
- Benefits:** The grant of between 50% and 100% up to a maximum of R40 000 per fortification unit.

#### Location Film and Television Production Rebate

- Objective:** To encourage and attract large budget films and television productions that will contribute towards South Africa's economic development and international profile and increase foreign direct investment.
- Applicability:** Foreign-owned qualifying productions with Qualifying South African Production Expenditure (QSAPE) of R12 million and above.
- Benefit:** Rebate of 15% of the QSAPE to qualifying productions and the benefit is capped at R10 million.

#### South African Film and Television Production and Co-Production Scheme

- Objective:** To support the local film industry and to contribute towards employment opportunities in South Africa.
- Applicability:** Local productions and official treaty co-productions with a total production budget of R2,5 million and above.
- Benefit:** Rebate of 35% for the first R6 million, and 25% for the remainder of the qualifying production expenditure capped at a maximum rebate of R10 million.

#### The Tourism Enterprise Support Programme (TEP)

- Objective:** To encourage and facilitate the growth and expansion of tourism enterprises.
- Applicability:** Large operators, investors, SMME's and historically disadvantaged entrepreneurs and enterprises (HDE's).
- Benefit:** The programme assists in obtaining the requisite professional services such as ISO / SABS quality certification, debt and equity finance, proper business planning, packaging, legal advice, technology needs and marketing. The TEP also provides aftercare to SMME's to be sure they have the planning, production and management capacity to deliver as per the contract or market demand.

### PSOM Business Incentive: Dutch Programme for Cooperation with Emerging Markets

**Objective:** To provide opportunities for Dutch companies to expand investments and trade relations with South Africa.

**Applicability:** Dutch companies who wish to invest in South Africa in partnership with a local South African company. The grant is also available for companies based in emerging markets (such as South Africa) investing into Mozambique and Uganda.

**Benefit:** Grants contributing up to 50% of total project costs up to a maximum of €1,5 million.

### Preferential Corporate Tax Rate for Small Business Corporations

**Objective:** To encourage small / medium business development in South Africa.

**Applicability:** Qualifying small / medium businesses whose turnover for the year of assessment does not exceed R14 million are eligible. For years of assessment commencing on or after 1 April 2008.

**Benefit:** Taxable Income:

- R0 - R46 000 = 0%
- R46 001 - R300 000 = 10%
- over R300 001 = R25 400 + 28% of amount greater than R300 000

### Employee Housing Allowance

**Objective:** Promoting the erection of employee housing.

**Applicability:** A tax deduction is available for the erection of houses for employees.

**Benefit:** The allowance is an amount of expenditure incurred relating to the cost of erecting housing for an employee or his household, limited to R15 000 per dwelling.

### Depreciation

**Objective:** To stimulate investment in capital assets.

**Applicability:**

- Plant and machinery:
  - Manufacturing or similar process (new or unused).
- Hotel equipment
- Farming
- Buildings:
  - Industrial (manufacturing or similar process)
  - Hotels
  - Hotel refurbishments

**Benefit:**

- New or unused (Plant and Machinery):
  - 40% p.a. 1<sup>st</sup> year
  - 20% p.a. 2<sup>nd</sup> to 4<sup>th</sup> year.
- Used (Plant and Machinery):
  - 20 % p.a.
- Hotel equipment:
  - 20% p.a.
- Farming and production of renewable energy:
  - 50% 1<sup>st</sup> year
  - 30% 2<sup>nd</sup> year
  - 20% 3<sup>rd</sup> year
- Hotel refurbishment:
  - 5% p.a. for external refurbishments.
  - 20% p.a. for internal refurbishments.

Special depreciation allowances on manufacturing buildings vary between 2% and 10% per annum.

Wear and Tear rates vary for assets not used as part of the manufacturing process.

### Urban Development Allowances

**Objective:** To counter decay and stimulate urban regeneration.

**Applicability:** All taxpayers refurbishing a building within a designated urban development zone or taxpayers constructing a new commercial or residential building in such a zone.

**Benefit:** The following allowances are available: In the case of the erection of new buildings or extensions or additions thereto, the allowance is equal to 20% of the cost incurred, which is deductible in the year of assessment the building is brought into use solely for the purposes of the taxpayer's trade; and 5% of that cost in each of the sixteen succeeding years of assessment. The total cost can therefore be claimed over 17 years.

In the case of improving an existing building, the allowance is equal to 20% of the cost incurred, deductible for the first time in the year of assessment the improved part is brought into use solely for the purposes of the taxpayer's trade, and 20% for each succeeding year of assessment. The total cost can therefore be claimed over five years.

### Infrastructural Development

- Objective:** To encourage investment in infrastructure.
- Applicability:** Taxpayers involved in the erection of pipelines, transmission lines and railway lines.
- Benefit:** A tax deduction is granted in respect of any new or unused affected assets owned by the taxpayer. The allowances are as follows:
- Pipelines used to transport natural oil: 10% of the cost p.a.
  - All other affected assets: 5% of the cost p.a.

### Public Private Partnerships

- Objective:** Encouragement of the private sector to invest in infrastructure in partnership with the public sector.
- Applicability:** Grants received by the government and utilised by the taxpayer to effect improvements to state-owned property, in pursuance of the terms of the relevant lease agreement with the state.
- Benefit:** The receipt of qualifying government grants is exempt from tax. In addition, a tax allowance is available in respect of such improvements actually effected by the taxpayer. The allowances are as follows:
- 25 years or
  - Spread over the period of the lease, whichever is shorter.

### Rolling Stock Depreciation

- Objective:** Encouragement of infrastructural development of rail transportation.
- Applicability:** Rolling stock, this is understood to mean trains, carriages and the like.
- Benefit:** Deduction of 20% per annum of the cost incurred in respect of rolling stock brought into use on or after 1 January 2008.

### Environmental Expenditure Deductions

- Objective:** Provide relief for the depreciation of environmental expenditure.
- Applicability:** Environmental treatment and recycling assets and environmental waste disposal assets ancillary to a manufacturing process.
- Benefit:** Environmental treatment and recycling assets:
- 40% p.a. 1<sup>st</sup> year
  - 20% p.a. 2<sup>nd</sup> to 4<sup>th</sup> year.
- Environmental waste disposal assets:
- 5% per annum.

### Commercial Buildings Depreciation

- Objective:** Provide relief in respect of commercial buildings.
- Applicability:** Buildings (and improvements) used wholly or mainly in the production of income, where building is owned by the taxpayer.
- Benefit:** 5% depreciation per annum on new or unused buildings (and improvements). Specifically excludes buildings used in the provision of residential accommodation.

*Note: Certain of the above incentives include amendments contained in the Taxation Laws Amendment Act, 2008 which at date of publication was not yet promulgated.*

# Competitive Enhancement Incentives

## Black Business Supplier Development Programme (BBSDP)

**Objective:** To provide business enterprises with access to business development services for improving their core competencies, upgrading managerial capabilities and restructuring so as to become more competitive.

**Applicability:** Companies that are majority black-owned (51% or more), have an annual turnover of less than R12 million and have a significant representation of black managers on their management team. The entity must have a minimum trading history of one year.

**Benefit:** The maximum grant amount is limited to R100 000. The requested amount should not exceed 25% of the entity's previous year's turnover.

## The Co-operative Incentive Scheme (CIS)

**Objective:** To promote co-operatives by improving the viability and competitiveness of the co-operative enterprises by lowering the cost of doing business.

**Applicability:** Any entity incorporated and registered in South Africa in terms of the Co-operatives Act.

**Benefits:** Matching grant of 90% up to a maximum of R300 000 for costs relating to business development services, business profile development, feasibility studies/ market research, start-up requirements etc.

# Export Incentives - Non-Industry Specific

## Export Marketing and Investment Assistance (EMIA) Scheme

**Objective:** To assist South African exporters in establishing export markets for their products and to attract foreign investment into South Africa through the following schemes: National Pavillions, Individual Participation in exhibitions, Outward Investment and selling missions, Inward buying and investment missions, Individual inward missions, Foreign direct investment and primary market research.

**Applicability:** Available to all enterprises registered with the Commissioner of Customs and Excise with special terms for SMME's.

**Benefit:** A portion of specified costs relating to:

- Travel (Economy class);
- Daily subsistence;
- Transportation of samples for specific events;
- Development of marketing materials for specific events;
- Exhibition costs relating to stand rental, stand design and set up costs; and
- Costs of brochures.

## Sector Specific Assistance Scheme

**Objective:** Develop new export markets, broaden the specific industry export base, increase participation of BEE and SMME companies in the export process.

**Applicability:** Approved export councils, registered industry associations and joint actions groups.

**Benefit:** A matching grant of between 50% and 80% of the cost to support the development of the partnerships.

## Capital Projects Feasibility Programme (previously SA Capital Goods Feasibility Study Fund)

**Objective:** To facilitate feasibility studies that are likely to lead to projects that will increase South African exports and stimulate growth for local capital goods and services.

**Applicability:** South African registered companies.

**Benefit:** An advance up to a maximum of 50% of study costs for projects outside Africa and 55% for projects in Africa.

## Steel Rebate

**Objective:** To promote the development of the value added steel-processing industry in South Africa as an expanding market for locally produced primary steel products, to enhance South Africa's foreign currency earnings and increase employment opportunities.

**Applicability:** Exporters (situated in SACU) of fabricated steel products where 20% value has been added.

**Benefit:** Rebates based on the value of exports, currently at R135 per ton of net steel content (VAT exclusive) provided by steel suppliers.

### Customs Rebate and Drawback Provisions

**Objective:** Promote manufacturing and exporting of South African goods.

**Applicability:** Importers, exporters and manufacturers.

**Benefit:** Rebate or drawback of customs duties on imported goods, raw materials and components used in manufacturing or processing of goods for export and/or domestic sale.

### Industrial Development Zones (IDZs)

**Objective:** To promote manufacturing and increase the competitiveness of South African exports.

**Applicability:** All manufacturers and exporters located in designated zones.

**Benefit:** Rebate of customs duties on imported goods, raw materials and components used in manufacturing, processing for export.

### Value Added Tax (VAT) Export Incentive Scheme

**Objective:** Encourage exports from, and investment in South Africa.

**Applicability:** Exporters, registered as VAT vendors in South Africa.

**Benefit:** A vendor may supply movable goods at the zero rate, where the goods are consigned or delivered to an address outside South Africa.

Requirements as outlined in VAT Interpretation Notes 30 (issue 2), 31 or the Export Incentive Scheme (1998) should be complied with. Alternatively, the 'qualifying purchaser' may claim a refund of the VAT from the VAT refund administrator upon the exit of the goods from South Africa.

# Export Incentives - Industry Specific

## Textile and Clothing Industry Development Programme (TCIDP)

**Objective:** Aimed at assisting the textile and clothing manufacture industry in South Africa to obtain efficiency of international standard.

**Applicability:** Manufacturers and exporters of qualifying textiles and clothing / apparel products.

**Benefit:** Reduction of overall customs duty liability through Duty Credit Certificates earned from exports of qualifying goods.

*Note: The programme was applicable for the period ending 31 March 2009. No further extension has been announced by government.*

## Clothing and Textile Competitiveness Improvement Programme (CTCIP)

**Objective:** To build capacity in manufactures and in other areas of the apparel value chain in South Africa to effectively supply to the major retailers, as well as to grow South African-based clothing and textile manufacturers to be globally competitive.

**Applicability:** Small and large to medium-sized companies in clothing and textile manufacturing or support, supplier and/or customer organisations to these entities. The effective date for receipt of applications under this programme is 1 April 2009, for a period of five years, ending in 2014.

**Benefit:** Investment support to both local- and foreign-owned entities

- A matching grant incentive of 75% of project cost on cluster projects and 65% of project cost for company-level projects.
- Excludes costs in machinery, equipment, commercial vehicles, land and buildings in an existing clothing and textile production facility.
- The extent of the incentive for projects on company level will be 65% of eligible project cost up to a maximum of R2,5 million over five years.
- The cluster grant will support the development of such clusters through the provision of 75:25 matching grants: 75% from the CTCIP grant and 25% from the cluster participants.
- Grant support for each approved partnership will be limited to a cumulative ceiling of R25 million.
- Grants made by the programme will be made exclusive of VAT.

*Note: This programme is in addition to the Textile and Clothing Industry Development Programme (TCIDP).*

### **Motor Industry Development Programme (MIDP)**

The MIDP is a voluntary incentive scheme designed to save motor vehicle industry participants money, in the form of a reduction on import duties payable to SARS Customs. This programme is to be replaced in full by the automotive production and development programme (APDP) on 1 January 2013.

**Objective:** To increase local economic productivity by encouraging fewer model productions. To increase international competitiveness of the South African motor industry by assisting in reducing the cost of goods in the form of import duty savings, encouraging foreign currency earnings through increased exports and promoting foreign investment with the aim of creating and retaining jobs.

**Applicability:** Motor vehicle assemblers, component manufacturers and associated exporters.

**Benefits:** There are three import duty reducing incentives currently available.

- **Duty Free Allowance (DFA)**  
- exclusive to motor vehicle assemblers on production of motor vehicles for the domestic market;
- **Import Rebate Credit Certificates (IRCCs)** - Export performance based incentive to be used against imported motor vehicles and components; and
- **Production Asset Allowance (PAA)** - investment based incentive linked to investments in buildings, machinery, equipment and tooling to be used in manufacturing of motor vehicles and related components. Valid until June 2009.

**MIDP - Productive Asset Allowance (PAA):  
Valid until June 2009**

**Objective:** To encourage investment in the motor industry sector with the aim of reducing the proliferation of model ranges produced by manufacturers of specified light motor vehicles, for the domestic and the global market; and to encourage the localisation of components fitted to these motor vehicle models and for export.

**Applicability:** Motor vehicle assemblers and contracted component manufacturers (if associated to motor vehicle assemblers).

**Benefit:** 20% of the value of the investment in productive assets, approved by the International Trade Administration Commission of Southern Africa (ITAC), spread equally over a five-year period at 4% per annum, to be rebated against the duty on imported light motor vehicles.

**APDP - Automotive Investment Assistance (AIA):  
Valid from June 2009**

**Objective:** To encourage investment in the motor industry sector by manufacturers of specified light motor vehicles and automotive components with the aim of encouraging the localisation of components fitted to these motor vehicle models, encouraging manufactures to achieve economies of scale, encouraging upgrading in manufacturing processes and incentivising investors contributions to skills and development training.

**Applicability:** Motor vehicle assemblers and automotive component manufacturers.

**Benefit:** 20% of the value of the investment in productive assets, skills development, research and development, approved by ITAC, spread equally over a three-year period at 6.66% per annum. The form of the benefit, either a cash grant or duty rebate is still to be confirmed.

# Preferential Trade Agreements/Preferences

## Generalised System of Preferences (GSP)

**Objective:** Provide preferential access (ie at reduced customs duty or duty free), for exported products.

**Applicability:** The exported products must be of South African origin as defined in the rules of origin (RoO) provisions.

**Benefit:** 30 countries presently provide preferential market access for South African products to their markets.

## The African Growth and Opportunity Act (AGOA)

**Objective:** Provide exported products with customs duty free and quota free access to the United States of America (USA).

**Applicability:** The exported products must be of South African origin as defined in the rules of origin (RoO) provisions.

**Benefit:** Over 6 400 products currently qualify for customs duty free and quota free access to the USA.

## African Growth and Opportunity Act (AGOA) The Africa Investment Incentive Act of 2006 (AGOA IV)

**Objective:** To extend the third country fabric provision for five years from September 2007 until September 2012. To add an abundant supply provision and designate certain denim articles as being in abundant supply and allow lesser developed beneficiary sub-Saharan African countries to export certain textile articles under AGOA.

**Applicability:** Provides for special rules for fabrics or yarns produced in commercial quantities (or 'abundant supply') in any designated sub-Saharan African country for use in qualifying apparel articles. Upon receiving a petition, the International Trade Commission will determine the quantity of such fabrics or yarns that must be sourced from the region before applying the third country fabric provision. Provides for a process to remove designated fabrics or yarns that were determined to be not available in commercial quantities for use by lesser developed beneficiary sub-Saharan African countries on the basis of fraud.

**Benefit:** Extends textile and apparel provisions of the AGOA programme until 2015. Extends the third country fabric provision until 2012 and increases the cap to 3,5% beginning 1 October 2006. Provides for 30 million square meter equivalents of denim to be determined to be in abundant supply beginning 1 October 2006. Expands duty-free treatment for textiles or textile articles originating entirely in one or more lesser-developed beneficiary country.

### Free Trade Agreement between the EFTA States and the SACU States

- Objective:** To provide a free trade area between the Southern African Customs Union (SACU) and the members of the European Free Trade Association (EFTA) in conformity with the General Agreement on Tariffs and Trade.
- Applicability:** Products falling within Chapters 25-98 of the Harmonized System, processed agricultural products and fish and other marine products.
- Benefit:** EFTA to abolish all customs duties on imports from SACU. SACU to gradually reduce customs duties on imports originating in the EFTA.

### Trade Development and Co-operation Agreement (TDCA)

- Objective:** To provide a Free Trade Area (FTA) between South Africa and the 27-member European Union (EU) by the year 2012.
- Applicability:** Exports of South African origin and imports from the EU will gain preferential markets access to each other's market.
- Benefit:** The customs duty on 95% of South African exports and EU imports will be phased down to free of duty by the year 2012.

### Southern African Development Community (SADC) Free Trade Area

- Objective:** To provide a FTA between South Africa and the 15-member SADC by the year 2008.
- Applicability:** All exports of South African origin and imports from the SADC will gain preferential markets access to each other's market.
- Benefit:** The customs duty on 95% of South African exports and SADC imports will be phased down to free of duty by the year 2008.

# Skills Development Incentives

## Skills Support Programme (SSP)

*NOTE: Programme ceased 31 August 2006. We do expect it to be re-introduced soon in some format.*

# Financing Programmes

## 2010 Soccer World Cup Finance

- Objective:** To facilitate the investment activities of all entrepreneurs in 2010-related businesses.
- Applicability:** Entrepreneurs with economically-viable business proposals related to the 2010 Soccer World Cup, which include: tourism, information technology, media and motion pictures, bridging finance and revolving credit and guarantees for a variety of service providers.
- Benefit:** A variety of funding mechanisms ranging from equity and quasi-equity to secured loans and guarantees, structured accordingly depending on the business need and in agreement with the entrepreneur.

## Agro Industries Finance

- Objective:** Promote the establishment of permanent infrastructure in the agricultural and aquaculture sectors and establish new or expand existing undertakings in the food and beverages sector.
- Applicability:** Entrepreneurs in the agricultural, food, beverage and marine sectors wanting to expand or develop their business. Medium term finance in the form of loans, suspensive sales, equity and quasi-equity. Minimum financing requirement is R1 million. An economically viable business plan must be submitted.
- Benefit:** Competitive, risk-related interest rates are based on the prime bank overdraft rate.

## Chemicals, Textiles and Allied Industries Finance

- Objective:** To stimulate development and sustainable global competitiveness.
- Applicability:** Focus areas are:
- ceramics, concrete and stone products;
  - glass products;
  - leather and footwear;
  - conversion of natural fibres into fabrics;
  - conversion of fabrics into clothing;
  - primary and secondary chemical manufacturing;
  - plastic and rubber conversion;
  - waste purification; and
  - water recycling.
- Minimum investment requirements:
- for textiles, leather and footwear - minimum loan of R500 000;
  - for chemicals and allied industries - minimum loan of R1 million.
- Minimum equity amount is R5 million.
- Benefit:** Competitive, risk-related interest rates are based on the prime bank overdraft rate.

### Mining and Jewellery Finance

**Objective:** Assistance for small and medium-sized mining and beneficiation activities and jewellery manufacturing.

**Applicability:** Establish or expand junior mining houses, acquisition of mining assets by Historically Disadvantaged Individuals (HDIs), undertaking mining related activities such as contract mining, establish or expand jewellery manufacturing activities. Minimum financing requirement is R1 million. An economically viable business plan must be submitted.

**Benefit:** Competitive risk related interest rates are based on the prime bank overdraft rate.

### Forest Products Finance

**Objective:** To be the key player in the generation of a balanced, integrated and internationally competitive forest products sector within the Southern African region.

**Applicability:** Focus areas are projects in the forestry, pulp, paper, furniture and wood-related and renewable energy industries.

**Benefit:** Competitive risk related interest rates are based on the prime bank overdraft rate.

### Franchising (Wholesale) Finance

**Objective:** To provide finance to franchised businesses.

**Applicability:** Focus areas are:

- Fast food;
- Bakery;
- Cellular;
- Sit-down restaurants;
- Real estate;
- Speciality stores;
- Travel;
- Retail;
- Petroleum;
- Waste management depots;
- Manufacturing concerns; and
- Corporate distribution centres.

It is required that the applicant submits a good record of business development and has a strong financial position. The applicant should have an established franchised network with a proven franchised concept. He / she should have developed and / or acquired a training and mentorship programme to assist emerging entrepreneurs to attain the knowledge and skills required to become competent business people. The applicant should have a minimum of at least ten franchised projects to promote.

**Benefit:** Competitive, risk-related interest rates are based on the prime bank overdraft rate.

### Healthcare and Education Finance

- Objective:** To support and develop businesses in both the healthcare and education sectors in South Africa and the rest of the continent. These include the financing of greenfield projects, expansions and acquisitions and combinations thereof.
- Applicability:** Greenfield projects, expansions and rehabilitations; projects exhibiting economic merit in terms of profitability and sustainability; projects which have a significant development impact (eg rural development, empowerment, job creation); financing of fixed assets and the fixed portion of growth in working capital, buy-ins or take-overs by HDIs and businesses led by competent management team members. Minimum financing requirement is R1 million.
- Benefit:** Competitive, risk-related interest rates are based on the prime bank overdraft rate.

### Metal Industry Finance

- Objective:** To develop and support viable downstream metal producers with a focus on the automotive, other transport, structural and fabricated metal, as well as the machinery sectors.
- Applicability:** Focus areas are projects in ceramic, concrete and stone products, basic iron, steel and non-ferrous fabricated metal products, plant machinery and equipment, motor vehicles, components and accessories. Financing of fixed assets and the fixed portion of growth in working capital requirements: projects/businesses which have a significant developmental impact (eg rural development, empowerment, job creation) and BEE buy-in or buy-out of existing businesses. Minimum financing requirement is R1 million. Minimum equity amount is R5 million. Businesses and products should comply with international environmental standards.
- Benefit:** Competitive, risk-related interest rates are based on the prime bank overdraft rate.

### Technology Industry Finance

**Objective:** Development and expansion of technology intensive businesses in information technology (IT), telecommunication, electronic and electrical industries.

**Applicability:** Entrepreneurs in the IT, telecommunication, electronic and electrical industries wanting to develop or expand their businesses. New technology ventures with strong local or foreign technology partners and proven technology. Minimum financing requirement is R1 million. Finance is in the form of equity, equity-related and loan finance. An economically viable business plan must be submitted.

**Benefit:** Competitive risk related interest rates are based on the prime bank overdraft rate.

### Tourism Finance

**Objective:** Development and expansion of the tourism industry by providing finance for commercial projects in the medium to large sectors of the tourism industry.

**Applicability:** Medium-term finance in the form of loans, suspensive sale agreements, equity and quasi-equity for the creation of new, or the upgrading and renovation of tourism facilities including hotels, guest houses, lodges, cultural villages, conference and convention centres.

**Benefit:** Competitive risk related interest rates are based on the prime bank overdraft rate. Minimum financing requirement is R1 million.

### Transportation and Financial Services Finance

**Objective:** To facilitate the provision of finance for sustainable service related projects and investments in South Africa and the rest of the continent.

**Applicability:** Focus areas are:

- Transport services (road, freight, logistics, maritime, aviation and bus sector);
- Financial services (retail banking, acquisitions and commercial micro-finance); and
- Other (security services, listed retail acquisitions and catering services).

**Benefit:** Competitive risk related interest rates are based on the prime bank overdraft rate.

### Special funding / Risk Capital

**Objective:** The programme aims to develop entrepreneurial skills, particularly in small and medium-sized businesses.

**Applicability:** BEE-owned businesses with a minimum ownership of 25,1% by HDIs in the SME sector as well as investments that show high developmental impact, e.g. job creation, regional reach and rural development.

**Benefit:** Clients receive business support to solve short-term problems and are provided with long-term assistance. The IDC pays part of the cost of business support and structures a loan facility for clients to pay the balance of the costs when they are in a financially sound position.

# Social Responsibility

## DANIDA Business to Business Programme

**Objective:** To develop and strengthen business opportunities and create jobs for eligible entrepreneurs from previously disadvantaged communities.

**Applicability:** Development support is provided to commercially viable businesses, based on the formation of business partnerships between black-owned/controlled South African companies and Danish business enterprises.

**Benefit:** Support for expenses relating to the transfer of management and business skills, technology from Danish to South African companies and to provide access to financing for the South African company. Khula may issue up to 100% guarantee to the financial institution that will issue a loan for the procurement of shares, purchase of machinery and capital equipment for the business.

## DEG Public Private Partnership (PPP)

**Objective:** Provides co-financing for private sector activities in developing countries that positively affect sustainable development and social upliftment.

**Applicability:** Projects that lead up to or accompany investment, the transfer of technology and entrepreneurial know-how, training of employees and raising social and environmental standards. Companies partnering with, or related to, companies of the European Union, Norway and Switzerland.

**Benefit:** Up to a maximum of 50% of the costs of an individual activity not exceeding €200 000 per project.

# Industrial Participation

## The National Industrial Participation Programme (NIP)

- Objective:** To leverage economic benefits and to support the development of the South African industry by effectively using the instrument of Government Procurement. This is not an incentive but an obligation created when contracting with the Government.
- Applicability:** All Government and parastatal purchases or lease contracts with an imported content equal to or exceeding US\$10 million.
- Benefit:** Suppliers to the Government will be subject to an industrial participation obligation of 30% of the imported content.

*Note: The Department of Public Enterprises has introduced a Supplier Development Programme (SDP) as an alternative offset programme to the National Industrial Participation Programme (NIPP). The SDP requires that companies supplying goods to state-owned enterprises (SOE) enter an alternative offset programme aimed at developing national supplier industries. This policy focuses on enhancing the competitiveness of national industries rather than providing price premiums for local content.*

*The SOE has to develop a Supplier Development Plan that looks at the capacity and competitiveness of the local supply base; an analysis of the strengths and weaknesses of supplier industries; capital and operational expenditure projections, etc. These plans inform the procurement strategies of the SOE.*

*The SDP, NIPP and BEE programmes all need to be aligned.*

## Defence Industrial Participation Programme (DIP)

- Objective:** The process where purchases of the Department of Defence are used as a leverage to oblige a foreign seller of defence commodities/services to do defence-related business in South Africa on a reciprocal basis in order to advance military strategic and defence-related industrial imperatives.
- Applicability:** Mandatory on all foreign defence purchases above US\$2 million.
- Requirements:** Defence purchases:
- exceeding US\$2 million but less than US\$10 million - require a Defence Industrial Participation obligation of up to 50%;
  - exceeding US\$10 million - require a Defence Industrial Participation obligation of at least 50% and a National Industrial Participation obligation of at least 30%.

# Other Incentives

## The Tourism Enterprise Support Programme (TEP)

**Objective:** To encourage and facilitate the growth and expansion of tourism enterprises in response to increasing and broadening demand for tourism activity resulting in job creation and income generation opportunities.

**Applicability:** Business transactions in which one of the partners is a 'tourism enterprise', which derives at least 50% of its revenue from tourism. Thus, in addition to supporting direct tourism enterprises, a linkage between, for example, a furniture maker and a hotel would also qualify. Similarly, so would a horticulture producer selling to restaurants, or a printer producing flyers for a theatre. The primary emphasis will be on historically disadvantaged entrepreneurs and enterprises (HDEs).

**Benefit:** The TEP is helping large operators, investors, SMMEs, and HDEs identify viable linkages or business opportunities. Once this is done, TEP will tap their resources to make this opportunity a reality by matching buyers and suppliers of goods and services, assisting the SMME obtain the requisite professional services such as ISO/SABS quality certification, debt and equity finance, proper business planning, packaging, legal advice, technology needs and marketing. The TEP also provides aftercare to SMMEs to be sure they have the planning, production and management capacity to deliver as per the contract or market demands.

## Systemic Competitiveness Support Facility 'The Thematic Fund'

This is a proposed fund as per the Draft Regional Industrial Development Strategy released recently. The 'Thematic Fund' will support innovative regional development initiatives. It will be organised around themes. A theme is defined as a topical, conceptual focus on specific issues in regional development.

Possible themes that have been identified and whose business plans would be developed in due course are:

- industrial clustering capacity building fund;
- industrial development zones strategic support facility (both tax relief and infrastructure support);
- business retention and expansion; and
- innovative start-up support facility.

Once a theme has been defined, the DTI will publish a call for proposals.

## **ABOUT DELOITTE**

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/za/aboutus](http://www.deloitte.com/za/aboutus) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

**Client Service Centre** - Telephone: +27 (11) 209 8999, Email: [clientservicecentre@deloitte.co.za](mailto:clientservicecentre@deloitte.co.za)

© 2009 Deloitte & Touche. All rights reserved.

Designed and produced by the Studio at Deloitte, Johannesburg. (9706/chr)

Member of  
**Deloitte Touche Tohmatsu**