R&D Tax Incentives: South Africa, 2018

Design features

South Africa provides R&D tax relief through a volume-based R&D tax allowance at a rate of 50%.

- In the case of insufficient tax liability, unused claims can be carried-forward indefinitely.
- No ceiling applies on the amount of eligible R&D expenditures or value of R&D tax relief.

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<th>Table 1. Main design features of R&amp;D tax incentives in South Africa, 2018†</th>
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<td><strong>Type of instrument</strong></td>
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†For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief


Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the R&D tax subsidy rate for profit-making (loss-making) SMEs in South Africa is estimated at 0.16 (0.13), below the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.16 (0.13) in the profit (loss)-making scenario, above the OECD median, 0.13 (0.10).

South Africa first introduced R&D tax incentives in 2006. With no full expensing of R&D capital expenditure or any other enhanced tax relief provisions in place until 2006, this implies a negative marginal tax subsidy rate in both profit scenarios. In the case of loss-making firms, this subsidy rate is slightly higher in net present value terms due to the ability to carry over losses. A small increase in implied R&D tax subsidy rates is noticeable in the years 2004 and 2005 during which the standard depreciation rates for machinery and equipment and buildings were adjusted upwards. Following the introduction of R&D tax support in 2006, the notional generosity of R&D tax support has remained fairly stable in South Africa, looking at each of the four scenarios considered. The smaller fluctuations in implied R&D tax subsidy rates over the 2006-18 period are related to changes in corporate income tax rates, the magnitude of which directly affects the value of tax deductions. With an indefinite carry-over option in place from 2006 to 2018, the tax subsidy rates estimated for loss-making firms are positive but smaller than those for profitable companies during this period.

**Figure 1. Implied tax subsidy rates on R&D expenditures: South Africa, 2000-18**

1-B-index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/sti/rd-tax-state-bd-tax-bw-notes.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-state-bd-tax-bw-notes.pdf

† Disclaimer: http://oe.cd/disclaimer
Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)**

As a percentage of GDP

[Graph showing direct government funding and tax incentives for R&D]


- **South Africa** is placed among the lower tier of OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.02% of GDP in 2015.
- From 2012 to 2015, government support for BERD as a percentage of GDP declined in South Africa by 0.01 percentage points, while the OECD median (2006-2016) increased by 0.02 percentage points.
- From 2012 to 2015, business R&D intensity in South Africa increased from 0.32% to 0.34%.
- In 2015, R&D tax incentives accounted for 27% of total government support for BERD in South Africa.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

**Figure 3. Direct funding of business R&D and tax incentives for R&D, South Africa, 2001-14**

As a percentage of GDP, 2010 prices (right-hand scale)

[Graph showing government funding and tax support for R&D in South Africa]


- Over the 2012-2015 period (for which relevant data are available), the importance of R&D tax incentives declined in South Africa, both in absolute and relative terms.
- The cost of this support amounted to ZAR 286 million (in 2010 prices) in 2012 and ZAR 149 million in 2015 (1 ZAR = 0.07 USD, 31.12.2018). This decline is attributed to the administrative delays and backlogs associated with the pre-approval system.
- As a percentage of GDP, tax support accounted for 0.01% in 2012 and 0.005% in 2015.
- Direct funding of BERD accounted for an increasing share of GDP until 2008 (0.11%) which declined thereafter to reach 0.01% of GDP in 2015.
- The share of tax incentives in total government support declined from 32% in 2012 to 27% in 2015.


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2 Tax expenditure estimates, based on tax relief microdata, excluding baseline tax deductions (Section 11B, Income Tax Act) from 2012 to 2015.