

R&D Tax Incentives: South Africa, 2020

Design of R&D tax relief provisions

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

Table 1. Main design features of R&D tax incentives in South Africa, 2020

R&D tax allowance	
Type of instrument	Volume-based
Eligible expenditures [†]	Current
Headline rates (%)	50
Refund	No
Carry-over (years)	Indefinite (carry-forward)
Thresholds & ceilings	No

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key features:

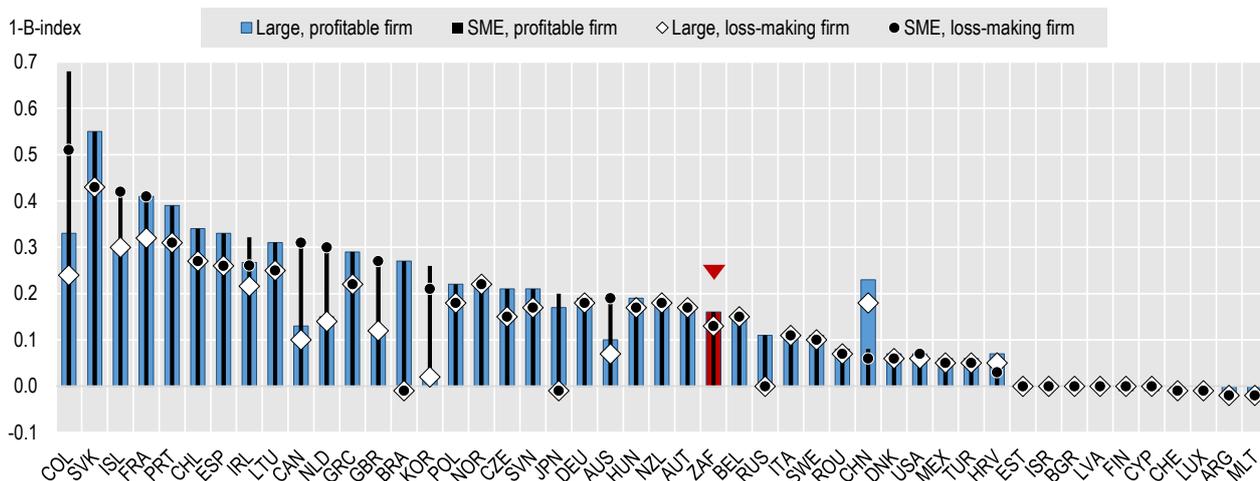
- In the case of insufficient tax liability, unused claims can be carried-forward indefinitely.
- No ceiling applies to the amount of eligible R&D expenditures or value of R&D tax relief.

Generosity of R&D tax support in 2020

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2020, 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 (0.18). The implied R&D tax subsidy rate for large enterprises is 0.16 (0.13) in the profit (loss)-making scenario, below the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: South Africa, 2020

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 (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **South Africa** did not undertake **changes** in its R&D tax relief provisions. The **latest change** in the provision of the R&D tax allowance in **South Africa** occurred in **2012**, when a pre-approval system was introduced. Ever since, eligible companies are required to submit applications to the Department of Science and Technology for a pre-approval of R&D activities before the company can claim the R&D tax allowance.

Trends in the generosity of R&D tax support

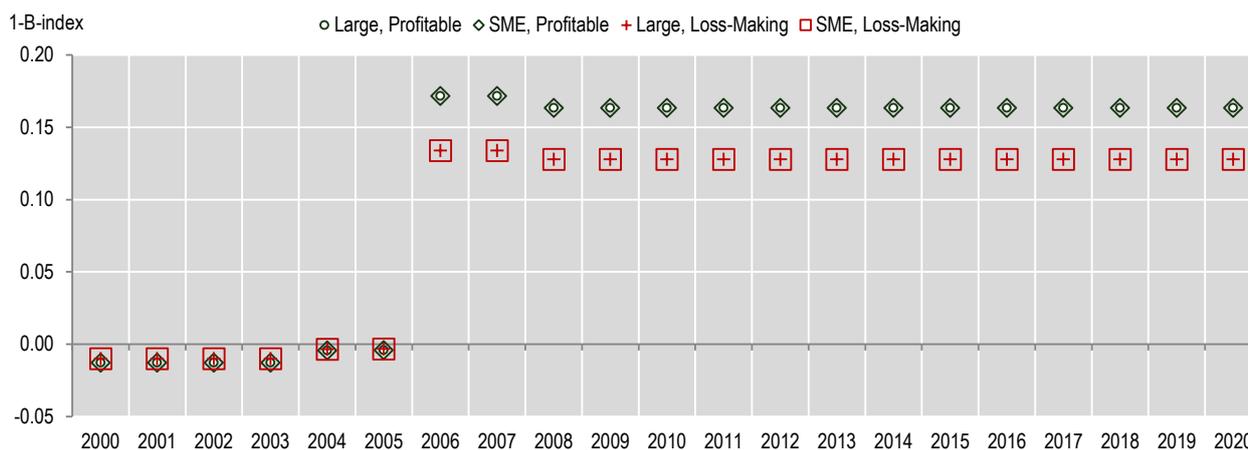
South Africa first introduced R&D tax incentives in 2006. Up until then, the absence of any enhanced tax relief provisions for R&D expenditure implied a negative marginal tax subsidy rate. In the case of loss-making firms, this subsidy rate is slightly higher in net present value terms due to the ability to carry over losses.

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 small fluctuations in implied R&D tax subsidy rates over the 2006-20 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 2020, the tax subsidy rates estimated for loss-making firms are positive but smaller than those for profitable companies during this period.

Figure 2. Implied tax subsidy rates on R&D expenditures: South Africa, 2000-20

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 (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

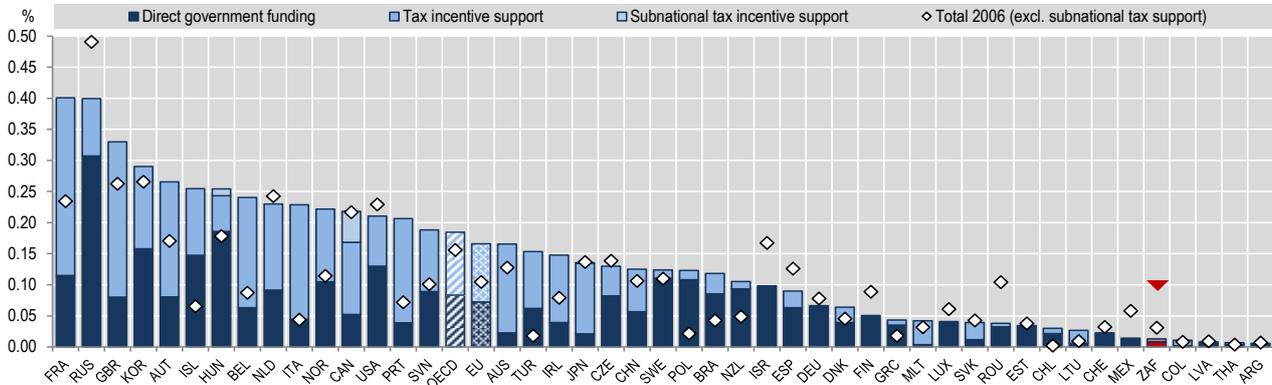
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

Policy support for business R&D: the policy mix

South Africa is placed among the OECD countries with the lowest level of government support to business R&D as a percentage of GDP, at a rate equivalent to 0.013% of GDP in 2017 (latest figure available).

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

Key points:

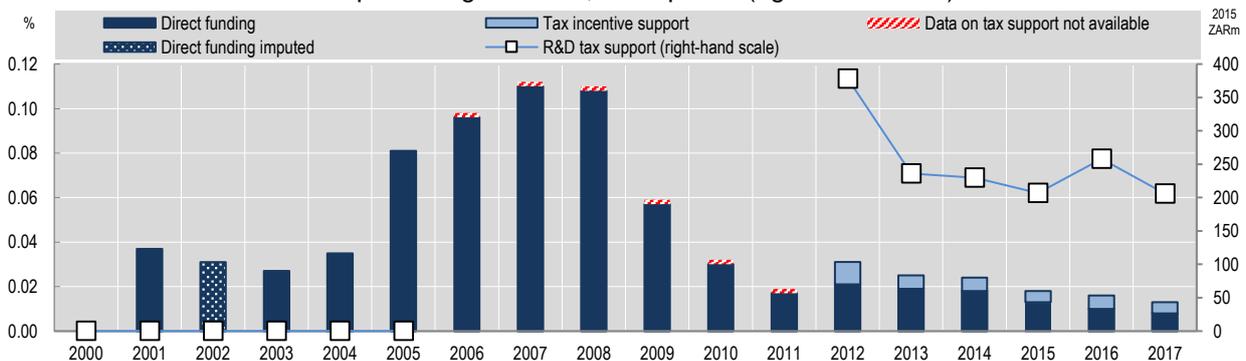
- From 2012 to 2017, government support for BERD as a percentage of GDP declined in **South Africa** by 0.02 percentage point (pp), while the OECD average (2006-2018) increased by 0.03 pp.
- From 2012 to 2017, business R&D intensity in **South Africa** increased from 0.32% to 0.34%.
- In 2017, tax incentives¹ accounted for 38% of total government support for BERD in **South Africa**.

Trends in government support for business R&D

Over the 2012-2017 period, with earlier periods having incomplete records of support, the importance of R&D tax incentives declined in South Africa, both in absolute and relative terms.

Figure 6. Direct funding of business R&D and tax incentives for R&D, South Africa, 2000-17

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

- The cost of government tax support for R&D amounted to ZAR 378 million (in 2015 prices) in 2012 and ZAR 206 million in 2017 (1 ZAR= 0.051 EUR, Q3 2020). 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 2017.
- Direct funding of BERD accounted for an increasing share of GDP until 2008 (0.11%) which declined thereafter to reach 0.008% of GDP in 2017.
- The share of tax incentives in total government support increased from 32% in 2012 to 38% in 2017.

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¹ Tax expenditure estimates, based on tax relief microdata, excluding baseline tax deductions (Section 11B, Income Tax Act) from 2012 to 2017.