R&D Tax Incentives: South Africa, 2019

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 to 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, 2019†</th>
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<td><strong>R&amp;D tax allowance</strong></td>
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<tr>
<td>Type of instrument: Volume-based</td>
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<td>Eligible expenditures: Current</td>
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<td>Headline rates: 50</td>
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<td>Refund: No</td>
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<td>Carry-over (years): Indefinite (carry-forward)</td>
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<td>Thresholds &amp; ceilings: No</td>
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Recent developments and trends

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 2019, 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 0.19 (0.17). The tax subsidy rate for large enterprises is 0.16 (0.13) in the profit (loss)-making scenario, above the OECD median, 0.14 (0.10).

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 2006-19 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 2019, 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, 2000-19**

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 (see methodology and country-specific notes) 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.
Public 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 0.02% of GDP in 2016 (latest figure available).

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)**
As a percentage of GDP

* Data on tax support not available, ** Data on subnational tax support not available


- From 2012 to 2016, government support for BERD as a percentage of GDP declined in South Africa by 0.01 pp, while the OECD median (2006-2017) increased by 0.015 pp.
- From 2012 to 2016, business R&D intensity in South Africa increased from 0.32% to 0.34%.
- In 2016, R&D tax incentives$^2$ accounted for 37% of total government support for BERD in South Africa.

Trends in government support for business R&D

Over the 2012-2016 period, for which relevant data are available due to incomplete records of support, the importance of R&D tax incentives declined in South Africa, both in absolute and relative terms.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, South Africa, 2001-16**
As a percentage of GDP, 2010 prices (right-hand scale)


- The cost of R&D tax support amounted to ZAR 286 million (in 2010 prices) in 2012 and ZAR 189 million in 2016 (1 ZAR= 0.061 EUR, Q3 2019). 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 0.006% in 2016.
- 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 2016.
- The share of tax incentives in total government support declined from 32% in 2012 to 37% in 2016.


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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 2016.