Of wishlists and tax incentives

By Elizabeth Lombaard

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Every year, when I start thinking about the annual Budget Speech, I wonder what is to come. Is this the year that the corporate tax rate will change? Maybe capital gains will finally be 100% taxable? Or something more low key, like an increase in the Securities Transfer Tax? Our President, Cyril Ramaphosa, has been in power for over two years and our Finance Minister, Tito Mboweni, certainly has his opinions. As I write this, I am sitting by candlelight, happy that my laptop has a fully charged battery. And I wonder, where is the money going to come from to help our country do what needs to be done to satisfy the ratings agencies?

Image source: Getty/Gallo

It starts with a strong, solid and well thought-out Budget Speech (and underlying budget). A speech that brings across a clear vision of how collected taxes will be spent, and inspires trust that it will get done in a fair and transparent manner. However, since I am not an economist, I don't want to venture into the economics of balancing such an enormous budget. How does one balance a budget for a country?

Thus, I will restrict myself to that which I know, which is tax.

Taking inflation into consideration

I certainly would not like to see an increase in the tax rate for individuals. Considering how much tax is already being collected from individuals (38.3%), a tax rate increase may alienate the just under five-million taxpayers that are already contributing significantly. However, it helps the woman and man on the street if bracket creep is again taken into consideration. Bracket creep is the impact of taxable income moving to higher tax brackets purely as a consequence of inflation and not because of real increases in income. Since these tax brackets (the ranges on the tax table) have not been adjusted in the last two years, it would certainly create goodwill and some welcome relief for taxpayers if inflation could be taken into consideration.

In the State of the Nation Address (Sona), the president said: “As part of this intervention, the National Youth Development Agency and the Department of Small Business Development will provide grant funding and business support to 1,000 young entrepreneurs in the next 100 days – starting today.” This is a great starting point to incentivising economic growth, especially for our youth. And I support the increase and/or broadening incentives, as they stimulate the economy and bring investors to our door.

If incentives are ceased, it has an impact. For example, the Manufacturing Competitiveness Enhancement Programne (MCEP) incentive was suspended in 2015, because the budget available for this incentive was fully utilised much earlier than 2018 which is until when it was intended to run. However, based on informal discussions with investors, the cessation of the incentive resulted in investment in the manufacturing sector decreasing, which impacted the economy.

Incentives

One particular tax incentive that concerns me is the section 12I manufacturing incentive allowance, which is coming to an end on 31 March 2020. To date, there has been no indication that the period of this incentive is being extended. While detailed information is not readily available (most recent data takes us to the 2016/17 spend), for the period 2013/14 – 2016/17 Government invested a total of just over R2bn in this particular incentive. In this regard, I am hoping the government can find a little money in the kitty and extend the date of this incentive.

The research and development (R&D) tax incentive was put in place in 2006 (with further changes implemented in 2012) to encourage investment into and the growth of the scientific and technological R&D sector in South Africa. The incentive enables companies to claim a 150% deduction in respect of all qualifying R&D expenditure and may only be claimed after approval for the specific R&D project has been obtained from the Department of Science and Innovation. This approval process can take some time but it is well worth it to, in essence, get back R14 for every R100 spent on qualifying R&D (28% of the additional R50 deduction). Similar to the section 12I incentive, the R&D tax incentive has a sunset clause – it will cease to apply on 1 October 2022.

To be honest, this incentive is close to my heart. The tax benefit is something that can enable companies to encourage young scientists, engineers and innovators to stay in our country and help build. It can move South Africa back to the forefront of innovation on the world stage and it can drive that entrepreneurial spirit South Africans are so well known for. We want to incentivise people to become mathematicians, techies and researchers and then to build their businesses here.

I therefore wish that the 2020 Budget Speech gives us certainty about the R&D and manufacturing incentives. And I hope the minister of finance tells us and the world that South Africa is open for business, so that visionaries, manufactures and entrepreneurs are welcomed and encouraged to stay.

ABOUT THE AUTHOR

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