Reigniting the economy

2021 South African Budget address

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1. Customs and Excise

1.1 Customs

SARS will focus on technology and data, as well as expanding on customs audit and investigative skills. Customs and Excise are part of an inter-agency working group to combat criminal and illicit cross-border activities. The use of cargo scanners by Customs operations has helped to curb smuggling.

The Customs and Excise Act will be amended to regulate the consolidation of air cargo for export at de-grouping depots.

Changes to the accreditation programme (currently known as Preferred Trader) are being made to align with the requirements of the World Customs Organization (WCO) SAFE framework of standards. This should enable more streamlined trade with our major trading partners, who have already implemented accreditation programmes. Minimum thresholds for refunds and under-payments of duties will be increased.

Draft amendments to the Diesel Refund Scheme were published on 9 February 2021 and it is likely that industry-specific public consultations will take place during the course of this year for implementation in 2022.

1.2 Excise

Excise duties on tobacco and alcohol will be increased by 8%. This increase is more than double the current inflation rate. The government intends to review the policy framework for both alcohol and tobacco during 2021/2022.

General fuel levy increases by 15 cents/litre and the Road Accident Fund levy increases by 11 cents/litre with effect from 7 April 2021.

Last year, an excise duty was introduced for tobacco heated products. To more appropriately tax these products, government now intends to tax these products based on product type. Cigarettes that are normally sold in packs of 10 or 20 will be taxed accordingly, while other products will be taxed by weight.

Government intends to publish a discussion paper detailing proposals to tax electronic nicotine and non-nicotine delivery systems. Following public consultations, an excise duty on electronic nicotine and non-nicotine products will be introduced later this year.

26c 750ml wine

14c 340ml beers or ciders

R5.50 750ml bottle of spirits

86c 750ml bottle of sparkling wine

47c 25g piped Tobacco

R1.39 Box of 20 cigarettes

R7.71 23g Cigar

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1.3 International trade

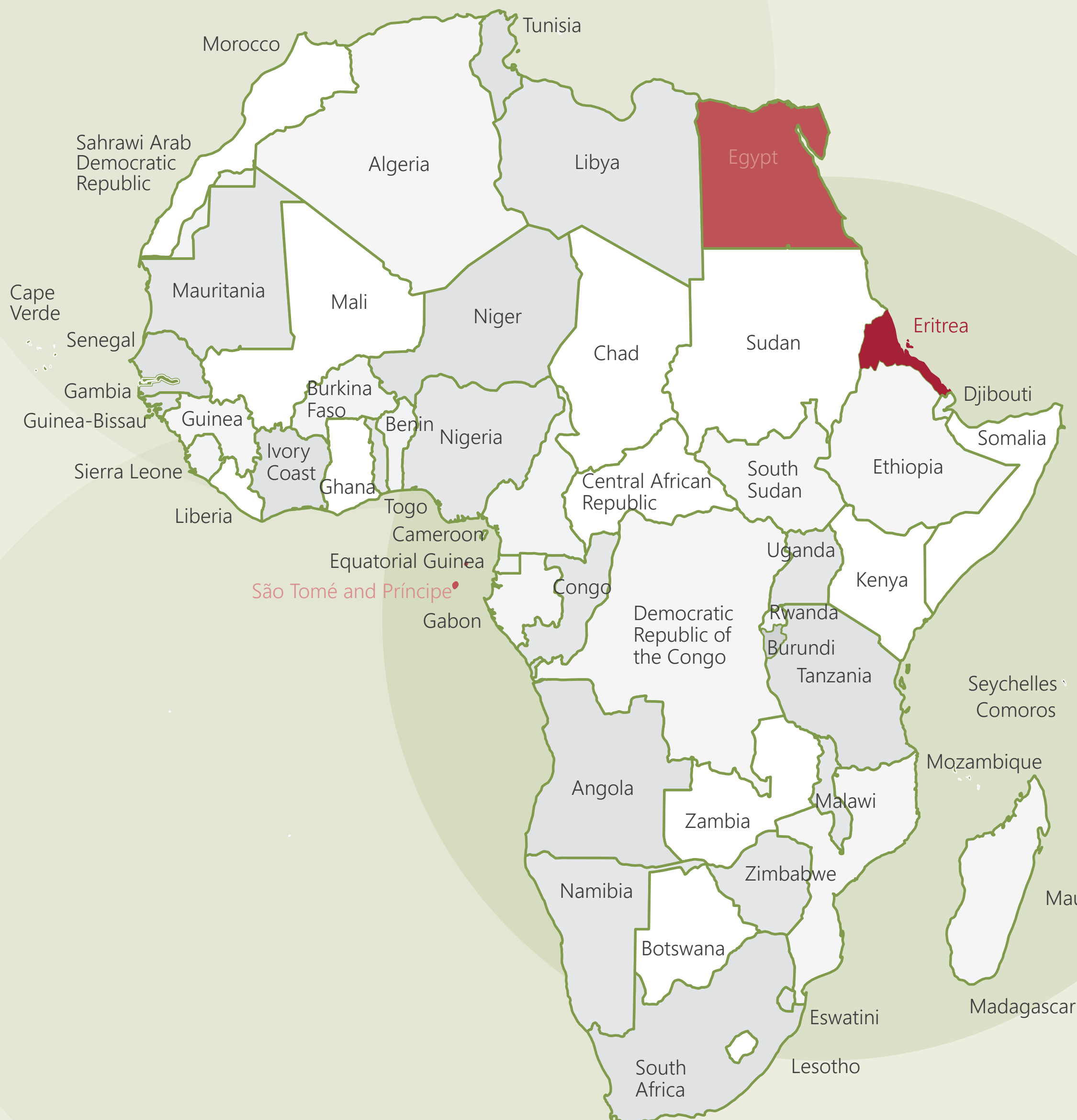
South Africa's commitment to its role within the continent was affirmed by specific mention of an upwards revised payment to SACU and the opportunities presented by the Africa Continental Free Trade Agreement (AfCFTA). Aligned to the focus on SARS' technology capabilities is a status update regarding the modern risk-based capital management flow system. Progress has been made and the Reserve Bank is will publish regulations shortly.

Recent challenges at South Africa's border posts, particularly in December, were mentioned. A commitment to upgrade and expand border security has been made, together with the rolling out of One-Stop Border Posts, starting with Beit Bridge.

We note specific mention of the sugar, clothing, textiles and footwear and poultry sector master plans. There are also new import rebates for textiles. We expect Government to be more supportive of protection of the local economy in these sectors by way of anti-dumping investigations, countervailing measures and increased customs duties.

1.4 Export tax

In 2020, export tax on scrap metals was introduced in the Customs and Excise Act, to take effect from 1 March 2021. Government intends to postpone the effective date to 1 August 2021. The reasons are to allow both SARS and taxpayers to adjust their systems and because the price preference system has been extended to 31 July 2021.



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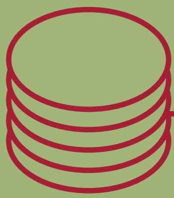


2. Incentives and Finance

2.1 Government grants and tax incentives

Tax Incentive Reform

Government wants to shift away from tax incentives, to allow for lower corporate tax. It says these changes are expected to enhance efficiency, transparency and fairness in the business tax system, while facilitating economic growth through improved investment and competitiveness.

The Minister noted that, "Tax incentives and some expenditure deductions provide favourable tax treatment to certain taxpayers or groups of taxpayers, and inevitably result in the creation of vested interests and lobby groups." The 2021 Budget proposes to either limit or let lapse those tax incentives that erode the equity of the tax system or do not meet their intended objectives.

In line with the Minister's speech, a sunset date of 28 February 2022 has been introduced for tax incentives dealing with airport and port assets, rolling stock, and loans for residential units. Together with the incentive providing exemptions for films, these incentives will lapse once they reach their respective sunset dates. The National Treasury is accepting detailed submissions from affected stakeholders who wish to retain these provisions in the tax code. The urban development zones and learnership tax incentives will be extended for two years while their reviews are completed.

We do not believe that this reform will have any immediate impact on additional tax incentives, such as the Section 12L and Section 11D.

Jobs Fund

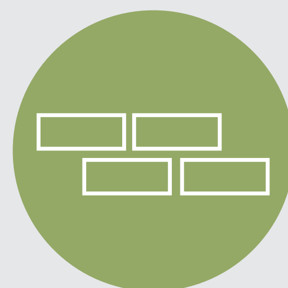
Lessons learned from the nine years of implementing the Jobs Fund can assist in improving the work of the Presidential Employment Initiative to achieve better results. Parliament and provincial legislatures will continue to monitor progress.

The Jobs Fund, types of funding

Enterprise development

Infrastructure

Support for work seekers



Institutional capacity building

Automotive Support Measures

Government will continue to invest substantially into the automotive sector to support production to facilitate and progress the country's economic recovery. The DTIC will continue to provide support to the automotive sector through the Automotive Investment Scheme (AIS). The AIS will form part of the R15 billion allocated to fund incentive programmes administered by the DTIC. The Department of Small Business (DSBD) has been allocated R4 billion for programmes providing support to the township economy. The Automotive Aftermarket Support Scheme is a programme administered by DSBD that will share in this allocation.

Section 12I

Industrial policy projects approved in terms of section 12I of the Income Tax Act must comply with specific requirements within specified timeframes. The impact of the COVID-19 pandemic has hindered these projects from meeting the compliance criteria. Government will, therefore, consider amending the timeframes within which assets must be brought into use, along with the section 12I compliance period. We expect the asset brought into use to be extended from five years to six years from approval and the compliance period to be changed from three years to four years.

Section 11D Research and Development (R&D) incentive

The R&D tax incentive is scheduled to expire on 1 October 2022, and the Department of Science and Innovation (DSI) will publish a paper with regards to the future of this incentive for public comment this year. Our hope is that the incentive will be extended, as the investment in R&D is critical to the recovery of the economy.

In the wake of the COVID-19 pandemic, the DSI has set aside R5.3 billion over the medium term to assist with scaling up and supporting efforts for the local development of:

- Medical devices, such as ventilators;
- Orbital telecommunications, such as nano satellites; and
- Hydrogen fuel cell technologies.

Also included in the DSI's efforts described above are renewable energy research development and pilots, such as the KwaZulu-Natal Research Innovation and Sequencing Platforms.

11D Research and development tax incentive

R0.14	No limit	Qualifying expenditure effective from date of application	South Africa
tax deduction for every R1 spent on qualitying R&D expenditure	No upper limit on claims	Salary and Wage Costs Materials and Lab Costs Outsourced R&D Costs Overhead Costs	R&D work must be conducted in **South Africa**

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Special Economic Zones

In 2013, the Special Economic Zone (SEZ) tax regime was introduced and the tax benefits, contained under two separate provisions:

- 12R deals with the criteria determining what constitutes a qualifying company that qualifies to be taxed at 15% instead of the statutory 28% corporate tax rate
- Section 12S provides for an accelerated capital allowances for buildings owned and used by a qualifying company in the production of its income within an SEZ

On 20 January 2021, the Tax Laws Amendment Act 23 of 2020 was promulgated and gave effect to the alignment of the sunset date of the provisions to end on 31 December 2030. The amendments are deemed to have come into operation on 9 February 2016.

Black Industrialists Scheme (BIS)

The drive to support black-owned businesses continues to be a government priority. The BIS is included as part of the R15 billion allocated to the DTIC's Manufacturing Incentives programme, and although the Minister did not make any announcement on the BIS specifically, 51.1 % (R15 billion) of the DTIC's budget will be allocated mainly to fund incentive programmes, such as the BIS.

Tourism

As one of the measures to support the recovery of the tourism sector, the Department of Tourism has re-prioritised R 540 million over the medium term to establish the Tourism Equity Fund (TEF)

The TEF is a collaborative initiative between the Department of Tourism and the Small Enterprise Finance Agency (SEFA). The fund aims to drive transformation through advancing equitable opportunities to ensure inclusive economic growth in the tourism sector as an integral element of the implementation of South Africa's Economic Reconstruction and Recovery Plan.

According to the plan, tourism, cultural and creative industries were amongst the hardest hit by global COVID-19 pandemic and, accordingly, efforts are aimed at ensuring that recovery and growth of these sectors will form an integral part of the overall reconstruction and recovery effort.

The fund recognises that the capital-intensive nature of the industry is one of the key barriers to entry for new and existing black-owned tourism enterprises from meaningfully participating in and contributing towards this sector. Therefore, in providing access to finance for black-owned commercially viable tourism projects, the TEF intends to address one of the major challenges to transformation of the tourism sector.

It is a dedicated fund that provides a combination of grant funding, concessionary loans and debt finance to support equity acquisitions, as well as new and expansion developments in the tourism sector by black entrepreneurs.

Section 12J

The Section 12J Venture Capital Incentive will come to an end at its current sunset date of 30 June 2021. The fact that the incentive is not being extended is not surprising because it provided a generous tax deduction to wealthy taxpayers and most support has gone to low-risk ventures, such as property investments, which would have attracted funding without the incentive.

Supplier Development Incentives

The DTIC budget re-confirmed the Department's commitment to supporting supplier development by continuing the implementation of the Strategic Partnership Programme, which is geared towards assisting small and medium enterprises to improve their capabilities to supply goods and services to large corporates.

2.2 Development Finance Institutions

Industrial Development Corporation (IDC)

The IDC finances industrial development in South Africa and across Africa, especially SADC countries, through profits it generates and borrowed funds. The financial position of the IDC deteriorated sharply in 2019/20. These losses were a direct result of poor investment performance, market volatility and uncertainty stemming from COVID-19.

During the pandemic, the IDC intervened to assist its clients by approving deferments exceeding R760 million in existing debt-service requirements. Although funding activity has declined, the IDC approved R3.4 billion of funding for existing and new clients during the year. The IDC's expenditure is expected to increase at an average annual rate of 5.3%, from R18.2 billion in 2020/21 to R21.3 billion in 2023/24.

Small Enterprise Finance Agency (SEFA)

SEFA has provided R233 million in support to 26 small-scale local manufacturers and non-financial support to 66 local enterprises as part of the government's economic recovery plan, announced in October 2020.

SEFA is allocated R885.3 million over the medium term for a blended finance model to support small and medium enterprises, and R2.9 billion under the Township and Rural Entrepreneurship Fund to support small businesses in rural areas and townships.

National Empowerment Fund (NEF)

The NEF's planned funding approvals are expected to increase from R500 million in 2020/21 to R1.2 billion in 2023/24 through the uMnotho Fund, the iMbewu Fund, the Rural and Community Development Fund, the Strategic Projects Fund and the Women Empowerment Fund.

Expenditure is set to increase at an average annual rate of 12.8%, from R260.7 million in 2020/21 to R374 million in 2023/24, mainly due to the implementation of critical funding activities, such as turnaround strategies and restructuring initiatives to help businesses recover from the effects of the COVID-19 pandemic.

2.3 Covid19 related measures

Temporary employer/employee relief scheme (TERS)

The Unemployment Insurance Fund's (UIF) TERS, which was set up to provide immediate financial support to workers and firms affected by the pandemic, will be extended through to 15 March 2021, as announced by the President.

There was no announcement on the specific sectors that this extension is to cover, but we expect to cover the liquor, hospitality and tourism related sectors. This will increase spending on the scheme to R73.6 billion in 2021/22. As at end-January 2021, the UIF had paid R57.3 billion to 13.9 million workers. The scheme has been beset by allegations of fraud and in response, the UIF appointed seven audit firms and has begun phase one of its "Follow the Money" project to check the authenticity of claims and to verify whether the money was paid over to workers.

TERS Repayments

15 Oct 2020

Unemployment Insurance Fund (UIF)'s Temporary Employer/Employee Relief Scheme (TERS) will be extended beyond the 15th of October 2020.

3. Energy (including Carbon Tax and Carbon Credits)

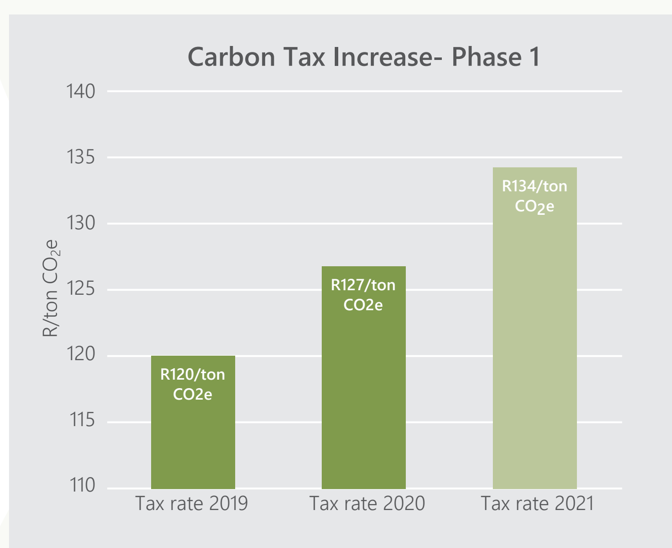
3.1 Carbon Tax

Increased Rates

The carbon tax rate increased by 5.2%, from R127 to R134 per tonne of carbon dioxide equivalent, from 1 January 2021.

The carbon levy on fuel will increase by 1c to 8c per litre for petrol and 9c per litre for diesel from 7 April 2021.

The Department of Environment, Forestry and Fisheries (DEFF) will enhance the current carbon budget system to regulate carbon emissions by imposing caps on companies for a five-year period. Once the legislation on carbon budgets is enacted, Government will phase out the carbon budget allowance of 5% provided for under the Carbon Tax Act.



Clarifications in the Carbon Tax Act

Clarifications related to the renewable energy premium deduction

Changes will be made to the Carbon Tax Act to clarify Section 6(2). Only entities that conduct electricity generation activities and purchase additional primary renewable energy directly under the Renewable Independent Power Procurement Programme (REIPPP), or from private independent power producers with a power purchase agreement, are eligible to claim the tax deduction for their renewable energy purchases. This amendment will take effect from 1 January 2021. This effectively means that companies that are self-generating renewable power will not be able to claim the renewable energy premium to reduce their Carbon Tax liability.

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To ensure alignment between the GHG emissions covered under Section 4(1) and 4(2) of the Carbon Tax Act, it is proposed that an additional category be included under the Carbon Tax Act to cover the IPCC code 1B3 activities for other emissions from energy production.

Clarifications related to carbon capture and sequestration

The definition of sequestration in the Carbon Tax Act will be amended to remove carbon capture and storage in geological reservoirs from the scope of this deduction.

Due to concerns about permanence of sequestered emissions in harvested wood products and the robustness of the available emission calculation methodologies, it is proposed that only actual forestry plantation sequestered emissions should be eligible for the deduction under the Carbon Tax Act.

Clarifications related to carbon budgets

Section 12(1) of the Carbon Tax Act permits a taxpayer to claim a carbon budget allowance of 5% if they participate in the carbon budget system during or before the tax period. To address any ambiguity due to the new voluntary carbon budget system, it is proposed that reference to "before the tax period" be replaced with the specific timeframe for the carbon budget (that is 1 January 2021 to 31 December 2022), as determined by the Department.

No other changes to the allowances were made.

Waste tyre greenhouse gas emissions

The Carbon Tax Act does include the GHG emissions from waste incineration emissions and the relevant emission factors for different types of waste fuel set out in Schedule 1 of the Act. The emission factors, however, do not include a factor for emissions from waste tyre fuel. The DEFF will therefore develop an appropriate emission factor for waste tyres for possible inclusion in the 2022 Budget Review.

Alignment with the amended GHG Emission Reporting Regulations

In September 2020, the DEFF gazetted the new amended GHG Emission Reporting Regulations, including new activities required to report emissions and changes to emission reporting thresholds. To ensure alignment between the activities covered in the Carbon Tax Act and the Amended Regulations, the following changes are proposed to Schedule 2 of the Carbon Tax Act:

Change in Regulations	IPCC Activities
Change to Thresholds	• **1A2m** brick manufacturing from 4 million bricks/month to 1 million bricks / month **Emissions now reportable:** • **2A4a** Ceramics, **2A4b** Soda Ash and **2A4d** Other (production capacity ≥ 50 tonnes / month) • **2B10** Chemicals Industry Other (production capacity ≥ 20 tonnes / month) • **2C7** Metal Industry Other (production capacity ≥ 50 tonnes / month) • **2G1B** electrical equipment (production capacity ≥ 50 kilograms / year)
Inclusion of New Activites	• **1A2n** manufacture of ceramic products by firing, in particular roofing tiles, tiles stoneware or porcelain (production capacity ≥5 tonnes/day)
Exempted Activities now reportable to the DEFF	• **3A2** manure management (threshold: 40 000 places for poultry) • **3C1a** biomass burning in forest land, **3C4** direct nitrous oxide emissions from managed soils and **3C5** indirect nitrous oxide emissions from managed soils (owning ≥ 100 hectares of plantation) • **3D1** harvest wood products (harvest wood products produced from timber harvested from forest owner registered for reporting (see threshold **3B1a** and **3B1b**, **5B** other (none)).

3.2 Environmental levies

Plastic Bags

Plastic bags are currently taxed at 25c/bag. A reduced levy of 12.5c/bag will apply to bio-based plastic bags. The implementation date and technical specifications will be included in the Taxation Laws Amendment Bill.

Waste

A total of R1 billion is set aside to enhance accountability for waste management. This funding will support the development of a new tyre waste industry plan, the review of producer responsibility regulations and the development of a Waste Economy Master Plan.

Climate resilience

The DEFF has set aside R1.2 billion over the Medium-Term Expenditure Framework period to support climate resilience initiatives, including a legislative framework, intergovernmental coordination, and job resilience plans.

3.3 Section 12L – Energy efficiency incentive

Section 12L became effective in November 2013 with the aim of promoting the efficient utilisation of energy, to safeguard the continued supply of energy, and to combat the adverse effects of greenhouse gas emissions on climate change. Amendments were made with effect from March 2015, including an increase in the tax allowance from 45c per kilowatt hour to 95c per kilowatt hour saved. To encourage additional and continuous investment in energy efficiency, government extended the Section 12L incentive to 31 December 2022 to be aligned with the first phase of the Carbon Tax which also ends on 31 December 2022. No changes to the tax incentive were announced during the 2021/2022 budget speech. It is expected that the Section 12L incentive will be extended at a later stage to 31 December 2030 to be aligned with the end of phase two of the Carbon Tax. Government wants to move away from tax incentives. We do not, however, expect the Section 12L incentive to be impacted by this shift.

Incentive Section 12 L
is coming to an end on the

31 December 2022

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3.4 Independent Power Producers (IPPs)

As economic activity resumes, unreliable electricity supply is constraining recovery. Urgent reforms are required to alleviate this constraint. Operation Vulindlela was launched to alleviate the unreliable electricity supply in South Africa. Operation Vulindlela is working to reduce the administrative burden for generation projects under 50 megawatts. They are also working to fast-track the procurement of additional electricity in line with the Integrated Resource Plan 2019.

Government will relieve the short-term electricity constraint by amending schedule 2 of the Electricity Regulation Act (2006) to ease embedded (self) generation regulations for firms and municipalities. Government will initiate the procurement of 11 813 MW of new electricity capacity from independent Power Producers (IPPs), including 6 800 MW to be generated from renewable energy sources. In October 2020, electricity regulations were amended to enable municipalities to procure power from IPPs.

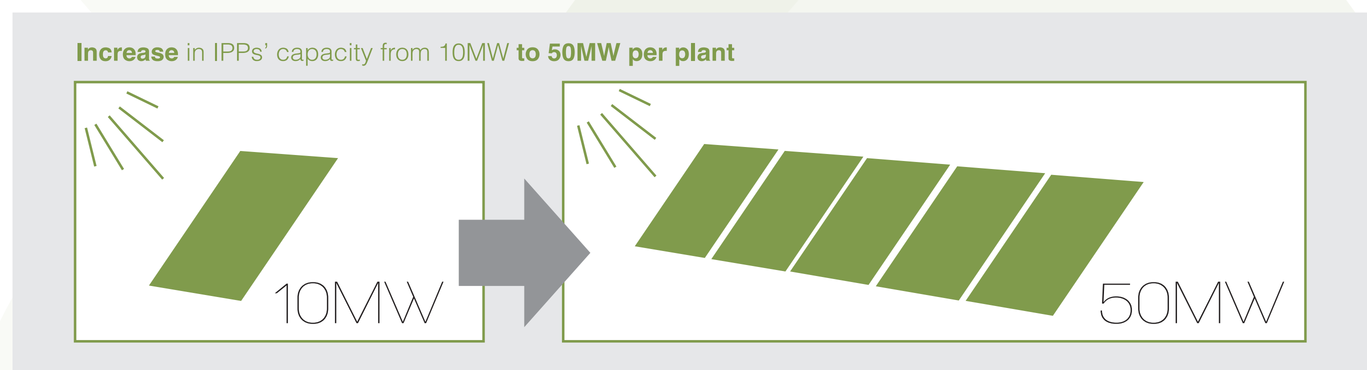
To alleviate electricity supply constraints and reduce the use of diesel-based peaking electrical generators, three energy projects have been gazetted:

- Emergency/Risk Mitigation Power Purchase Procurement Programme
- Small Independent Power Producer Programme (Small IPP Programme)
- Embedded Generation Investment Programme

These projects will create an estimated 2 569 megawatts (MW) of electricity-generating capacity. Total investments, to be funded by the private sector, amount to R52.4 billion.

The Small IPP Programme involves the development, installation and operation of a total of 100 MW of generating capacity at an estimated cost of R2.7 billion. The programme offers opportunities for small and medium-sized enterprises and new developers in the renewable energy sector through generation projects between 1 MW and 5 MW of energy from solar photovoltaic, wind and biomass power. The programme is expected to be operational towards the end of 2022.

The Embedded Generation Investment Programme involves the development, installation, and operation of up to 469 MW of solar photovoltaic and wind generation projects. The Development Bank of Southern Africa (DBSA) and the Green Climate Fund will administer and manage this programme.



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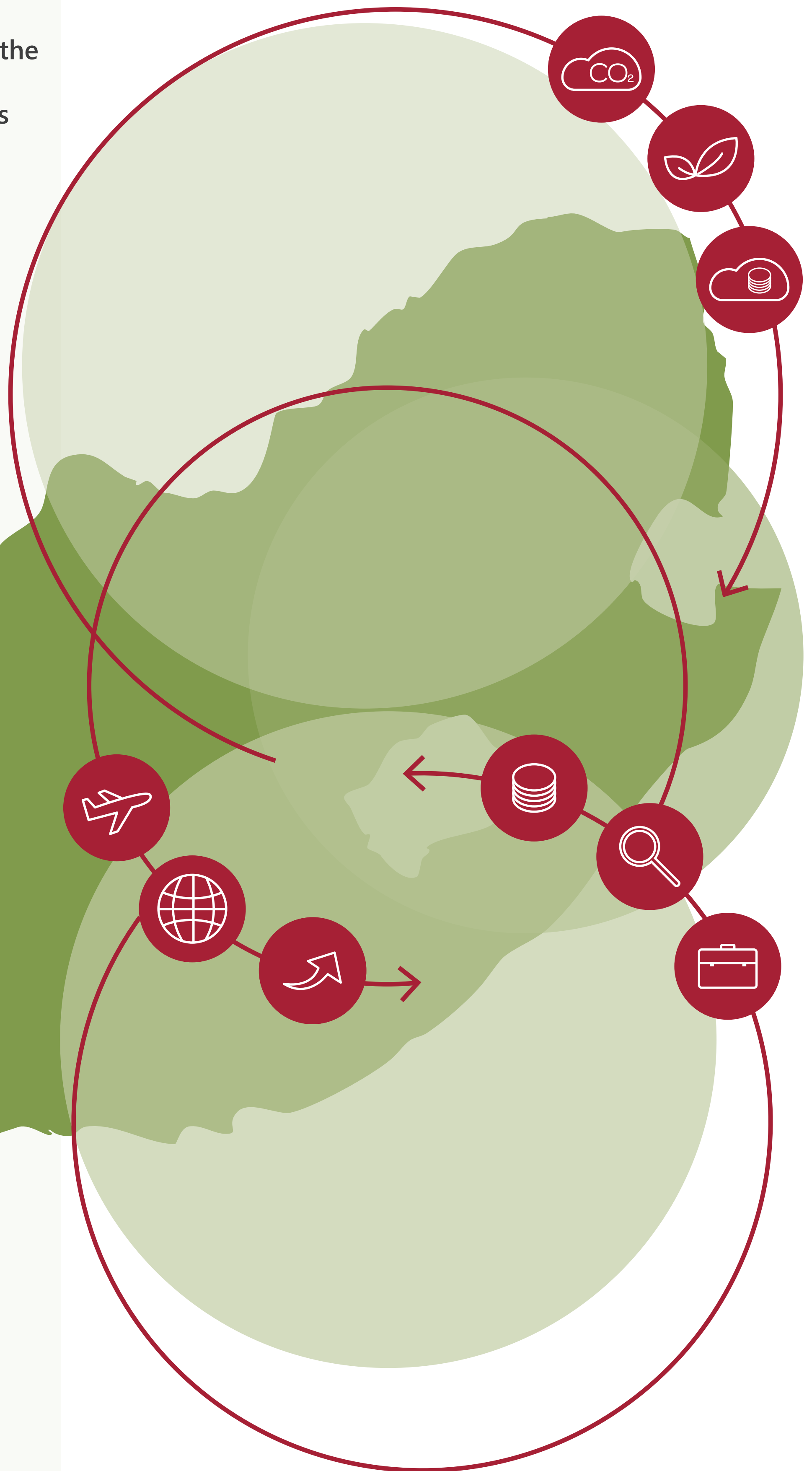

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