Manufacturing to benefit from R20 billion tax lure

By Linda Ensor

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A new R20 billion tax incentive to encourage investment in new manufacturing assets and employee training was formally launched by Trade and Industry Minister Rob Davies.

It is part of a multi-pronged effort by the government to accelerate growth in the struggling sector, which has been hard hit recently by the strong rand and over the past two years by the global recession.

The government's industrial policy action plan and its new economic growth strategy are also aimed at helping the manufacturing industry create jobs for the millions of unemployed in the country.

While the sector had been growing and had a "bright future", it had not been creating enough jobs, Davies said.

The US government's US$600 billion quantitative easing programme is expected to further weaken the dollar and cripple the manufacturing exports of emerging economies by making them uncompetitive.

SA has been without a tax incentive scheme for manufacturing investment since the last R10 billion Strategic Investment Programme, falling under the Income Tax Act, expired in 2005.

The new scheme provides for an additional R20 billion in allowances that can be deducted from taxable income, which will represent a loss to the fiscus of R5,6 billion in revenue forgone over its life-span until 2015.

The rules for the scheme were finalised in July but it is being activated only now. Four applications have already been received, three from the chemical industry and one from the cement industry.

While tax experts, such as PricewaterhouseCoopers director of tax: technical Osman Mollagee and Edward Nathan Sonnenbergs tax executive Beric Croome, welcomed the incentive, they expressed concern that it was targeted only at mega-projects, with not enough attention being given to small and medium-sized enterprises, which generated most jobs.

Just one of many initiatives

However, Davies said the scheme was just one of a suite of initiatives to foster growth and industrial development, with others focusing on making finance from development finance institutions more accessible and affordable.

The new scheme will consist of an investment allowance of up to R900 million for greenfields projects and a maximum of

R550 million for expansions and upgrades.

A training allowance of up to R30 million a year will also be available. The allowance will amount to a tax write-down of between 35% and 55% of qualifying assets which, together with the existing provision for a 100% write-down over four years, will mean approved investors will get a 135% to 155% tax write-down.

Criteria

To be eligible for the investment allowance, a greenfields project must involve a minimum R200 million investment, and brownfields expansion and upgrade projects a minimum R30 million investment. It would also apply only to assets acquired after approval of the project. Qualifying for the skills development allowance will require that 2% of the wage bill be spent on training.

Points will be scored for innovation, improved energy efficiency, business linkages, procurement from small and medium-sized enterprises, job creation and skills development.

Deloitte tax director Newton Cockcroft welcomed the announcement, saying it was something the economy needed. The previous scheme had been successful in attracting investments, he said.

Comparing the new and old schemes, he noted that a significant difference - likely to prove a hurdle for investors in brownfields projects - was the requirement that they achieve a 10% energy saving.

Exclusions

Excluded from the ambit of the incentive will be investment in the wine, beer, tobacco and arms and ammunition industries, as well as biofuels where this affects the food supply. Also excluded will be projects falling under the national and defence industrial participation programmes.

However, Davies said the tax allowance was designed to "more specifically support investment in the manufacturing sectors that have been identified as having the most potential to grow rapidly and support our efforts to promote diversification and growth of sustainable decent employment".

"These sectors include metals and metals fabrication, chemicals and plastics, agro-industries and the new 'green' industries."

A committee of officials from the Department of Trade and Industry, the Treasury and the South African Revenue Service will recommend projects to Davies.

Source: *Business Day*