



Report on the **Research and
Development Tax Incentive Programme**
and **Trends in Research and Development
Expenditure** in South Africa
2007/08

Annual Report to Parliament



**science
& technology**

Department:
Science and Technology
REPUBLIC OF SOUTH AFRICA

TABLE OF CONTENTS

	Page
Executive Summary	iii
Preface.	iv
1. Introduction.	1
2. Policy Context.	2
3. Implementation of the R&D Tax Incentive Programme.	4
4. Reporting on the R&D Tax Incentive.	5
5. Trends in R&D Expenditure in South Africa	9
6. Conclusion.	12
7. Annexures.	13
Annexure A: Information Brochure on R&D Tax Incentives.	13
Annexure B: Scientific and Technological R&D Tax Incentive Form. .	17
Contact Information.	21



List of abbreviations

DST	Department of Science and Technology
GDP	Gross Domestic Product
GERD	Gross Domestic Expenditure on Research and Development
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SARS	South African Revenue Services

List of figures

Figure 2:	Percentage breakdown of R&D expenditure.....	9
Figure 3:	Nature of R&D activities claimed.....	10
Figure 4:	Categories of R&D personnel involved.....	11
Figure 5:	Major flows of R&D funding in R millions.....	14
Figure 6:	International comparisons of GERD/GDP	15

List of tables

Table 1:	Summary of impact of R&D tax incentives.....	9
Table 2:	Trends in high-level indicators for R&D intensity in South Africa.....	13

Executive summary

This is the first report to Parliament by the Department of Science and Technology (DST) regarding the direct benefits of the research and development (R&D) activities encouraged through the Research and Development Tax Incentive Programme. Section 11D (12) of the Income Tax Act requires the Minister of Science and Technology to report to Parliament on the programme's effect on economic growth, employment and other broader government objectives. The report is to be compiled annually; however it was not possible to submit the 2006/07 report owing to requirements for establishing administrative systems and the slow uptake by firms in initial stages. The 2007/08 report therefore covers the period from 2 November 2006 to 30 September 2008.

The DST compiled this report in consultation with the National Treasury, the South African Revenue Service (SARS) and the Department of Trade and Industry, as members of an interdepartmental committee dealing with matters pertaining to the establishment and effective administration of the R&D Tax Incentive Programme. It is based on submissions received from the private sector companies that have applied for the R&D tax incentive since its inception until 30 September 2008.

The report uses the figures stated by companies in their forms, and assumes that the deductions claimed by taxpayers were approved. After a validation process with SARS these figures may be adjusted. The following points are highlighted:

- A total of 80 submissions were received for the period under review.
- Of the R764 million expenditure on R&D reported, R687,1 million was operational expenditure and R76,9 million was capital expenditure.
- Most (60,7%) of the reported activities were in new product development, followed by product improvement (21,3%), applied research (14,5%) and basic research (3,4%).
- The activities reported involved 1 699 R&D personnel.
- The tax revenue to be foregone owing to the R&D tax incentive deductions for this period is estimated to be R99,6 million.

This report is largely a descriptive analysis of the activities that the programme has engaged in to date. The structure and content of future reports may change to reflect the growth of the programme and its impact on specific indicators.

Preface

The South African government offers tax incentives to encourage private sector investment in research and development (R&D) activities in terms of section 11D of the Income Tax Act. The incentive programme was introduced in November 2006 and is administered by the Department of Science and Technology (DST) in conjunction with the South African Revenue Service (SARS).



The R&D Tax Incentive Programme is one of the measures implemented to realise the goal, set in the National Research and Development Strategy, of increasing R&D expenditure to 1% of GDP by 2008.

The incentive includes a tax deduction of 150% in respect of actual expenditure incurred on eligible activities, and provides for an accelerated depreciation of assets used for R&D over three years at the rate of 50:30:20. It is available to private sector enterprises and individuals that are undertaking scientific and technological R&D activities in South Africa for the purposes of generating income.

The programme has been in operation for two years, with the first forms received in November 2007.

I am pleased to present the first report on the performance of the R&D tax incentives in terms of section 11D of the Income Tax Act. I am confident that this information will prove useful in our efforts to encourage economic growth in South Africa through research and development.

A handwritten signature in black ink that reads "G. N. M. Pandor".

MRS G N M PANDOR, MP

MINISTER OF SCIENCE AND TECHNOLOGY

I. Introduction

- I.1 The South African government offers tax incentives to encourage private sector investment in research and development (R&D) activities in terms of section 11D of the Income Tax Act, 1962 (Act No. 58 of 1962). The incentive programme was introduced in November 2006 and is administered by the Department of Science and Technology (DST) in conjunction with the South African Revenue Service (SARS) to encourage innovation and advance scientific and technological research in South Africa.
- I.2 The Revenue Laws Amendment Act, 2006, introduced section 11D to offer an incentive consisting of a deduction of 150% in respect of expenditure on eligible scientific or technological R&D undertaken by enterprises or individuals within South Africa; and an accelerated depreciation on assets used for the purposes of scientific and technological R&D over three years at the rate of 50:30:20 starting from the year of assessment in which the asset is brought into use for the first time. Before 2 November 2006, section 11B provided for an R&D tax incentive in the form of a 100% deduction on operational expenditure, and a depreciation allowance on R&D assets over a four-year period.
- I.3 In terms of the Income Tax Act, the Minister of Science and Technology is required to submit an annual report advising Parliament of the direct benefits of the R&D activities encouraged through the tax incentive programme, in terms of economic growth, employment and other broader government objectives. One of the key requirements is that the report must be presented in an anonymous and aggregated form.
- I.4 This is the first report to Parliament since the inception of the programme. It introduces the programme and sets the scene for the forthcoming annual reports. The report is structured as follows:
- Section 1 provides an introduction to the report.
 - Section 2 presents the policy context for the programme and some background leading to its introduction.
 - Section 3 highlights the progress made to date in its implementation.
 - Section 4 discusses the process of reporting the impact of the R&D tax incentive and also gives a summary of firms that have submitted claims during the period under review.
 - Section 5 presents the trends in the R&D expenditure in South Africa.

- Section 6 provides concluding remarks and notes that the structure of the report is expected to change to reflect the growth of the programme and its impact on specific indicators.

2. Policy context

- 2.1 In 2002, the Cabinet accepted the National Research and Development Strategy as the basis for further development of the National System of Innovation in line with the 1996 White Paper on Science and Technology. Among other things, the strategy committed government to increasing South Africa's R&D intensity to 1% of GDP by 2008. If this target is to be achieved, both government and the private sector will have to invest significantly in R&D.
- 2.2 The R&D Tax Incentive Programme was conceptualised as one of the interventions to realise the goals set in the National Research and Development Strategy, specifically to enhance private sector competitiveness. It is also relevant in the context of the National Industrial Policy Framework and the DST's Ten-Year Innovation Plan for South Africa.
- 2.3 A growing number of countries, in particular developed economies, use R&D tax incentives as a way to promote investment in science, technology and innovation. Increased investment in R&D activities is generally seen as a means of sustaining productivity and long-term economic growth. Approximately 20 of the Organisation for Economic Cooperation and Development (OECD) member countries offer some form of R&D tax incentive¹. There are variations in the way these incentives are structured. For instance, countries like Spain, Mexico and Portugal are reported to provide the largest incentive benefits regardless of the size of the firm, while Canada and the Netherlands favour small firms over large firms.
- 2.4 In South Africa, the R&D Tax Incentive Programme is implemented as one of the supply-side measures to boost the economy's capacity to grow. It encourages private sector companies to acquire capital assets, labour and technology for R&D in the manner they consider most productive, and then to claim the tax incentive. The incentive is based on volume rather than increment, in that it permits the firm to deduct the allowance in relation to the volume of R&D expenditure that it incurred in a particular year. The idea is that the R&D activities being promoted will add to the economy's

¹ OECD Science, Technology and Industry Scoreboard 2007

productive capacity, innovation capability and human capital, all of which are critical to improving national competitiveness and increasing industrial output.

2.5 R&D incentives are meant to remedy private sector underinvestment in R&D and innovation activities. One of the reasons that private firms are reluctant to invest in R&D is the perception that there is a poor return on investments, especially when the risks are high and the benefits to the public clearly exceed the benefits that accrue to the individual firms that undertake these activities². It is therefore appropriate for the government to provide encouragement for private sector investment in areas that achieve public good. A feasibility assessment conducted in 2005 motivated for the R&D tax incentives, indicating that the South African economy would benefit from them because the revenue foregone in providing the incentives was likely to be offset by the greater tax revenues collected in the future from companies that increased their profits by applying the results of the R&D undertaken, and through additional value added tax. Other benefits would include the following:

- (a) Potentially new and improved products and applications resulting from new R&D activities.
- (b) Improved efficiencies could be adopted, imitated or improved by firms other than the ones undertaking the R&D activities.
- (c) Young people would be more likely to choose careers in science, engineering and technology because of increased employment opportunities.

2.6 In 1990 South Africa's R&D intensity levels were at 1,1% due to technology missions in defence and oil security. These missions were no longer priorities when the new government took over and the economy opened up to global competition. R&D spending dropped dramatically, falling below 0,7% of GDP in 1994. The government's adoption of the policy context of a modern National System of Innovation has managed to turn around the situation, focusing the implementation of key programmes around the following three objectives:

- (a) First, innovation to achieve mastery of technological change in the economy and society.
- (b) Second, human capital development and transformation to increase investment in South Africa's science base.
- (c) Third, institutional alignment to create an effective government science and technology system.

² Clark, J. and Arnold, E. (2005:4) The Evaluation of Fiscal R&D Incentives

- 2.7 Planning ahead, DST developed a Ten-Year Innovation Plan for South Africa, which presents a set of the principal challenges that need to be addressed to make the country's economy a knowledge-based one. The current target of raising expenditure on R&D to 1% of GDP should be seen in this context.

3. Implementation of the R&D Tax Incentive Programme

- 3.1 DST worked in partnership with the National Treasury, SARS and the Department of Trade and Industry (DTI) in introducing the R&D Tax Incentive Programme. Consideration was given to ensuring simplicity in the design of the programme, the management of risks, and the lowest possible costs in delivering the programme. It was also important for government to create certainty regarding the long-term availability of the incentive as a policy instrument to allow effective R&D planning by the private sector.
- 3.2 There are specific roles in the administration of the programme. DST is responsible for the overall implementation of the programme, for ensuring public awareness of the programme, for processing the information submitted, and for monitoring, reporting and policy review. The National Treasury is responsible for the broad tax policy, and SARS is responsible for allowing the deductions as part of its primary function of administering the Income Tax Act. DTI administers a number of related enterprise and industry development programmes. SARS, DTI and DST work together in carrying out their respective functions.
- 3.3 DST has developed a good working relationship with the relevant industry and research institutions, and is using this to promote the programme and increase public awareness. Promotional activities are being implemented to increase awareness of the programme, placing particular emphasis on individuals and small and medium enterprises.
- 3.4 Management information systems have been developed, with a public interface that would allow the online submission of forms and provide downloadable information on the programme and interpretation notes to the Income Tax Act.
- 3.5 DST has implemented measures to ensure the confidential handling of the information submitted for the purposes of R&D tax incentives. Officials

working on the programme are required to sign an oath of secrecy, and security measures have been built into the online system for submitting and storing forms.

- 3.6 A validation of the R&D activities at company level will be conducted every year on the basis of a random sample of companies claiming the incentive. The monitoring and validation will not take the form of a forensic audit, but will ensure compliance with the qualifying criteria set out in section 11D of the Act.

4. Reporting on the R&D tax incentive

- 4.1 The Income Tax Act requires DST to report on the aggregate expenditure on R&D activities and the direct benefits of such activities in terms of economic growth, employment and other government objectives. This allows government to assess the impact of the R&D Tax Incentive Programme on the economy and society.

- 4.3 The programme has been in operation for two years now, with the first forms received in November 2007. At this stage of the programme, DST is able to report on the activities and outputs to date, essentially providing a descriptive analysis of participating firms and the activities that the programme is attracting in terms of the number of claims received, aggregate expenditure on R&D, and personnel involved, as well as a breakdown of these items by scientific field and nature of R&D activities. The impact of the R&D tax incentives can only be assessed in the future, as there are practical limitations at this stage, such as the limited data available and problems with categorisation. Accordingly, the structure of future reports is expected to change to reflect increased uptake as the public become more aware of the programme, as well as to indicate its impact once the first batch of eligible companies can provide a more detailed account of outcomes.

- 4.4 The programme is expected to gain momentum in its third year. Constant monitoring is therefore necessary to be able to report precisely on its impact. The information below, once analysed, will provide a good indication of possible improvements that can be effected during the course of implementation.

- 4.5 Between the programme's inception in November 2006 and 30 September

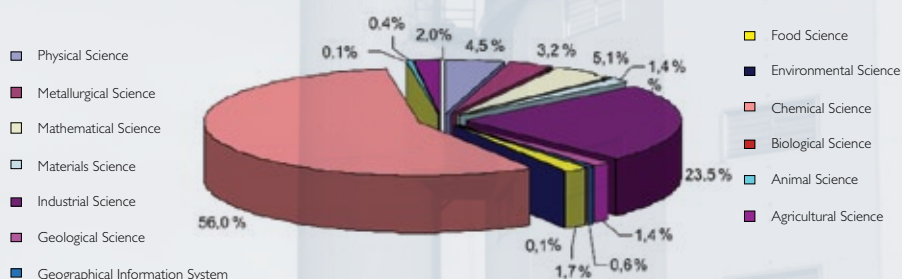
2008, DST received 80 forms, for a total of R764 million in operational and capital expenditure on R&D.

**Table 1: Summary of impact of R&D tax incentives
(Nov. 2006 to Sept. 2008)**

Item	Reported figure
Number of forms received	80
R&D operational expenditure	R687,1m
R&D capital expenditure	R76,9m
Total R&D expenditure	R764,0m
Tax revenue foregone (estimate)	R99,6m
Total R&D personnel involved	1 699

4.6 Up to 56% of the R&D expenditure is reported to be in the field of chemical sciences, followed by industrial sciences with 23%. The remainder of the fields presented in the following diagram reported R&D expenditure of below 10%.

Figure 1: Percentage breakdown of R&D expenditure



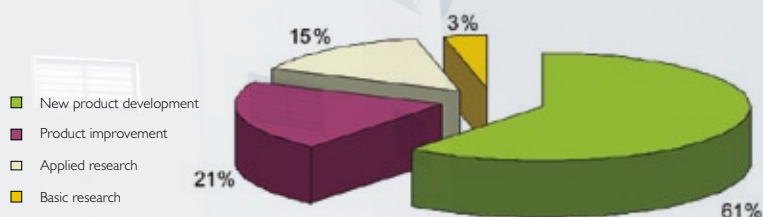
Note: Computer Science is included under Mathematical Science.

4.7 R&D operational expenditure comprises the expenditure incurred directly on undertaking R&D, such as materials, overheads and the salaries of staff directly involved in R&D activities, as well as costs associated with contracted R&D and costs for equipment leased for use in the R&D process.

Outsourced R&D amounts to R16,4 million (2,4% of R&D operational expenditure).

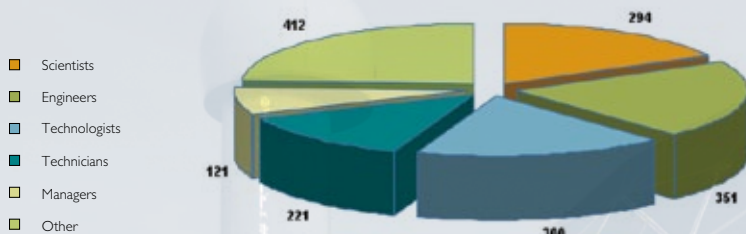
- 4.8 R&D capital expenditure amounting to R76,8 million was reported for the period under review. Most of the capital expenditure was reported for the chemical, industrial and physical scientific fields. Capital expenditure, as opposed to allowable operating expenditure, comprises the expenditure incurred to acquire tangible assets such as buildings, machinery, plant, implements, utensils and articles used for scientific and technological R&D. These do not qualify for the 150% deduction, but are eligible for accelerated depreciation over a three-year period at the rate of 50:30:20 from the year the assets are brought into use.
- 4.9 In terms of the nature of R&D work reported by companies applying for the incentive, up to 60,7% of activities are in new product development, which involves the use of existing knowledge to create new products, materials, processes and services. This is followed by product improvement (21,3%), applied research (14,5%) and then basic research (3,4%).

Figure 2: Nature of R&D activities claimed



- 4.10 The R&D activities reported in the 80 forms received involve 1 699 R&D personnel, 1 166 of them categorised as scientists, engineers, technologists and technicians. The remainder comprises 121 managers and 412 people in the "Other" category, made up of skilled and unskilled craftsmen, artisans, research assistants and process controllers.

Figure 3: Categories of R&D personnel involved



- 4.11 The R&D tax incentive forms also require firms to indicate the expenditure incurred because of the encouragement provided by the incentive programme. Of the R687 million, up to R39,6 million was reported to have been additional R&D expenditure incurred owing to the availability of the incentive. Comparing this amount to the tax revenue foregone can give an indication of the programme's cost-benefit, albeit at a very basic level. It is estimated that R99,6 million in tax revenue would be foregone if all claims received qualified for the deduction in terms of the R&D tax incentive³. The figure given for tax revenue foregone due to the R&D tax incentive is a rough estimate, because at this point SARS has not yet established an account of the actual amounts of tax deductions allowed. The companies that have submitted claims have reported total revenue of R21,8 billion for the year in which the reported R&D expenditure was made.
- 4.12 The environmental sciences sector has reported to have outsourced up to 100% of their R&D expenditure to service providers within South Africa, followed by Food Science (32,3%), Geographical Information Science (13,9%), Agricultural Science (8,7%), Biological Science (8,2%) and Physical Science (7,2%). All the R&D expenditure for Animal, Chemical and Materials Science was done in-house.
- 4.13 As the number of companies applying for the R&D tax incentive grows, it will be possible to disaggregate using other criteria (e.g. provincial location, the size of the enterprise, and foreign or local ownership) without compromising anonymity. As the term of the programme continues, it will

³ At this stage there is no account of what allowances have been deducted as yet, and therefore a proper estimate of tax revenue foregone due to the R&D Tax Incentive Programme will be given in the next report.

also be possible to report on impact areas such as technology investment, new and retained R&D personnel, increased turnover and exports. It will also be necessary to continue studying the practices in other countries.

- 4.14 In general, the uptake and utilisation of the R&D tax incentive is gaining momentum. Incentives of this nature tend to grow in popularity over time, as the general public becomes more aware of them and as the private sector sees how they have benefited firms that have taken advantage of them.

5. Trends in R&D expenditure in South Africa

- 5.1 The 2006/07 National Survey on Research and Experimental Development (the R&D Survey), which is conducted annually in South Africa to track progress in this area, indicates that the gross domestic expenditure on research and development (GERD) for 2006/07 was 0,95% of GDP. This ratio has increased steadily since 1997, from 0,69%. The trends in a number of other high-level indicators are presented in the table below.

Table 2: Trends in high-level indicators for R&D intensity in South Africa

Indicator	Value				
	2001/02	2003/04	2004/05	2005/06	2006/07
GERD (R millions)	7 488,1	10 082,6	12 010	14 149,2	16 520,6
GERD as a percentage of GDP	0,76	0,81	0,87	0,92	0,95
Total R&D personnel (FTE) ^a	21 195	25 185	29 692	28 798	30 986
Total researchers (FTE) ^b	14 182	14 129	17 910	17 303	18 572
Total researchers/1,000 total employment (FTE) ^c	3,1	1,2	1,6	1,5	1,5
Total R&D personnel/1,000 total employment (FTE)	4,6	2,2	2,6	2,4	2,5
Civil GERD as a percentage of GDP	0,71	0,72	0,8	0,86	0,89
Total researchers (headcount)	26 913	30 703	36 979	39 264	39 591
Women researchers as a percentage of total researchers	36	38	38,3	39,2	39,7

a FTE = full-time equivalent

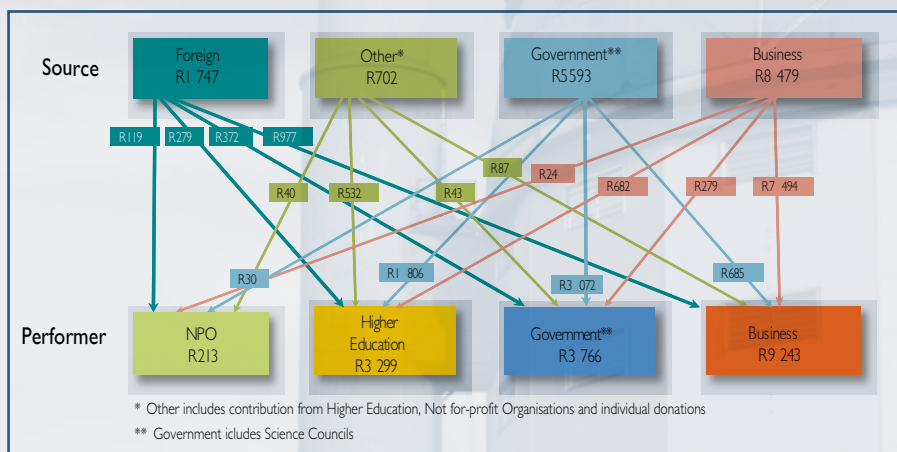
b Following OECD practice, doctoral students are included as researchers

c Following OECD practice, total employment is provided by the International Labour Organisation on the basis of Statistics South Africa Labour Force Surveys. It is no longer restricted to the formal non-agricultural sectors.

(Source: R&D Surveys)

- 5.2 GERD is the total contribution of government and its agencies, private sector businesses, foreign partners, higher education institutions and other local sources. These role players channel the funding necessary to carry out R&D activities, and/or perform R&D activities themselves.
- 5.3 The R&D survey of 2006/07 indicates that the private sector was responsible for R9,2 billion in R&D expenditure, or 55,9% of total R&D expenditure in South Africa, followed by government at 22,8%. The private sector funds most of the R&D it performs. R&D spending by the private sector is concentrated on larger firms and in certain regions. The 20 biggest R&D performers contribute about 45% of total private sector R&D spending, and about 56% of this R&D is performed in Gauteng, followed by the Western Cape (17,8%) and KwaZulu-Natal (10,4%).

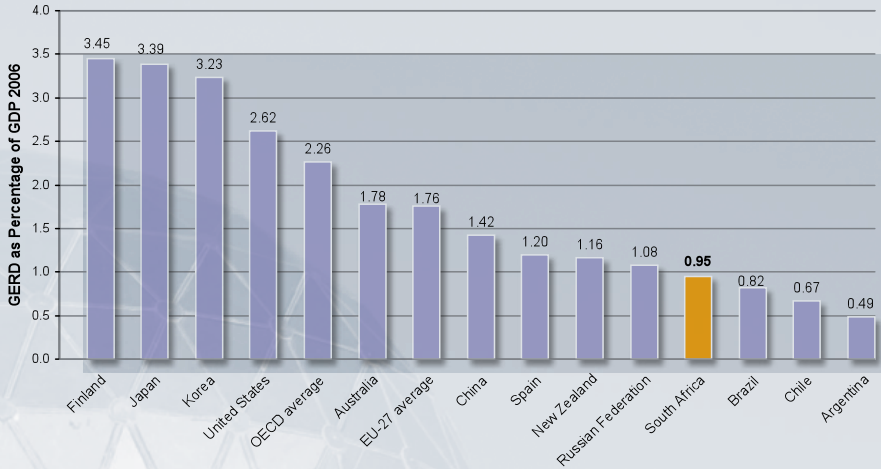
Figure 4: Major flows of R&D funding in R millions



(Source: R&D Survey 2006/07)

- 5.4 South Africa's GERD/GDP percentage for 2006/07 is lower than the average of 2,26% for Organisation for Economic Cooperation and Development (OECD) countries. Few OECD countries have an R&D intensity of less than 1%. Leading countries such as Finland, Japan and Korea have an R&D intensity in excess of 3%.

Figure 5: International comparisons of GERD/GDP



(Source: R&D Survey 2006/07)

- 5.5 South Africa spends proportionately more on R&D than some other middle and lower-middle income countries, for example Argentina (0,49%), Chile (0,67%) and Brazil (0,82%), but less than China (1,42%) and the Russian Federation (1,08%).
- 5.6 It should be noted that the uptake of the R&D tax incentives does not represent all private sector R&D and innovation activity in South Africa, and is therefore lower than the gross business expenditure on research and development measured in the national R&D surveys. The following should be noted:
- (a) Not all R&D expenditure reported in the national R&D surveys is eligible for the R&D tax incentive, as research is required to be scientific and technological (social sciences and the humanities are excluded), and only taxpaying businesses qualify.
 - (c) Of all the firms that are aware of the programme, only taxpayers that file for the income tax return and wish to claim for the incentive will be reported. It is therefore important that as many firms as possible are made aware of the programme in order to increase utilisation.
 - (d) There are timing issues. The administrative system does not necessarily require firms to report their R&D activities as they happen. There can be long periods between the performance of R&D activities by companies and the submission of their tax returns and R&D tax

incentive forms, which usually happens at the end of their financial year.

- (e) There are other government funding programmes to promote research and innovation, such as the Sector Programme for Industrial Innovation, the Technology and Human Resources for Industry Programme and the Innovation Fund. An assessment of the impact of the R&D Tax Incentive Programme should acknowledge the interdependency of these initiatives and their contributions to R&D activity and the economy.

6. Conclusion

- 6.1 In summary, the R&D Tax Incentive Programme has been successfully introduced and the first batch of forms has been processed. During the early stages of the programme the emphasis has been on ensuring that the administrative systems operate effectively, and that there is broad awareness of the programme. DST seeks to communicate clearly what taxpayers are required to do to access the programme. So far, an administrative unit has been set up and a webpage developed to enable the electronic submission of forms. DST has built a good working relationship with the relevant industry and research institutions, and is carrying out promotional activities to increase public awareness and utilisation of the programme.
- 6.2 The structure of this report will change in the future to reflect the growth of the programme, and will serve as an official release of the data on R&D tax incentives at the time at which it is made. Among other things, this first report indicates the progress made in implementing the programme, as well as its impact to 30 September 2008. The basic structure used for this report will be used in future reports, taking into account the need to provide the level of detail required in terms of section 11D of the Income Tax Act. At this stage, it is still too soon to provide a detailed analysis of the programme's impact using each of the specified indicators.
- 6.3 For programmes of this nature, it is important to ensure that implementation is accompanied by constant monitoring so that the build-up of activity and the continuing appropriateness of the programme can be assessed.

7. ANNEXURES

Annexure A: Information Brochure on R&D Tax Incentives



The brochure features a dark background with a large, stylized DNA double helix on the left side. A vertical bar with green and yellow segments runs down the center. The text is in white and orange. The top left corner contains the South African coat of arms and the text 'science & technology Department: Science and Technology REPUBLIC OF SOUTH AFRICA'. The bottom left corner contains the text 'Tax Incentives for Research and Development in South Africa'. The right side contains the title 'R&D Tax Incentives in South Africa' and three paragraphs of text. The bottom right corner contains the South African coat of arms and the text 'science & technology Department: Science and Technology REPUBLIC OF SOUTH AFRICA'.

science & technology
Department:
Science and Technology
REPUBLIC OF SOUTH AFRICA

R&D Tax Incentives in South Africa

The South African government offers generous Research and Development (R&D) Tax Incentives to encourage private-sector investment in research and development activities. The R&D Tax Incentives are administered with an objective to promote the R&D investment in South Africa and complements the government expenditure on R&D activities.

South Africa has set an interim target to achieve of 1% of gross expenditure on R&D as a percentage of GDP by 2008.

The Income Tax Act amendments extending the increase in the allowance took effect on 2 November 2006. For eligible activities a deduction at the rate of 150% of expenditure is available directly in respect of scientific or technological research and development. These amendments include an accelerated depreciation of assets used for purposes of scientific and technological R&D. Eligible capital expenditure on R&D assets is deductible over a period of three years at the rate of 50:30:20 starting from the year of assessment in which the asset is brought into use. More information can be found in the Income Tax Act (1962) as amended under Section 11D which deals with "deductions in respect of scientific or technological research and development".

Government opted for simplicity in the design of the R&D Tax Incentives programme to ensure that South African taxpayers and enterprises of all sizes and in all sectors of the economy are encouraged to conduct R&D locally which will lead to new, improved, or technologically advanced products, processes or systems.

science & technology
Department:
Science and Technology
REPUBLIC OF SOUTH AFRICA

Legislative Basis

- Income Tax Act 1962 (Act 58 as amended)
- South African Council for Natural Scientific Professions Act 2004 Act No. 16 of 2004.

Eligibility Criteria/Activities

The Organisation for Economic Co-operation and Development (OECD) provides a useful and practical definition of research and development. As a guide the following definition can be used to assess activities:

Research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts. The aim of a research activity is to discover novel, practical and non-obvious information of a scientific or technological nature.

Development is the application of research findings or other scientific knowledge for the creation of new or significantly improved products, processes or services. Development activities are aimed at devising, developing or creating an invention, design or computer programme of a scientific and technological nature.

It is important to note that the usage of the terms should be confined to the definitions of scientific or technological research and development contained in the Income Tax Act.

Scientific R&D

According to the Income Tax Act, the work can be scientific R&D or technological R&D. When the R&D activity meets the requirements of the Income Tax Act, we say it is eligible. For scientific R&D to be eligible, it must be undertaken for the advancement of scientific knowledge in scientific fields of practice. Scientific R&D is normally carried out in a laboratory setting and seeks to discover new scientific knowledge. The building in which the scientific research activity is undertaken is expected to be equipped for that purpose. Whether

or not the R&D work achieved its objective is not relevant in determining its eligibility. Corporate social responsibility funds to universities e.g. bursaries are ineligible.

Technological R&D

On the other hand, technological R&D requires that the work be undertaken to achieve technological advancement for creating, devising or developing any invention be it a material, device, product or process. Technological R&D is normally undertaken in an industrial setting and the building in which it is done is expected to be specifically equipped for such a purpose. As with scientific R&D, there is no requirement for the intended technological advancement to be successfully achieved for the claim to be eligible.

"Feedback R&D" which results after a new product or process has been turned over for production units and experiences technical problems that need to be solved some of which require further R&D can be included under technological R&D. Such feedback R&D should be included.

Eligible Criteria

According to the provisions in the Income Tax Act, some of the main eligibility requirements of the R&D Tax Incentives are that:

- The expenditure must be actually incurred in the year of assessment;
- The expenditure must be for purposes of discovery of information of a scientific or technological nature;
- The expenditure must be for purposes of development of new products or processes or design.

Taxpayers can claim for the eligible scientific or technological R&D expenditure on salaries and wages, materials, building, machinery equipment, R&D overheads and R&D contracts.



To qualify for the depreciation of R&D assets some of the criteria are:

- A deduction is allowed in respect of a building, machinery, plant, implement, utensil and any item of capital nature that is used for the purposes of scientific or technological R&D in the year in which it is brought into use;
- If the building was used partly for eligible activities in the same year of assessment:
 - The part must be used regularly for scientific and technological R&D;
 - The part must be specifically equipped for such use and the allowable deduction for that year will be apportioned accordingly.

All other assets must be previously unused and should be used solely for R&D activities.

What kinds of activities are not eligible?

Ineligible expenditure on the following activities for which no deduction will be allowed:

- Exploration or prospecting;
- Drilling for or producing minerals, petroleum or natural gas;
- Management or internal business processes;
- Development of trade marks;
- Social science and humanities research;
- Marketing research or sales promotion;
- Routine data collection;
- Quality control or routine testing of materials, devices, products or processes.



Process for claiming R&D Incentives

To claim the R&D Tax Incentive, the taxpayer is required to complete and submit two forms, one to the DST and the other to South African Revenue Service (SARS), as follows:

1. Complete and submit the R&D Tax Incentives Form to the DST. This form is available on request and can be downloaded from the DST website: www.dst.gov.za. The forms must be submitted to the DST within six months of the taxpayer's financial year end.



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2. Complete the relevant entries in the Income Tax Return Forms as prescribed by South African Revenue Services (SARS). This is submitted in a normal process of income tax returns.

The R&D tax incentive is administered by DST, in conjunction with SARS and the National Treasury, as follows:

3. DST is responsible for promoting the R&D Tax Incentives programme and provides general advice to both government and private companies on strategic and operational issues of the programme. It is required to assess and validate the claims against scientific and technological R&D and advise SARS on the eligibility of activities included in the claim. In this regard DST may visit taxpayers to assess the validity of their claims. DST also has a responsibility to report annually to Parliament regarding the performance and impact of the R&D tax incentive programme.
4. SARS is the government agency that administers the Income Tax Act. SARS administers the R&D Tax Incentives through the taxation system. Taxpayers claiming the R&D Tax Incentives do so by completing the relevant entries on their income tax return.
5. A further responsibility on the functioning of the R&D Tax Incentives involves the National Treasury, with respect to the tax policy.
6. There are strict confidentiality requirements applicable to handling all matters in connection with information provided by taxpayers for purposes of R&D Tax Incentives. All officials involved in the administration of the programme are required to take an oath of secrecy.

Disclaimer: This brochure uses plain language to explain the R&D Tax Incentives Programme. Any expression to which meaning has been assigned in the Income Tax Act bears the meaning so assigned.



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Useful Links

The DST maintains a webpage on its website: www.dst.gov.za/r-d that is dedicated to the R&D Tax Incentives Programme. The site provides the following:

- R&D Tax Incentives programme information (also available as a brochure);
- R&D Tax Incentives Guide;
- R&D Tax Incentives Form.



For more information

Tel: 012 843 6560

Contact person: Dimakatso Mokone

E-mail: Dimakatso.mokone@dst.gov.za

www.dst.gov.za

Annexure B: Scientific and Technological R&D Tax Incentive Form

Scientific and Technological Research and Development Tax Incentive Form

Please consult the Research and Development Tax Incentive Guide, available on the Department's website, for assistance in completing this form.

A separate form must be completed and submitted to the Minister of Science and Technology in respect of each claim lodged against the South African Revenue Service for a tax deduction for expenditure on scientific or technological research and development (R&D) activities undertaken in the Republic of South Africa in terms of section 11D of the Income Tax Act, 1962, (Act no. 58 of 1962)

The form must be completed in full. A clear reply must be given to each question. If a question is not applicable this must be indicated by "n/a". Deletions and alterations must be signed.

This form may be submitted:

- by hand: Building 53, Scientia Campus, Mairing Naudé Drive, Brummeria;
- by registered post: The Minister of Science and Technology, Private Bag X894, Pretoria, 0001;
- on the website: <http://www.dst.gov.za/r-d>

Email submissions are not allowed.

Part 1: Company Particulars

Name of applicant:

Tax reference number:

Address:

Principal industry activity:

Tax year:

Part 2: Summary of R&D Activities

(a) Classification of R&D

Classify your R&D activities according to Appendix A of the Standard Industrial Classification (SIC) Manual, and indicate the operational R&D expenditure percentage for each code, including outsourced R&D.

SIC Codes	Economic Group – description	Sales/Revenue	% of total R&D expenditure
Total			100%

(b) Fields of science and technology to which your R&D activities contribute

Indicate to which fields of science and technology your R&D activities contribute, giving the percentage expenditure for each.

SIC Codes	Field/Area	Description	% of total R&D expenditure
Total			100%



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Department of Science and Technology
REPUBLIC OF SOUTH AFRICA

Indicate the percentage of the allowable operating expenditure given in Part 3(e) used for R&D activities performed by contractors.

SIC Codes	Type of research entity			
	Private	University	Science councils	Other

(*) Indicate with an X in the appropriate block the technical records or documents generated over the course of the work [test results, progress and final reports, minutes of meetings, employee activity reports, prototypes, and/or new products] available to support your claim.

[d] Indicate with the appropriate block records of publications, patents or similar modes of protection of intellectual property.

Part 3: Summary of R&D Expenditure

Expenditure item	Amount (R)
(i) Salaries of employees directly engaged in R&D	
(ii) Cost of materials consumed in the execution of R&D activities	
(iii) Contracts for R&D performed on your behalf - relates to Part 2(c)	
(iv) Overhead or other expenditures	
Total	

(b) Allowable capital expenditure

Description	% of time used	Capitalisation Date	Capitalisation amount (R)	Depreciation (R)
(i) Building				
(ii) Machinery	100			
(iii) Plant	100			
(iv) Equipment	100			
(v) Implement	100			
(vi) Utensil	100			
Total				

(c) Government grant

SIC Codes	Project	Government fund/programme	Amount (R)

(d) Recovered expenditure

Year in which deduction for asset was claimed	Amount of deduction received	Amount of R&D expenditure recovered

(e) Allowable claim

	Amount (R)
(i) Allowable operating expenditure as per Part 3(a)	
Less twice the government grant as per Part 3(c)	
Equals total eligible operating expenditure	
(ii) Total eligible capital expenditure as per Part 3(b)	
Total eligible expenditure (operating and capital)	

Part 4: Background Information

(a) Source of funds for R&D activities

	Funding Source	Amount (R)
(i)	Internal funding	
(ii)	Parent companies, subsidiaries, or affiliated companies	
(iii)	Government grants/funds (do not include funds or tax credits from science and technology R&D tax incentives)	
	- National government	
	- Provincial government	
	- Local government	
(iv)	Other funding (eg. from foreign governments, donor agencies)	
	Total	

(b) R&D Personnel

	Number of full-time personnel
(i) Scientists	
(ii) Engineers	
(iii) Technologists	
(iv) Technicians	
(v) Managers	
(vi) Other technical staff	
Total number of employees engaged in R&D activities	

(c) Nature of R&D work

Estimate the approximate distribution of your total R&D effort [Part 3(a)] across the following categories:

R&D Category	Percentage
(i) Basic research (no specific application in view)	
(ii) Applied research (specific practical application in view)	
(iii) Development of new product, process and/or technical services	
(iv) Improvement to existing product, process and/or technical services	
Total	

Part 5: Policy Evaluation/Behavioural Additionality

Note: Any reference to a company includes any taxpayer claiming for R&D.

- (a) Would your company have undertaken the R&D activities if the R&D tax allowance had not been introduced? ☐ Yes ☐ No
- (b) If yes, how much would you say is the additional amount your company invested in R&D as a result of the R&D tax allowance?
- (c) Please read each of the following statements carefully and mark the box that best reflects your opinion with an X.
- 1 = Strongly disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly agree

	1	2	3	4	5
In my company, R&D activities are centralised in a division					
Without the R&D tax allowance, our R&D activities would have proceeded with a smaller budget					
Without the R&D tax allowance, our R&D activities would have proceeded at a slower rate					
The R&D tax allowance has induced my company to enter into collaboration with other companies					
The R&D tax allowance has induced my company to enter into collaboration with universities/ science councils					
R&D activities in my company are planned in an organisational R&D strategy					
The R&D tax allowance led to employment of additional R&D personnel					
The R&D tax allowance led to investment in new R&D equipment					
Our R&D activities have improved the market position of my company in the past year					
Our R&D activities have led to the introduction of a new product in the past year					
Our R&D activities have led to an improved manufacturing process in the past year					
Without the R&D tax allowance, our R&D activities would have proceeded with an intended smaller range of potential applications					
My company has entered into new business partnerships as a result of the R&D tax allowance					
My company is conscious of environmental sustainability					

Contact information

Department of Science and Technology

Private Bag X894

Pretoria

0001

Tel.: 012 843 6300

Website: <http://www.dst.gov.za>

(For information on the R&D Tax Incentive Programme
go to www.dst.gov.za/r-d)

Dr Phil Mjwara

Director-General

Ms Marjorie Pyoos

Deputy Director-General: Socio-Economic Partnerships

Mr Godfrey Mashamba

Chief Director: Science and Technology Investment

Ms Dimakatso Mokone

Director: Private Sector Research and Development Activities

