

RESEARCH AND DEVELOPMENT TAX INCENTIVE PROGRAMME

Report to Parliament 2020/21



science & innovation

Department:
Science and Innovation
REPUBLIC OF SOUTH AFRICA

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PREFACE



Section 11D of the Income Tax Act, 1962 (Act No. 58 of 1962), under which the R&D Tax Incentive programme is offered, requires the Minister of Higher Education, Science and Innovation to report annually to Parliament and other stakeholders on the performance of this programme. The publication of the annual report is intended to highlight the progress made in the performance of the programme and to make relevant information available to stakeholders.

Government plays an important role in promoting private-sector research and development (R&D) investment in the country. R&D is required to advance innovation in the development of new products and processes, and the improvement of existing ones. The R&D Tax Incentive programme is one of a mix of government policy instruments aimed at promoting science and innovation as a key driver of economic growth and competitiveness.

It has been nine years since the Income Tax Act was amended to introduce the R&D Tax Incentive pre-approval system. The incentive has grown into a mature programme and, over the past few years, the focus has been on improving the administrative process and increasing the awareness of the programme as it stands. By 2020/21, 98% of valid applications were adjudicated and final decisions were provided for 90,7% of these applications. Of the adjudicated applications, 65,1% were approved and 34,9% were not approved. The majority (42,6%) of companies that have received support from the incentive since November 2006 are small and medium enterprises (SMEs). Very large enterprises made up 34,8% of the companies, large enterprises made up 13%, and the remaining 9,6% did not disclose their turnover size.

The next year is critical in the life cycle of the programme, which is subject to a sunset clause in terms of which, if no amendments are made to the Income Tax Act, the incentive will cease to exist in its current format after October 2022. Together with the National Treasury, the Department of Science and Innovation (DSI) is finalising a discussion document for private-sector inputs on the R&D Tax Incentive to inform a policy review and decision about the future of this incentive. Such decision will be made in order to provide policy certainty to stakeholders ahead of the date the sunset clause comes into effect.

I encourage the business sector to give their inputs on the discussion document and participate in the R&D Tax Incentive programme.

A handwritten signature in black ink, appearing to be 'DR BE NKOMO'.

DR BE NKOMO, MP
MINISTER OF HIGHER EDUCATION, SCIENCE AND INNOVATION

EXECUTIVE SUMMARY

This annual report on the performance of the R&D Tax Incentive programme for the period March 2020 to February 2021 (referred to in this document as 2020/21) is produced as required by section 11D(17) of the Income Tax Act.

In this report, where appropriate, information is presented in cumulative terms to show the overall uptake and contribution of the incentive since November 2006. The information was obtained from two sources: declarations made to the DSI about claims that companies submitted to the South African Revenue Service (SARS) retrospectively (from November 2006 to September 2012) and the applications for proposed R&D submitted to the DSI under the pre-approval system (from October 2012 to February 2021).

In 2020/21, the DSI received a total of 123 applications from 104 companies. These applications were for 306 R&D projects, with total R&D expenditure estimated at R2,1 billion. Of the companies that submitted applications, 42 applied for the first time, increasing the total number of companies participating in the incentive since its inception in November 2006 to 1 211. Of the 1 211 companies, 995 received support by the end of February 2021. In 2020/21, the DSI also received a total of 187 R&D Tax Incentive progress reports related to 1 713 approved (i.e. ongoing or finalised) projects from 137 companies.

Since October 2012, a total of 1 666 pre-approval applications have been received by the DSI. Of these, 53 were withdrawn by the applicants, leaving the DSI with 1 613 valid applications. By the end of 2020/21, 1 580 (98%) had been adjudicated, and 1 433 (90,7%) had received final decisions from the Minister. A total of 1 029 (65,1%) applications, involving 549 companies, have been approved. The planned expenditure on R&D in the approved applications totals an estimated R79,9 billion. If this is added to the R25,4 billion reported under the retrospective system, approximately R105,3 billion in R&D expenditure has been supported or approved for support by the incentive since November 2006.

Of the 995 companies that received support since 2006, 424 (42,6%) were small and medium enterprises (SMEs) with a latest year turnover of R40 million and below. Very large enterprises (R100 million and above) made up 346 (34,8%) of the companies, large enterprises (R41 million to R100 million) made up 129 (13%), while 96 (9,6%) did not disclose their turnover size. The latter, whose turnover is unknown, distorts the overall picture of distribution by company size.

The R&D Tax Incentive supports the sectoral focus areas of the current Industrial Policy Action Plan (IPAP). Since November 2006, about 68,3% (703) of the approved applications have been in these areas and accounted for 71,1% (an estimated R74,9 billion) of the approved R&D expenditure. The top four IPAP sectoral focus areas in terms of cumulative estimated R&D expenditure supported are (i) agroprocessing; (ii) mineral beneficiation; (iii) chemicals, cosmetics, pharmaceuticals and plastics; and (iv) electrotechnical and IT.

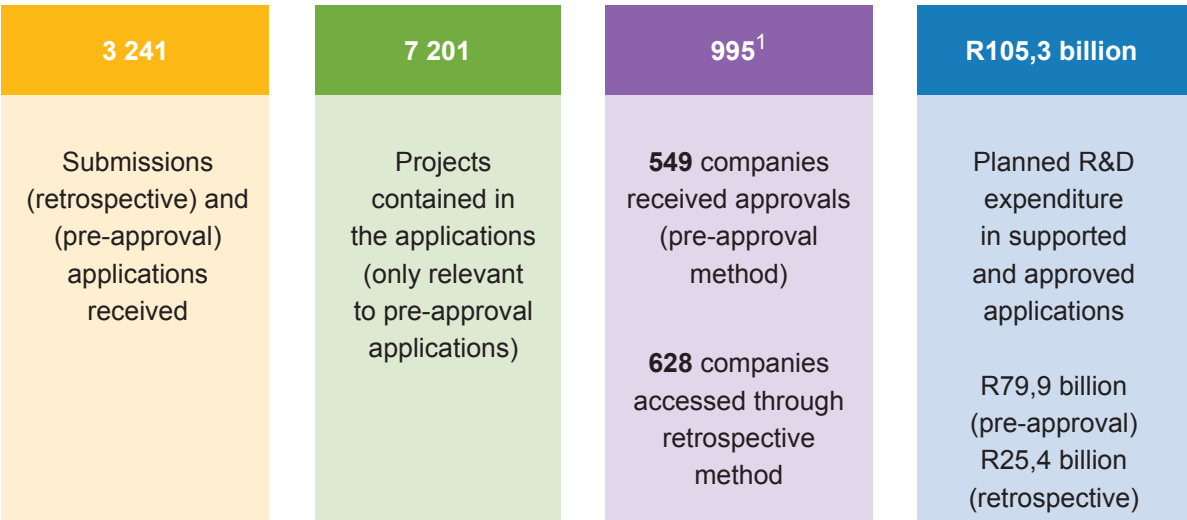
The statistics reported in this report are a simple aggregation of the data available in the administrative records of the DSI and are reported at a company level. They do not give a complete picture of the impact of the programme, but they do give an indication of the participation and attractiveness levels of the incentive. Given the sunset clause date of October 2022, at the time of preparing this report, the DSI and National Treasury were finalising a discussion document for private-sector inputs on the R&D Tax Incentive in view of policy review to inform a decision about the future of the incentive.

PERFORMANCE OVERVIEW

CONTRIBUTIONS FOR 2020/21

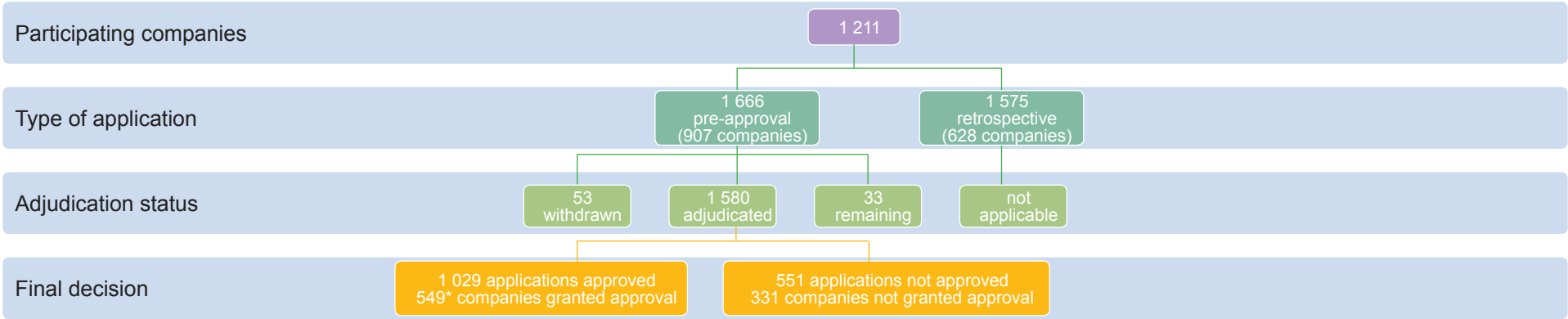


CUMULATIVE CONTRIBUTIONS (NOVEMBER 2006 TO FEBRUARY 2021)



1 Some companies participated in both the retrospective and the pre-approval systems

OVERALL STATUS IN PROCESSING APPLICATIONS (NOVEMBER 2006 TO FEBRUARY 2021)



*This figure does not account for the 628 companies that accessed the incentive under the retrospective system.



1. INTRODUCTION

1. INTRODUCTION

1.1 Legislative mandate

The R&D Tax Incentive programme was introduced in 2006 to encourage private-sector R&D investment in South Africa. It is implemented in terms of section 11D of the Income Tax Act, as amended, and supported by regulations published in Government Gazette Nos. 38729, 38730 and 38732 of 23 April 2015 (see Figure 1).

1.2 Objectives of the R&D Tax Incentive

The objectives of the R&D Tax Incentive are as follows:

- To encourage businesses to conduct scientific and technological R&D in South Africa, especially R&D that would not have been conducted in the absence of the incentive.
- To advance scientific knowledge and achieve technological advancement aimed at creating new or significantly improved materials, devices, products or processes.
- To increase the positive spillover of R&D to the rest of society through knowledge transfer and skills development.

These objectives are aimed at promoting innovation (new products, processes and services) and competitiveness that lead to employment, technology spillovers and economic growth.

1.3 Benefits of the R&D Tax Incentive

If an R&D Tax Incentive application is approved, it allows companies to deduct 150% of eligible R&D expenditure incurred from their income. This deduction reduces companies' tax liability to SARS and ultimately saves them 14c for each rand spent on R&D, at a corporate tax rate of 28%. The R&D Tax Incentive is therefore regarded as indirect financial support for private-sector R&D. The aim is to help local companies build capabilities and innovations by creating new products, processes, devices and techniques, and/or to significantly improve existing ones.

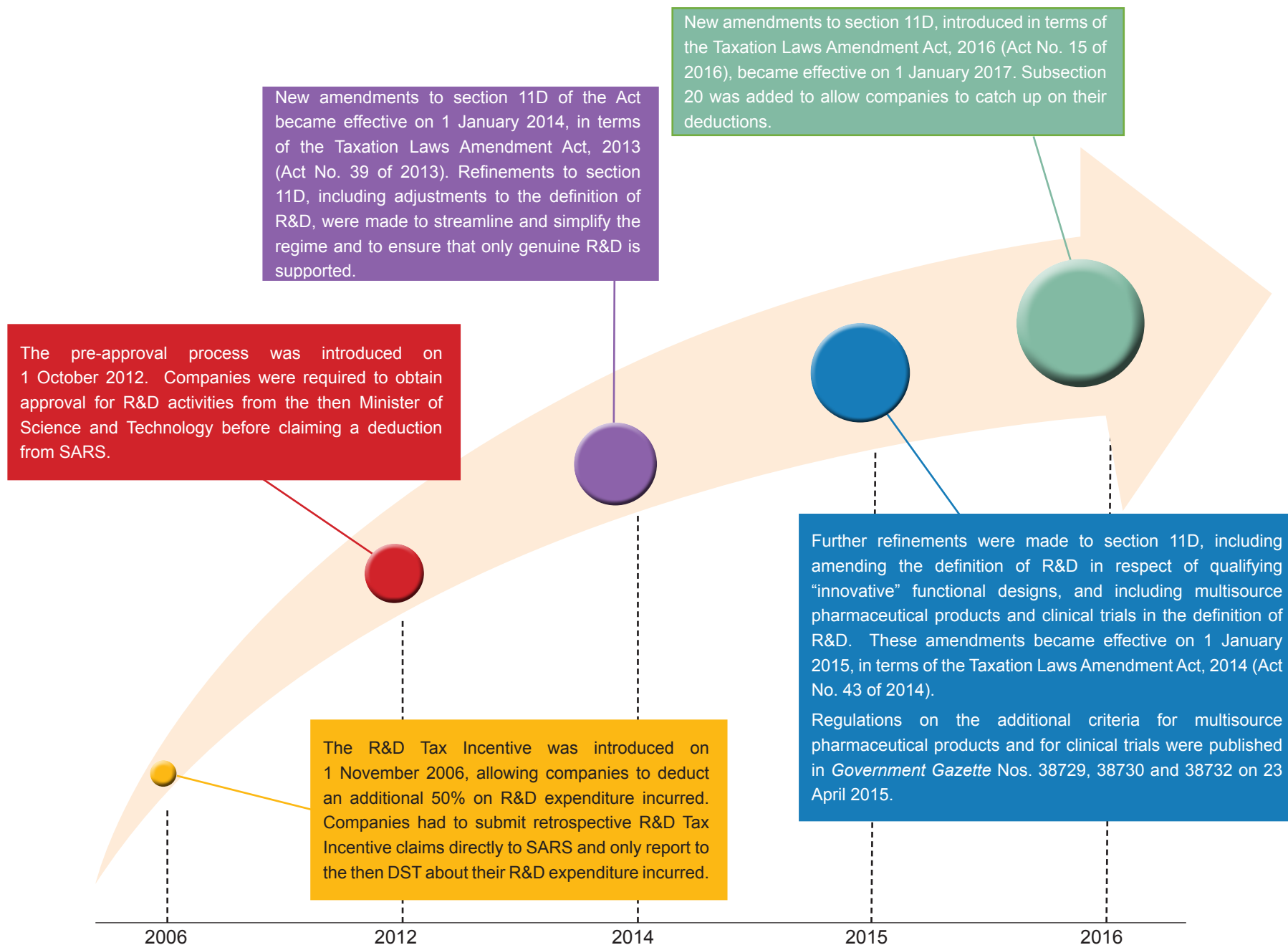


Figure 1: Synopsis of legislative and regulatory changes

1.4 Eligibility for the R&D Tax Incentive

The R&D incentive can be accessed by companies of all sizes and in all sectors of the economy. A company needs to be registered for tax in South Africa (i.e. a company as defined in the Income Tax Act), but need not be a registered South African company. Individuals, not-for-profit organisations and trusts are not eligible for the R&D Tax Incentive.

For a company to benefit from the incentive, its R&D activities must be approved by the Minister of Higher Education, Science and Innovation or a person appointed by the Minister.

Companies will only be eligible if they actually incur the expenditure, directly and solely for R&D activities undertaken in South Africa. The expenditure should also be incurred in the production of income, in the carrying on of any trade, and on or after the date of receipt of the application by the Department of Science and Innovation (DSI). Companies will only be eligible if they can determine or alter the methodology of the research.

Approval is granted on the basis of a recommendation by the R&D Tax Incentive Adjudication and Monitoring Committee ("the Committee"), which evaluates the project(s) of each application according to the definition of R&D in terms of section 11D of the Income Tax Act. The Committee is made up of officials from the DSI, the South African Revenue Service (SARS) and National Treasury, who are appointed by the Minister and the Minister of Finance.

Section 11D(17) of the Income Tax Act requires the Minister to report to Parliament annually on the direct benefits of the R&D activities through the incentive programme in terms of economic growth, employment, aggregate expenditure and other broader government objectives.

1.5 Criteria used to determine eligibility

R&D is intrinsically aimed at generating new knowledge and devising new applications of available knowledge. R&D is intended to lead to new technologies or make significant improvements to existing technologies, which can be used to support some form of socio-economic activity. These are some of the basic concepts included in the Frascati Manual² as standards for defining R&D.

For the purposes of the R&D Tax Incentive, R&D means systematic investigative or systematic experimental activities of which the result is uncertain for the purpose of –

- (a) discovering non-obvious scientific or technological knowledge;
- (b) creating or developing –
 - (i) an invention³
 - (ii) a functional design⁴ that is innovative in respect of the functional characteristics or intended uses of that functional design;
 - (iii) a computer program⁵ which is of an innovative nature; or
 - (iv) knowledge essential to the use of such invention, functional design or computer program⁶; or
- (c) making a significant and innovative improvement to any invention, functional design, computer program or knowledge contemplated in paragraph (a) or for the purpose of –
 - (i) new or improved function;
 - (ii) improvement of performance;
 - (iii) improvement of reliability; or
 - (iv) improvement of quality; of that invention, functional design, computer program or knowledge;
- (d) creating or developing a multisource pharmaceutical product⁷; or
- (e) conducting a clinical trial⁸.

2 The Frascati Manual is the international guideline for definition and measurement of R&D and is published by the Organisation for Economic Cooperation and Development (OECD).

3 As defined in section 2 of the Patents Act, 1978.

4 As defined in section 1 of the Designs Act, 1993, capable of qualifying for registration under section 14 of the Act.

5 As defined in section 1 of the Copyright Act, 1978.

6 Other than creating or developing operating manuals or instruction manuals or documents of a similar nature intended to be utilised in respect of that invention, functional design or computer program subsequent to the research and development being completed.

7 As defined in the World Health Organization Technical Report Series, No. 937, 2006 Annex 7 Multisource (generic) pharmaceutical products: guidelines on registration requirements to establish interchangeability, and conforming to such requirements as must be prescribed by regulations made by the Minister of Health after consultation with the Minister for Science and Innovation.

8 As defined in Appendix F of the Guidelines for Good Practice in the Conduct of Clinical Trials with Human Participants in South Africa, issued by the Department of Health (2006), conforming to such requirements as must be prescribed by regulations made by the Minister of Health after consultation with the Minister for Science and Technology.

1.6 Exclusions and limitations

For the purposes of section 11D of the Income Tax Act, the definition of R&D does not include activities conducted for the following purposes:

- (a) Routine testing, analysis, collection of information or quality control in the normal course of business.
- (b) Developing internal business processes, unless those internal business processes are intended for sale, or for granting rights or permission to use to persons who are not related to whoever is undertaking that R&D.
- (c) Market research, market testing or sales promotion.
- (d) Social science research, including the arts and humanities.
- (e) Oil and gas or mineral exploration or prospecting, except R&D carried out to develop technology used for that exploration or prospecting.
- (f) Creating or developing financial instruments or financial products.
- (g) Creating or enhancing trademarks or goodwill.
- (h) Any expenditure contemplated in section 11(gB) or (gC).

In respect of multisource pharmaceutical products and clinical trial R&D projects, the following activities are ineligible:

- (a) Phase IV clinical trials, other than a clinical trial conducted for the purpose of developing new indications, new methods of administration or new combinations of pharmaceutical products.
- (b) Post-marketing research.
- (c) Cost-effectiveness research.
- (d) Any activities undertaken for the purpose of compliance with regulatory requirements.
- (e) A product familiarisation programme.
- (f) Research carried out for statistical purposes (meta-analysis).
- (g) Epidemiological research.
- (h) Research activities undertaken in preparation for the registration of a clinical trial.

1.7 R&D Tax Incentive application process



Figure 2: The application process



2. APPLICATIONS FOR THE R&D TAX INCENTIVE

2. APPLICATIONS FOR THE R&D TAX INCENTIVE

This section provides a summary of the uptake of the R&D Tax Incentive in terms of the number of applications received and the status of processing the applications. The indicators covered below comprise those from the period under review (2020/21), cumulative estimates since October 2012 (when the pre-approval system was introduced) and, in certain instances, retrospective claims since November 2006 (when the additional 50% deduction was introduced).

2.1 Number of applications received by the DSI

For the period under review, the DSI received a total of 123 R&D Tax Incentive applications containing 306 projects from 104 companies, 42 (34,1%) of which were first-time applicants (Figure 3). These applications were for an estimated R2,9 billion in planned R&D expenditure.

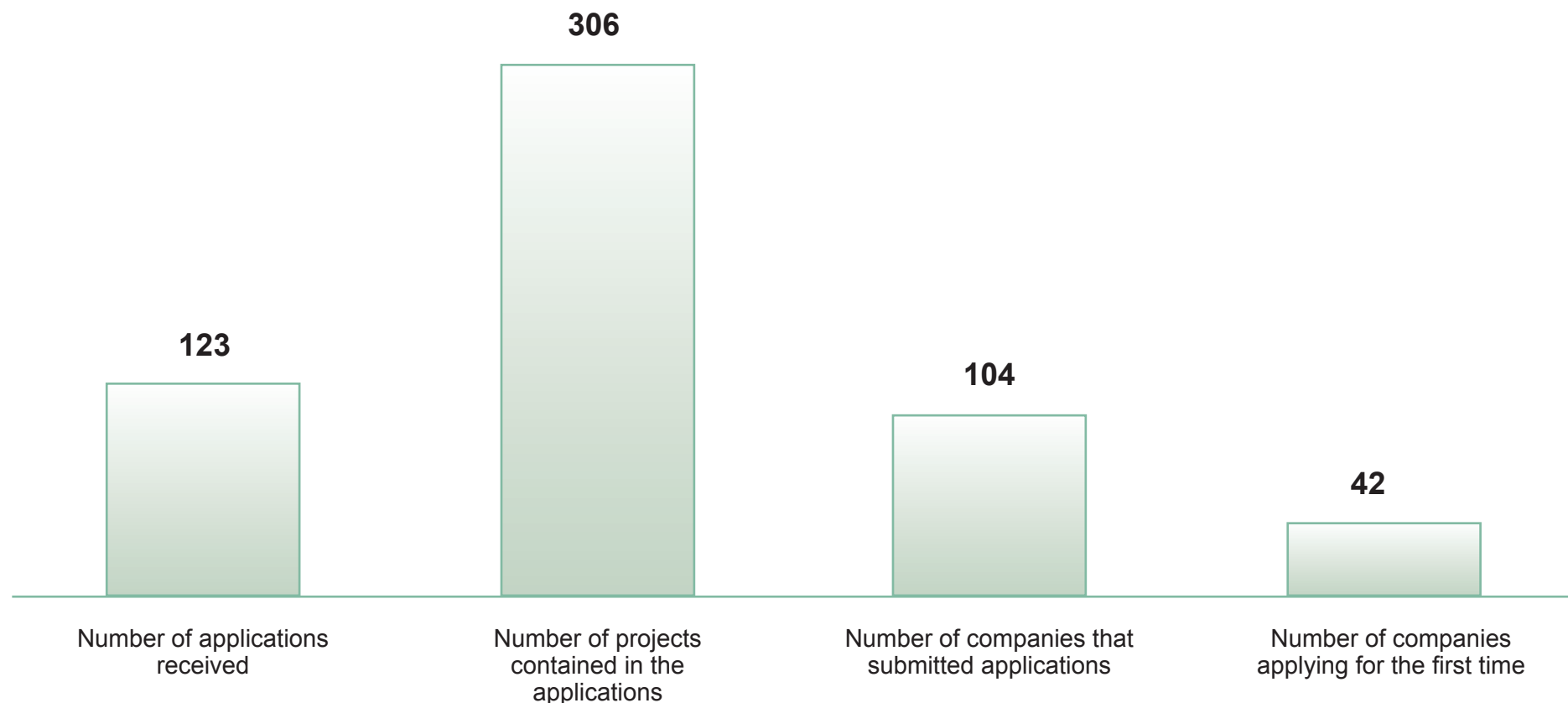


Figure 3: Uptake of applications received by the DSI in 2020/21

The number of applications received has increased, compared to those received in the previous two years (Figure 4). This is encouraging, considering that about 29,2% or 484 of all applications received since 2012 contain multi-year R&D projects. In 2012, the legislation was amended to allow for multi-year applications. This means that applicants do not need to reapply on an annual basis for multi-year projects already approved. Some companies, however, continue to submit applications every year voluntarily, while others submit only in certain years, depending on their R&D strategies. In contrast, before October 2012, companies had to submit annual retrospective submissions to the DSI for all active projects on which R&D tax deductions were being claimed from SARS.

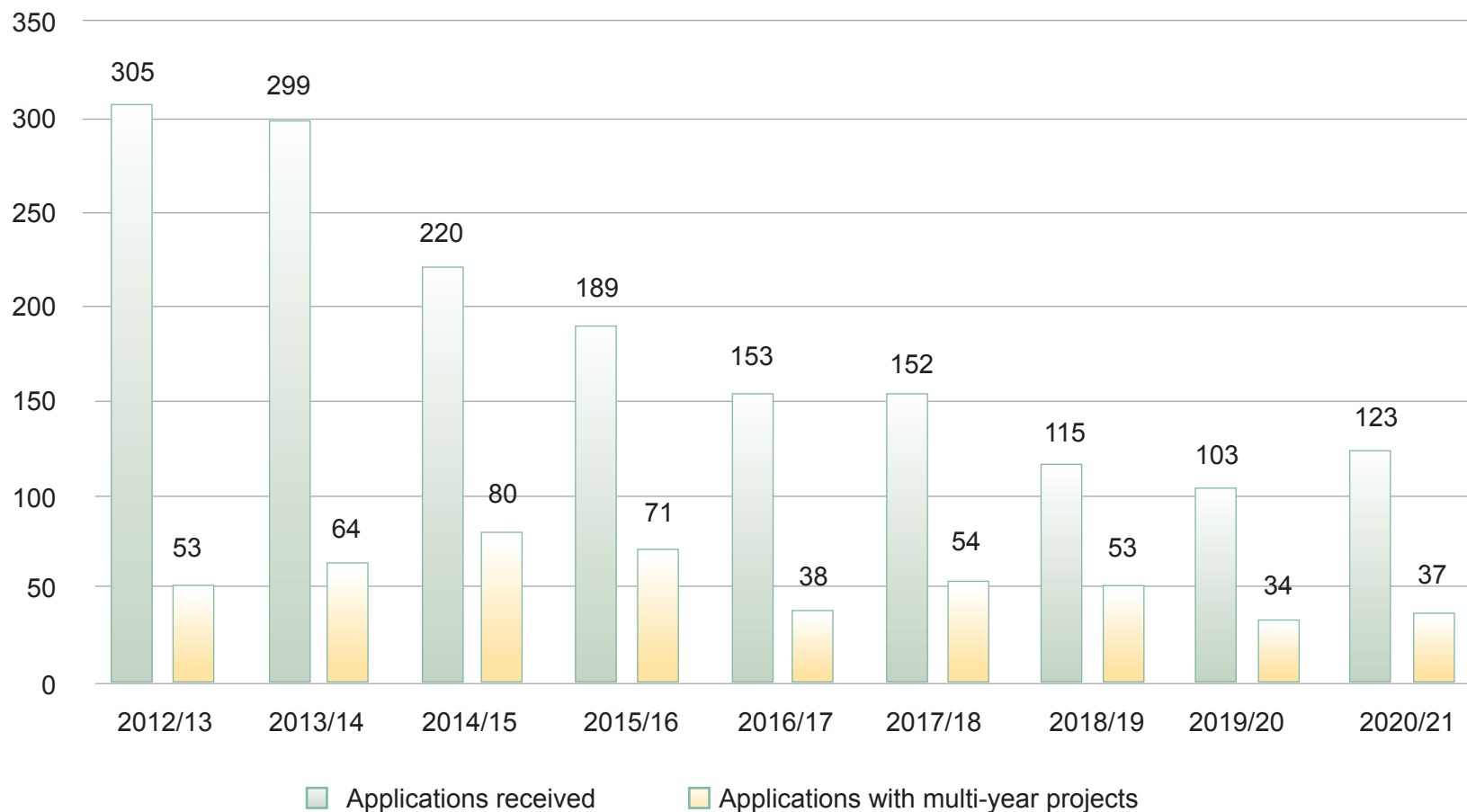


Figure 4: Number of applications received by the DSI and new applications containing multi-year projects (Oct. 2012 to Feb. 2021)

Other possible reasons for the increased number of applications received by the DSI could be due to an increased awareness of the R&D Tax Incentive programme, as well as a clearer understanding of the eligibility criteria for approval. The quality of applications received in the 2020/21 has improved, indicating that companies have a better understanding of the criteria for approval. The Secretariat (i.e. Private Sector R&D Promotions directorate) often contacts applicants to clarify the criteria and guide them.

For the period since November 2006, the programme has received 3 241 submissions/applications. Of those, 1 575 fell under the retrospective submission system (received between November 2006 and October 2012) and 1 666 applications under the pre-approval system (from 1 October 2012 onwards), containing 7 201 R&D projects. Under the retrospective system, R&D expenditure was not reported on a project basis and the retrospective submissions to the DSI set out R&D expenditure of the company in such a way that R&D projects could not be tracked.

Companies from all industry sectors can access the R&D tax incentive. Figure 5 shows the distribution of the applications received in 2020/21 per Standard Industrial Classification (SIC) sector, while Figure 6 depicts such information for the period from October 2012 to February 2021.

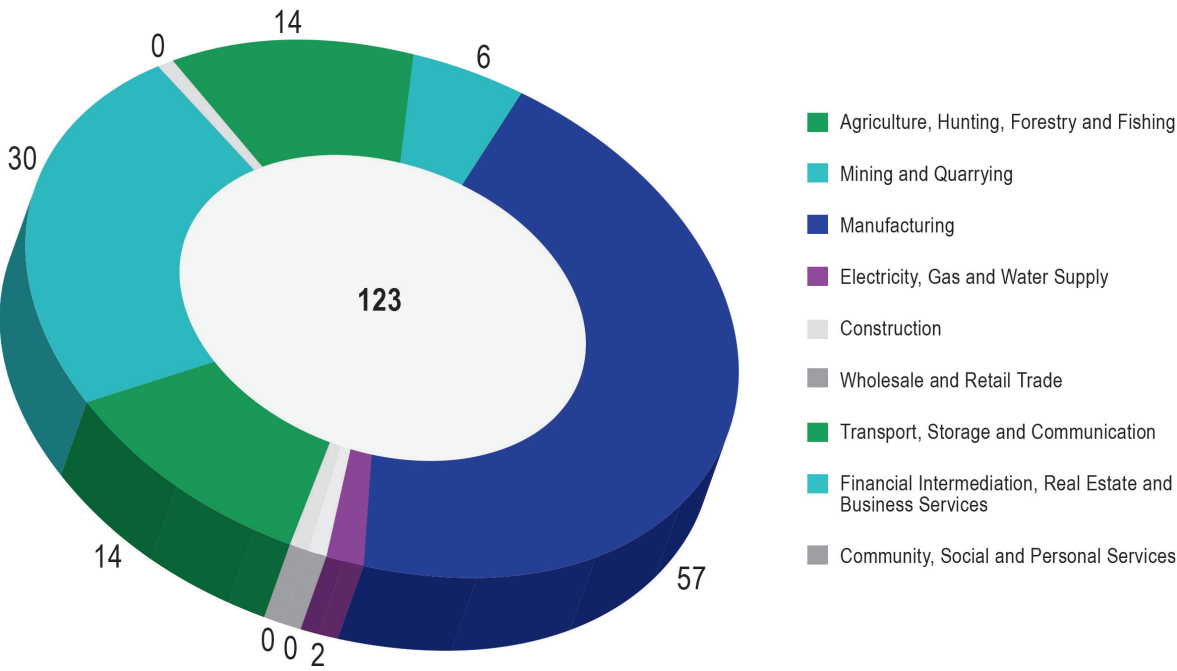


Figure 5: Number of applications per industrial sector (2020/21)

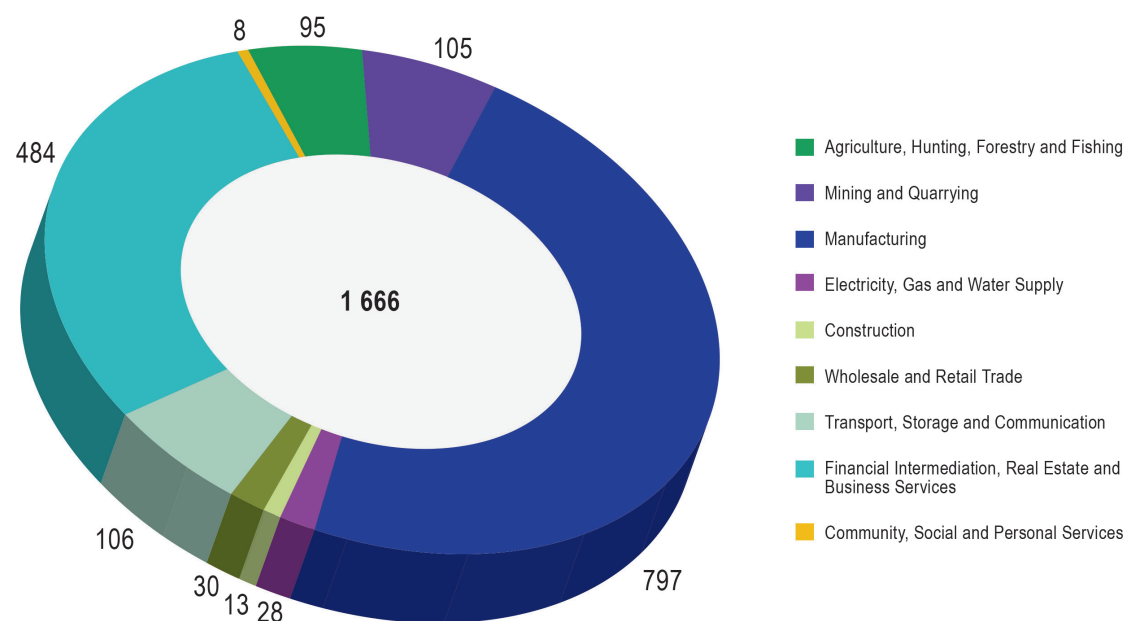


Figure 6: Number of applications per industrial sector (Oct. 2012 to Feb. 2021)

The programme received most of its applications (about 77%) from two sectors, the manufacturing sector (797) and the financial intermediation, real estate and business services sector (484). The manufacturing sector is dominated by the pharmaceutical industry, while other applications relate to the manufacturing of food and beverage products, wood products, chemical products, metal products, machinery and apparatus, communication equipment and medical apparatus, transport equipment, and the green economy. The financial intermediation, real estate and business services sector is dominated by the information and communication technology (ICT)-related industry, from which applications are frequently received. The remainder of the applications (less than a quarter of those received), come from the mining and quarrying sector (105), the transport, storage and communication sector (106), agriculture, hunting, forestry and fishing (95), wholesale and retail trade (30), electricity, gas and water supply (28), construction (13) and community, social and personal services (8).

2.2 Profile of participating companies

This section provides profiles of participating companies by turnover size and by industry sector.

A total of 104 companies participated in the R&D Tax Incentive programme in 2020/21. The cumulative number of companies participating from October 2012 is 907, and from November 2006 (including those companies that participated in the retrospective system) is 1 211.

Table 1 shows the distribution of companies submitting applications in 2020/21 per industry sector, as well as the cumulative numbers since 2012 and 2006, respectively. In 2020/21, a combined 70,2% of participating companies came from two sectors, namely manufacturing (42,3%) and financial intermediation, real estate and business services (27,9%). The other sectors account for the remaining 29,8% of the companies. This pattern is similar to that of the other two periods of aggregation: from October 2012 and from November 2006. These figures are also similar to trends in applications received per industry sector, as discussed under paragraph 2.1 above.

Table 1: Number of participating companies per industry sector

Sector	Received in 2020/21		Cumulative (Oct. 2012 to Feb. 2021)		Cumulative (Nov. 2006 to Feb. 2021)	
Agriculture, hunting, forestry and fishing	13	12,5%	58	6,4%	76	6,3%
Mining and quarrying	4	3,8%	57	6,3%	68	5,6%
Manufacturing	44	42,3%	391	43,1%	539	44,5%
Electricity, gas and water supply	2	1,9%	20	2,2%	25	2,1%
Construction	0	0,0%	10	1,1%	15	1,2%
Wholesale and retail trade	0	0,0%	21	2,3%	20	1,7%
Transport, storage and communication	12	11,5%	58	6,4%	66	5,5%
Financial intermediation, real estate and business services	29	27,9%	285	31,4%	389	32,1%
Community and social services	0	0%	7	0,8%	13	1,1%
Total	104	100%	907	100%	1 211	100%

Table 2 shows the distribution of companies submitting applications in 2020/21 per turnover size category and the cumulative numbers since 2012 and 2006, respectively. Large companies are globally known to be the main drivers of innovation and productivity gains, which explains the trend in South Africa. The distribution shows that, in terms of participation during the reporting period, the incentive was almost equally dominated by both very large companies (turnover of more than R100 million) (40 or 38,5%) and SMEs (turnover of less than R40 million) (38 or 36,5% in 2020/21), followed by large companies (turnover from R40 million to R100 million) (14 or 13,5%), while 12 companies did not disclose their turnover.

Table 2: Number of companies participating per company turnover size

Turnover	Received in 2020/21		Cumulative (Oct. 2012 to Feb. 2021)		Cumulative (Nov. 2006 to Feb. 2021)	
Turnover not indicated	12	11,5%	82	9,0%	119	9,8%
R10m and below (SMEs)	18	17,3%	219	24,1%	315	26%
R10m-R15m (SMEs)	6	5,8%	50	5,5%	78	6,4%
R15m-R20m (SMEs)	4	3,8%	41	4,5%	53	4,4%
R20m-R30m (SMEs)	8	7,7%	55	6,1%	70	5,8%
R30m-R40m (SMEs)	2	1,9%	32	3,5%	38	3,1%
R40m-R50m (large)	5	4,8%	33	3,6%	41	3,4%
R50m-R100m (large)	9	8,7%	90	9,9%	116	9,6%
R100m and above (very large)	40	38,5%	305	33,6%	381	31,5%
Total	104	100%	907	100%	1 211	100%

Similar to the pattern observed since 2012, Figure 7 depicts that, of the 1 211 companies that participated in the incentive since November 2006, 45,7% (or 554) are SMEs, more than any other company turnover size category. This is followed by 31,5% (or 381) for very large companies and 13% (or 157) for large companies. A total of 119 companies (9,8%) did not indicate their latest annual turnover.

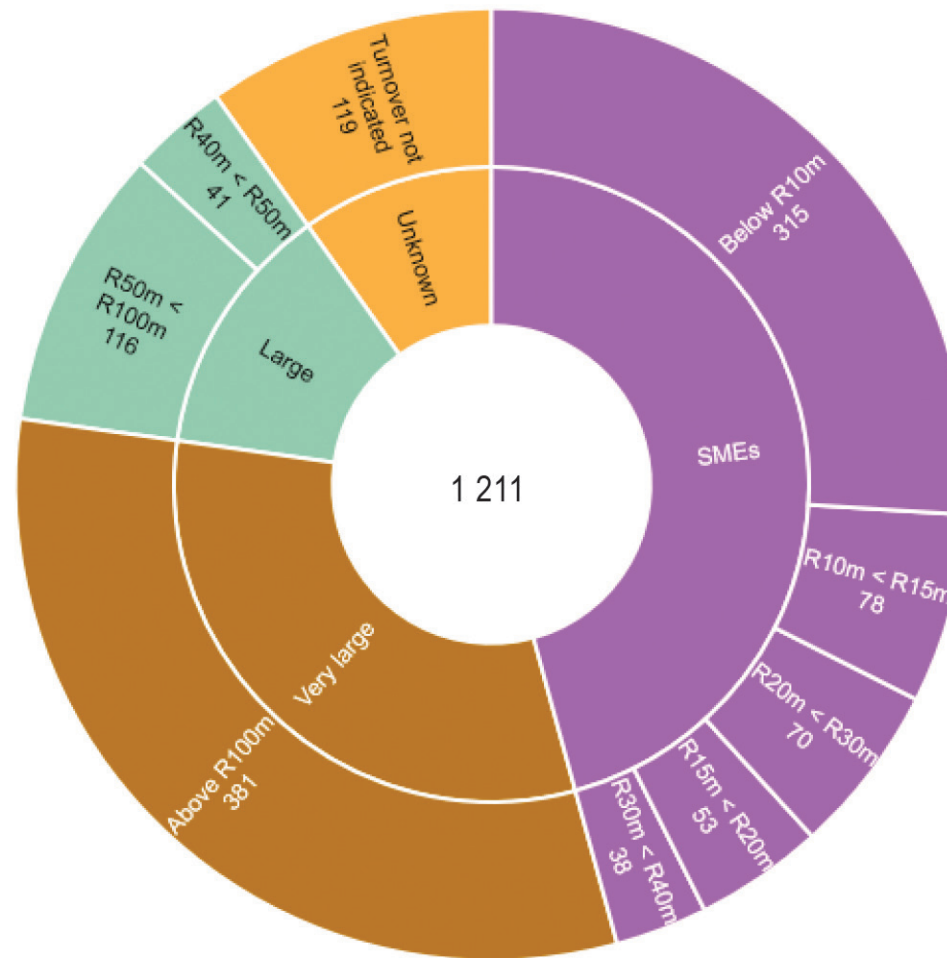


Figure 7: Uptake of companies that submitted applications per turnover size (Nov. 2006 to Feb. 2021)



3. PROCESSING OF APPLICATIONS

3. PROCESSING OF APPLICATIONS

3.1 Turnaround times

The number of applications processed and finalised during the reporting period, and the time taken to inform applicants of decisions, are key indicators of the efficiency in the administration of the R&D Tax Incentive programme. As in the previous year, the main focus in the reporting period was on finalising outstanding applications received in previous years and improving the administrative efficiencies.

Progress has been made in the processing of applications. Although a total of 1 666 pre-approval applications were received between 1 October 2012 and 28 February 2021, only 1 613 were valid applications because 53 were withdrawn by applicants. Of this, 1 580 (98%) were adjudicated and finalised by the Committee and 1 433 (90,7%) of those applications received final decisions from the Minister. By the end of the reporting period, 33 applications remained to be adjudicated (Figure 8).

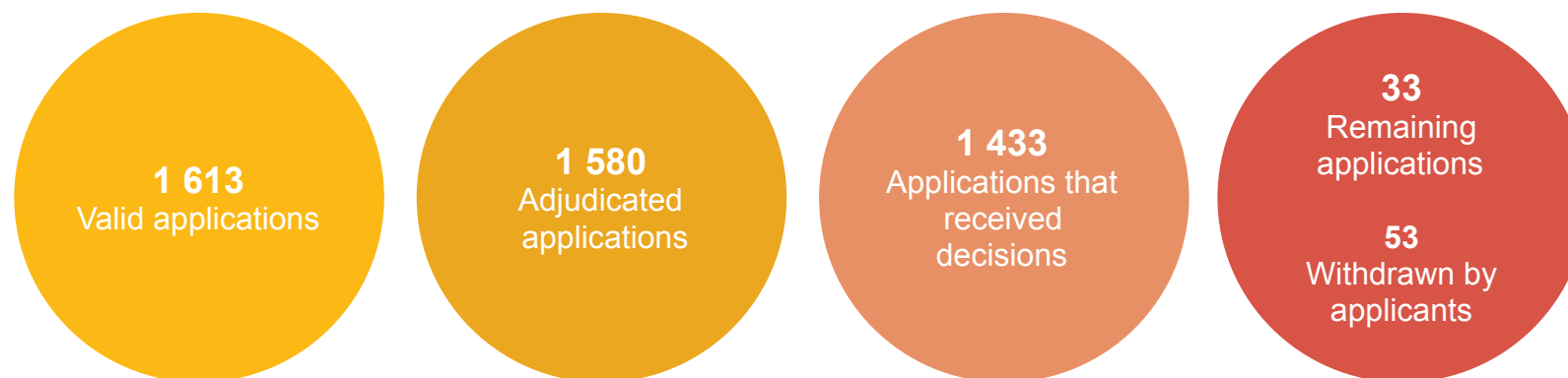


Figure 8: Overall status in processing applications as at Feb. 2021

During the reporting period, the Committee had 15 meetings in which 156 applications containing 316 projects were adjudicated. Of the 156 applications that were adjudicated in 2020/21, 28 were received pre-2020. Of the 316 projects that were adjudicated, 218 (69%) projects were approved for the incentive, 42 (13,3%) projects were not approved, 48 (15,2%) projects were referred back to the applicants for additional information or clarification, and 8 (2,5%) projects were for the Committee's discussion or noting (Figure 9).

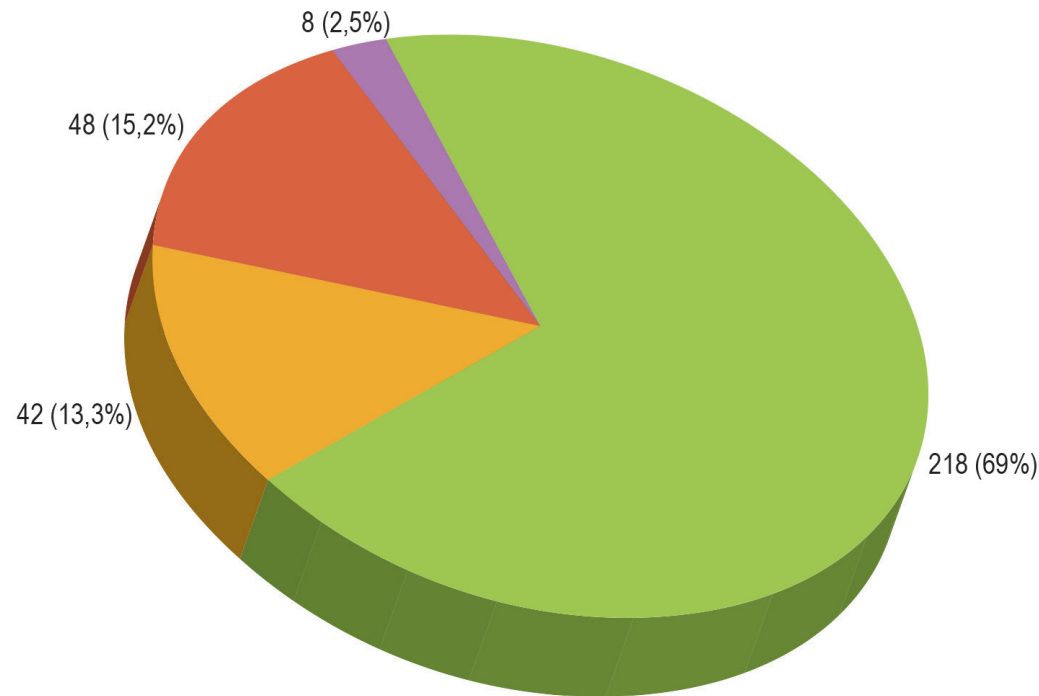


Figure 9: Outcomes of adjudicated projects during the reporting period (Mar. 2020 to Feb. 2021)

For projects to be approved, their activities must meet the definition of R&D in terms of section 11D of the Income Tax Act. R&D is set out in s11D to be systematic investigative or systematic experimental activities of which the results are uncertain. The onus is on the applicant to demonstrate that their proposed activities qualify. Where non-approval is likely, applicants are given a further opportunity in terms of section 3 of the Promotion of Administrative Justice Act (PAJA), 2000 (Act No. 3 of 2000) to submit additional information that supports the eligibility of their activities before a final decision is made. Of the applications that were adjudicated in 2020/21, 24 (15.4%) applications containing 30 (9.5%) projects were subjected to this process. During the same period, 30 letters were sent to the applicants to submit representations in compliance with the PAJA.

The turnaround time in processing applications depends on the quality of information provided in the applications. Applications that have the required information are generally processed and finalised more quickly, as it is unlikely that additional information will be requested from applicants. The onus is therefore on the applicants to provide sufficient information. Ways to make the process more efficient and easier to use are continually being explored, including the development of improved guidelines, memoranda, examples and an updated application form containing pertinent questions that will assist in obtaining better and more sufficient information.

The turnaround time for providing decisions on applications has improved. The average turnaround time for processing applications that were received in 2020/21 decreased to 114 days (relevant to 56 applications that were provided with decisions), from a 125-day average reported for applications received in 2019/20⁹. Overall, a total of 113 applications were provided with decisions in 2020/21. Of these, only 19 decisions (17%) were provided within 90 days.

As the 90-day turnaround time target has not been achieved on all applications, more still needs to be done to ensure that the target is met in the period ahead. Among other things, the turnaround time is affected by the number of applications that were referred back for additional information and went through the PAJA process. In the case of applications that were referred back, applicants were given five working days, while for PAJA applications, they were given 10 working days to provide information. In some instances, applicants requested extensions to provide the additional information. Apart from the extra time required to obtain further information from the applicants, once such information has been received, applications have to be reviewed by experts again and then go through another Committee adjudication cycle. This adds substantially more time to the adjudication time frame.

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The average turnaround time of 114 days is reported for 56 applications received in 2020/21 that were provided with decisions by 28 February 2021. The final figure is determined once all the 2020/21 applications have been provided with decisions.

3.2 Status of pre-approval applications as at 28 February 2021

Of the 1 580 applications adjudicated by 28 February 2021, 1 029 (65,1%) were approved and 551 (34,9%) were not approved. At the end of the reporting period, 33 (2%) applications were still to be adjudicated (Figure 10). As reported in previous years, there were high rates of approval (i.e. above 74%) in four sectors, namely (i) agriculture, hunting, forestry and fishing; (ii) manufacturing; (iii) electricity, gas and water supply; and (iv) mining and quarrying. The rest of the industry sectors had approval rates below 63%.

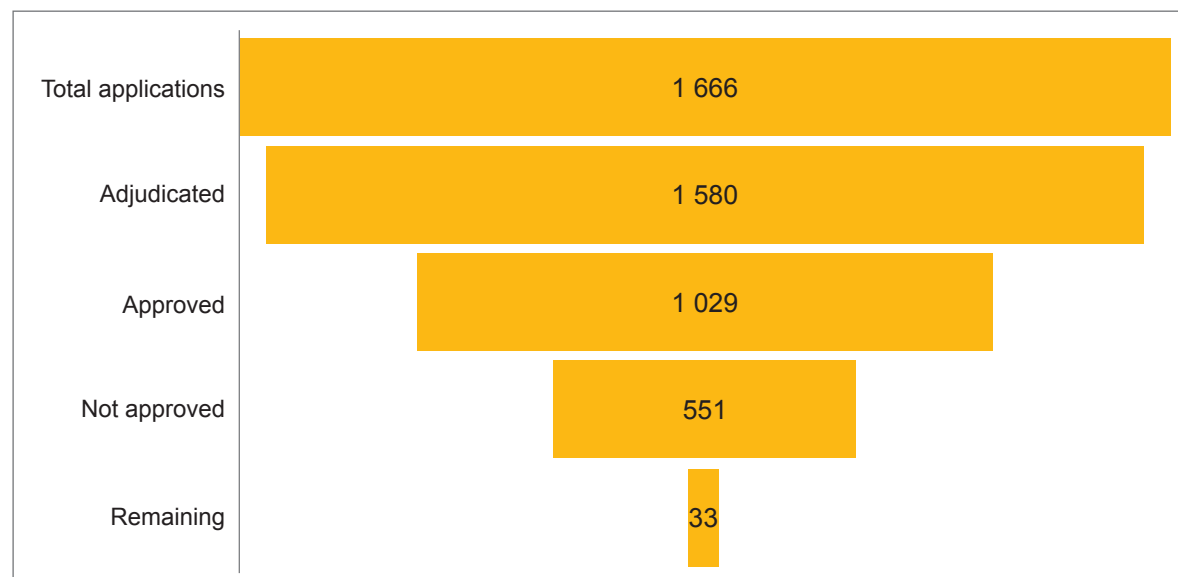


Figure 10: Status of all pre-approval applications as at Feb. 2021

The financial intermediation, real estate and business services sector had the highest number of non-approved applications, at 60% of all applications received from October 2012. Many of these older applications were for projects aimed at introducing innovations without necessarily engaging in R&D as defined in section 11D of the Income Tax Act, e.g., the acquisition and/or integration of off-the-shelf ICT-related solutions. Additionally, recently, applications received often related to routine software-related activities and were not recommended for approval as such activities do not involve R&D. For example, routine software-related activities usually do not provide scientific and/or technological advances and/or do not address technological uncertainties. Such activities would therefore also not be eligible for the R&D Tax Incentive. The government has other incentives and forms of support for such innovation activities, e.g., through direct funding grants, loans and equity funds, which target specific industry sectors, SMEs or new companies. More specifically, most funding programmes of the Technology Innovation Agency and the Support Programme for Industrial Innovation require that a project demonstrate potential for technology development and commercialisation, rather than R&D per se.

Figures 11, 12 and 13 show the proportions of approved and non-approved applications per industry sector. Table 3 shows the breakdown of adjudicated applications per industry sector.

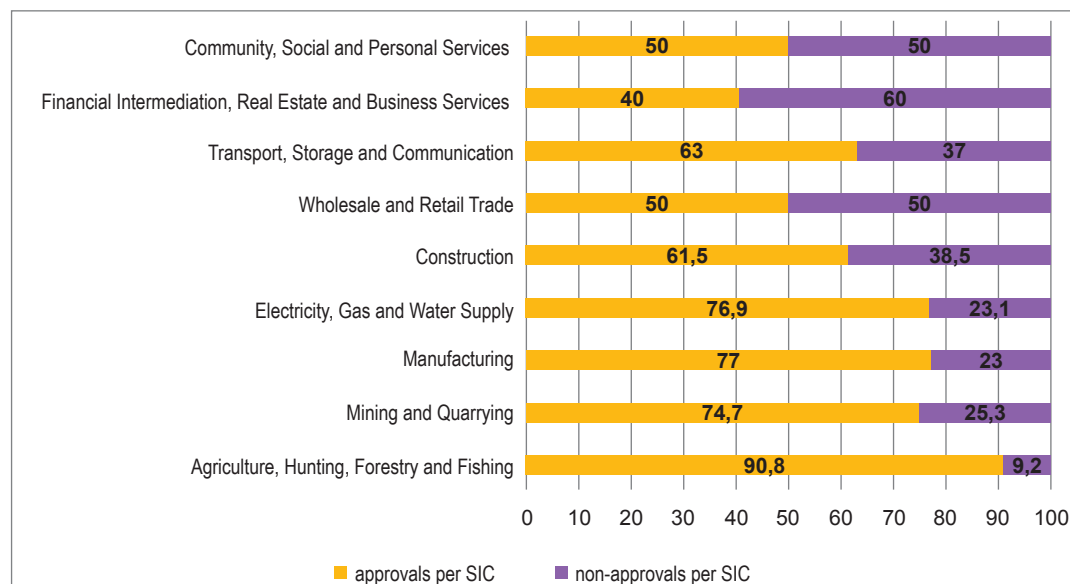


Figure 11: Percentage breakdown of application approvals and non-approvals per industry sector (Oct. 2012 to Feb. 2021)

Table 3: Number of applications adjudicated per industry sector (Oct. 2012 to Feb. 2021)

Sector	Number of applications received	Number of adjudicated applications	Number of approvals	Number of non-approvals
Agriculture, hunting, forestry and fishing	95	87	79	8
Mining and quarrying	105	99	74	25
Manufacturing	797	755	581	174
Electricity, gas and water supply	28	26	20	6
Construction	13	13	8	5
Wholesale and retail trade	30	30	15	15
Transport, storage and communication	106	100	63	37
Financial intermediation, real estate and business services	484	462	185	277
Community and social services	8	8	4	4
Total	1 666	1 580	1 029	551

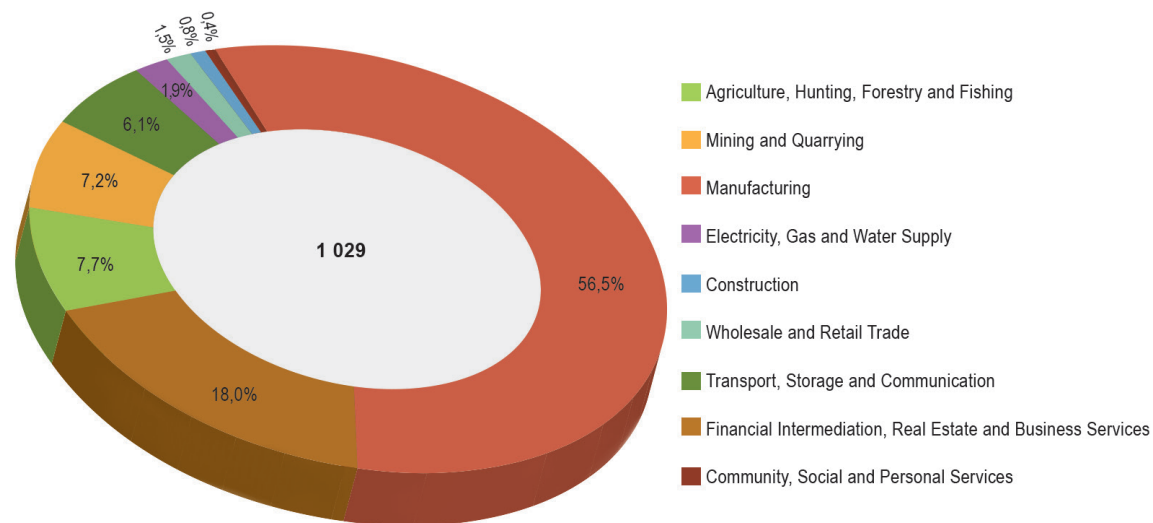


Figure 12: Approved applications per industry sector (Oct. 2012 to Feb. 2021)

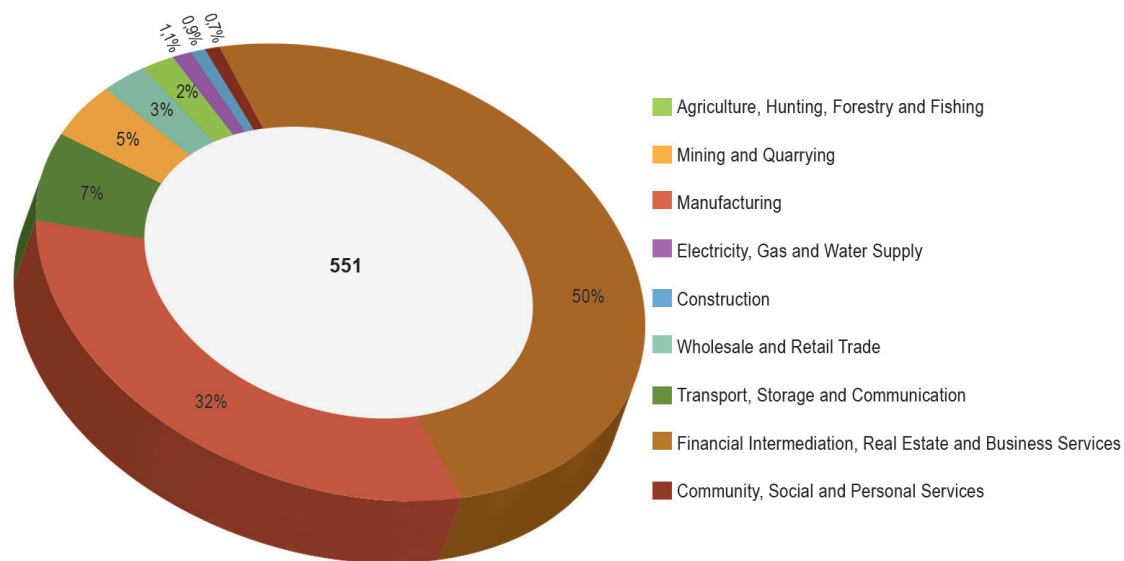


Figure 13: Non-approved applications per industry sector (Oct. 2012 to Feb. 2021)

3.3 Approved companies per turnover size since October 2012

Figure 14 shows the distribution of companies per turnover size that have participated in the programme from October 2012 to February 2021, while Figure 15 shows the distribution of approved companies per turnover size during the same period. The figures reveal that, since 2012, more SMEs have participated in the programme (397 or 43,8%) than other company sizes, although very large companies have received more approvals (221 or 40,3%). These figures confirm the need to assist SMEs either to understand the eligibility criteria for the R&D Tax Incentive, or to conduct R&D as defined in the Income Tax Act. The published guidelines aim to provide more clarity on the eligibility criteria. Additionally, the Private Sector R&D Promotions directorate is ready to assist with guidance whenever needed.

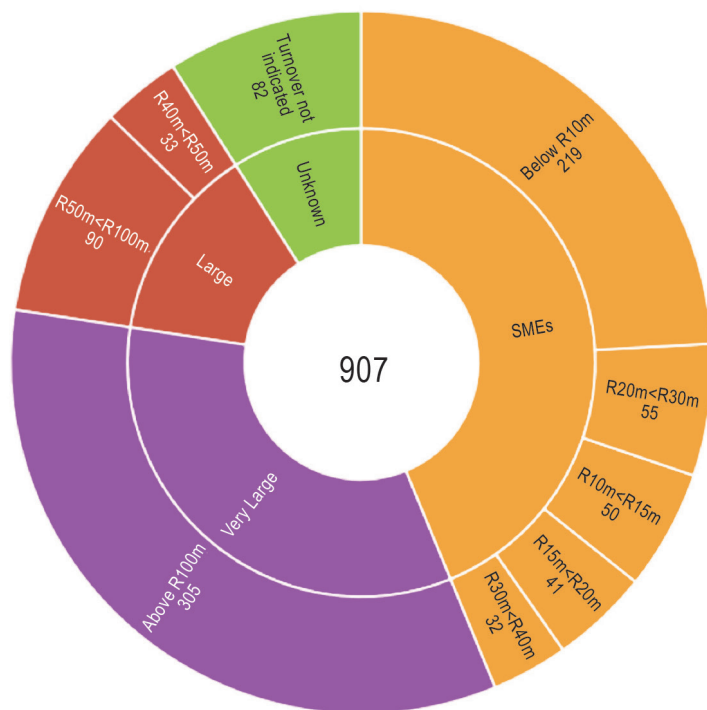


Figure 14: Participating companies per turnover size (Oct. 2012 to Feb. 2021)

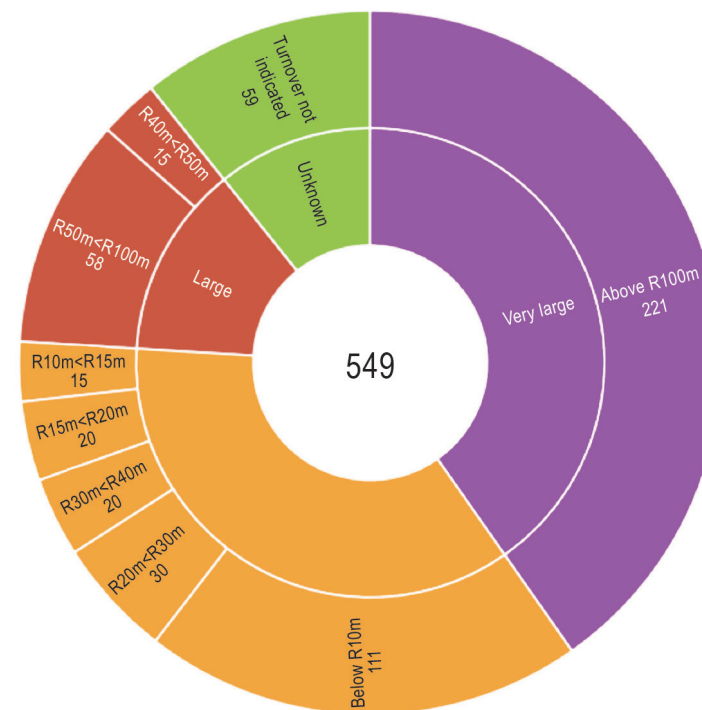


Figure 15: Approved companies per turnover size (Oct. 2012 to Feb. 2021)



4. R&D TAX INCENTIVE AWARENESS

4. R&D TAX INCENTIVE AWARENESS

The R&D Tax Incentive is intended to encourage increased private-sector R&D investment, which is central to improving South Africa's innovation performance and competitiveness. To achieve this, companies must be aware of the incentive, find the application process easy, and understand the processes for accessing it. One measure of awareness is the number of new companies that are attracted to the programme each year.

The DSI's Private Sector R&D Promotions directorate administers the R&D Tax Incentive programme. During 2020/21, the directorate held engagements with multiple stakeholders, including taxpayers, consulting companies and legal firms. Many meetings were held with new applicants. During the interactions the DSI gave presentations and shared information to improve the accessibility and awareness of the R&D Tax Incentive programme.

The DSI also worked on other critical aspects relating to the R&D Tax Incentive, including a review of all templates and documentations for long-term improvements to information presentation and application qualification criteria. Activities also supported the appointment of a cohort of new experts/consultants to support programme implementation. The Department also provided briefings on the R&D Tax Incentive matters to the Economic Sectors, Employment and Infrastructure Development Cluster in November 2020.

At the time of drafting this report, the DSI and National Treasury were finalising the discussion document on the review of the design, implementation and impact of South Africa's R&D Tax Incentive that will be published for public comments before the end of December 2021. This is required to inform policy decisions about the incentive, including possible adjustments and/or the continuation of the incentive beyond the sunset clause that will end the operation of the incentive in October 2022. The outcomes will be announced timeously to provide policy certainty to stakeholders.

The background is a dark, deep blue space. In the center, a cluster of wireframe cubes is arranged in a staggered, 3D pattern. Each cube has a bright, glowing light source at its center, creating a starburst effect with rays of light. Below the cubes, there are some translucent, crystalline fragments. In the upper right corner, there is a complex, dense network of white lines representing chemical structures, including various rings, bonds, and mathematical symbols like Σ , π , and σ . The overall aesthetic is scientific and technological.

5. PROFILE OF COMPANIES SUPPORTED BY THE INCENTIVE

5. PROFILE OF COMPANIES SUPPORTED BY THE INCENTIVE

This section provides the profile of supported companies (by turnover size, industry sector and provincial location) and estimated amounts of planned R&D expenditure.

The figures for supported companies include all the companies that have participated in the incentive since its inception. The information presented here does not include data on R&D claims processed at SARS. Such information is reported in aggregated terms in National Treasury budget review publications and SARS tax statistics.

Figure 16 shows that, of the 995 companies that received support from the incentive since November 2006, the majority (424 or 42,6%) were SMEs. Very large enterprises made up 34,8% of the companies, large enterprises made up 13%, and 9,6% did not disclose their turnover size. The 995 companies that received support combines the 549 under the preapproval system and 628 under the retrospective system effective between November 2006 and September 2012. The number of companies under the retrospective system and the preapproval system does not add up as most companies benefited under both systems.

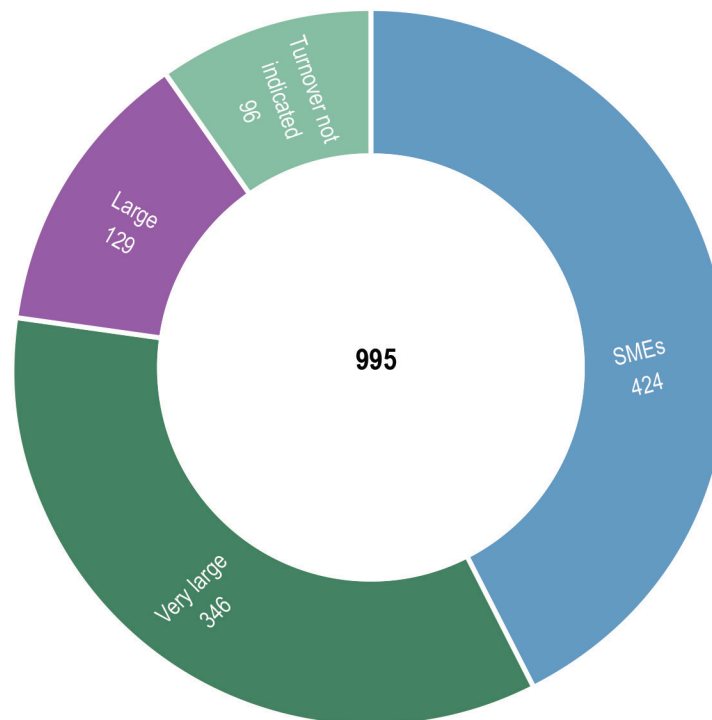


Figure 16: Number of companies supported per turnover size (Nov. 2006 to Feb. 2021)

Although the companies that submit applications come from a specific industry sector, R&D activities may be conducted in another field. For example, companies in the manufacturing sector may conduct R&D activities in the fields of transport or agriculture, or an integration of the fields. Similarly, companies in other sectors may conduct R&D activities aimed at applications in the manufacturing sector. When deciding how much to invest in R&D, companies take several factors into consideration, such as the availability of a skilled workforce, competitiveness and access to local markets. These are some of the reasons that companies diversify R&D investments.

The companies that have participated in the incentive since 2006 are located in all the provinces. Provincial location in this report refers to the physical address indicated by the applicant on the application form, and not necessarily the location where the R&D activities are performed. It is likely that the recorded addresses are those of the national headquarters of companies that made applications, most of which are located in Gauteng. By this measure, Gauteng has the greatest number of companies supported by the incentive and the highest R&D expenditure reported for supported activities.

Figure 17 shows that, since 2006, most companies participating in the incentive were located in Gauteng (692 or 57,1%), followed by the Western Cape (325 companies or 26,8%) and KwaZulu-Natal (123 companies or 10,2%). Companies in these three provinces have contributed 1 605 applications since 2012 (or 96,3% of the total). The rest of the companies were based in Mpumalanga (23 or 1,9%), the Free State (15 or 1,2%), the North West (7 or 0,6%), the Eastern Cape (20 or

1,7%), the Northern Cape (2 or 0,2%) and Limpopo (4 or 0,3%).

Generally, the provincial spread shown here resembles the patterns reported in the 2018/19 South African National Survey of Research and Experimental Development (R&D Survey), which also indicates that most of the business-sector R&D is performed in Gauteng, followed by the Western Cape and KwaZulu-Natal. These are also the regions that dominate the economic activity in the country.

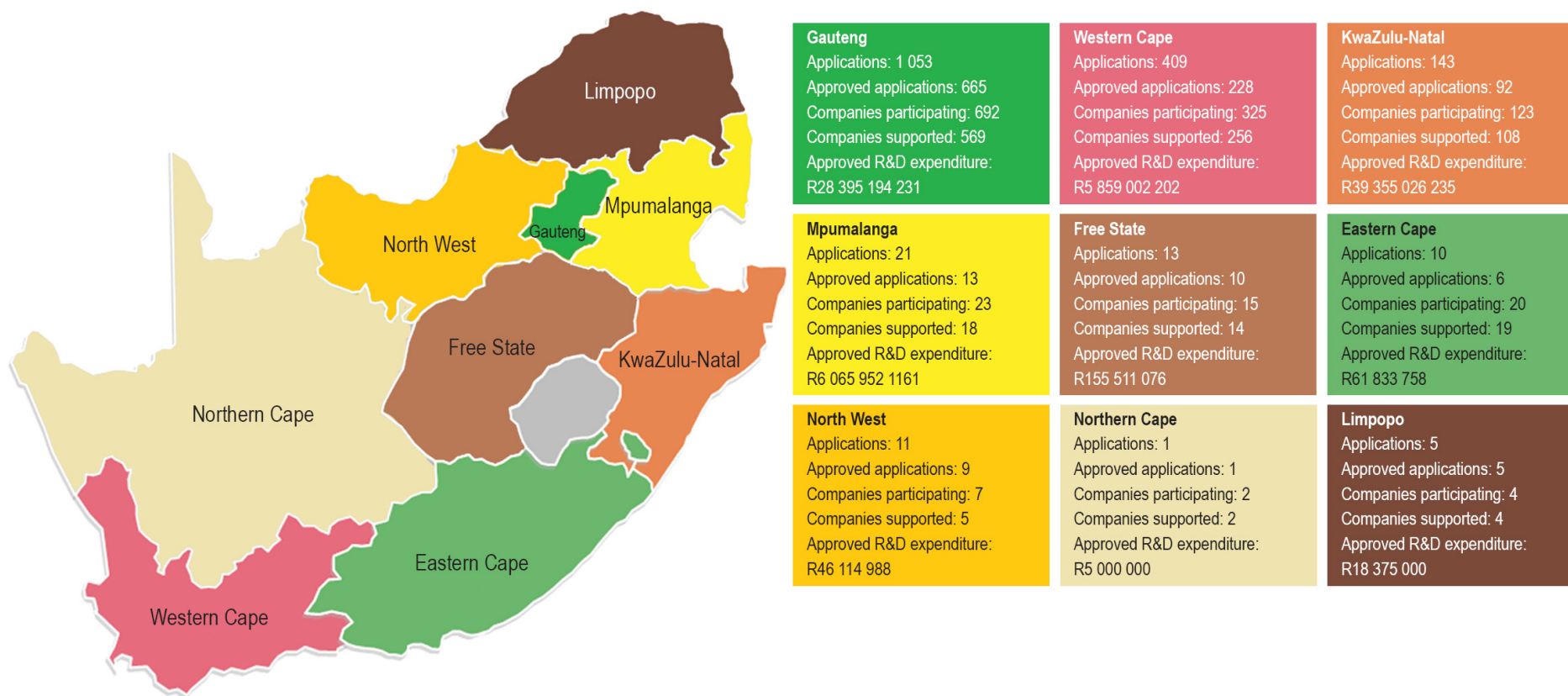


Figure 17: Provincial distribution of supported R&D activities ¹⁰

¹⁰ "Applications" and "Approved applications" indicate applications received under the pre-approval system; "Companies participating" are companies participating under both the retrospective and pre-approval systems; "Companies supported" are companies supported under both retrospective and pre-approval systems; and "Approved R&D expenditure" relates to planned R&D expenditure under only the pre-approval system.



6. R&D TAX INCENTIVE PROGRESS REPORTS

6. R&D TAX INCENTIVE PROGRESS REPORTS

Section 11D(13) of the Income Tax Act requires that a taxpayer carrying on R&D approved by the Minister must report to the Committee annually with respect to the progress of such R&D, and the extent to which that R&D requires specialised skills. This reporting should occur within 12 months after the close of each year of assessment.

6.1 Number of progress reports received by the DSI in 2020/21

During the reporting period, the DSI received a total of 187 R&D Tax Incentive progress reports related to 1 713 projects from 137 companies. Figure 18 and Table 4 show that more than half (99 or 52,9%) of the progress reports relate to the 2019 financial year of the respective companies. The total eligible R&D expenditure incurred as reported in these progress reports is R3,2 billion.

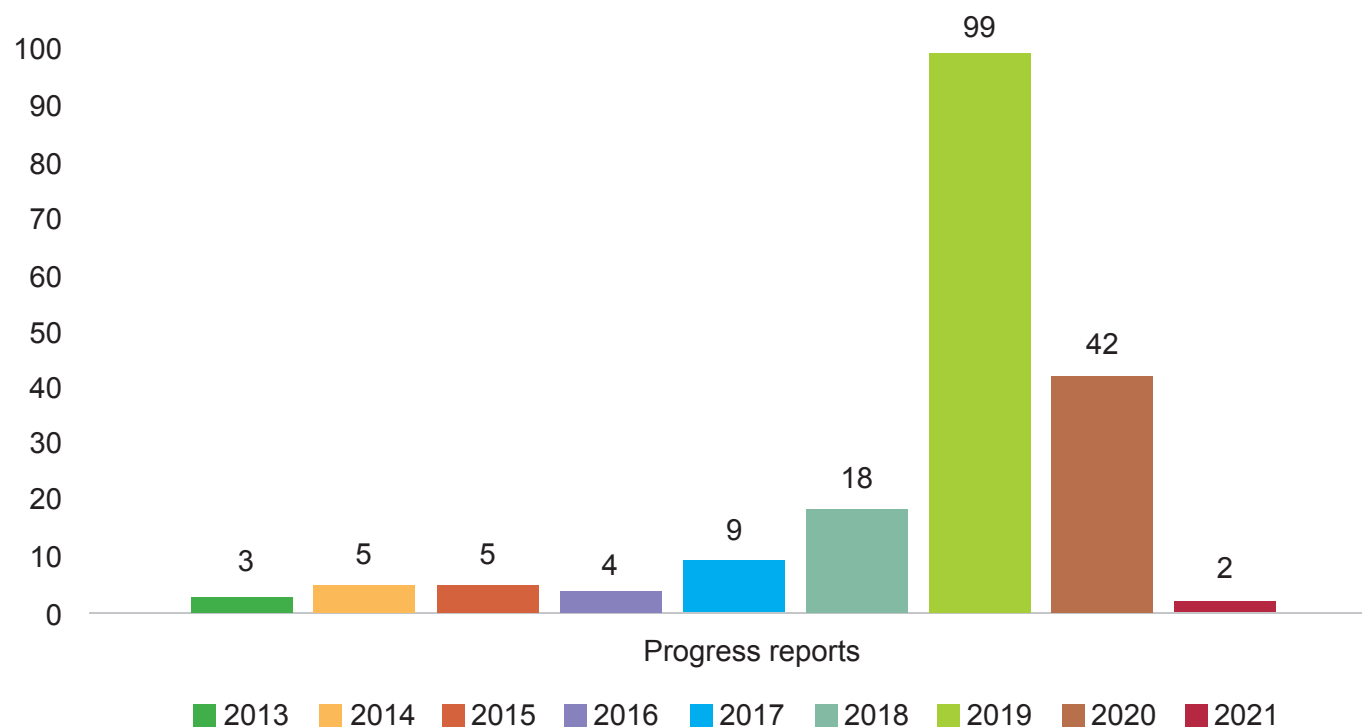


Figure 18: Number of progress reports received by the DSI per financial year

Table 4: Number of progress reports received by the DSI with eligible R&D expenditure incurred (2020/ 2021)

Financial year reported	Number of progress reports	Number of projects	Eligible R&D expenditure incurred
2013	3	46	28 379 081
2014	5	71	73 499 785
2015	5	87	68 329 696
2016	4	112	26 006 825
2017	9	55	50 285 144
2018	18	79	392 830 107
2019	99	1 000	1 962 374 640
2020	42	261	610 659 103
2021	2	2	900 000
Total	187	1 713	R 3 213 264 381

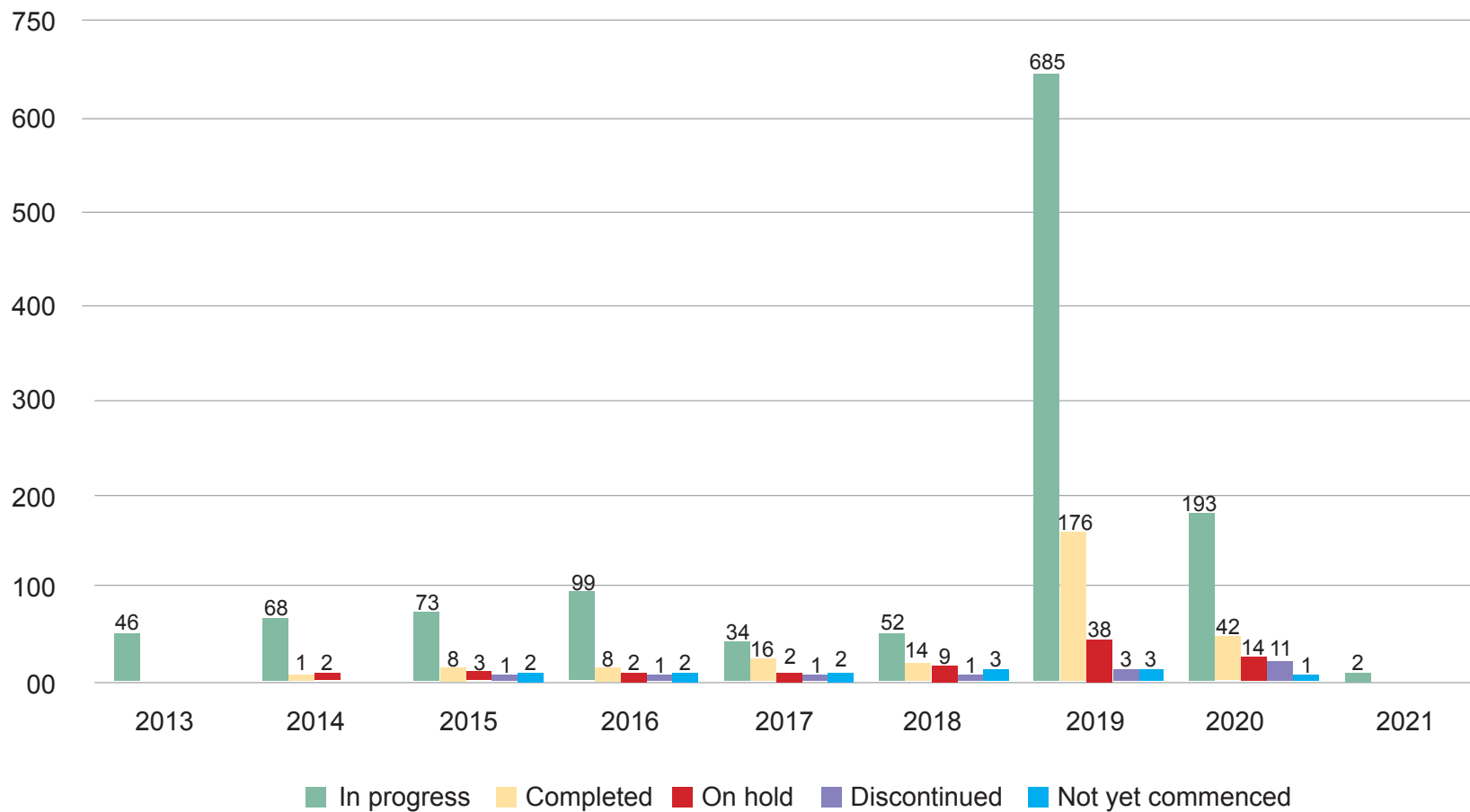


Figure 19: Number of projects per status for each financial year

Figures 19 and 20 show the total number of projects for which progress reports have been received in 2020/21, per status of each project. The majority (1 252 or 73,1%) of projects are in progress, 265 or 15,4% are completed, 130 or 7,6% are on hold, 53 or 3,1% have been discontinued, and 13 or 0,8% were reported as not yet commenced.

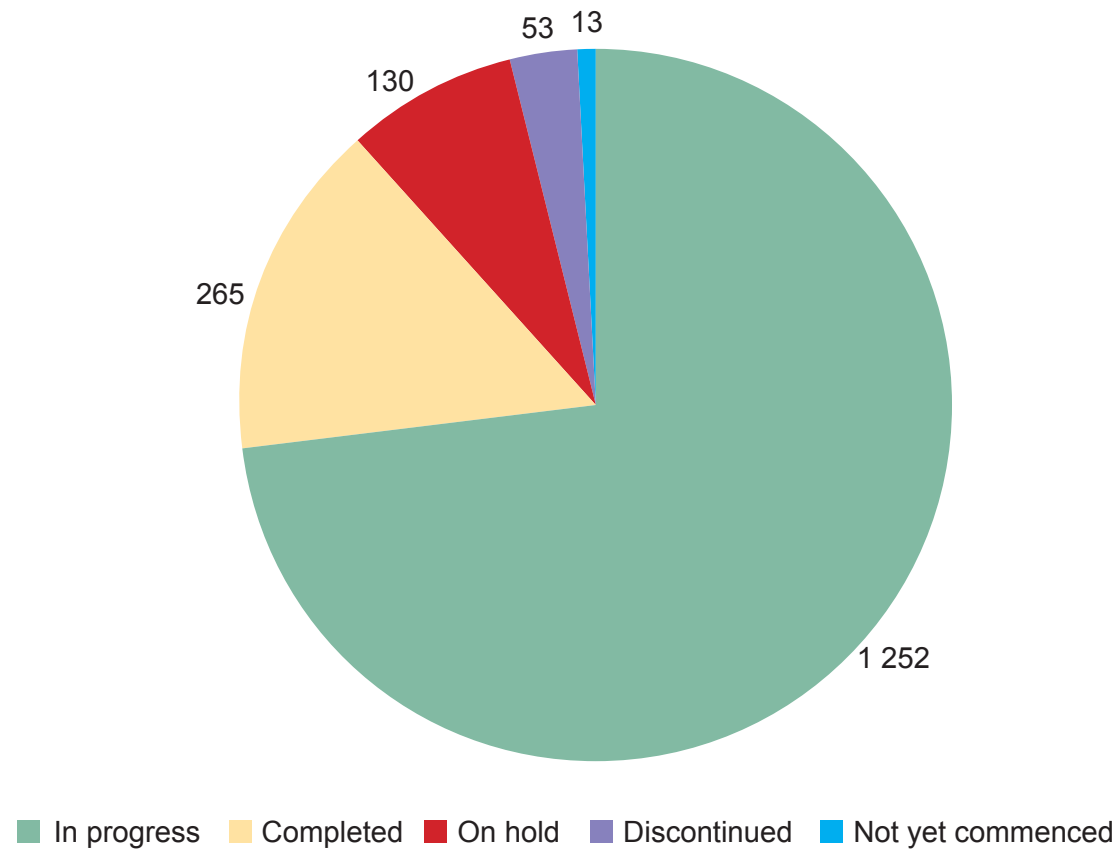
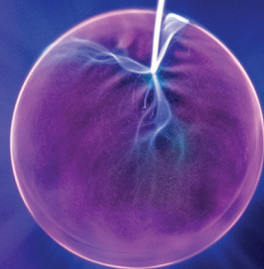


Figure 20: Number of projects for which progress reports were received by the DSI per status

Compliance with the requirement to submit annual progress reports is still very low. This was also mentioned in the study of the Impact Evaluation of the R&D Tax Incentive in South Africa conducted by the World Bank in 2019. Measures to increase compliance to section 11D(13) of the Income Tax Act have been put in place, including sending non-compliance letters to companies with outstanding progress reports.



**7. R&D EXPENDITURE
SUPPORTED BY THE INCENTIVE**

7. R&D EXPENDITURE SUPPORTED BY THE INCENTIVE

Information reported under this section is based on (i) data declared to the DSI by companies on retrospective claims submitted to SARS, and (ii) data contained in pre-approval applications, at application stage and at approval stage. The information in this section uses information available at the DSI. The published data by the National Treasury on claims processed at SARS was unavailable for this report.

7.1 Planned R&D expenditure on approved applications

Figure 21 indicates that, by the end of the reporting period, an estimated R105,3 billion in planned R&D expenditure had been supported (retrospective system), or approved (pre-approval system¹¹) by the incentive since November 2006. This amount comprises R25,4 billion reported under the retrospective system and R79,9 billion in planned R&D expenditure indicated on approved applications (under the pre-approval system). These figures are revised annually on the basis of the actual value of claims that companies declare to SARS when they claim the deductions.

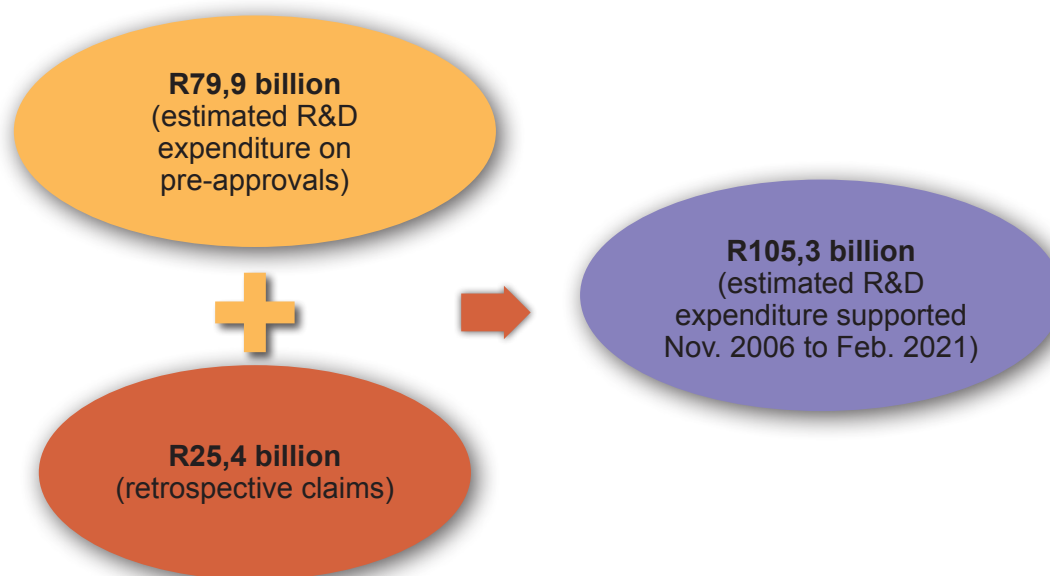


Figure 21: Overall R&D expenditure supported (Nov. 2006 to Feb. 2021)

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As previously mentioned, this data is an estimate provided by applicants for the planned expenditure over the life of the R&D project. It will be different from the amount ultimately claimed from SARS on an annual basis.

Table 5 shows a disaggregation of the R79,9 billion, and indicates that about 87,3% of the planned R&D expenditure for approved applications is from the top three industry sectors: manufacturing (60,3%); agriculture, hunting, forestry and fishing (14,6%); and mining and quarrying (12,4%). The manufacturing sector is dominated by larger companies, and there are applications from a variety of sub-sectors carrying out R&D activities related to software, the green economy and health, among other things.

Seventy-nine applications from the agriculture, hunting, forestry and fishing sector, with a planned R&D expenditure of just above R11,7 billion, were approved. The average planned R&D expenditure per application for this sector is higher than that of all other sectors, implying that approved R&D projects in this sector are of a relatively larger scale. The same estimate shows that R&D projects in the construction sector are smaller, averaging around R9,9 million per approved application.

Table 5: Estimated R&D expenditure on approved applications per industry sector (Oct. 2012 to Feb. 2021)

Sector	Number of applications received	Adjudicated and finalised per SIC	Number of approvals per SIC	Estimated R&D expenditure on approved applications
Agriculture, hunting, forestry and fishing	95	87	79	11 712 360 348
Mining and quarrying	105	99	74	9 913 225 342
Manufacturing	797	755	581	48 223 287 056
Electricity, gas and water supply	28	26	20	1 583 099 760
Construction	13	13	8	79 500 000
Wholesale and retail trade	30	30	15	480 592 009
Transport, storage and communication	106	100	63	1 648 820 114
Financial intermediation, real estate and business services	484	462	185	6 226 373 345
Community and social services	8	8	4	947 51 633
Total	1 666	1 580	1 029	79 962 009 607

7.2 Contribution to IPAP priority areas

The Industrial Policy Action Plan (IPAP) identifies priority areas in which policies or programmes should be enhanced to strengthen the ability of manufacturing and other value-adding sectors, with the ultimate aim of creating decent jobs and increasing competitiveness in domestic and export markets. To increase the economy's ability to produce complex and high value-added products with greater efficiency, the 2018/19–2020/21 IPAP identifies sectoral focus areas 1 and 2.

Of the total approved applications, 703 (68,3%) contributed to these IPAP sectoral focus areas, with an estimated R74,9 billion (71,1%) of the total supported R&D expenditure since November 2006. Table 6 shows that the number of approved applications (239) from the electrotechnical and IT sector is higher than that of any other IPAP sector, and that the cumulative estimated R&D expenditure supported and approved from the agroprocessing sector is the highest, followed by mineral beneficiation; chemicals, cosmetics, pharmaceuticals and plastics; and electrotechnical and IT.

Table 6: Contribution to IPAP priority areas (Nov. 2006 to Feb. 2021)

IPAP sector descriptions	Number of approved applications (Oct. 2012 to Feb. 2021)	R&D expenditure under retrospective system (R'000)	R&D expenditure for approved applications under pre-approval system (R'000)	Cumulative (up to Feb. 2021) (R'000)	% total contribution to IPAP sectors
Electrotechnical and IT	239	3 873 476	6 659 239	10 532 715	14,1%
Chemicals, cosmetics, pharmaceuticals and plastics	193	3 909 221	6 865 002	10 774 223	14,4%
Automotive	13	3 321 901	260 093	3 581 994	4,8%
Metal fabrication, capital and rail transport equipment	70	1 217 985	1 147 213	2 365 198	3,2%
Business process services	9	1 172 476	75 204	1 247 680	1,7%
Aerospace, defence	31	497 888	1 212 455	1 710 343	2,3%
Agroprocessing	31	384 937	32 731 251	33 116 188	44,2%
Forestry, paper, pulp and furniture	42	256 300	240 327	496 627	0,7%
Green industries	0	35 057	0	35 057	0%
Marine manufacturing and associated services	4	0	47 200	47 200	0,1%
Clothing, textiles, footwear and leather	3	355	3 200	3 555	0%
Mineral beneficiation	68	1 175 953	9 823 495	10 999 448	14,7%
Total	703	15 845 549	59 064 679	74 910 228	100%

7.3 Estimates of tax revenue foregone due to the incentive

Tax revenue foregone represents part of the government's financial support for business sector scientific or technological R&D activities.

The National Treasury Budget Review (2021) estimated that the tax revenue foregone due to the R&D Tax Incentive for the period 2005/06 to 2018/19 was just below R5,7 billion.¹² The figures in Table 7 represent deductions allowed by SARS on claims by companies for each particular tax year. The figures also include claims that have been made under section 11B of the Income Tax Act, which was used before November 2006. These figures are revised annually as companies submit their claims.

¹² The National Treasury Budget Review, 24 February 2021.

Table 7: Tax revenue foregone due to the R&D tax incentive

Reporting period	Tax revenue foregone (R'000)
2005/06	183 000
2006/07	449 000
2007/08	358 000
2008/09	594 000
2009/10	966 000
2010/11	1 216 000
2011/12	361 000
2012/13	197 000
2013/14	219 000
2014/15	207 000
2015/16	277 000
2016/17	233 000
2017/18	262 000
2018/19	172 000
2019/20 and 2020/21	Information not yet available
Total	5 694 000

The value of a tax allowance (i.e. incentive benefit) varies with the corporate tax rate, which, in many countries, applies differently to various categories of companies, e.g. small versus large companies.¹³

13 OECD (2021). OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

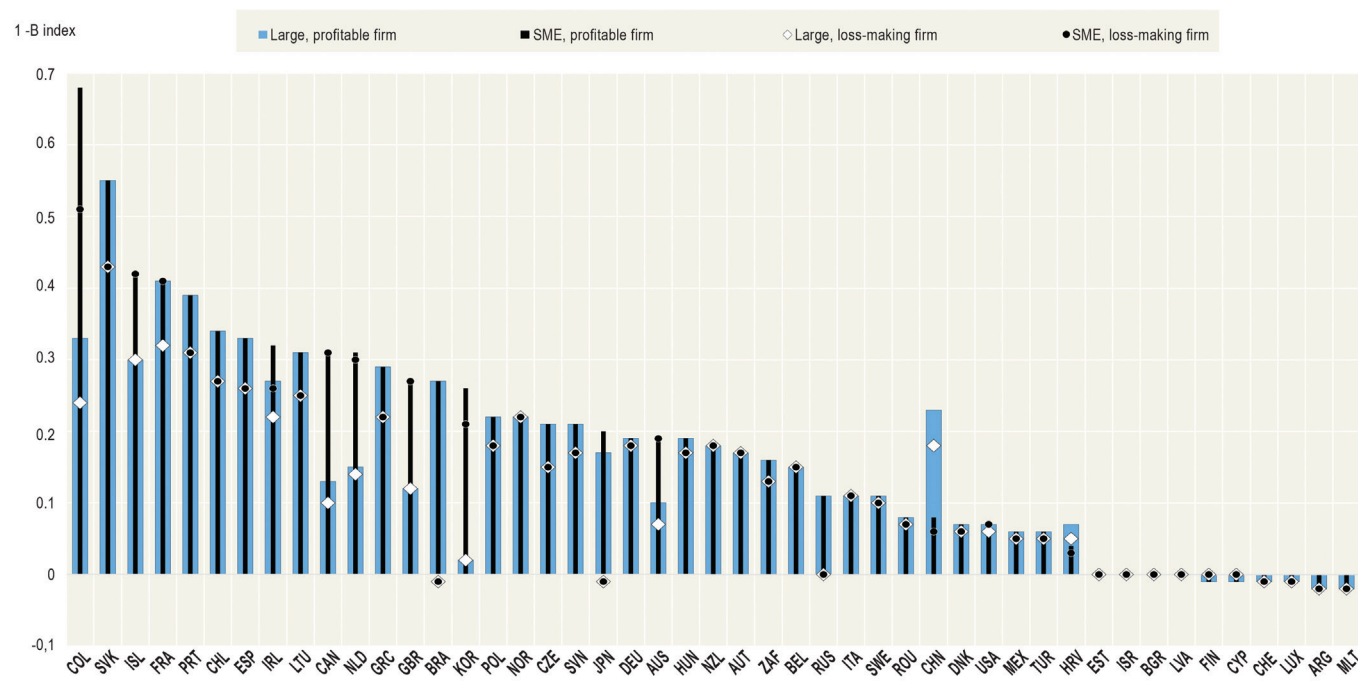


Figure 22: B-Index estimate of tax subsidy rates on R&D expenditure

Figure 22 presents the B-Index estimates of countries tracked by the Organisation for Economic Co-operation and Development (OECD). This is one of several ways to measure the generosity of R&D tax incentives.¹⁴ The B-Index enables the analysis of the relative attractiveness of R&D tax incentives in different countries by estimating the thresholds at which a company would be able to undertake R&D and still be profitable. A positive B-Index is considered attractive for companies performing R&D, and a negative one is considered unattractive.

Using the data provided by the National Treasury and the DSI, the OECD (2021) estimated that South Africa's B-Index was 0,16 for profitable firms and 0,13 for loss-making companies, below the OECD median of 0,20 (0,18 for loss-making companies) for SMEs and 0,17 (0,15 for loss-making companies) for large companies. It is encouraging to note that South Africa has maintained its B-index over time at a positive level of above 0,1. In the case of loss-making companies, the South African tax incentive subsidy rate is slightly higher in net present value terms due to the ability of unused claims to be carried forward indefinitely.

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds. In response to the COVID-19 pandemic, some countries increased the

¹⁴ The OECD uses the B-Index as an indicator of the generosity of R&D tax environments. The indicator can also be used to assess the impact of tax policy changes over time. The OECD cautions that international comparability must consider different country contexts.

generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding. For example, in 2020, Denmark, Iceland, Italy and Spain increased their respective R&D tax allowance rate; New Zealand adapted its existing ceiling; and Denmark introduced a ceiling on amount of eligible R&D expenditure. The following countries also made changes to the administration of R&D Tax Incentive schemes: Canada and Poland (accelerated or earlier processing of R&D tax relief claims), Denmark, France and Ireland (advanced and/or expedited cash payments), Australia, Canada – British Columbia and Quebec, Mexico and Portugal (extension of time limit for filing applications), and Mexico (more favourable evaluation of claims). South Africa has not made changes to its R&D tax relief provisions.

The data reported by the DSI is at an application level, which can be broken down by company size and industrial sectors for the estimated expenditure reported. However, SARS data on actual expenditure claimed and allowed is not published. If published or shared, the detailed breakdown would be beneficial to the DSI as it would enable comparison of the SARS data to the R&D Tax Incentive data disclosed on application forms and progress reports.

In comparison to peer emerging economies, South Africa's growth has been slow over the recent years, which raises important questions about the economy and its competitiveness. The weakening growth is hampering the country's ability to raise tax revenues. In September 2021, Statistics South Africa reported that the South African economy recorded its fourth consecutive quarter of growth, expanding by 1,2% in the second quarter of 2021 (April-June). This followed a revised 1% rise in real gross domestic product (GDP) in the first quarter (January-March). Despite the gains made over the previous four quarters, the economy is 1,4% smaller than it was before the COVID-19 pandemic. The report further stated that the economic impact of the recent wave of severe economic disruption, protest action and violence in KwaZulu-Natal and Gauteng, which took place in July 2021, will possibly reflect in the third quarter GDP results that are due for release in December 2021. Furthermore, continuous budget cuts appear inevitable over the medium term, making it a challenge to rebuild the economy.

Gross expenditure on research and development (GERD)¹⁵ as a percentage of gross domestic product (GDP) has been largely stagnant over the years, with GERD/GDP, the measure for R&D intensity in the economy, remaining around 0,8% over the years. The 2019 White Paper on Science, Technology and Innovation (2019 STI White Paper) aims to increase GERD/GDP to 1,5% by the year 2030 and an aspirational GERD/GDP of 2% a decade later¹⁶. The government's five-year plan, known as the 2019-2024 Medium-Term Strategic Framework (MTSF) recommit to increasing the intensity of R&D investment in the economy by revising the GERD/GDP target to 1,1% by 2024, from the current 0,75% as reported in the 2018/19 R&D Survey. These are ambitious targets that require substantial additional investment from both the public and private sectors.

Countries with high R&D intensity are generally found to have advanced technological innovation capabilities. GERD is performed within five institutional sectors: government, science councils, higher education, the business sector and not-for-profit organisations. GERD has three main broadly defined sources of funding: the public sector, private sector and foreign sector, with three main types of research activity: basic, applied and experimental.

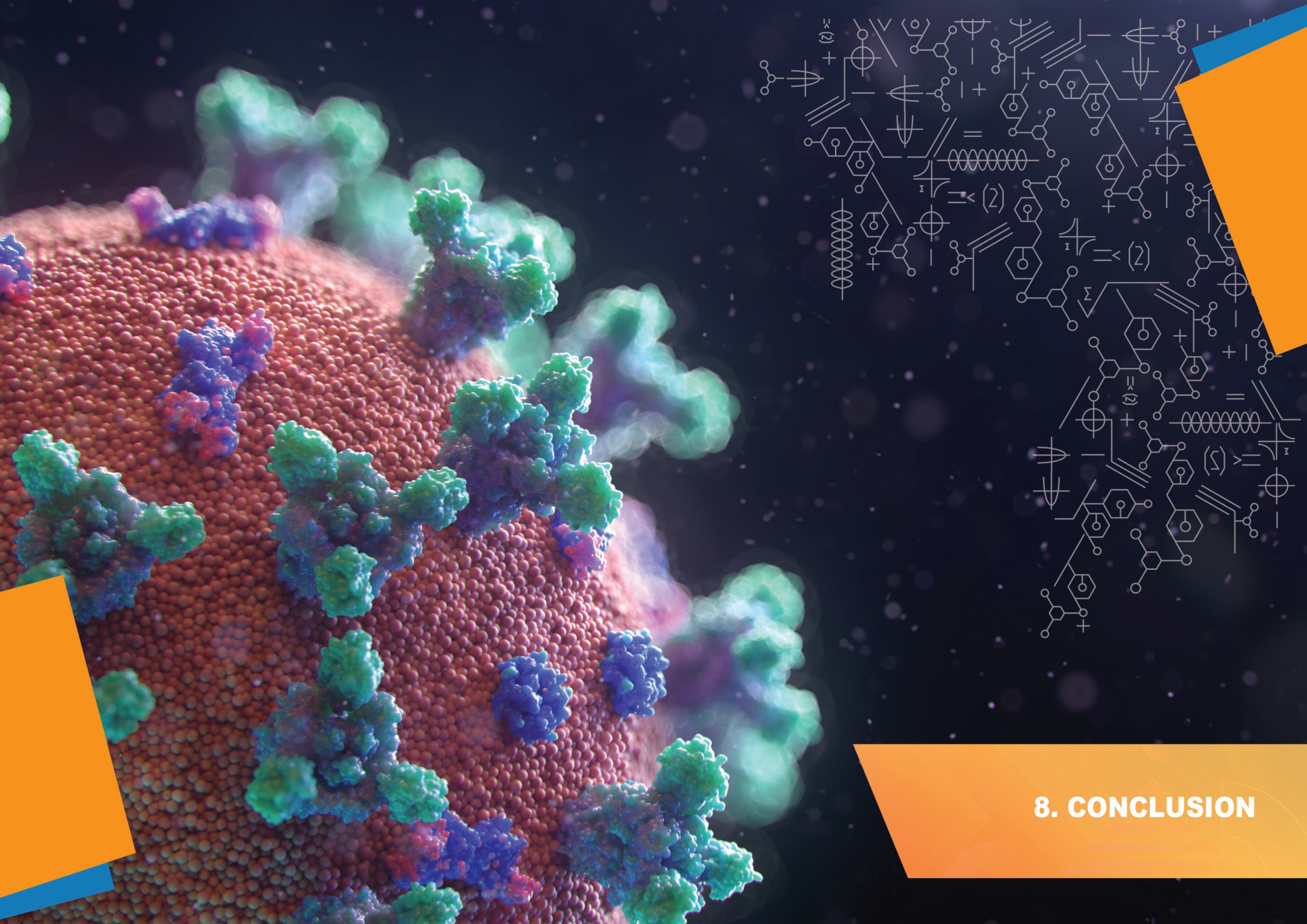
The composition of R&D funding sources in South Africa has changed over the years. Two key trends are discernible. While the government remains the largest R&D funding source, growth in government-funded R&D has been slowing down, reflecting the tight fiscal conditions under which South Africa has operated for several years. Furthermore, business-sector funding as a percentage of total GERD has decreased, compared to the early 2000s, when the business sector was the

15 GERD is defined as an aggregated measure of in-house R&D expenditure performed domestically in five institutional sectors, namely government, science councils, higher education institutions, the business sector, and the not-for-profit sector.

16 2019 White Paper on Science, Technology and Innovation.

largest funder of R&D, at around 55%. This is partly attributed to low investor confidence around 2015 and 2016 and the disruptions resulting from the 2008-2009 global economic crisis, from which some sectors have hardly recovered (OECD, 2021).

The 2018/19 R&D survey further reported that the main sources of funding for R&D in South Africa were government (47,5%) and business (39,5%). The government sector, which includes science councils and universities' own funds, funded 3,4% less R&D in 2018/19 than in 2017/18. The business sector's funding for R&D also declined, by 9,5% year-on-year. By contrast, R&D funding secured from foreign sources increased by 1,6% in 2018/19.



8. CONCLUSION

8. CONCLUSION

This report has presented the performance of the R&D Tax Incentive in terms of the number of applications received, the profile and number of participating companies, estimated R&D expenditure, provincial distribution of participating companies and the tax revenue foregone. The R&D Tax Incentive programme is one of a mix of policy instruments to encourage the private sector in all sectors of economy to undertake scientific and technological R&D in South Africa. Government is using the incentive to stimulate business-sector R&D in an effort to boost private-sector R&D investment, towards increased productivity and economic growth. The incentive is therefore considered a crucial element of national innovation performance and competitiveness.

The indicators contained in this report are encouraging as they show how the incentive is gradually having the desired effect. The incentive could be an effective instrument in stimulating private-sector investment in R&D and innovation if its administration, design and implementation are effective. Although the programme has not yet achieved the desired 90-day turnaround target for providing decisions on a number of applications, the turnaround time is improving. The turnaround time depends mostly on the quality of information provided in the applications as those with insufficient information were often referred back for clarification and had to go through the PAJA process. Ways to improve the turnaround targets are constantly being explored. Several actions have been put in place to improve the administrative efficiency of the incentive, which include hosting engagements to increase awareness of the programme, the use of external experts to assess applications, and rolling out the online system for submitting applications. These improvements are expected to translate into further improvements in the overall programme. At the time of writing this report, the DSI and the National Treasury were finalising a discussion document for private-sector inputs on the R&D Tax Incentive in view of policy review to inform a decision about this incentive beyond the sunset clause in October 2022.

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APPENDIX B: SUPPLEMENTARY INFORMATION TABLES

Total number of applications received per company turnover size (Oct. 2012 to Feb. 2021)

Sector	R10m and below	Between R10m and R20m	Between R20m and R40m	Between R40m and R50m	Between R50m and R100m	Above R100m	Turnover not indicated	Total
Agriculture, hunting, forestry and fishing	20	10	7	3	11	38	6	95
Mining and quarrying	13	5	5	1	7	66	8	105
Manufacturing	105	40	48	42	80	412	70	797
Wholesale and retail trade	9	2	2	3	2	12	0	30
Transport, storage and communication	20	8	9	5	17	39	8	106
Financial intermediation, real estate and business services	119	73	61	23	35	143	30	484
Electricity, gas and water supply	10	3	1	1	2	5	6	28
Construction	2	0	0	1	3	6	1	13
Community, social and personal services	1	1	1	0	1	3	1	8
Total	299	142	134	79	158	724	130	1 666

Total number of approved applications per company turnover size (Oct. 2012 to Feb. 2021)

Sector	R10m and below	Between R10m and R20m	Between R20m and R40m	Between R40m and R50m	Between R50 and R100m	Above R100m	Turnover not indicated	Total
Agriculture, hunting, forestry and fishing	16	5	6	2	11	37	2	79
Mining and quarrying	6	4	3	1	4	48	8	74
Manufacturing	67	17	33	26	59	327	52	581
Wholesale and retail trade	2	2	1	1	0	9	0	15
Transport, storage and communication	8	2	6	3	12	27	5	63
Financial intermediation, real estate and business services	40	20	17	8	18	68	14	185
Electricity, gas and water supply	7	2	1	0	2	5	3	20
Construction	1	0	0	0	1	5	1	8
Community, social and personal services	0	0	1	0	1	2	0	4
Total	147	52	68	41	108	528	85	1 029

Total number of participating companies (Oct. 2012 to Feb. 2021)

Sector	R10m and below	Between R10m and R20m	Between R20m and R40m	Between R40m and R50m	Between R50m and R100m	Above R100m	Turnover not indicated	Total
Agriculture, hunting, forestry and fishing	15	7	5	2	6	18	5	58
Mining and quarrying	11	3	3	1	4	30	5	57
Manufacturing	80	28	33	10	45	154	41	391
Wholesale and retail trade	7	2	2	2	1	7	0	21
Transport, storage and communication	15	5	5	4	5	19	5	58
Financial intermediation, real estate and business services	80	44	37	12	24	68	20	285
Electricity, gas and water supply	8	1	1	1	2	3	4	20
Construction	2	0	0	1	2	4	1	10
Community, social and personal services	1	1	1	0	1	2	1	7
Total	219	91	87	33	90	305	82	907

Total number of approved companies per turnover size (Oct. 2012 to Feb. 2021)

Sector	R10m and below	Between 10m and 20m	Between R20m and R40m	Between R40m and R50m	Between R50m and R100m	Above R100m	Turnover not indicated	Total
Agriculture, hunting, forestry and fishing	11	5	5	2	6	19	2	50
Mining and quarrying	6	2	2	1	3	26	4	44
Manufacturing	51	10	23	5	31	115	33	268
Wholesale and retail trade	2	2	1	1	0	5	0	11
Transport, storage and communication	5	1	4	2	2	10	4	28
Financial intermediation, real estate and business services	28	14	13	4	12	38	13	122
Electricity, gas and water supply	7	1	1	0	2	3	2	16
Construction	1	0	0	0	1	3	1	6
Community, social and personal services	0	0	1	0	1	2	0	4
Total	111	35	50	15	58	221	59	549

Estimated R&D expenditure on approved applications (Oct. 2012 to Feb. 2021)

Sector	R10m and below	Between 10m and 20m	Between R20m and R40m	Between R40m and R50m	Between R50m and R100m	Above R100m	Turnover not indicated
Agriculture, hunting, forestry and fishing	41 548 903	23 613 319	69 200 000	19 300 000	76 038 848	11 476 659 277	6 000 000
Mining and quarrying	48 470 029	14 770 260	55 790 164	1 000 000	53 430 000	9 409 174 835	330 590 054
Manufacturing	694 824 796	55 218 298	420 568 064	576 358 288	1 847 995 545	43 464 888 555	1 163 433 510
Wholesale and retail trade	10 470 000	16 500 000	3 650 000	26 000 000	0	423 972 009	0
Transport, storage and communication	28 052 392	87 000 000	32 867 772	36 084 000	159 055 760	1 039 297 822	266 462 368
Financial intermediation, real estate and business services	272 297 966	320 511 655	397 854 166	192 568 199	173 181 155	4 477 803 451	392 156 753
Electricity, gas and water supply	66 440 000	700 000	8 000 000	0	17 955 000	240 400 000	1 249 604 760
Construction	9 100 000	0	0	0	2 500 000	27 900 000	40 000 000
Community, social and personal services	0	0	2 486 773	0	7 000 000	85 264 860	0
Total	1 171 204 086	518 313 532	990 416 939	851 310 487	2 337 156 309	70 645 360 809	3 448 247 445

APPENDIX C: DESCRIPTION OF STANDARD INDUSTRIAL CLASSIFICATION CODES

Major division	Sub-division	Description
10 000	10 000	Agriculture, Hunting, Forestry and Fishing
	11 000	Agriculture, Hunting and related services
	12 000	Forestry, logging and related services
	13 000	Fishing, operation of fish hatcheries and fish farms
20 000	20 000	Mining and Quarrying
	21 000	Mining of coal (hard) and lignite (brown coal)
	22 000	Extraction of crude petroleum oils and natural gas; service activities incidental to oil and gas extraction, excluding surveying
	23 000	Mining of gold and uranium ore
	24 000	Mining of metal ores, except gold and uranium ore
	25 000	Other mining and quarrying activities
	29 000	Service activities incidental to the mining of minerals
30 000	30 000	Manufacturing
	30 000	Manufacture of food products, beverages and tobacco products
	31 000	Manufacture of textiles, clothing and leather goods
	32 000	Manufacture of wood and products of wood and cork except (furniture); manufacture of articles of straw and plaiting materials; manufacture of paper and paper products; manufacture of publishing, printing and reproduction of recorded material
	33 000	Manufacture of coke, refined petroleum products and nuclear fuel; manufacture of chemicals and chemical products; manufacture of rubber and plastic products
	34 000	Manufacture of non-metallic mineral products
	35 000	Manufacture of basic metals, fabricated metal products, machinery and equipment and of office, accounting and computing machinery
	36 000	Manufacture of electrical machinery and apparatus (not elsewhere classified)
	37 000	Manufacture of radio, television and communication equipment and apparatus for medical application, precision and optical instruments, watches and clocks
	38 000	Manufacture of transport equipment
	39 000	Manufacture of furniture; manufacturing (not elsewhere classified); recycling
40 000	40 000	Electricity, Gas and Water Supply
	41 000	Electricity, gas, steam and hot water supply
	42 000	Collection, purification and distribution of water
50 000	50 000	Construction

Major division	Sub-division	Description
	50 000	Construction
60 000	60 000	Wholesale and Retail Trade; Repair of Motor Vehicles, Motor Cycles and Personal and Household Goods; Hotels and Restaurants
	61 000	Wholesale and commission trade, except of motor vehicles and motor cycles
	62 000	Retail trade, except of motor vehicles and motor cycles; repair of personal household goods
	63 000	Sale, maintenance and repair of motor vehicles and motor cycles; retail trade in automotive fuel
	64 000	Hotels and restaurants
70 000	70 000	Transport, Storage and Communication
	71 000	Land transport; transport via pipelines
	72 000	Water transport
	73 000	Air transport
	74 000	Supporting and auxiliary transport activities; activities of travel agencies
	75 000	Post and telecommunications
80 000	80 000	Financial Intermediation, Insurance, Real Estate and Business Services
	81 000	Financial intermediation, except insurance and pension funding
	81 000	Insurance and pension funding, except compulsory social security
	83 000	Activities auxiliary to financial intermediation
	84 000	Real estate activities
	85 000	Renting of machinery and equipment, without operator, and of personal and household goods
	86 000	Computer and related activities
	87 000	Research and experimental development
	88 000	Other business activities
90 000	90 000	Community, Social and Personal Services
	91 000	Public administration, compulsory social security and defence activities
	92 000	Education
	93 000	Health and social work
	94 000	Sewage and refuse disposal, sanitation and similar activities
	95 000	Activities of membership organisations (not elsewhere classified)
	96 000	Recreational, cultural and sporting activities
	99 000	Other service activities

APPENDIX D: METHODOLOGY

The report presents information on the performance of the R&D Tax Incentive programme for the period March 2020 to February 2021. It is based on the information submitted to the DSI by companies that participated in the programme.

The data used to compile this report is based on retrospective forms (prior to October 2012), pre-approval applications (from 1 October 2012) and the 2021 national budget review by National Treasury. Data on tax revenue foregone due to the R&D Tax Incentive programme is estimated by the National Treasury on the basis of the deductions made against the claims for the R&D Tax Incentive submitted to SARS. These figures are updated annually and published in the National Treasury's budget review.

There was no data sourced from SARS. Data was collected in accordance with the requirements of section 11D(11) of the Income Tax Act through an application form and progress report form (for approved activities) prescribed by the Department. The taxpayer completes the application form and progress report form manually or electronically and submits it to the Department. Data was captured in the R&D Tax Incentive programme database at the Department.

For the applications, companies have to report on their annual R&D budget and the estimated R&D planned expenditure, which, in many companies, span a period of two to three years. The R&D Tax Incentive database is arranged in a manner that enables reporting according to Statistics South Africa's Standard Industrial Classification (SIC) codes.

Annual data stated in the report represent the totals that were available at the time of compiling the report.

Application and progress report forms collect information on the following:

- Particulars of the taxpayer, including the principal industrial activity in which they are involved.
- Summary of projects and R&D activities, i.e. the nature of the R&D, its classification in terms of fields of science, SIC, and supporting information such as R&D documentation and research outputs for the projects.
- R&D expenditure and which components of R&D activities are contracted out.
- Information on sources of funds for R&D activities, the nature of government grants received, and the personnel involved in the R&D projects.

The Income Tax Act requires that the information be presented in an aggregated and anonymous form. The Department made certain that the tables and figures in the report do not unintentionally reveal the details of individual companies and their R&D activities.



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