South Africa

South Africa offers a 150% super deduction for eligible R&D expenditure

Background

South Africa's general corporate tax rate is 28% (small business corporations pay taxes between 0% and 28%).

Nature of incentives

Super deduction: South Africa provides a super deduction equal to 150% of the qualifying operational expenditure incurred directly for purposes of R&D after 1 October 2012.

Pre-approval from the Department of Science and Technology (DST) is required to qualify for the 150% super deduction.

Accelerated depreciation: Capital expenditure incurred to develop or construct assets used in the conduct of qualifying R&D activities qualify for favorable accelerated depreciation.

For new and unused plant or machinery purchased for and placed into service prior to 1 October 2012:

- 50% in the year that the asset is brought into use for the first time by the taxpayer; and
- 30% in the second year of assessment; and
- 20% in the final year of assessment.

For used plant or machinery placed in service after 1 October 2012:

- 20% in the year that the second hand asset is brought into use; and
- 20% in each of the four succeeding years of assessment.

Apportionment is not available for partial years.

Eligible industries and qualifying costs

Industries that typically are eligible for the super deduction include, but are not limited to:

- Pharmaceuticals—costs incurred in developing generic medicines and conducting related clinical trials are specifically included from 1 October 2012.
- Software services
- Software development
- Design Centers
- Automotive
- Energy and utilities
- Mining and natural resources

For R&D expenses to qualify, they must relate to activities that are undertaken within South Africa and involve systematic investigative or systematic experimental activities of which the result is uncertain for the purpose of:

- Discovering non-obvious scientific or technological knowledge; or
- Creating any invention, functional design, computer program or knowledge essential to the use of such invention, functional design or computer program; or
- Significantly improving any invention, functional design, computer program or knowledge, if that development or improvement relates to any:
  - New or improved function;
  - Improvement of performance;
  - Improvement of reliability; or
  - Improvement of quality.

Further, these expenses must be intended to be used by the taxpayer in the production and conduct of its trade and business. Expenses incurred while conducting the following activities do not qualify as R&D expenditure:

- Market research, market testing or sales promotion;
- Financing, administration, compliance and similar expenditure;
- Routine testing, analysis, collection of information or quality control in the normal course of business;
- The development of internal business processes. There is a limited exception, however, if the internal business processes are mainly intended for the sale of, or for granting the use of, or right of use, or permission to use, to persons who are not connected parties in relation to the person carrying on that R&D; social science research, including the arts and humanities;
- Oil and gas or mineral exploration or prospecting except R&D carried on to develop technology used for that exploration or prospecting;
- The creation or development of financial instruments or financial products;
- The creation or enhancement of trademarks or goodwill;
- Obtaining the grant, restoration and extension of a patent;
- The registration and renewal of a trademark;

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- The registration and extension of registration of a design; and
- The acquisition of an invention, patent, design, copyright, other similar property or knowledge essential to the use of such patent, design, copyright or other property or the right to have such knowledge imparted.

All non-capital costs, including supplies, in-house and contract labor, overhead, etc. are eligible for the super deduction if they are directly related to the R&D activities.

Other concerns

If the business is in a loss position, the benefit may be carried forward until utilized.

When a company receives funding from another company (or any other entity), the company that can determine and alter the research methodology may claim the deduction. Special rules apply to controlled groups of companies.

If a government grant is received by the taxpayer to fund the research activities, an amount equal to the funded portion must not be taken into account for the purpose of the deduction.

Preapproval is required from the DST. Only expenditure incurred from the date of submission of an application to the DST may qualify.

South Africa

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions and accelerated depreciation	1. 150% volume-based super deduction. 2. Accelerated depreciation for R&D related capital expenditure.	Yes, pre-approval required from the Department of Science and Technology.	If the business is in a loss position, the benefit may be carried forward until utilized.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	IP must be created in South Africa, but it does not need to be held within South Africa.	No