South Africa

Contacts

Tumelo Marivate
Director
tmarivate@deloitte.co.za
+27112096496

Nike Halamandaris
Associate Director
nhalamandaris@deloitte.co.za
+27112096741

Natalie Da Silva
Senior Manager
nadasilva@deloitte.co.za
+27118065943

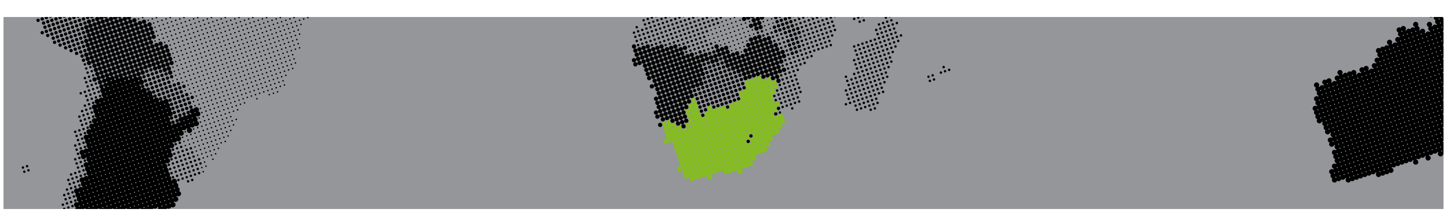
What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The Global Business Services (GBS) incentive for engaging in offshoring services was introduced in South Africa on 1 January 2019. The incentive is designed to attract investment and create youth employment, and is in the form of a grant over a five-year period based on the number of jobs created and maintained.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Section 12R: Special Economic Zone (SEZ)	Reduced corporate tax rate and other incentives offered to companies carrying on a business in an SEZ designated by the Minister of Trade and Industry and approved by the Minister of Finance	Varies	A qualifying company for purposes of the SEZ rules is a company that is: • Incorporated or effectively managed in South Africa; • Carrying on a business in an SEZ designated by the Minister of Trade and Industry and approved by the Minister of Finance; • Carrying on business from a fixed place of business within an SEZ; and • Deriving at least 90% of its income from carrying on business within an SEZ	A company located in an SEZ is not a qualifying company if it incurs more than 20% of its deductible expenses or derives more than 20% of its income from transactions with the following: • Connected persons that are residents; or • Connected persons that are nonresidents where those transactions are attributable to a permanent establishment in South Africa
Section 12L tax incentive	The incentive aims to promote the efficient use of energy as a means to safeguard the security of the energy supply and to help combat greenhouse gas emissions. It is the first "megawatt-based" tax allowance incentive globally and is regarded as an energy incentive	From 1 March 2015, the deduction is 95 cents per kilowatt hour (c/kWh) of energy savings	The deduction is dependent on an "energy efficiency savings certificate" being issued by the South Africa National Energy Development Institute (SANEDI)	The following projects are not covered by section 12L: • Renewable sources and co-generation • Captive power plants where energy generated is less than 35% of the requirements of the facility • Projects receiving concurrent benefits



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Featured government incentives (continued)

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Section 11D R&D super deduction	This incentive aims to promote the development of new or improved function, performance, reliability, or quality for a computer program, invention, or functional design	Super tax deduction of 150% of expenditure for all qualifying R&D activities	R&D expenses must relate directly to activities undertaken in South Africa and involve systematic investigative or experimental activities, the result of which is uncertain for the purpose of: • Discovering non-obvious scientific or technological knowledge; • Creating an invention, functional design, computer program, or knowledge essential to the use of such invention, functional design, or computer program; or • Significantly improving an invention, functional design, computer program, or knowledge if the development or improvement relates to: – New or improved function; – Improvement of performance; – Improvement of reliability; or – Improvement of quality	The following are not qualifying R&D activities: • Market research, market testing, market demonstration trials, and sales promotion; • Financing, administration, compliance, and similar expenditure; • Routine testing, analysis, collection of information, and quality control in the normal course of business; • Development of internal or management business processes; • Oil and gas or mineral exploration or prospecting; • Creation or development of financial instruments or financial products; • Creation or enhancement of trademarks or goodwill; • Obtaining the grant, restoration, and extension of a patent; • Registration and renewal of a trademark; • Registration and extension of registration of a design; and • 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

Industries most often affected by government incentives in country

	Technology, Media & Telecom		**Financial Services**
●	Telecom, Media & Entertainment	●	Banking & Capital Markets
●	Technology	●	Insurance
	Consumer		Investment Management
●	Consumer Products	●	Real Estate
	Retail, Wholesale & Distribution		**Life Sciences & Health Care**
●	Automotive	●	Health Care
	Transportation, Hospitality & Services	●	Life Sciences
	Energy, Resources & Industrial		**Government & Public Services**
●	Power & Utilities		Health & Social Care
●	Mining & Metals	●	Defense, Security & Justice
●	Oil, Gas, & Chemicals		Civil Government
●	Industrial Products & Construction		International Donor Organizations
		●	Transport

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & Development (R&D) Super deduction	Temporary incentive	No	Permanent incentive / Not applicable	National: Advance Local: Not applicable	Super deduction for taxpayers carrying out qualifying R&D activities	150% of qualifying expenditure	150% of qualifying expenditure
R&D grant (national): Support Program for Industrial Innovation	Temporary incentive	No	Permanent incentive / Not applicable	National: Advance Local: Not applicable	Grants for the development of innovative products and/or processes and projects from basic research until pre-production of prototypes.	ZAR 5 million	ZAR 2 million
Investment							
Capex: Critical Infrastructure Program	Permanent incentive	No	Permanent incentive / Not applicable	National: Advance Local: Not applicable	Cost-sharing grants for investors with qualifying projects	ZAR 50 million	ZAR 50 million
Capex: Capital Projects Feasibility Program	Permanent incentive	No	Permanent incentive / Not applicable	National: Advance Local: Not applicable	Cost-sharing grants for applicants approved by the Department of Trade, Industry and Competition	ZAR 8 million	ZAR 8 million
Capex: Automotive Investment Scheme	Temporary incentive	No	Permanent incentive / Not applicable	National: Advance Local: Not applicable	Cost-sharing cash grants for investors with qualifying investments	Ranges between 20% to 35% of the value of qualifying investments	Ranges between 20% to 35% of the value of qualifying investments

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

Notes:

1. Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Type	National incentive?	State, provincial, regional or local incentives?[1]	Filing deadlines imposed?	Is the claim made in advance or arrears?[2]	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment (continued)							
Black Industrialist Scheme	Permanent incentive	No	Permanent incentive Not applicable	National: Advance Local: Not applicable	Cost-sharing cash grants for investment projects of a minimum of ZAR 30 million carried out by black industrialists	ZAR 50 million	ZAR 50 million
Environmental sustainability							
Section 12L tax incentive	Temporary incentive	No	Permanent incentive Not applicable	National: Arrears Local: Not applicable	Deduction for taxpayers that obtain an energy savings certificate from SANEDI	Tax deduction calculated as 95c/kWh of energy savings	Tax deduction calculated as 95c/kWh of energy savings
Carbon tax allowances	Temporary incentive	No	Permanent incentive Not applicable	National: Advance Local: Not applicable	Tax allowances against carbon tax for businesses subject to the tax	Varies	Varies
Other							
Film and television production incentives	Temporary incentive	No	Permanent incentive Not applicable	National: Advance Local: Not applicable	Incentives available under three different schemes	Varies	Varies
Production Incentive Programme	Temporary incentive	No	Permanent incentive Not applicable	National: Advance Local: Not applicable	Upgrade cash grant facility for clothing, textiles, footwear, and leather manufacturing sectors, calculated at 7.5% of a company's "manufacturing value addition" in a specified financial year	Varies	Varies
GBS incentive	Temporary incentive	No	Permanent incentive Not applicable	National: Arrears Local: Not applicable	Grants for taxpayers that create employment in South Africa through servicing offshore activities, with the incentive calculated based on the number and complexity of offshore jobs created	ZAR 69 million	ZAR 34.5 million
Special Economic Zone (SEZ)	Temporary incentive	Temporary incentive	Not applicable Permanent incentive	National: Not applicable Local: Varies	Reduced corporate tax rate and other incentives offered to companies carrying on a business in an SEZ designated by the Minister of Trade and Industry and approved by the Minister of Finance	Varies	Varies

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

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Country background

South Africa's standard corporate tax rate is 28%; small business corporations are eligible for a rate ranging from 0% to 28%.

Innovation Incentives

Research & Development (R&D) Super deduction

A R&D tax incentive is available, under which a 150% deduction may be taken for scientific and technological expenditure, provided the expenditure is incurred for the purpose of:

- Discovering non-obvious scientific or technological knowledge;
- Conducting clinical trials;
- Creating a patentable invention;
- Creating a design that can be registered;
- Developing software; or
- Making significant improvement to inventions, designs, software, or knowledge.

The R&D incentive encourages firms of all sizes and industries to increase R&D in the business sector to promote technological advancement and competitiveness, secure innovation spillovers, and expand and retain the R&D workforce.

Nature of incentives

The R&D super deduction is 150% of qualifying operating expenditure incurred directly for the purposes of R&D relating to scientific or technological activities. Advance approval by the Department of Science and Technology (DST) is required to qualify for the super deduction, and only costs incurred from the date an application is submitted for pre-approval will qualify. Non-capital costs, including supplies, in-house and contract labor, overhead, etc., qualify for the deduction if they are directly related to the approved R&D activities. Capital costs that relate to pilot plants or prototypes for the purpose of R&D also will qualify.

Eligible industries and qualifying costs

Industries that typically are eligible for the R&D super deduction include:

- Pharmaceutical;
- Software services and development;
- Design centers;
- Automotive;
- Energy and utilities;
- Mining and natural resources; and
- Agricultural (costs incurred in developing agricultural chemicals and performing trials may qualify).

Typical R&D activities include the following:

- New or existing product development;
- Product improvement;
- Investigative trials;
- Development of designs and patents;
- Manufacturing and process improvement; and
- Production development.

To qualify as R&D expenditure, expenses must be incurred with intent of being used by the taxpayer in the production of income and related to the taxpayer's trade and business. Expenses incurred while conducting the following activities do not qualify as R&D expenditure:

- Market research, market testing, market demonstration trials, and sales promotion;
- Financing, administration, compliance, and similar expenditure;
- Routine testing, analysis, collection of information, and quality control in the normal course of business;

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- Development of internal or management business processes, such as internal-use tools, accounting or human resources software, or management reporting software. There is a limited exception if the internal business processes are intended mainly for sale, or for granting the use of, or the right or permission to use, to persons that are not connected parties in relation to the person carrying on the R&D for 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;
- Creation or development of financial instruments or financial products;
- Creation or enhancement of trademarks or goodwill;
- Obtaining the grant, restoration, or extension of a patent;
- Registration and renewal of a trademark;
- Registration and extension of registration of a design; and
- 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.

Intellectual property (IP) and jurisdictional restrictions

The R&D activities must be carried on in South Africa. There is no specific restriction on the IP.

Other considerations

- If the business is in a tax loss position, the losses may be carried forward until fully utilized.
- When a company receives funding from another company (or another entity), the company that can determine and alter the research methodology may claim the deduction if the company is in a tax loss position. Special rules apply to controlled groups of companies.
- If a taxpayer receives a government grant to fund research activities, an amount equal to the funded portion may not be taken into account for purposes of the deduction.
- Pre-approval is required from the DST, and expenditure incurred from the date an application is submitted to the DST will qualify.
- The recommendations of a joint government-industry tax team commissioned by Minister of Science and Technology in 2015 to address issues relating to the administration of the incentive, such as challenges with the preapproval process, the administrative burden of information requirements, and lack of an appeal process for non-approved applications are being implemented.

Support Program for Industrial Innovation (SPII)

The SPII promotes technology development within South Africa by granting financial assistance for the development of innovative products and/or processes. The objectives are to develop innovative products/processes and projects from basic research until pre-production of prototypes.

There are two schemes under the SPII:

- Product Process Development Scheme (SPII PPD Scheme), which offers a maximum grant of ZAR 2 million to small, very small, and micro-enterprises and individuals (to qualify for this scheme, the beneficiary must have turnover of less than ZAR 13 million, assets of less than ZAR 5 million, and fewer than 50 employees); and
- SPII Matching Scheme, which offers a maximum grant of ZAR 5 million to all enterprises and individuals, including large enterprises.

Costs incurred before submitting a completed application do not qualify as costs for purposes of the SPII.

The value of the benefits for both schemes depends on the level of Broad-Based Black Economic Empowerment (B-BBEE) ownership, as represented in the following table:

Applicant type	Scheme limit	0%–25% B-BBEE ownership	25.1%–50% B-BBEE ownership or >50% ownership by women/ disability	> 50% B-BBEE ownership
SPII PPD scheme				
Small, very small, and micro-enterprises and individuals	Maximum grant of ZAR 2 million	50% of qualifying costs incurred	75% of qualifying costs incurred	85% of qualifying costs incurred
SPII matching scheme				
All enterprises and individuals (other than large enterprises)	Maximum grant of ZAR 5 million	50% of qualifying costs incurred	65% of qualifying costs incurred	75% of qualifying costs incurred
Large enterprises	Maximum grant of ZAR 5 million	50% of qualifying costs incurred	50% of qualifying costs incurred	50% of qualifying costs incurred

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Investment Incentives

Critical Infrastructure Program (CIP)

The CIP aims to leverage investment by supporting infrastructure that is deemed to be critical, thus lowering the cost of doing business. The CIP is a cost-sharing grant ranging between 10% and 30% of the total qualifying infrastructural development costs, capped at ZAR 50 million per project. The grant is payable based on agreed verifiable infrastructure milestones.

To qualify for the CIP, an application must be submitted at least 60 calendar days before the infrastructure construction begins. Qualifying projects are:

- Construction or provision of infrastructure that enables the investor to undertake a defined fixed investment or the expansion or refurbishment of an existing fixed investment;
- Construction or provision of infrastructure that enables the establishment of new infrastructure or an upgrade of infrastructure and the fencing of state-owned industrial parks;
- Infrastructure for renewable energy projects that are not under the Renewable Energy Independent Power Producers Procurement Program;
- Construction or provision of infrastructure that alleviates water and/or electricity dependency on the national grids; and
- Infrastructure development costs to distressed municipalities, state-owned aerospace and defense national strategic testing facilities, and state-owned industrial parks.

Capital Projects Feasibility Program (CPFP)

The CPFP is designed to facilitate feasibility studies that are likely to lead to high-impact projects that will stimulate value-adding economic activity in South Africa, as this will have greater impact on the country's industrial policy objectives.

The program provides for a reimbursable cost-sharing grant payable to applicants approved by the Department of Trade, Industry and Competition (DTIC) according to agreed milestones as pre-determined at the DTIC approval stage, as follows:

- 50% of the total feasibility study costs for capital projects outside Africa and 55% of the total feasibility study costs for capital projects in Africa, excluding South Africa; and
- 50% of the total feasibility study costs for manufacturing projects with total assets exceeding ZAR 30 million and 70% of the total feasibility study costs for manufacturing projects with total assets below ZAR 30 million in South Africa.

The approval of the feasibility study is capped at a grant of ZAR 8 million.

Automotive Investment Scheme (AIS)

The objective of the AIS is to grow and develop South Africa's automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment, and/or strengthen the automotive value chain.

The AIS provides for a nontaxable cash grant of up to 20% of the value of qualifying investment in productive assets, and 25% of the value of qualifying investments in productive assets by component manufacturers and tooling companies.

An additional 5% or 10% cash grant may be available to projects that maintain their base-year employment figures throughout the incentive period and that fulfill certain economic benefit requirements.

Black Industrialist Scheme (BIS)

The BIS aims to accelerate and increase the participation of black industrialists in the national economy, particularly in selected manufacturing sectors and value chains.

The incentive offers a cash grant of 30% to 50% of the project's qualifying investment costs, up to a maximum of ZAR 50 million. The percentage of the grant contribution depends on the level of black ownership and the points achieved based on the economic benefit criteria.

To qualify, the applicant must:

- Be a legal entity that qualifies as a black industrialist;
- Be a registered legal entity in South Africa;
- Be a taxpayer in good standing and provide a valid tax clearance certificate;
- Be involved in starting a new operation or expanding or upgrading an existing operation;
- Have more than 50% shareholding and management control of the operation;

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- Be directly involved in the day-to-day running of the operation and have the requisite expertise;
- Have a valid B-BBEE certificate;
- Have a project with a minimum investment of ZAR 30 million; and
- Undertake a project that should result in securing and increasing direct employment.

Environmental Sustainability Incentives

Section 12L tax incentive

An incentive under section 12L of South Africa's income tax act is designed to promote the efficient use of energy as a means of safeguarding the security of the energy supply and combatting greenhouse gas emissions. This is the first megawatt-based tax incentive (a megawatt is a theoretical unit of energy representing an amount of energy saved). The energy savings tax incentive is a deduction calculated at an equivalent of 95c/kWh of energy savings and is dependent on an energy savings certificate issued by SANEDI.

Carbon tax allowances

As a cosignatory of the Paris agreement (COP21), South Africa has committed to reduce greenhouse gas emissions by 34% by 2020 and 42% by 2025. South Africa has chosen a carbon tax (as opposed to emissions trading) as a means to achieve this goal.

The carbon tax applies as from 1 June 2019, with the first tax period being 1 June 2019 to 31 December 2019. Thereafter, carbon tax periods will follow the calendar year. Annual payment of the tax will be due in July of the following year.

A broad range of sectors are subject to the carbon tax beyond heavy industry, including food, beverages, tobacco, clothing, machine manufacturers, domestic aviation, and navigation. The criteria for inclusion within the scope of the tax are aligned with the Department of Environmental Affairs' mandatory reporting of greenhouse gas emissions regulations in terms of coverage and thresholds. The threshold is set at 10 megawatts (MW) of thermal input for fossil fuel combustion across an entire reporting entity. The carbon tax is administered as if it were an environmental levy, as contemplated in section 54A of the Customs and Excise Act, 1964, and is collected and paid in accordance with that act.

Businesses subject to the carbon tax are entitled to certain allowances, including the following:

- A basic tax-free allowance of 60% for fossil fuel combustion emissions, 60% to 70% for process emissions, and 10% for fugitive emissions, which will reduce the effective tax rate for most carbon taxpayers from ZAR 120 per ton of carbon dioxide equivalent (CO2e) to ZAR 48 per ton of CO2e;
- A trade exposure allowance that assists certain sectors that are particularly exposed to trade, and that could reach a maximum of a 10% tax exposure allowance;
- A performance (also called a "Z-factor") allowance of 5% where the entity performs better than an approved benchmark figure for the relevant sector;
- A 5% allowance for entities that participate voluntarily in the carbon budget development process being undertaken by the Department of Environmental Affairs; and
- A carbon offset allowance of between 5% and 10% that allows companies to purchase and retire carbon offsets to reduce their carbon tax liability. These offsets must originate in South Africa and be registered using the cleaner development mechanism, the verified carbon standard, or the gold standard methodologies.

Other Incentives

Film and television production incentives

Three incentives are offered for film and television productions: (i) foreign-film and television production and post-production incentive; (ii) South African film and television production and co-production incentive; and (iii) South African emerging black filmmakers incentive. The incentives aim to promote South Africa's film production and post-production industry.

Production Incentive Programme (PIP)

The PIP is part of the Clothing and Textiles Competitiveness Programme (CTCP) and makes targeted grants to grow and develop the clothing, textiles, footwear, leather, and leather goods manufacturing sectors.

The incentive aims to assist in the upgrading of technology, processes, and products to create globally competitive companies that are able to retain and grow employment levels.

The benefit of the PIP is an upgrade cash grant facility calculated at 7.5% of a company's "manufacturing value addition" in a specified financial year.

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Global Business Services (GBS) incentive

The GBS incentive for engaging in offshoring services was introduced on 1 January 2019 to attract investment and create youth employment, and is in the form of a grant over a five-year period based on the number of jobs created and maintained.

There are two components to the GBS incentive: a base incentive and a bonus incentive. The base incentive offers a three-tier differential incentive for non-complex, complex, and highly complex jobs, based on the cost per job. The maximum benefit under the base incentive is ZAR 290,000 per job over five years for highly skilled jobs, limited to 100 jobs. The bonus incentive is between 20% and 30% of the base incentive and is available for greater job creation. The approved project must create at least 30 new jobs within three years from the start of operation and employ at least 60% youth (individuals 18-34 years old).

Special Economic Zone (SEZ)

The Special Economic Zones Act, No 16 of 2014 (SEZ Act) provides for the designation of the following types of SEZs:

- Industrial Development Zone;
- Free Port;
- Free Trade Zone; and
- Sector Development Zone.

A qualifying company for purposes of the SEZ rules is a company that is:

- Incorporated or effectively managed in South Africa;
- Carrying on a business in an SEZ designated by the Minister of Trade and Industry and approved by the Minister of Finance;
- Carrying on business from a fixed place of business within an SEZ;
- Deriving at least 90% of its income from carrying on business within an SEZ; and
- Not incurring more than 20% of its deductible expenses or receiving more than 20% of its income from transactions with connected persons that are residents or with connected persons that are nonresidents where those transactions are attributable to a permanent establishment in South Africa.

SEZs offer a number of tax incentives:

- Preferential 15% corporate tax rate;
- Accelerated building allowance of 10% per annum;
- Employment allowance per job created;
- Customs-secure area, offering a duty rebate and VAT exemption for importing production-related raw materials, including machinery and assets to be used in the manufacturing of products that will be exported. It also may include VAT suspension in certain circumstances for supplies sourced in South Africa, as well as an expedited customs administration process;
- Section 12I tax allowance for industrial policy projects, providing for projects that achieve qualifying or preferred status to receive an additional investment allowance of 75% or 100%, respectively, of the cost of their new manufacturing assets up to ZAR 900 million, depending on the status of the project. The entity also may deduct an additional training allowance of ZAR 36,000 per employee for training costs incurred; and
- A one-stop-shop offering assistance with services such as planning requirements, licensing, utilities, financing, and environmental compliance.

The provisions for SEZs cease to apply in respect of any year of assessment commencing later than:

- 1 January 2024; or
- 10 years after commencement of the carrying on of a trade in an SEZ.