



## Section 12I Tax Allowance Incentive (12I TAI)

The 12I Tax Incentive is designed to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The incentive offers support based on capital investment and training.

The minimum investment in Qualifying Assets required is R50 million for a greenfield project and an additional investment of R30 million for a brownfield project.

### Objectives

The objectives of the incentive programme are to support:

- Investment in manufacturing assets, to improve the productivity of the South African manufacturing sector;
- and
- Training of personnel; to improve labour productivity and the skills profile of the labour force.

### Offerings

#### (a) Investment Allowance

- » 55% of Qualifying Assets or a maximum of R900 million investment allowance in the case of any Greenfield project with a preferred status (100% if located in a Special Economic Zone or “SEZ”)
- » 35% of Qualifying Assets or a maximum R550 million investment allowance in the case of any other Greenfield project (75% if located in a Special Economic Zone or “SEZ”);
- » 55% of Qualifying Assets or a maximum of R550 million investment allowance in the case of any Brownfield project with a preferred status;
- » 35% of Qualifying Assets or a maximum of R350 million investment allowance in the case of any other Brownfield project.

- **Qualifying Assets** are defined as new and unused buildings and new and unused plant & machinery contracted for and acquired **after** date of approval and brought into use within 4 years **from** date of approval (**implementation period**).
- The **Investment Allowance** may be deducted from taxable income in the financial year when assets are brought into use (start of production).
- **Compliance period** is the period during which the company must comply with all the approved criteria and is defined as the period commencing at the beginning of the year of assessment (financial year) following the year of assessment in which assets are first brought

into use and ending at the end of the year of assessment (financial year) three years after the year of assessment in which assets are first brought into use. The Compliance Period is therefore three full financial years after the year in which assets are brought into use.

■ **Progress reports** in the prescribed format must, in terms of section 12I(11), be submitted within 12 months after the financial year covered by the report and must be submitted annually thereafter until the end of the Compliance Period. The first Progress Report must cover the financial year during which approval is granted.

#### (b) Training Allowance

» A training allowance of the lesser of R36 000 per full time employee or total training expenses may be deducted from taxable income for every financial year after the date of approval of the application (but not earlier than the financial year prior to the year during which assets are brought into use) until the end of the compliance period.

» According to the points system, an industrial policy project will be awarded 'qualifying status' if it achieves at least 4 (four) of the total 8 points, and 'preferred status' if it achieves at least 7 (seven) of the total 8 points.

The project could score points for:

- Upgrade an industry within South Africa by utilising innovative processes (max. 1 point);
- Utilising new technology that results in improved Energy Efficiency and cleaner production technology (max 2 points);
- Provide general business linkages within South Africa (max 1 point);
- Acquire goods and services from SMMEs (max 1 point for Greenfield & 2 points for Brownfield);
- Provide skills development in South Africa (max 2 points); and
- In the case of a Greenfield project, is located within a Special Economic Zone (max 1 point)

#### Targeted Enterprises

- The investment must be:
  - » A Greenfield project (new project);
  - » A Brownfield project (expansion or upgrade); or
  - » Classified under 'Major Division 3: Manufacturing in the Standard Industrial Classification of All Economic Activities ("SIC") 5<sup>th</sup> Edition or SIC 7<sup>th</sup> Edition, Section C: Manufacturing.

Application documents are available on **the dti's** website under Financial Assistance.

The window for applications closes on 31 March 2020.



**the dti**

Department:  
Trade and Industry  
REPUBLIC OF SOUTH AFRICA

## Information: Industrial Policy Projects (12I Tax Allowance Incentive)

ADDITIONAL INVESTMENT AND TRAINING ALLOWANCES	GREENFIELD PROJECTS (NEW PROJECTS)	BROWNFIELD PROJECTS (EXPANSIONS AND UPGRADES)
<b>A. MANDATORY REQUIREMENTS FOR INDUSTRIAL POLICY PROJECTS</b>		
Manufacturing assets to be acquired and contracted for <b>on or after date of approval</b> . Sec.12I, par. 1 of the ITA <sup>1</sup>	<ul style="list-style-type: none"> <li>• <b>New</b> and unused buildings</li> <li>• <b>New</b> and unused Plant &amp; Machinery</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Additions</b> to <b>existing</b> buildings</li> <li>• <b>New</b> and unused <b>additions</b> to <b>existing</b> Plant &amp; Machinery</li> </ul>
Minimum qualifying assets (QA) required Sec.12I, par. 7(a)	<b>R50m</b> (R50m from 1 Jan 2015. Previously R200m)	<b>R30m</b> or the <b>lesser of R50m</b> or <b>25%</b> of expenditure on <b>existing assets</b>
Improved energy efficiency	Utilise modern, viable energy-efficient equipment & processes in the sector	At least 10% energy saving
Skills development spend	At least 2.5% of wage bill	At least 2.5% of wage bill
Limitations: Concurrent benefits	<ul style="list-style-type: none"> <li>• Industrial Participation Projects</li> <li>• Other Incentives - refer to Regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Industrial Participation Projects</li> <li>• Other Incentives - refer to Regulations</li> </ul>
<b>B. INVESTMENT ALLOWANCE AS % OF QUALIFYING MANUFACTURING ASSETS <sup>2</sup></b>		
<b>Preferred Status (PS)</b> <sup>3</sup> . Sec.12I, par. 2(a) (7 or 8 out of 8 points)	<b>55% (100% if located in an SEZ)</b> <u>Example:</u> 55% x R100m (QA) = R55m <u>Tax reduction:</u> R55m x 28% = R15.4m	<b>55% (100% if located in an SEZ)</b> <u>Example:</u> 55% x R100m (QA) = R55m <u>Tax reduction:</u> R55m x 28% = R15.4m
<b>Maximum allowance (PS)</b>	R900m (also applicable to SEZ's)	R550m (also applicable to SEZ's)
<b>Qualifying Status (QS)</b> <sup>4</sup> . Sec.12I, par. 2(b) (4, 5 or 6 out of 8 points)	<b>35% (75% if located in an SEZ)</b> <u>Example:</u> 35% x R100m (QA) = R35m <u>Tax saving:</u> R35m x 28% = R9.8m	<b>35% (75% if located in an SEZ)</b> <u>Example:</u> 35% x R100m (QA) = R35m <u>Tax saving:</u> R35m x 28% = R9.8m
<b>Maximum allowance (QS)</b>	R550m (also applicable to SEZ's)	R350m (also applicable to SEZ's)
<b>C. TRAINING ALLOWANCE <sup>2</sup></b>		
<b>Applicable to both Preferred Status &amp; Qualifying Status projects</b> Sec.12I, par. 4 & 5(a) & (b)	The lesser of actual total own training costs <b>OR</b> R36 000 per full time employee to be claimed during years when training expenses are incurred	The lesser of actual total own training costs <b>OR</b> R36 000 per full time employee to be claimed during years when training expenses are incurred
<b>D. IMPLEMENTATION PERIOD AND COMPLIANCE PERIOD (to comply with point scoring below)</b>		
Investment Allowance for <b>PS</b> and <b>QS</b> More than 50% of manufacturing assets in use. Sec.12I, par. 7(a)	Manufacturing assets to be brought into use within <b>4 years</b> from date of approval, i.e. Implementation Period. Compliance Period: Three (3) full financial years after assets in use	Manufacturing assets to be brought into use within 4 years from date of approval, i.e. Implementation Period. Compliance Period: Three (3) full financial years after assets in use
Training Allowance for <b>PS</b> and <b>QS</b> Deductible during year in which training cost is incurred. Sec.12I, par. 5(a)	Deductible during years in which training cost is incurred, but not earlier than the year of assessment prior to the year of SOP	Deductible during years in which training cost is incurred, but not earlier than the year of assessment prior to the year of SOP
<b>E. NON QUALIFYING PROJECTS</b>		
Specific exclusions in terms of the Standard Industrial Classification of all Economic Activities in South Africa (SIC) Version 5, replaced by SIC Version 7, Section C - Manufacturing from 1 January 2015. Sec.12I, par. 1	<ul style="list-style-type: none"> <li>• SIC 3051 or 1101/2 - Spirits and ethyl alcohol from fermented products and wine</li> <li>• SIC 3052 or 103 - Beer and other malt liquors and malt</li> <li>• SIC 3060 or 12 - Tobacco products</li> <li>• SIC 3577 or 252 - Arms and ammunition</li> <li>• Bio-fuels if the manufacture negatively impacts on food security in SA</li> </ul>	

<sup>1</sup> ITA: Income Tax Act No. 58 of 1962

<sup>2</sup> All allowances are deductible from **taxable income (earnings before tax)** and are not "tax credits"

<sup>3</sup> "Preferred Status": An Industrial Policy Project (IPP) that met point scoring criteria in terms of Sec. 12I, par. 8 of the ITA by scoring at least 7 out of 8. Refer to qualifying criteria below.

<sup>4</sup> "Qualifying Status": An Industrial Policy Project (IPP) that met point scoring criteria in terms of Sec. 12I, par. 8 of the ITA by scoring at least 4,5 or 6 out of 8. Refer to qualifying criteria below.

## POINT SYSTEM TO QUALIFY AS AN INDUSTRIAL POLICY PROJECT

QUALIFYING CRITERIA	GREENFIELD PROJECTS (NEW PROJECTS)	BROWNFIELD PROJECTS (EXPANSIONS AND UPGRADES)
<b>Points allocated on the following criteria will determine the status of a project</b>		
<b>1. Innovation</b>	<ul style="list-style-type: none"> <li>● The project will utilise processes of innovation, thereby changing pre-existing techniques and the use of plant, machinery and equipment within the same industrial sector as the project,</li> </ul> <p style="text-align: center;"><b>AND</b></p> <ul style="list-style-type: none"> <li>● These processes will materially improve production time, reduce production costs, improve product quality or improve product longevity within the same industrial sector as the project</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p>	<ul style="list-style-type: none"> <li>● The project will utilise processes of innovation, thereby changing pre-existing techniques and the use of plant, machinery or equipment,</li> </ul> <p style="text-align: center;"><b>AND</b></p> <ul style="list-style-type: none"> <li>● These processes will materially improve production time, reduce production costs, improve product quality or improve product longevity</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p>
<b>2. Improved Energy Efficiency: Cleaner Production Technology</b>  <b>Mandatory requirement</b>  <b>NOTE:</b> For further information and assistance regarding Energy Efficiency, kindly contact Mr Barry Bredenkamp at SANEDI on 010-201-4707 or e-mail Barry@Sanedi.co.za	<p>The project will utilise viable energy-efficient equipment and processes throughout the additional investment allowance benefit period, innovative for the particular industrial sector, as certified by the South African National Energy Development Institute - SANEDI (not taking into account any period before the month in which the industrial policy project reaches <b>50%</b> of its production capacity)</p> <p style="text-align: center;"><b>(Maximum of 2 points)</b></p>	<ul style="list-style-type: none"> <li>● Energy efficiency improvement of at least <b>12,5 %</b> relative to a baseline as determined for the 12 month period prior to the application as certified by the National Energy Development Institute by the end of the additional investment allowance benefit period</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>● Energy efficiency improvement of at least <b>15%</b> relative to the baseline as determined for the 12 month period prior to the application, as certified by the National Energy Development Institute, by the end of the additional investment allowance benefit period.</li> </ul> <p style="text-align: center;"><b>(Maximum of 2 points)</b></p>
<b>3. Business Linkages</b>	<ul style="list-style-type: none"> <li>● The project will be engaged in the production of goods, where less than <b>40%</b> of the local demand for such goods is produced in the Republic or where these goods were not previously produced in the Republic;</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>● The project will contribute to the global competitiveness of an industrial sector by the production of goods where identical or similar goods would not be produced in the Republic without substantial capital investment</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p>	<ul style="list-style-type: none"> <li>● The project will be engaged in the production of goods, where less than <b>40%</b> of the local demand for such goods are produced in the Republic or where these goods were not previously produced in the Republic;</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>● The project will contribute to the global competitiveness of an industrial sector by the production of goods where identical or similar goods would not be produced in the Republic without substantial capital investment</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p>
<b>4. SMME Procurement</b>	<p>Acquire at least <b>10%</b> of its raw materials, intermediate products and services from small, medium and micro enterprises.</p> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p>	<ul style="list-style-type: none"> <li>● Acquire at least <b>10%</b> of its raw materials, intermediate products and services from small, medium and micro enterprises</li> </ul> <p style="text-align: center;"><b>(Maximum of 1 point)</b></p> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>● At least <b>15%</b> of its raw materials, intermediate products and services from small, medium and micro enterprises.</li> </ul> <p style="text-align: center;"><b>(Maximum of 2 points)</b></p>

## POINT SYSTEM TO QUALIFY AS AN INDUSTRIAL POLICY PROJECT

QUALIFYING CRITERIA	GREENFIELD PROJECTS (NEW PROJECTS)	BROWNFIELD PROJECTS (EXPANSIONS AND UPGRADES)
<b>Points allocated on the following criteria will determine the status of a project</b>		
<b>5. Skills Development (Training of Employees)</b>  <b>Mandatory requirement</b>	The cost of training will be: • more than <b>2,5%</b> of the average annual wage bill over the compliance period (i.e. 3 full financial years after assets are brought into use)  <b>(Maximum of 2 points)</b>	The cost of training will be: • more than 2,5% of the average annual wage bill over the compliance period (i.e. 3 full financial years after assets are brought into use)  <b>(Maximum of 2 points)</b>
<b>6. Located in a Special Economic Zone (SEZ)</b>	Located in a SEZ  <b>(Maximum of 1 point)</b>	<b>Not Applicable</b>
Points to be attained for <b>Qualifying Status (QS)</b>	4, 5 or 6 out of 8 points	4, 5 or 6 out of 8 points
Points to be attained for <b>Preferred Status (PS)</b>	7 or 8 out of 8 points	7 or 8 out of 8 points

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