

SA's SEZs create decent jobs

The Special Economic Zone programme is one of the important tools that the South African government has introduced to drive economic growth and regional development. More importantly, the SEZ programme is used as a critical tool for accelerating the country's industrial development agenda. This programme is mandated by the SEZ Act, which was proclaimed in February 2016. The

purpose of the SEZ programme is, among others, to attract foreign and domestic investments, increase the number and value of exported products, accelerate the development of industrial infrastructure, help accelerate the beneficiation of the country's resource endowments, and to create decent jobs.

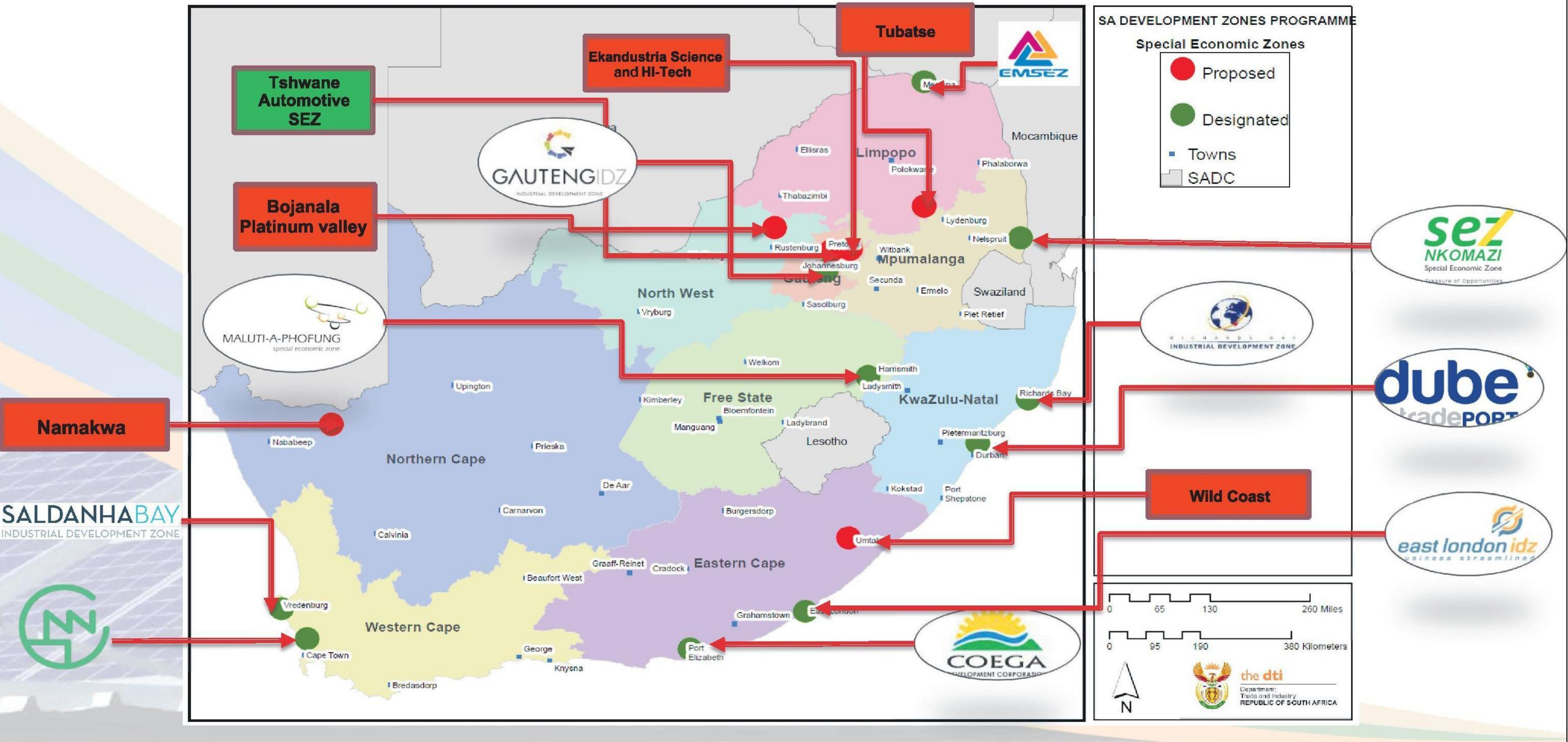
To date, there are 11 approved Special Economic Zones in seven provinces; the latest

one is Tshwane Automotive SEZ, launched by President Cyril Ramaphosa in November 2019. In addition, there are five additional proposals that the Department of Trade, Industry, and Competition (the DTIC) is exploring in partnership with provinces.

The SEZ Programme continues to make a meaningful contribution to the country's economy. It has to date attracted 234 investors,

with an estimated value of over R61-billion; 135 of these investors are operating in SEZs, creating approximately 15 000 direct jobs. Coega and Dube TradePort SEZs continue to be at the forefront of sustaining this growth in investment attraction. Substantively, Coega's value of operational investments grew from R7.063-billion to R11.292-billion, while DTPSEZ experienced growth in excess of R500-million in this regard.

GEOGRAPHIC LOCATION OF DESIGNATED & PROPOSED SEZs



South Africa has eleven SEZs located in different provinces, namely:

- Coega SEZ (Eastern Cape)
- Richards Bay SEZ (Kwazulu-natal)
- East London SEZ (Eastern Cape)
- Saldanha Bay SEZ (Western Cape)
- Dube Tradeport SEZ(Kwazulu-natal)
- Maluti-a-phofung SEZ (Free State)
- Or Tambo IDZ (Gauteng)
- Musina/Makhado SEZ (Limpopo)
- Atlantis SEZ (Western Cape)
- Nkomazi SEZ (Mpumalanga)
- Tshwane Automotive SEZ

In an effort to further optimise the country's comparative and competitive endowments, there are additional pending SEZ applications that are at various stages of development. The most notable of these include the proposed Bojanala SEZ (NW), Namakwa SEZ (NC), Vaal SEZ (GP), Tubatse SEZ (LP) and Wild Coast SEZ (EC).

SEZ TAX INCENTIVES

To complement the DTI's SEZ strategy, a package of tax incentives will be available to companies located in certain SEZs, subject to specific criteria. The tax incentives that companies may qualify for include VAT and customs relief if located within a Customs-Controlled Area (CCA), an employment tax incentive, a building allowance and a reduced corporate income tax rate.

The design and eligibility criteria for each incentive seeks to strike a balance between achieving the objectives of higher levels of investment, growth and employment creation, and ensuring that the incentives are appropriately targeted for efficiency purposes, while minimising any deadweight loss to the fiscus.

Businesses located within a CCA will qualify for VAT and customs relief (similar to that for the current IDZs). The employment tax incentive will be available to businesses located in any SEZ.

Our SEZs

Businesses operating within approved SEZs (by the Minister of Finance, after consultation with the Minister of Trade and Industry) will be eligible for two additional tax incentives. Firstly, all such businesses can claim accelerated depreciation allowances on capital structures (buildings) and, secondly, certain companies (carrying on qualifying activities within an approved SEZ) will benefit from a reduced corporate tax rate (15% instead of 28%).

VAT AND CUSTOMS RELIEF

Companies located within a CCA will be eligible for VAT and customs relief, as per the current IDZs.

Characteristics of a CCA include the following:

- Import duty rebate and VAT exemption on imports of production-related raw materials, including machinery and assets, to be used in production with the aim of exporting the finished products;
- VAT suspension under specific conditions for supplies procured in South Africa; and
- Efficient and expedited customs administration.

More information on CCAs can be found on the SARS website www.sars.gov.za

EMPLOYMENT TAX INCENTIVE

All employers of low-salaried employees (below R60 000 per annum) in any SEZ will be entitled to the employment tax incentive (ETI). This aims to encourage employers to hire young and less experienced work seekers. It reduces an employer's cost of hiring people through a cost-sharing mechanism with government, while leaving the wages the employee receives unaffected. The employer can claim the ETI and reduce the amount of Pay-As-You-Earn (PAYE) tax payable by the amount of the total ETI calculated in respect of all qualifying employees.

BUILDING ALLOWANCE

Businesses operating within approved SEZs (by the Minister of Finance, after consultation with the Minister of Trade and Industry) will be eligible for an accelerated depreciation allowance on capital structures (buildings). The special rate of capital (depreciation) allowances in lieu of normal allowances will be available for erecting or improving buildings and other fixed structures. This rate will equal 10% per annum over 10 years.

Companies engaged in the following activities, based on the Standard Industrial Classification Code issued by Statistics South Africa, **will not qualify for the building allowance:**

- Spirits and ethyl alcohol from fermented products and wine (SIC code 3051)
- Beer and other malt liquors and malt (SIC code 3052)
- Tobacco products (SIC code 3060)
- Arms and ammunition (SIC code 3577)
- Bio-fuels if that manufacture negatively impacts on food security in South Africa.

REDUCED CORPORATE INCOME TAX RATE

Certain companies will qualify for a reduced corporate income tax rate of 15%, instead of the current 28% headline rate. To qualify, the following conditions must be satisfied:

- The company must be located in a SEZ that is approved by the Minister of Finance;
- It must be incorporated or effectively managed in South Africa;
- At least 90% of the income must be derived from the carrying on of business or provision of services within that SEZ; and
- The company must not be engaging in activities listed in the Government Gazette No. 39930.

The SEZ programme is a central part of South Africa's efforts to reignite economic growth by attracting strategic investments with the greatest potential for sustainable growth and development. Since the introduction of the SEZ Act in 2016, there has been massive interest from investors to locate in the SEZs. This is attested by the rand value of signed and not yet operational investors.