Legal Counsel

Income Tax

Brochure on the Special Economic Zone Tax Incentive

South African Revenue Service

Special Economic Zone Tax Incentive

The special economic zone (SEZ) tax incentive was introduced into the Income Tax Act to promote investment, growth and job creation in the South African manufacturing sector and the development of designated regions.

Qualifying criteria

The taxpayer must be a "qualifying company" to be able to qualify for this incentive. The term "qualifying company" is defined, as a company that is ─

- carrying on business in a SEZ that is designated by the Minister of Trade and Industry and approved by the Minister of Finance in consultation with the Minister of Trade and Industry;
- incorporated or effectively managed in South Africa;
- carrying on business from a fixed place of business within a SEZ;
- at least 90% of the income of that company must be derived from the carrying on of business or provision of services within that SEZ; and
- no more than 20% of the deductible expenses incurred or 20% of the income received by or accrued to the company are from transactions with connected persons that are residents or with non-residents and those transactions are attributable to a permanent establishment in the Republic.

Qualifying companies can benefit from the following preferential benefits:

- A reduced corporate income tax rate of 15% instead of the current 28% rate.
- An accelerated depreciation allowance of 10% on cost of any new and unused buildings or improvement owned by the qualifying company.

Exclusions

A company engaged in the following activities, based on the Standard Industrial Classification (SIC) code issued by Statistics South Africa is excluded from the tax incentive:

- Distilling, rectifying and blending of spirits
- Manufacturing of wines
- Manufacture of malt liquors and malt
- Manufacture of tobacco products
- Manufacture of weapons and ammunition
- Manufacture of Bio-fuels, if their manufacture negatively impacts food security in the Republic

In addition to the above excluded activities, which are specified directly in the enabling legislation, provision is also made for a government gazette to be issued, which may specify other types of activities that give rise to companies being subject to exclusion from the tax benefit. *Government Gazette* 39930 was duly issued on 15 April 2016, specifying certain activities (mainly activities that are non-manufacturing in nature) for purposes of preclusion from the SEZ tax incentive.

Detailed categories of activities that are excluded in terms of *Government Gazette* 39930 can be accessed at **www.gov.za/sites/www.gov.za/files/39930_gon446.pdf**

Designation and approval of SEZs

A qualifying company can only benefit from the tax incentive if the SEZ has been approved by the Minister of Finance based on financial considerations to the state, as required by section 12E(3) of the Income Tax Act.

On 6 July 2018, the Minister of Finance issued *Government Gazette* 41758, and in the process approved qualifying companies contained in the following SEZ's eligible for purposes of the income tax incentives:

- Coega Special Economic Zone
- Dube Tradeport Special Economic Zone
- East London Special Economic Zone
- Maluti-a-Phofung Special Economic Zone
- Richards Bay Special Economic Zone
- Saldanha Bay Special Economic Zone

The effect of the Minister's approval is that "qualifying companies" with year-ends ending on or after July 2018 can benefit.

It remains possible for the Minister of Finance to designate further SEZs for purposes of enjoying the benefits of the incentive in the future.

Government Gazettes 41758 and 41759 dealing with approved SEZs can be accessed here:

- **https://archive.opengazettes.org.za/archive/ZA/2018/government-gazette-ZA-vol-637-no-41758-dated-2018-07-06.pdf**
- **https://archive.opengazettes.org.za/archive/ZA/2018/government-gazette-ZA-vol-637-no-41759-dated-2018-07-06.pdf**