

Research & Development Tax Incentives



The Opportunity

If you've invested resources in the development or improvements to products & processes, you may qualify for substantial income tax savings.

Two very attractive incentives are available to taxpayers that conduct "R&D" in South Africa. These incentives can be found in Section 11D of the Income Tax Act. They comprise:

- a supercharged deduction of 150% of all qualifying operating expenditure. Essentially, every R1m of qualifying spend amounts to R140,000 cash back benefit to you after tax; and
- an accelerated write-off period for qualifying capital expenditure. This allowance often amount to hundreds of thousands of Rands in tax savings over other, conventional capital allowances.

Because these incentives take the form of tax deductions & allowances, they have a number of other advantages. For example:

- unlike grants or incentive programmes, there is no application process involved: they can be claimed automatically as of right by any taxpayer: no "red tape" to hamper the process;

- the deduction can be claimed immediately and provisional income tax payments can be reduced early and substantially;
- for multi-national groups of companies: this presents a massive opportunity to decrease your tax exposure in a number of jurisdictions, with multiple deductions available simultaneously.

What qualifies as "R&D"?

Many taxpayers think that "R&D" is relevant only to white-coated, mad scientists in chemistry labs. This is not true: Section 11D defines "R&D" extremely broadly. You may be pleasantly surprised to see that, what you're doing as part of your regular day-to-day activities might qualify for these deductions.



How will I know if I'm likely to qualify? What are the positive indicators?

If you're conducting any of these activities, you should be talking to us:

- developing new, improved products, processes or techniques;
- creating prototype models or pilot plants;
- developing software solutions; filing applications for patents or designs, or at least considering the possibility of doing so;
- integrating components or technologies (software and/or electro-mechanical components);
- developing or improving production & manufacturing processes, including the development of production control software;
- outsourcing technical work to external contractors to perform any of this work for you.

Interestingly, qualifying R&D isn't always conducted in a lab. Very often, it occurs on the factory floor, and in the field.



Other positive indicators of qualifying activities include:

- employing technical people, such as engineers, chemists, software developers; and
- being forced to abandon or modify projects for technical reasons.

This is not an exhaustive list. For more specific examples in particular areas of technology, see our web site: www.margoip.co.za

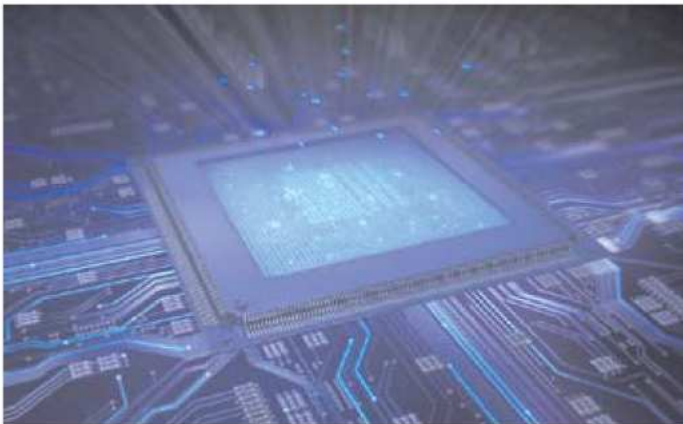
What types of expenditure qualify for the supercharged deduction?

A wide range of expenditure is available for this deduction: there is no specific, closed list. The more common types of qualifying operational expenditure include:

- the salaries & wages of employees conducting the research and development (Note: each employee's total cost to company is deductible);
- overhead expenses (water, electricity, certain travel costs, etc);
- external contractor invoices for qualifying activities; and
- consumables & material costs.

In the case of the capital expenditure allowance, all costs relating to the installation, erection, improvement or addition to qualifying assets are also fully deductible.

This opportunity is simply too large to ignore.



Risks & Other Important Considerations

It's often said that there's no such thing as a free lunch. There are a number of important aspects to bear in mind:

- unlike other income tax incentives, the Section 11D incentives have additional reporting requirements that must be met to claim the deduction;
- a well-prepared deduction demands a thorough assessment of both the scientific & technological aspects of your projects, and proper application of the income tax legislation & guidelines;
- all sorts of limitations and technical exclusions are included in the legislation: it's important to be aware of all of these intricacies; and

- the legislation is extremely technical, and changes frequently (typically: once every six months).

When dealing with the sophisticated Section 11D deduction and allowance, the need for skilled professional advice can't be overstated. This is an extremely important aspect of mitigating against exposure to risk.

Why Margo™ (Intellectual Property)?

Margo™ (Intellectual Property) prides itself on being a dedicated specialist in the demanding disciplines of intellectual property law, taxation and technology. All work, without exception, is conducted by a qualified patent attorney and tax practitioner. At all times, our attention is focused on the practicalities of our clients' specific business needs: optimising benefits available to our clients and minimising risk exposure are core focuses of our attention.

At Margo™ (Intellectual Property), there is no substitute for only the highest level of technical expertise, in all disciplines. We speak the language of science & technology with your engineers, the language of tax with your tax accountants, and the language of legal risk and interpretation with your financial directors. Margo™ (Intellectual Property) offers the definitive, comprehensive end-to-end solution.

For six decades, the name "Margo" has been synonymous with intellectual property and tax. That tradition of excellence continues in Margo™ (Intellectual Property).

If you're thinking that you could benefit from this, you're very welcome to contact us:

✉ Email: info@margoip.co.za
☎ Tel: 011 268 2113
☎ Fax: 088 011 268 2113
🌐 Web: www.margoip.co.za
✉ Post: P O Box 167 Gallo Manor 2052
📠 Docex: Docex 33, Johannesburg
📍 1st Floor Oxford Manor, 196 Oxford Road (Cnr: Chaplin Ave)

If this pamphlet was of interest to you, then you're likely to find further opportunities and incentives described in our pamphlet on Intellectual Property - based Income Tax Incentives.

More detailed information on these and other incentives may be found on our web site: www.margoip.co.za

Disclaimer

This document is intended to provide a summary of certain incentives on offer, potentially, to taxpayers generally. It is not intended to be a comprehensive statement of the law, nor does it constitute an opinion or guarantee of any deduction that might (not) be allowable to any taxpayer, and should not be construed as such. It should not be relied upon as a substitute for specific advice regarding particular scenarios. Margo Attorneys cannot accept responsibility for the consequences of any person relying on the contents of this document for any other purpose.