

Christel Wolmarans  
Director: Private Sector Research & Development Promotions  
Department of Science and Innovation  
Republic of South Africa

**RE: Discussion paper on R&D Tax Incentive, S11D of the Tax Income-tax Act (1962)**

Dear Ms Wolmarans,

MEMSA and its members thank the Department of Science and Innovation (DSI) and National Treasury (NT) for this opportunity to make input on the future of Section 11D of the Income-tax Act (ITA).

Sustained and indeed growing investment in research development and innovation is key to the success of the South African Mining Equipment industry and the mining supply chain more broadly.

MEMSA is an industry cluster organisation established in 2016 by thirteen founder members with encouragement and support by the dtic. The cluster now represents over forty member companies, and continues to grow. Its members are predominantly South African owned (with a minimum local ownership of 26%) and have made great strides in transformation, such that over 60% of our members are at least 51% black owned, and 90% are at least 26% black-owned and B-BBBEE Level 4 suppliers - or better.

MEMSA member companies have demonstrated remarkable resilience over the past years in the face of challenging market conditions in the mining industry from 2016 onwards, followed by the Covid pandemic. They have stayed in business and continue to provide high quality products, employment and fit-for-purpose technologies to the local and international markets. We have found that our members are continuously innovating and are investing in R&D, building local IP and perhaps even more importantly, capacity for further innovation in the mining supply chain and other industries, through lateral migration.

In order to support its members in the area of R&D, MEMSA has inter alia arranged workshops about IP and collaboration, IP in export contexts, and R&D incentives; it facilitates interaction between members and the South African Mineral Extraction Research, Development and Innovation (SAMERDI) programmes and works closely with partners at the Mandela Mining Precinct to support the sustainability and success of the local mining supply chain.

**Nevertheless, in a series of visits recently conducted by our CEO, a repeating theme has been both the importance of RDI, and the challenges of funding such work.** The reality is that our members operate in a highly competitive international environment, where RDI receives significant funding in competing markets.

Digitalisation and the 4<sup>th</sup> industrial revolution are rapidly and profoundly impacting the mining industry locally and internationally; the nature of manufacturing and the manufacturing industry is being transformed at the same time.

It is recognised that South Africa has maintained international competitiveness in a range of equipment types and technologies relating to mining, and continued sales to local and export

markets speak of this **capacity**. However, this capacity could be lost, should funding for RDI (from the private and public sector) 'dry up'.

It is recognised that successful re-industrialisation is unlikely in a scenario where manufacturers are excessively dependent on licensing of foreign-held IP, forcing them into competition with similarly dependent counterparts elsewhere - with cheap inputs and labour becoming the remaining competitive advantage.

Accordingly, we advocate for continued and in fact expanded financial incentives and support mechanisms for RDI, and also for sector-focused support. Within the context of DSI policy and the dtic's Steel Master Plan, as well as the ground-breaking collaboration with the Minerals Council at the Mandela Mining Precinct, strong fundamentals are in place for such an approach.

Ideally, we hope to see clearly articulated and well resourced a 'pipeline' of support measures which will assist in a flow of R&D, innovation, product development and commercialisation - where currently, bottlenecks, delays and funding gaps in private and public sector contexts alike still limit the fulfilment of our country's industrial potential.

We believe that the 11D Tax Incentive should form a cost effective and efficient part of such a pipeline. Specific considerations and responses to the Discussion Document are outlined in Annexure A.

MEMSA and its members welcome and encourage the government's initiative and commitment to stimulate R&D in South Africa for inclusive and sustainable economic growth. We greatly appreciate our interactions in this regard with the DSI, National Treasury and the dtic to date, and look forward to future engagements.

Yours faithfully



Lehlohonolo Amos Molloyi

MEMSA CEO

## **ANNEXURE A: MEMSA'S COMMENTS ON THE DISCUSSION PAPER "REVIEWING THE DESIGN, IMPLEMENTATION AND IMPACT OF SOUTH AFRICA'S RESEARCH AND DEVELOPMENT TAX INCENTIVE"**

MEMSA and its members welcome the Department of Science and Innovation (DSI) and National Treasury's (NT) initiative in reviewing the design, implementation and impact of South Africa's Research and Development (R&D) tax incentive ahead of its sunset date of 30 September 2022, with a view to potentially extend the incentive going forward.

MEMSA and its members reviewed the content of the discussion paper. In addition, the incentive has been the topic of discussion at workshops with members and the DSI in 2018 and 2021. The feedback below brings together views shared from 2018 to the present. We have further consulted with partners in the mining supply chain, namely the Minerals Council of South Africa and the SA Minerals Processing Equipment Cluster (SAMPEC) and noted strong alignment on the views presented below.

### **(1) Extension of a tax incentive for R&D**

MEMSA supports the extension of the Tax Incentive beyond its sunset date, as part of a broader range of measures in support of local RDI in the mining supply chain and the manufacturing industry as a whole.

### **(2) Incentive design**

MEMSA submits that the impact of the incentive could be significantly enhanced through addressing the following aspects:

***a. Further reduction of the administrative burden of participation, in particular for smaller companies.*** MEMSA appreciates the concerted work by the DSI to streamline the application process, clear backlogs, and reduce response times for applicants.

Nevertheless, members have found the administrative requirements of applying for and claiming the incentive to be significant, to the extent that it is mainly used by larger member companies that undertake projects of a scope which make the contracting of a service provider to undertake the application and claims process on the company's behalf, feasible. Again, it is only the larger companies that are able to take on such consultants at risk.

We propose that **additional support be provided for smaller enterprises** (especially in the mining manufacturing and supply chain): these types of companies are the ones most likely to be generating and commercialising R&D, but do not have the resources to either delay projects (based on the pre-approval process) or appoint dedicated administrative teams to manage the application and reporting process. One option would be to allow the SMMEs to present their Section 11D applications to a structure such as the SAMERDI Committee for pre-approval. MEMSA has observed among its members the impact of smaller enterprises on transformation, innovation, local supply chains and employment, and believe they should be incentivised accordingly.

***b. Leverage of the unique resource represented by the SA Mining Extraction RDI (SAMERDI) Steering Committee,*** which represents all the stakeholders in the Mandela Mining Precinct PPP, to reduce the burden on all parties to deal with the pre-approval process;

**c. Broadening the definition of R&D eligible for application of this incentive.** The narrow or strict definition of research as per the incentive guidelines limits its applicability and impact in a developing economy such as that of South Africa, and specifically the mining supply chain, where a significant portion of R&D focuses on the application of known concepts or the modification of existing technologies. Such R&D contributes significantly to competitiveness and localisation. It should be noted that some of the countries that compete with South Africa in mining equipment design and manufacture, offer more broadly applicable tax incentives for R&D.

Second, we would argue for a broader range of R&D related to the development of **software and information technologies**, to be included under the incentive. Such technologies are increasingly intrinsic to mining equipment and processes, and essential to international competitiveness.

**d. The ability to roll over the incentive to such time as taxable profits can be appropriately offset**, or some other mechanism to allow for long periods of potentially non-profitable operation;

**e. Permitting multiple eligible entities to submit an application together**, allowing for collaborations across the mining value chain (for example, including mines and manufacturers);

### **(3) Coherent policy environment**

As mentioned in our covering letter, the R&D Tax Incentive should form part of a coherent set of policy interventions designed to support all phases of R&D, innovation and commercialisation.

Direct incentives such as SPII are more impactful than tax offset programmes. It should be noted that while there exist numerous sector-specific incentives in South Africa, there are currently none for the mining supply chain. A sector-specific mining supply chain incentive developed in alignment with, or carved out of existing incentives, could be administered with support from the SAMERDI Committee.