



# Tax & Legal - News Alert

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## The future of the R&D tax incentive in South Africa

The section 11D Research and Development (**R&D**) tax incentive provides for a 150% deduction for qualifying expenditure on eligible scientific or technological R&D undertaken by companies in South Africa. This requires the submission and approval of an application to the Department of Science and Innovation (**DSI**).

Finally, after much speculation and a long wait, on 22 February 2023 the Minister of Finance formally announced that the R&D tax incentive will be extended for another 10 years until 31 December 2033.

And the good news does not end there!

A grace period will be introduced to allow taxpayers to claim qualifying expenditure incurred up to six months before the application is submitted. Previously one could only claim expenses incurred from the date of submission of the application.

In addition, National Treasury, in conjunction with the DSI, will simplify the definition of R&D, thus enabling easier administration by the DSI and clear understanding by the taxpayer. This clarified that R&D only applies to activities aimed at resolving a scientific or technological uncertainty and not to something that a professional in the particular field could resolve using existing tools and methodologies.

The end-result approach that implies, for example, that the R&D must be patentable will also be removed. By its very nature, the outcome of R&D has always been uncertain, and changing the definition to recognise this removes a confusing requirement and may likely increase approved projects.

And, lastly, the prohibition on R&D related to internal business processes will be deleted. This means that regardless of whether the innovation is intended for sale or for use by connected parties or even internally, the project could still qualify.

The above are all clear signals that Government supports early-phase R&D and acknowledges that it is critical for South Africa's growth to keep and encourage R&D to take place in South Africa.

We await the draft legislation containing these changes and will update you as soon as this is available.

For additional information, or for further assistance, please contact us.

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