

Deloitte.

Doing business in South Africa

25-28 November 2014



Agenda

1. South Africa's Value Proposition:

- Brazil's interest in South Africa and the Continent
- Why South Africa?
- Gateway to Africa
- Key Sectors

2. Investment Incentives

- Special Economic Zones
- Section 12I Tax Allowance
- Manufacturing Competitiveness Enhancement Programme
- Critical Infrastructure Programme
- Automotive Investment Scheme
- Aquaculture Development Enhancement Programme

3. Deloitte in Africa

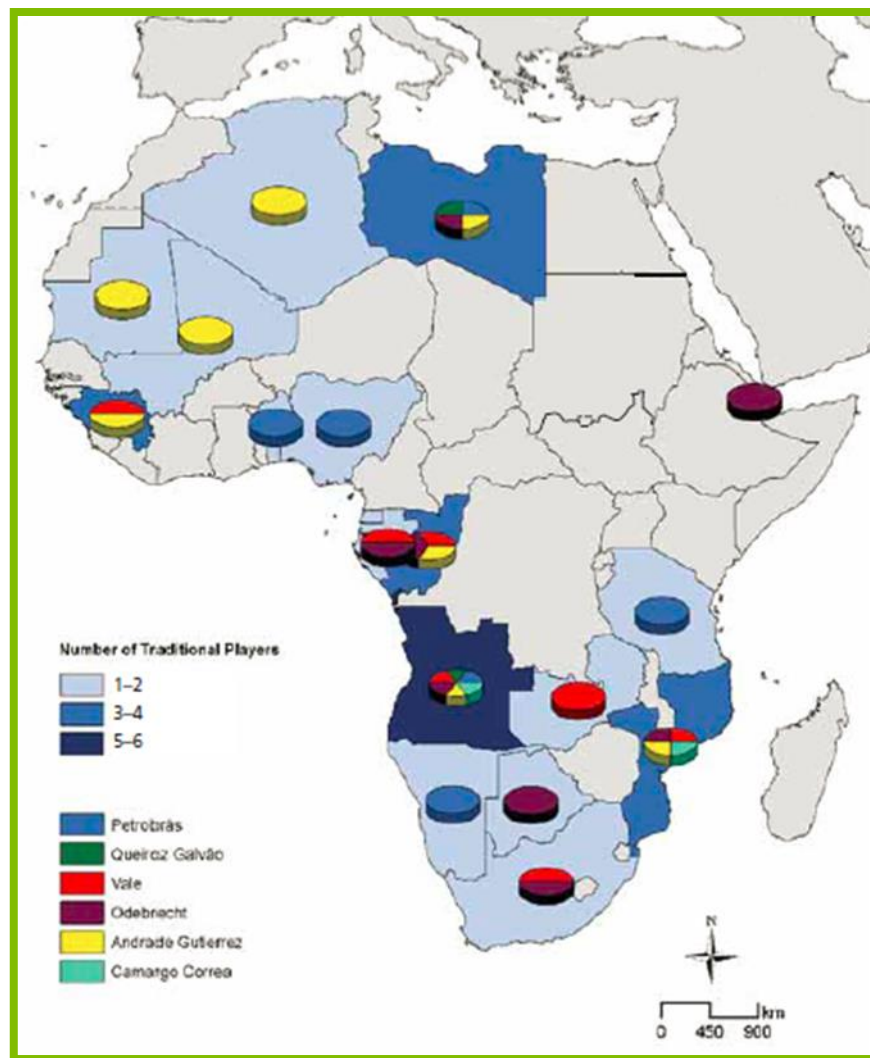
Value proposition:

Brazil's interest in South Africa and the Continent



Brazil's Interest in South Africa & the Continent

Main Brazilian Investments in Africa



Key points

- There are many facets to the Brazil-African relationship, ranging from trade, investment and the allocation of credit, through training and technical support, to diplomacy and foreign policy.
- Brazil's relationship with Africa is deeply rooted, underpinned by mutual respect of the sovereignty of both 'nations'.
- Trade between Brazil and Africa has been on an upward trend (16% pa since the 1990s) and, despite a temporary dip as a result of the 2008-09 global economic recession, looks set for a period of strong growth.
- Most the Brazilian investment in SA is in the resources and construction sectors – Odebrecht (construction) and Vale (mining)
- Growing exports in manufactured goods – machinery and technical equipment, food products
- BNDES credit line of USD 35m for transport investments -buses and electronic payment system for public transport
- Facilitation of trade -MERCOSUR, SACU & SADC agreement; BRICS

Value proposition:

Why South Africa?



Value proposition

Sound economic policy

- Macro-economic stability
 - Lowering of tariffs, relaxation of exchange control, reduction in taxes, management of inflation
- Focus on promoting industrialisation, competitiveness, inclusive growth and employment
- Central bank, SA Reserve Bank maintains an independence from government

World class infrastructure

- Modern and well developed transport network - Durban is Africa's busiest port and largest container facility in Southern Africa. Richard's Bay is the world's largest bulk coal terminal
- Increased investment in energy infrastructure
- Sophisticated telecommunications

Legal & Financial Framework

- Strong legal framework and respect for the rule of law.
- Commercial legal practices in line with international standards.
- World class Constitution (including a Bill of Rights)
- Trade and industry undertaken with a context of a free enterprise economy
- Sanctity of contract is protected under common law, and independent courts to ensure respect for commercial rights and obligations
- JSE is efficient, with world class regulation & rated in the top 20 in the world in market capitalisation

Ease of Doing Business

- Rank top amongst the BRICS in World Bank's Doing Business 2014 Report
- Brazil (116), Russia (92), India (134), China (96) and South Africa (41)
- South Africa rated 10th for its protection of investors
- WEF's Global Competitiveness Index 2014 - South Africa ranks 53rd out of 144 countries – the second highest ranking amongst the BRICS
- Brazil (56), Russia (64), India (60), China (29) and South Africa (53)

Value proposition

Ease of doing business

Main business entities

Two common entities:

Private company

- A company is a separate legal entity which bears its own liability or risk for its actions, dealings and business transactions.

Branch

- A foreign company is permitted to set up a South African branch. This is an extension of a foreign company and is not a separate legal person. The foreign company bears the legal liability and risk for the actions, dealings and business transactions of the branch.
- Branch more tax beneficial than a company – pays tax at a flat rate of 28% with no branch profit tax. Unlike a company which attracts dividends WHT on profit repatriation.

Other

Partnership

- A partnership is not regarded as a person and is therefore not separately taxable. The result is that the individual partners are taxed on the partnership income.
- The application of tax treaties to partnership is a complex matter.

Joint Venture

- Akin to a partnership but not quite the same.
- Devolved through case law.
- Applies mainly where the participants do not want a partnership but want a “loose” relationship.
- A JV can be incorporated as a company or partnership.



Value proposition

Ease of doing business

Foreign direct investment rules

- Minimal investment approval processes – governmental investment agency, Trade and Investment South Africa (“TISA”).
- No major distinction between local & foreign owned companies, exceptions:
 - Local equity requirements for banks & financial institutions; and
 - Restriction on local borrowing in certain instances.
- No requirement to set up a local company to conduct business – exceptions: banking & insurance.
- No nationality or residence requirements for shareholders and companies can generally be 100% foreign owned; but consider B-BBEE.
- No local management requirement – but consider B-BBEE.
- Shelf companies also available – fairly straight forward to do the required changes to comply with company rules.
- Common law based legal system.



Value proposition:

Gateway to Africa



Strategic Market Access to South Africa and the Rest of the Continent

International Headquarter Company (IHQ) regime

Ensures that the tax system is conducive to multinationals wanting to use South Africa as a financial hub for activities in the rest of the continent

South African Customs Union (SACU)

Free interchange of goods and common external tariff (Botswana, Lesotho, Namibia, South Africa, Swaziland)

Southern African Development Community (SADC)

Free trade area, which gives duty free market access for products originating from 12 member states



South African population of 51 million

African population of almost 1 billion

Rising household spending and growth in FDI hence GDP growth forecast for the continent is 4-6% over the next few years

Growth in demand in domestic markets due to growing lower middle class

Drive by to address infrastructure bottlenecks, particularly in transport, energy, water and ICT, through the launch of the Programme for Infrastructure Development in Africa (PIDA)

Value proposition:

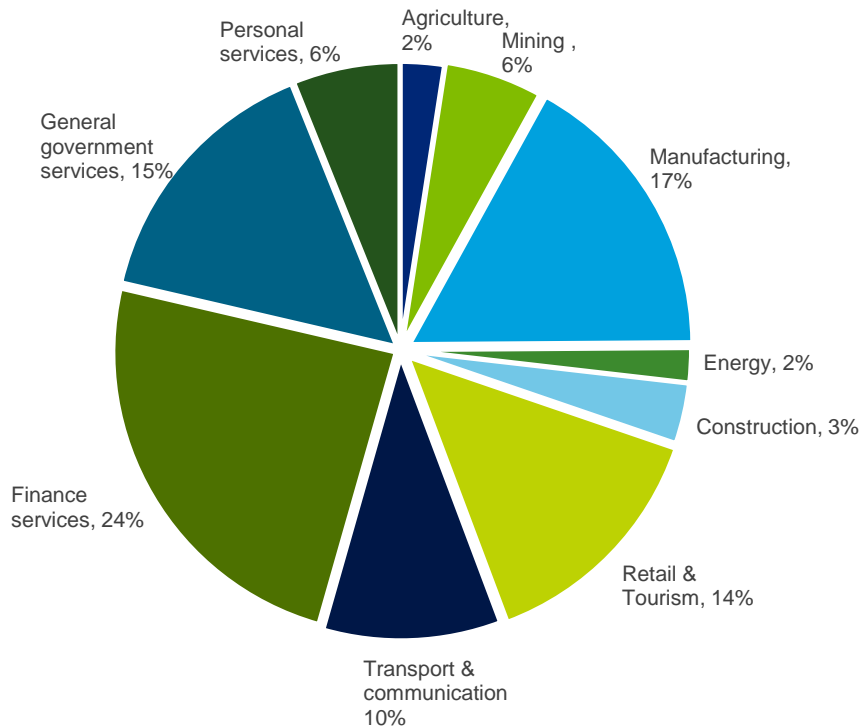
Key growth areas



Key sectors

Percentage Contribution to GDP by Sector

Priority sectors



- **Agro-processing:** Aquaculture, food processing & high value organic food
- **Automotive:** Body parts & panels; engines, radiators, air conditioners, catalytic convertors, seats suspension etc.
- **Capital / Transport equipment, metals & electrical machinery:** Fabricated metal products; electric motors, generators; tooling; insulated wire & cabling
- **Textile, Clothing & Leather:** High value natural fibres, leather skins & hides beneficiation
- **Chemicals, Plastic Fabrication & Pharmaceuticals:** Plastic products; man-made fibres, vaccines, active pharmaceutical ingredients for ARVs
- **Green Economy:** Power generation; renewable energy; energy efficiency & energy saving industries
- **Minerals Beneficiation:**
- **Pulp, Paper and Furniture:** Wood & wood products; furniture; paper & paper products
- **Advanced Manufacturing:** Nano-materials, laser technology, robotics

Source: Statistics South Africa 2014

Investment incentives:

Manufacturing Incentives



Special economic zones

Type of zones

- Industrial Development Zones
- Free Ports
- Free Trade Zones
- Sector Development Zones

Existing zones

- Coega IDZ in Port Elizabeth (Eastern Cape province)
- East London IDZ in East London (Eastern Cape province)
- Richards Bay IDZ in Richards Bay (KwaZulu-Natal province)
- OR Tambo IDZ in Kempton Park (Gauteng province)
- Saldanha Bay IDZ in Saldanha Bay (Western Cape province)

Benefits

- 15% corporate income tax rate for businesses;
- Employment incentive allowing for a tax deduction for employment of workers earning less than R60 000 per year;
- Accelerated depreciation allowance for buildings to encourage developers to invest more in industrial premises;
- Exemption of duties on imports for export production;
- VAT exemption for imports of goods;
- Dedicated customs services and electronic customs clearing;
- Provision of world class infrastructure to lower transaction costs.

Section 12I Tax Allowance

Project Type	Project Status	Maximum Additional investment allowance		Net tax benefit (28% corporate tax rate)
Brownfields Projects (R30 million or 25% of asset base)	Preferred status	55% (100% if in IDZ) of cost of manufacturing assets	R550 million	R154 million
	Normal status	35% (75% if in IDZ) of cost of manufacturing assets	R350 million	R98 million
Greenfields Projects (R200 million)	Preferred status	55% (100% if in IDZ) of cost of manufacturing assets	R900 million	R252 million
	Normal status	35% (75% if in IDZ) of cost of manufacturing assets	R550 million	R154 million



Manufacturing Competitiveness Enhancement Programme

Capital investments

- Supports capital investment in equipment upgrading and expansions that will lead to job creation and job retention.
- **Grant = 50-30%** of investment cost.
- Capped at **R30million**.
- 10% bonus grant for job creation & local procurement
- Bonus grant is capped at **R5million**.
- Base year employment must be maintained.

Qualifying costs

- M&E
- Forklifts
- Building improvements, extension, leasehold improvements
- Tools, jigs & dies.

Green Technology and Resource Efficiency Improvement

- Supports projects that will lead to cleaner production and resource efficiency.
- **Grant = 50-30%** of investment cost.
- Capped at R20million.
- 10% bonus grant for job creation & local procurement
- Bonus grant is capped at **R5million**.
- Base year employment must be maintained.

Focus areas

- Waste management
- Cleaner production
- Energy efficiency
- Renewable energy
- Water use efficiency
- Conformity assessment

Enterprise Level Competitiveness Improvement

- Objective is to enhance the competitiveness of enterprises through the enhancement processes, products and related skills
- **Grant = 50%** of expenditure.
- Capped at **R10million**.

Focus areas

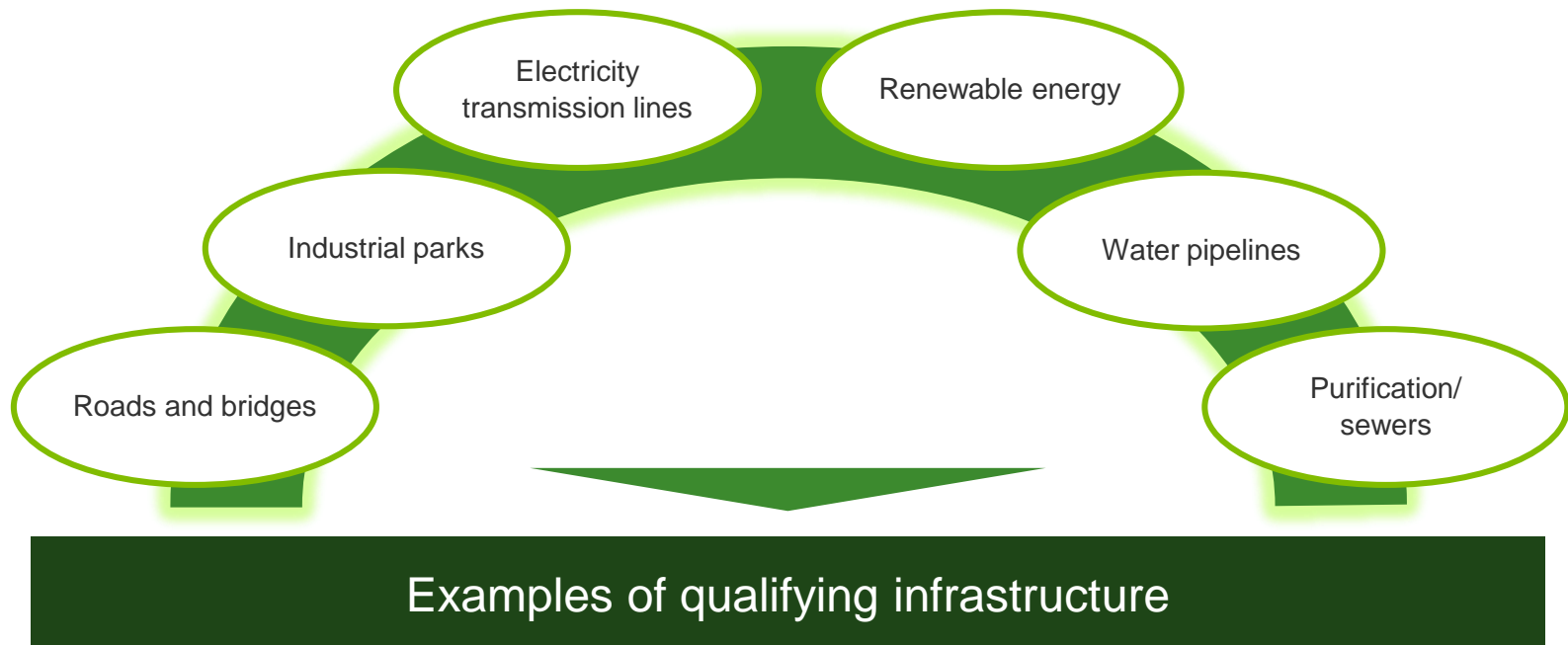
- Process improvement
- Product improvement
- Logistics improvement
- Skills development
- Information technology systems.
- Conformity assessment certification
- Procurement process improvement
- Bidding costs.

Feasibility studies

- Objective is to facilitate feasibility studies that are likely to lead to bankable business plans that will result in investment in new components or products or processes not currently manufactured.
- Grant = 50% of the cost of the study.
- Capped at R8million.

Critical Infrastructure Programme

- The Programme offers a non refundable, cash grant
- The scheme covers between 10% - 30% of the total cost of development costs of the qualifying infrastructure but is capped at R30million per project.
- Provide targeted financial support for physical infrastructure that will leverage strategic investment with positive impact on the economy.
- Make SA industry more competitive by powering infrastructure cost and risks.



Automotive Investment Scheme

Automotive Investment Scheme

- Non refundable cash grant of 20% of investment costs
- Light motor manufacturers than produce achieve 50 000 annual unit production within 3 years
- Component manufacturers that derive 25% of turnover or R10 million per annum from OEM supply chain
- Bonus grant of 10% of investment costs for:
 - Significant plant production volumes
 - Use of local tooling
 - Increased local value addition
 - Employment creation and or retention
 - Research and development conducted in South Africa
 - Strengthening the local automotive supply chain
 - Empowerment

People-Carrier Automotive Investment Scheme

- Non refundable cash grant
- 20% of investment costs for Complete Knocked Down (CKD) vehicle assemblers
- People-carriers for the transport of between 10 and 35 persons including the driver with a vehicle mass exceeding 2000kg.
- Floor panels, body sides or roof panels are not permanently attached to each other; the engine and transmission assemblies, axles, radiators, suspension components, steering mechanisms, braking or electrical equipment or instrumentation are not fitted to such floor pans or chassis frames; the bodies/cabs are not fitted to floor pans or chassis frames
- Component manufacturers that derive 25% of turnover or R10 million per annum from OEM supply chain
- Bonus grant of 10% of investment costs for:
 - Maintaining jobs
 - Use of local tooling
 - Employment creation and or retention
 - Research and development conducted in South Africa
 - Strengthening the local automotive supply chain

Aquaculture Development Enhancement Programme

Non-refundable cash grant of 20-45% of investment costs, capped at R40 million

1. Primary Aquaculture Operations:

- Brood stock operations;
- Seed production operations; hatcheries etc.

2. Secondary Aquaculture Operations:

- Primary processing for aquaculture (post-harvest handling, eviscerating, packing, quick freezing);
- Secondary processing for aquaculture (filleting, portioning, packaging);
- Tertiary processing for aquaculture (value adding: such as curing, brining, smoking, further value adding such as terrines, roulades, pates, paters); and
- Waste stream handling for aquaculture (extraction of fish oils, protein beneficiation, organic fertilizers, pet feeds, animal feeds).

3. Ancillary Aquaculture Operations

- Aquaculture feed manufacturing operations;
- Research and development projects related to aquaculture;
- Privately owned aquaculture veterinary services (farm inspections, disease surveillance and control,



Deloitte in South Africa:

- Professional Services Footprint
- Africa Tax Desk
- Key role of Africa



Contact Details

Tumelo Marivate

Associate Director : Tax - Research & Development and Government Incentives

Email: tmarivate@deloitte.co.za

Tel: +27 (0) 11 209 6496



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