

# Status update on processing of application for the R&D tax incentive



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Presentation during Minister breakfast meeting on  
R&D tax incentive  
21 August 2015



science  
& technology

Department:  
Science and Technology  
REPUBLIC OF SOUTH AFRICA

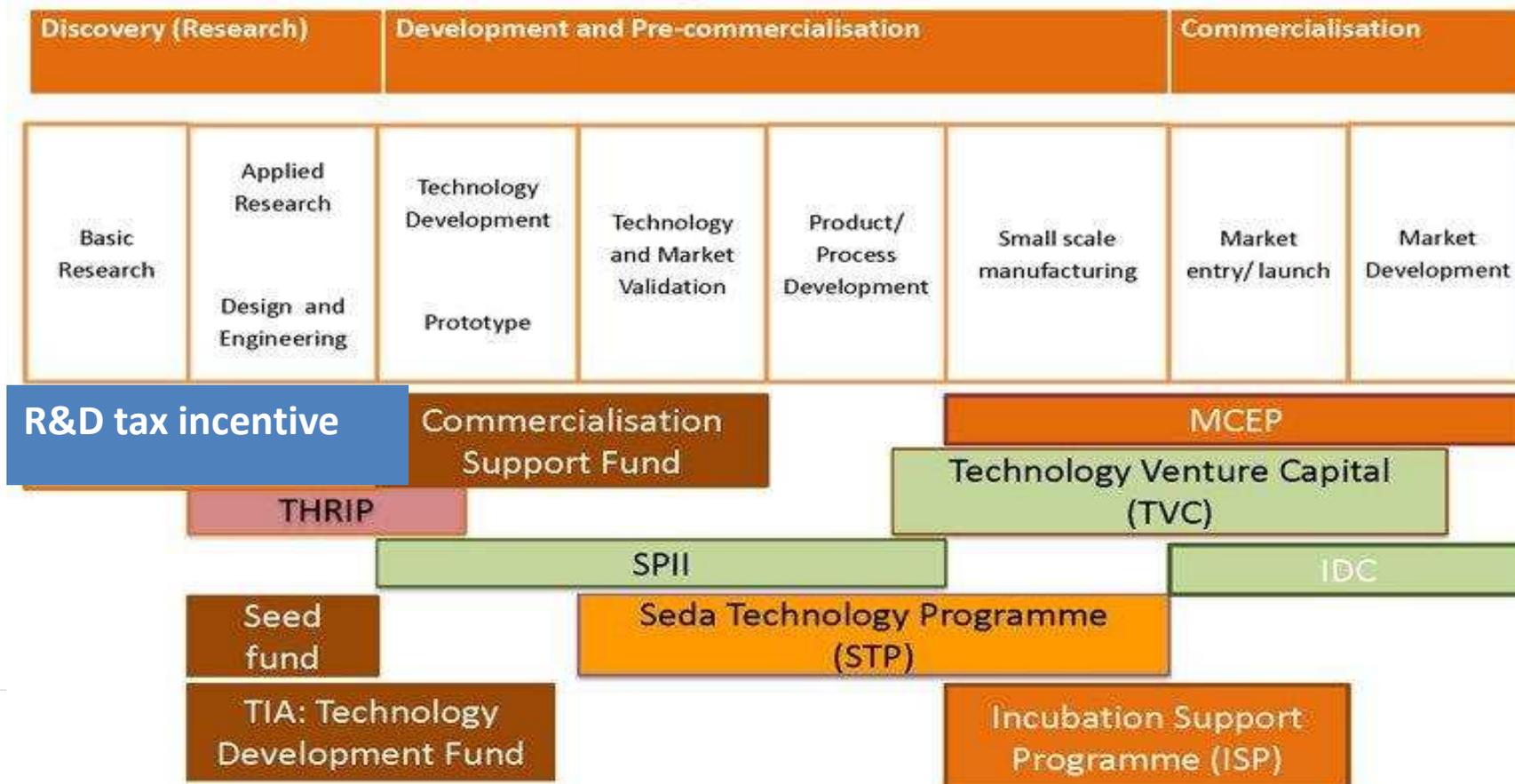


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# Place of R&D incentive within the government's incentives portfolio

## Innovation and Technology Funding instruments





## Overview of the procedure for applying

- Companies undertaking R&D in South Africa qualify for a tax deduction in terms of Section 11D of the Income Tax Act (1962), as amended.
- Since 1 October 2012 taxpayers require approval from the Minister of Science and Technology for R&D activities before claiming the deduction.
- The adjudication committee, comprising the DST, NT and SARS has been established in terms of the Act to evaluate applications and recommend to the Minister.

## Overview of the procedure for applying (2)



- The pre-approval system assumes that the applicant knows certain information about the intended R&D activities.
- The information requirements have been kept to a minimum – to that which is required to determine eligibility of the activities and for administrative purposes.
- The current application form is being updated to incorporate the January 2015 amendments.



## Yearly totals of applications and status in processing (as at 31 July 2015)

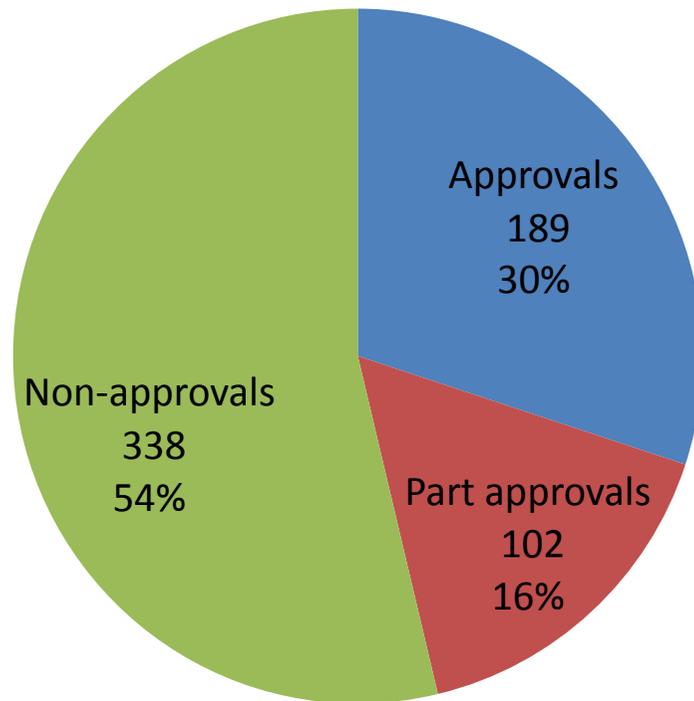
Reporting period	Number of applications received	Applications withdrawn	Applications adjudicated	Remaining stock still to be adjudicated	% remaining stock of applications received
October 2012 to December 2012	244	6	221	17	7%
January 2013 to December 2013	311	3	270	38	12%
January 2014 to December 2014	238	2	111	125	53%
January 2015 to date (June 2015)	121	0	27	94	78%
<b>Totals</b>	<b>914</b>	<b>11</b>	<b>629</b>	<b>274</b>	<b>30%</b>

- A total of 914 applications have been received since Oct 2012 to date. 244 (27%) of these were received in the first 3 months (October to December 2012).
- By 31 July 2015, 69% (629) of the applications have been adjudicated.
- The initial slow momentum in the adjudication process resulted in the build-up of a backlog which has since been carried over to the subsequent years.



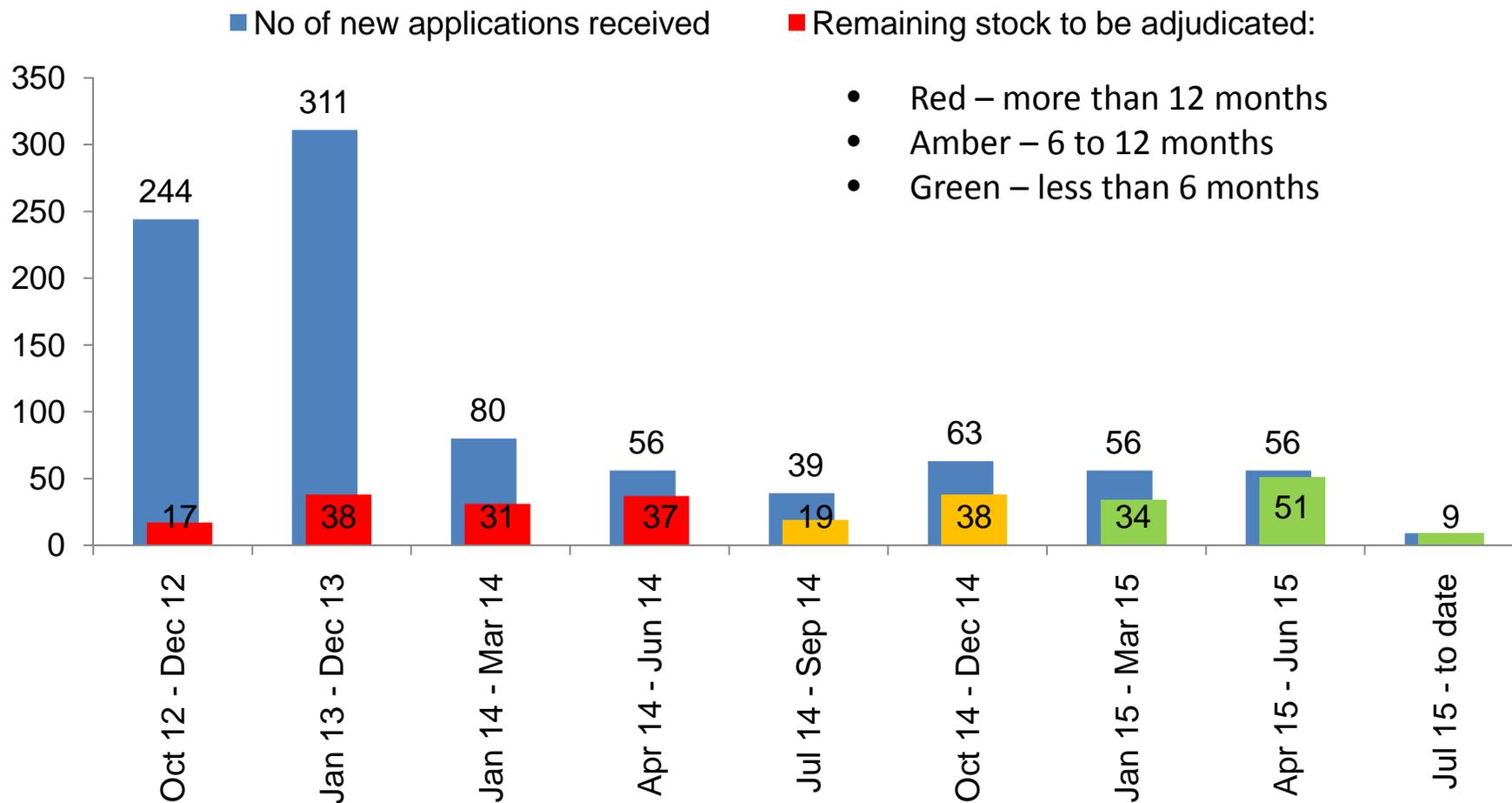
# Approvals and non approvals per sector (Applications)

## Approvals and non-approvals (Applications) Total of 629 as as 31 July 2015



Non approved applications (Total of 338 as at 31 July 2015)	
Sector	% to total
10000 – Agric & related	0.9%
20000 – Mining and Quarrying	2.1%
30000 – Manufacturing	34.6%
40000 – Electricity, Gas & Water Supply	0.9%
50000 – Construction	0.9%
60000 – Wholesale & Retail Trade	0.3%
70000 – Transport, Storage & Comms	5.3%
80000 – Finance & Business Services	55.0%
90000 – Community & Social Services	0.0%

# Tracking the backlog – Remaining stock of applications per quarterly periods (as at 31 July 2015)





## How we are addressing the backlog

- The 123 applications that have been received before June 2014 are the priority for addressing the backlog. All remaining applications with dates of 2012 and 2013 are targeted to be adjudicated by end of September 2015.
- Two key constraints in the process are:
  - Lack of relevant information in the application.
  - Internal administrative processes.
- Where the DST is awaiting additional information/clarity, applicants are given a deadline to submit such information. This has already been done with the remaining 2012 and 2013 applications. Where such information is not provided by deadline, adjudication will proceed on the basis of what is already available.
- This approach will be repeated every other month to address the oldest 3-monthly batches of applications.





## How we are addressing the backlog (2)

- New applications that have all the relevant details will be processed as they are received. We are doing this in order to substantially reduce turnaround times on all new applications that are ready to go.
- Seven external experts have been appointed to assist the DST in evaluating applications.
- Minister has delegated certain tasks in order to see the 2014 applications accelerated.
- The Adjudication Committee will continue to meet every week.
- Adjudication on Pharmaceuticals and Clinical Trials applications has commenced, following gazetting of Regulations by the Minister of Finance on 23 April 2015.



## Ways for improving efficiency going forward

- The paper based application form will be replaced in the coming months with an online submission system with back-office improvements. Development is advanced and we are currently testing the system in the DST IT environment.
- Information requirements for applicants are being updated so that it is easier to understand and comply with. New versions of the following will be publicised in September:
  - Guidelines for Applicants.
  - Application Form and Progress Report Form.
  - Website information.



## Information requirements for applicants

- Information requirements have been kept to a minimum:
  - Administrative information (to identify the company, contact details, and the agent involved in making the application, etc.).
  - R&D activities (to determine eligibility of the intended activities).
- Mandatory fields have been created so that all the applications can comply to some minimum information requirements.



## Information requirements for applicants (2)

- With respect to R&D activities, the following is required:
  1. To indicate under which subsection(s) an application is made. Whether it is for the:
    - a) Discovery of non-obvious S&T knowledge;
    - b) Creating or developing an invention, functional design, computer program, multisource pharmaceutical product(s) or knowledge essential to their usage;
    - c) Making a significant improvements to the abovementioned aspects; or
    - d) Conducting a clinical trial.
  2. To give a description of the systematic investigative or systematic experimental activities being undertaken (in order to achieve what is indicated in par. 1 above). To be considered R&D, outcomes of such activities must be uncertain, i.e. non-obvious.



## Information requirements for applicants (3)

- With respect to R&D activities, the following is required:
  3. To describe how the intended activities will advance the existing base of scientific and technological knowledge in the relevant field.
  4. With respect to the ‘significant and innovative improvement’,
    - a) The application must further describe the innovative aspects involved compared to the existing base in order to explain the scientific or technological advancements.



## Information requirements for applicants (3)

- With respect to Progress reports in terms of section 11D(13), the following is required for purposes of monitoring the impact of the incentive:
  1. Progress with the R&D activities.
  2. Actual R&D expenditure.
  3. Number and categories of R&D personnel.
  4. Outputs of R&D achieved.



# *THANK YOU*

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