Incentives needed to encourage research

Companies in SA had incurred total research and development expenditure of R6.2bn between November 2006 and February 2010. About 75% of that was eligible for tax incentives, according to Mohammed Jada, KPMG's head of tax and research and development incentives.

Business accounts for nearly 60% of research and development spending in SA, but this expenditure is "dipping". SA spends 0.92% of its R408.24bn gross domestic product (GDP) on research and development, which is less than developed countries and also less than its emerging-market partners.

Brazil, Russia and China spend more than 1% of their GDPs on research and development, according to the World Bank's indicator while the GDPs of those countries are considerably higher.

The Department of Science and Technology had initially aimed for 1% of GDP to be spent on research and development by 2008, but the target remained elusive.

In a journal article published last year, author Anastassios Pouris, director at the University of Pretoria's Institute for Technological Innovation, argues that "knowledge accumulation is considered one of the key factors affecting the productive capacity of a country and, hence, its capacity for international competitiveness".

The research and development tax incentives are a way of attracting companies to SA to undertake research and encouraging firms already here to undertake more research and development. Historically, uptake of the tax incentives has been limited, however.

In October last year, the department - in collaboration with the South African Revenue Service and the Treasury - revised its research and development tax incentives to include energy and natural resources industries.

"Some 477 companies reported to the Department of Science and Technology (to take advantage of the tax incentives) up to February 2012, and 53 were in the energy sector, (with their research and development spend) amounting to R1.8bn," Godfrey Mashamba, chief director for investment at the department, said at a KPMG breakfast seminar in Johannesburg on Wednesday (30 January).

The seminar focused on research and development tax incentives for the energy and natural resources sector.

"All eligible research and development expenditure will qualify for an automatic 100% (incentive). (There is also) an additional 50% uplift, which only applies to research and development expenditure that is granted by the minister," he said.

Science and Technology Minister Derek Hanekom said at the seminar: "It's about the economy, economic growth and addressing the country's challenges. For firms to be more competitive, they need to be more innovative." He focused on the mining sector, as research and development in this sector will now fall within the ambit of the tax incentive.

He pointed to the mining sector as one of SA's natural competitive advantages over the rest of the world.

"The mining sector has been the mainstay of SA's economy, and we have been taking it for granted and shifting away from it. Yes, we need to diversify, but also need to stick to our strengths. We have not infused the mineral sector with the innovative support it needs to achieve its full potential."

Source: *Business Day* via I-Net Bridge