SA rolls out tax incentives to boost electric vehicle manufacturing by 2026

The wheels are in motion to transition the automotive industry over the next 10 years.

The enabling provisions that will allow carmakers to claim 150% of the expenditure on new production capacity for electric and hydrogen-powered vehicles were published this month.

The provisions in the draft Taxation Laws Amendment Bill (TLAB) gives effect to the February announcement of an investment allowance of R500 million for the 2026/27 tax year.

National Treasury says any motor vehicle manufacturer investing in new and unused "buildings, machinery, plant, implements, utensils, and articles" to be used for the production of electric or hydrogen-powered vehicles will qualify for the incentive.

Joon Chong, partner at law firm Webber Wentzel, says only new and unused assets will qualify for the incentive. This is to ensure that assets will add to the production capacity for electric and hydrogen-powered vehicles that the company plans to produce.

Industry transition

Former minister of trade, industry and competition Ebrahim Patel said the long lead time was designed to give local carmakers enough time to prepare production facilities and win support from their parent companies.

"As they incur that expense off the back of our incentive, they know they will be reimbursed," he told Bloomberg earlier this year.

South Africa plans to transition the automotive industry from primarily producing internal combustion engine (ICE) vehicles to a dual platform that includes the production of electric vehicles (EVs).

"The compelling reasons behind this transition include the urgent need to address environmental concerns and for countries to meet their national emission reduction commitments stemming from the Paris Agreement," National Treasury says in the TLAB explanatory memorandum.

Some of South Africa's key export markets like the European Union and the UK plan to ban the sale of new ICE vehicles by 2035. This paradigm shift threatens the country's strategic position in the global automotive export industry as most of the vehicles manufactured locally are currently exported to these countries.

Electric vehicles tax incentives

Benjamin Mbana, director at A&O Shearman, says tax incentives have become a critical tool in driving the adoption of renewable energy in South Africa, particularly considering the ongoing energy crisis and a global shift away from the use of traditional fossil fuels.

"Looking forward, the next frontier is the provision of highly attractive incentives to large manufacturers of electric vehicles. One industry that is offering some hope to reigniting the economy is South Africa's all-important vehicle manufacturing industry."

Mbana says the country is now looking to position itself as a “hub” for electric vehicle manufacturing. Tax incentives for renewable energy adoption are designed to set South Africa up as a future competitor in the global electric vehicle market.

Major trading partners like the UK are moving towards stricter CO_2 emissions standards. The diesel and petrol vehicles South Africa has produced in large volumes over the past few decades will start to become unattractive to our main export markets, Mbana adds.

Treasury notes that eligible assets will be those that are necessary to set up a new facility or extend an existing building to cater for the domestic production of electric vehicles and hydrogen-powered vehicles.

The benefits and the catches

The cost of the asset for tax purposes will be limited to the lesser of the arm’s length market value on the date of acquisition or the actual cost to the taxpayer. This is intended to ensure that taxpayers do benefit from an additional allowance on financing costs.

However, there is a claw-back when an asset was developed or obtained with the tax incentive but sold within a period of five years from the date it was brought into use.

Taxpayers will have to include 50% of the cost of the asset that had been recouped in their taxable income for the current year of assessment.

Treasury also wants to prevent double deductions. Taxpayers who already qualify for specific deductions will not be allowed to claim further deductions under several specified sections of the Income Tax Act for assets brought into use during the period of the incentive.

Source: Amanda Visser - https://www.citizen.co.za/business/tax-incentives-electric-vehicles-manufacturing-by-2026/

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