VAT NO: 4570171100
REG.NO.CK 98/04009/23

06 September 2019

To whom it may concern:

RE: Amendment to Ad-valorem excise duty calculation of imported vehicles- Section 65 of the Customs and Excise Act, 2014 (Act no 32) subsection 8

Change	Legal text Words crossed through is deleted and words underlined and in green is new
CLAUSE 63 Customs and Excise Act: Amendment of section 65 The amendment proposes the deletion of the reference in subsection (8) of section 65 to "nonrebated" customs duty, which has the effect that all customs duty payable on imported goods in terms of Part 1 of Schedule No. 1 must be taken into account when calculating the value for purposes of ad valorem duty on such goods, and not only non-rebated customs duty	63. (1) Section 65 of the Customs and Excise Act, 2014 (Act No. 32 of 2014), is hereby amended by the substitution for subsection (8) of the following subsection: "(8) Notwithstanding the provisions of subsections (1) and (4), the value for the purposes of the duty specified in Section B of Part 2 of Schedule No. 1 shall, in respect of imported goods, be the transaction value thereof plus 15 per cent of such value, plus any **[~~non-rebated~~]** customs duty payable in terms of Part 1 and any excise duty payable in terms of Section A of Part 2 of Schedule No. 1 on such goods, but excluding the duty specified in the said Section B of Part 2 of Schedule No. 1 on such goods.". 2) Subsection (1) comes into operation on a date determined by the Minister by notice in the Gazette.

General:

1. We represent many automotive component manufacturers, automotive tooling manufacturers and smaller light/sports vehicle OEMs operating within the South African industry. All of which hold Eligible production certificates (EPC) with ITAC and claim under the Automotive Production Development Programme (APDP).

APDP:

2. The APDP is a programme which is aimed at creating an environment that will enable registered light motor vehicle manufacturers to significantly grow production volumes and component manufacturers to significantly grow value addition, leading to the creation of additional employment opportunities across the automotive value chain.
3. Eligible and successful claimants are issued with a Production Rebate credit certificate (PRCC) based on the value addition created as the APDP production incentive (PI).

PRCC:

4. PRCCs are used to pay/offset vehicle and component import duties.
5. The PRCCs issued to the automotive tooling and component manufacturers are sold at a percentage of their face value to vehicle and component importers as they generally do not have duty accounts against which the PRCCs can be used.
6. The income derived from the sale of PRCCs is vatable and taxable.

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Vehicle taxation:

7. Current taxation on motor vehicles includes but not limited to:
   a. VAT 15% on retail price
   b. Emissions/Carbon tax
   c. 25% Import duty
   d. Ad-valorem tax

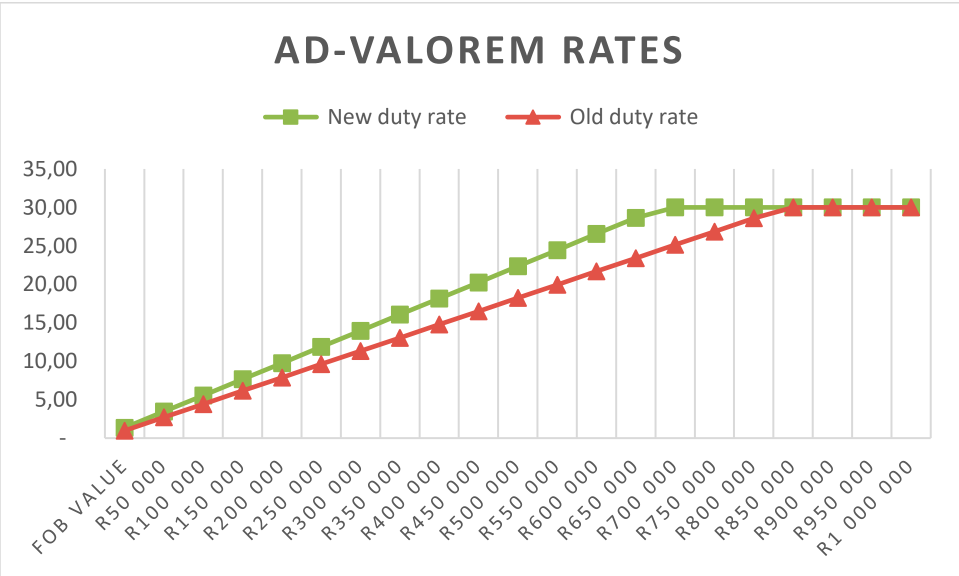
Ad valorem duty Formula:

8. (0,00003 x B) - 0,75)% with a maximum of 30%.

   - "B" means the value for the ad valorem excise duty on imported goods as prescribed in section 65(8)(a) of the Act.
   - B means transaction value of imported goods + 15%, plus any non-rebated customs duty payable.

Cost increase

9. This graph depicts the increase in rate of duty on FOB value. It is noted that the maximum 30% rate of duty is decreased from an FOB value of R847 826,08 to R696 428,57.



10. Here are the values payable w.r.t Customs import duty and Ad valorem duty on FOB prices of imports:

FOB Value	New duty rate	Old duty rate	New Ad valorem duty payable	Old Ad valorem duty payable	New duty rate as % of FOB val	Old duty rate as % of FOB val	Total duty % per vehicle-new rate	Total duty % per vehicle-old rate	Total duty payable per vehicle-new rate	Total duty payable per vehicle-old rate
R50 000	1,35	0,98	R945	R561	1,89%	1,12%	26,89%	26,12%	R13 445	R13 061
R100 000	3,45	2,70	R4 830	R3 105	4,83%	3,11%	29,83%	28,11%	R29 830	R28 105
R150 000	5,55	4,43	R11 655	R7 633	7,77%	5,09%	32,77%	30,09%	R49 155	R45 133
R200 000	7,65	6,15	R21 420	R14 145	10,71%	7,07%	35,71%	32,07%	R71 420	R64 145
R250 000	9,75	7,88	R34 125	R22 641	13,65%	9,06%	38,65%	34,06%	R96 625	R85 141
R300 000	11,85	9,60	R49 770	R33 120	16,59%	11,04%	41,59%	36,04%	R124 770	R108 120
R350 000	13,95	11,33	R68 355	R45 583	19,53%	13,02%	44,53%	38,02%	R155 855	R133 083
R400 000	16,05	13,05	R89 880	R60 030	22,47%	15,01%	47,47%	40,01%	R189 880	R160 030
R450 000	18,15	14,78	R114 345	R76 461	25,41%	16,99%	50,41%	41,99%	R226 845	R188 961
R500 000	20,25	16,50	R141 750	R94 875	28,35%	18,98%	53,35%	43,98%	R266 750	R219 875
R550 000	22,35	18,23	R172 095	R115 273	31,29%	20,96%	56,29%	45,96%	R309 595	R252 773
R600 000	24,45	19,95	R205 380	R137 655	34,23%	22,94%	59,23%	47,94%	R355 380	R287 655
R650 000	26,55	21,68	R241 605	R162 021	37,17%	24,93%	62,17%	49,93%	R404 105	R324 521
R700 000	28,65	23,40	R280 770	R188 370	40,11%	26,91%	65,11%	51,91%	R455 770	R363 370
R750 000	30,00	25,13	R315 000	R216 703	42,00%	28,89%	67,00%	53,89%	R502 500	R404 203
R800 000	30,00	26,85	R336 000	R247 020	42,00%	30,88%	67,00%	55,88%	R536 000	R447 020
R850 000	30,00	28,58	R357 000	R279 321	42,00%	32,86%	67,00%	57,86%	R569 500	R491 821
R900 000	30,00	30,00	R378 000	R310 500	42,00%	34,50%	67,00%	59,50%	R603 000	R535 500
R950 000	30,00	30,00	R399 000	R327 750	42,00%	34,50%	67,00%	59,50%	R636 500	R565 250
R1 000 000	30,00	30,00	R420 000	R345 000	42,00%	34,50%	67,00%	59,50%	R670 000	R595 000

Indirect, unintended consequence:

11. Automotive component and automotive tooling manufactures rely heavily on the support of the APDP programme. The only financial benefit received they receive is in the form of selling the PRCCs that are issued to importers. They do not receive the same benefits as vehicle OEMs, who have additional Vehicle Assembly allowances, APDP- PI claims themselves and enjoy financial investment support through the Automotive Investment Scheme. Small and medium size component manufactures are eligible to, but cannot practically claim under the AIS due to timeline constraints (application minimum 90 days prior to production) and minimum project values (R1million) legislated under this project.

12. The increase in ad-valorem will be a burden on the local automotive component and automotive tooling manufacturing industries because the increase in cost of ad-valorem will be negated by OEMs by reducing the amount or percentages paid by importers on the values of PRCCs obtained by such manufacturers.

13. The alternative is that the increase in cost will be passed on directly to the consumer. This will result in a decrease in local vehicle sales. This in turn will mean less demand for PRCCs. This will reduce the PRCC purchase rates offered by vehicle importers which leads to less benefit for the local component and automotive tooling manufacturing industry. This will overall result in a decrease in VAT and income tax to the fiscus throughout the automotive value chain.

Consumers and businesses remain under financial pressure and the new vehicle market is feeling the pressure of the reduced spending power with regards to vehicle purchases. The ABSA Purchasing Managers' Index (PMI) reiterated the current weak domestic demand environment, not just in its decline from 52.1 index points in July to 45.7 index points in August, but in particular the magnitude of the decline. Business and consumer confidence levels remain low with the high-volume passenger car segment as well as the heavy, extra-heavy and bus segments performing weaker during August 2019 compared to the corresponding month last year. Worryingly, purchasing managers expect conditions to worsen going forward. On the positive side, the vehicle export performance remains extremely strong with the industry on track to achieve a new record in 2019. In this regard industry vehicle production levels would continue to benefit from strong vehicle export sales.- (NAAMSA website- July 2019)

Recommendation:

14. It is recommended that no negative changes be made to Section 65 of the Customs and Excise Act, 2014 (Act no 32) subsection 8 due to the factors highlighted above.
15. The formula in which ad valorem on locally manufactured vehicles (20% reduction on ex vat sales pricing) and ad-valorem on imported vehicles (15% increase to FOB values) is calculated merits consideration for review. The reduction and increase percentages respectively cannot be substantiated.
16. It is suggested that solutions be found in order to increase the ease of business in South Africa across all spheres of the economy. Less politically and bureaucratically motivated policies and regulations is required. Greater sales and turnovers automatically result in a 15% VAT income for the government. An increase in Income tax follows suite. Instead of depleting the existing tax base further, Government should be increasing the "Turnover" size of the economy and reap the benefits thereof.

Thank you for your time and consideration.

Yours sincerely

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