

6 September 2019

To: Hon J Maswanganyi – Chairperson: Standing Committee on Finance  
Hon Y Carrim – Chairperson: Select Committee on Finance

ATTENTION: Allan Wicomb - [awicomb@parliament.gov.za](mailto:awicomb@parliament.gov.za)

Dear Sirs

## 2019 DRAFT INCOME TAXATION AMENDMENT BILL

Thank you for the opportunity to reply to the above Amendment Bill which is to be presented to the Parliamentary Standing Committee on Tuesday 10 September.

Motus Holdings Limited employs 14 769 people in South Africa, of which 73% are black employees, and contributes annually to the fiscus of over R3.2bn in the form of PAYE, VAT, Income Tax and Duties and is the exclusive importer of Hyundai, Kia, Mitsubishi and Renault vehicles into South Africa representing a significant portion of the independent vehicle importers.

With regard to the proposed changes to Section 65 of the Customs and Excise Act, we wish to reply specifically to Clause 63 of the proposed amendments to Section 65.

Change	Legal text Words crossed through is deleted and words underlined and in green is new
<p><b>CLAUSE 63</b> Customs and Excise Act: Amendment of section 65</p> <p>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</p>	<p>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:</p> <p>"(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 <del>non-rebated</del> 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."</p> <p>2) Subsection (1) comes into operation on a date determined by the Minister by notice in the Gazette.</p>

➤ Directors: OS Arbee (CEO), OJ Janse van Rensburg (CFO), K. Cassel  
Company Secretary: JK Jefferies

1 Van Buuren Road, cnr Geldenhuis Road and Van Dort Street, Bedfordview, 2008 | PO Box 1719, Edenvale, 1610, South Africa  
T: 27 (10) 493 4335 F: 27 (10) 596 6160 | [www.motuscorp.co.za](http://www.motuscorp.co.za)

Motus Corporation (Pty) Ltd | Reg. No. 1969/002321/07

The proposed adjustment to the Ad Valorem calculation for imported vehicles will remove the ability to reduce the duty percentage and value by rebating such duties using a PRCC and will therefore increase the costs of imported vehicles resulting in a negative impact on vehicle prices.

Consequently, in an industry that runs on tight margins, this tax increase will be passed onto the consumer thereby affecting the affordability of customers to purchase vehicles and/or delay purchasing a new vehicle. Fewer new vehicles will be sold in South Africa thereby impacting dealership viability which already operates in an environment where 2019 new vehicle sales are down approximately 5% YTD which has led to dealership closures and unemployment.

The proposals put forward in the Department of Trade and Industry's (DTI) South African Automotive Masterplan (SAAM), detail a vision for the Automotive Industry for the period 2021 – 2035. In these proposals, from 2021, PRCC's are to be replaced with duty credits thereby effectively removing current rebates of Ad Valorem duties when importing vehicles utilising PRCC's, as well as levelling the playing fields between Importers where there are different tariff rates. We therefore do not understand why National Treasury would wish to go against such recommendations and change the legislation for something that will be automatically rectified in a fair and sustainable manner from 2021.

The Ad Valorem formula – (Schedule 1, Part 2, Section B) on imported vehicles to South Africa is:

- i.  $((0,00003 \times B) - 0,75) \%$  with a maximum of 30%; and
- ii. "B" means the value for the ad valorem excise duty on imported goods as prescribed in section 65(8)(a) of the Act.

Where B is calculated as

- FOB value of the vehicle + 15% + Import Duties

There are 2 inherent weaknesses in this formula:

1. The 15% according to National Treasury is an estimate to value goods from FOB to CIF (cost insurance + freight) basis. However, in reality the cost of both insurance and freight are below 10%; and
2. There has been no change in the formula for approximately 15 years (other than to increase the capping of Ad Valorem payable) and is heavily impacted by the exchange rate at time of Importation. When the Motor Industry Development Programme was introduced in 1995, the exchange rate was around R3.50. Today we are at an exchange rate of around R14.80. Any revised formula will need to take account of movements in the exchange rate and build in protection against this volatility in the currency. We would welcome the opportunity to set up a workshop with DTI, National Treasury and other Vehicle Importers to discuss this matter.

## IN SUMMARY

We consider an Ad Valorem tax on all imported and domestic vehicles inappropriate as most vehicles sold in South Africa are an essential requirement for people-mobility due to the lack of available public transport and the geographic dislocation of residential, commercial and industrial areas.

Our principal OEM's would view any change to the current regulatory environment which impacts on the cost of importing vehicles to South Africa in a negative light. Many OEM's through their global procurement supply chain source components from South Africa, this amendment could negatively impact future procurement by these OEM's.

We therefore strongly recommend that the proposed changes to Section 65 as published under the 2019 Draft Income Taxation Amendment Bill be withdrawn due to the unfavourable impact it will have on vehicle prices, sales, the dealer network, employment and ultimately the fiscus.

Yours sincerely

A handwritten signature in black ink, appearing to be 'HARVEY ADLER', with a large, sweeping checkmark-like flourish extending from the end of the signature.

**HARVEY ADLER**

**OPERATIONAL EXECUTIVE: VEHICLE IMPORT AND DISTRIBUTION**