

**TOYOTA**

TOYOTA SOUTH AFRICA MOTORS (PTY) LTD

PO Box 481 Bergvlei 2012, Gauteng, South Africa

Tel +27 (0) 11 809 9111

Fax +27 (0) 11 809 2940

Allen Wicomb
Committee Secretary
Parliament of the Republic of South Africa
90 Plein Street
Cape Town

6th September 2019

Dear Mr Wicomb

WRITTEN SUBMISSION ON THE 2019 DRAFT INCOME TAX AMENDMENT BILL**Business Operating Condition Under The Prevailing Legislative Environment**

Toyota South Africa Motors (TSAM) is one of the seven Original Equipment Manufacturers (OEM's) located in South Africa and has been a key player in the development of the Automotive Industry. Through the TRIMS support measures from Government (MIDP and APDP), TSAM became the first OEM to reach 100,000 units production and sales volume in South Africa. We are now aligning our business to enable us to supply and be a part of the future growth in Africa and ultimately our vision is become the Mother Plant for Toyota in Africa.

However, in order to achieve this, TSAM needs to be globally cost competitive. Currently, it costs TSAM significantly more (up-to 25% on some) to manufacture an equivalent vehicle versus another Toyota factory inclusive of all TRIMS and Support measures, so we have initiated a strong drive to improve our efficiency and reduce our cost. The realization of this initiative will see our cost premium reducing to within 11% by 2020 and ultimately to zero by 2026. To this end, we need to ensure that the TRIMS and Support measures remain stable so that through our cost competitiveness advantage, we can drive localisation, which will in turn increase employment, sustainability and growth according to the objectives of the South African Automotive Master Plan (SAAM).

TSAM Concerns with The Draft Legislation

On Wednesday, 30 July, Treasury published the 2019 Draft Income Tax Amendment Bill (CLAUSE 63: Customs and Excise Act: Amendment of section 65), which outlines Governments intention to remove Fiscal Duty discounting on CBU's to better align the tax structures between Completely Built-Up Units (CBU's) and Completely Knocked Down Units (CKD's) for the domestic market.

As you may be aware, Government support has already been reduced through the APDP Phase 2, which we fully support. However, if this bill is passed, it will have a detrimental impact on our cost competitiveness. The immediate impact will be a deterioration in our cost competitiveness by 6% to 11% in 2020 and by as much as 11% by 2026. This places in jeopardy TSAM's potential future investment plans for new and replacement models.

Reg. No. 1961/001767/07

Waste Tyre Regulations, 2009 Registration Number: TPREG0031GAU

Chairman: Dr J J van Zyl, President & CEO: A Kirby, Executive Vice-Presidents: M Iida#, N Ward.

Directors : D Fernandes*, C Hamman, B Kilpatrick, S Moodley, K Tomita#.

Secretary: Toyota South Africa (Pty) Ltd represented by Ms PC Reddy.

#Japanese

*American

07/2019

At the outset, it must be noted that TSAM respects and supports Treasury direction as it seeks to make local CKD models more competitive in the SA market. Thus, we need to jointly find an amicable solution.

We need to agree that the OEM's require CBU's to manage its model mix and satisfy customer requirements. This variety is also necessary to support our vast dealer network. Secondly, 28% of the domestic market consists of direct importers where little to no value addition is taking place and is therefore not directly driving the SAAM and Industrial Participation Action Plan (IPAP). It is here where we suggest focus and correction is needed.

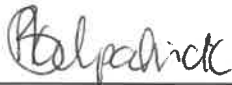
Proposed Solution / Countermeasure

We believe there are alternatives to still achieve the objectives Treasury would like to achieve. The essence of our proposal is to ensure the current support is redirected to enhance two specific pillars of the master plan: (1) Stimulating and growing the domestic market and (2) Promoting Regional growth through sustaining and improving our competitiveness as an industry. This will attract investment and stimulate jobs. It will further ensure that future decisions for global volume allocation are not compromised.

We would like to propose the detail of this alternative to the Treasury Department and would like to request their strong consideration in their final recommendation to this committee later this month. We have a strong believe that it will not only support the objectives but also be able to generate additional revenue and investments for government through the local and regional market growth. Lastly, TSAM would like to re-affirm our commitment to the SAAM. We strongly believe that this proposal will support us on our journey to jointly execute the objectives by 2035. We would appreciate your consideration of this proposal and we would like to avail ourselves for further engagements, should you require.

We look forward to your favourable reply.

Yours Sincerely,



Bronwyn Kilpatrick
Chief Financial Officer
Toyota South Africa Motors