

Hon Mr Y Carrim, MP
Chairperson of the Select Committee for Finance
Parliament of South Africa

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Dear Hon Carrim, MP

Summary of oral presentation to the Select Committee for Finance: stem risk of billions of Rands in capital flight, loss of jobs and SMME failures through extension to 12J Income Tax Act

Thank you for the opportunity to present to the Select Committee for Finance on what we believe is a material omission from the amendments under consideration in the Draft Tax Laws Amendment Bill, 2020.

First introduced by government in 2009, Section 12J of the Income Tax Act provides local investors with a tax deduction in exchange for investing into local SMMEs in selected industries. Although introduced in 2009, Section 12J only gained traction in 2015 when National Treasury made certain favourable amendments to the tax law. However, this incentive could soon end due to a 'sunset clause' in the Income Tax Act which only makes provision for such investments until 30 June 2021.

We believe that a continuation of the Section 12J incentive will help government achieve its objectives by:

- Reversing capital flight and locking investment in homegrown SMME projects;
- Encouraging investments in strategic sectors of the economy;
- Increasing tax revenues by broadening the tax base; and
- Helping small businesses access capital.

In the last five years, 12J investments have directed over R5 billion worth of investment into over 360 SMMEs in various strategic sectors including renewable energy, student accommodation, agriculture and tourism (with a further R4 billion earmarked for future investment). Based on an extensive survey to our members, these investments have directly created over 10 500 jobs across the country (including in rural areas), at an average cost per job of R126,000. In addition, based on accepted economic multipliers, these investments should in time create up to 45 000 jobs when the underlying investee businesses have matured and reached scale.

Based on the fact that c.R9 billion has been raised into the industry over the past 5 years, we believe that section 12J funds could secure at least the same value in additional onshore investment in South Africa going forward, at a time when SMMEs need it the most.

However, if the sunset clause in the Income Tax Act is not extended, this potential investment and these potential jobs are likely to be lost, not only to SMMEs but potentially to the South African tax net as a whole.

The further consequences of 12J being allowed to lapse include:

- South Africa will lose the opportunity to embed an essential SMME-focused ecosystem that can grow local jobs and skills;
- Billions of Rands in investment from ultra-high net worth individuals will flow out of South Africa; and
- The businesses that are eligible for investments under section 12J, already identified as those in most need of additional capital, risk closure – especially those in the hospitality sector that are battling to stay afloat due to the Covid-19 pandemic.

We fully support government's 'Operation Vulindlela' that was recently initiated to drive through growth-supportive structural reforms. We believe passionately that 12J investments can continue to help government open the way for more investment, growth and jobs in the next five years.

At last week's SA Investment Conference, the President assured investors that South Africa's fiscal priorities are to "direct resources to where they will have the greatest impact on long-term growth and poverty alleviation". The President also committed to macroeconomic stability and fiscal prudence as critical building blocks for investment and growth.

To open the way for investment, growth and jobs, government must initiate the legislative process to extend Section 12J at least for the next five years, so as to have the commercial effect of giving Section 12J the 12 year trial period as initially intended when introduced in 2009. We believe that these considerations should have been considered in the current TLAB, given that the Section 12J incentive is set to end in June 2021 but the annual legislative process is typically only concluded around November of each year.

According to National Treasury's 2019 document entitled "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa", SMMEs are responsible for more than 50% of all employment opportunities in South Africa and the sector contributes more than 45% of the country's GDP. The 12J industry is here to work with Government to fulfil the potential of SMMEs at a time when our country needs it most.

We look forward to working with government to ensure that 12J funds continue to benefit every South African by locking in investment and creating jobs.

Yours sincerely



Dino Zuccollo

Chairperson – 12J Association