

## : The impact of the Section 12J incentive on SA's economy

The Section 12J Association of South Africa has released a report to Parliament and National Treasury, outlining the results of the inaugural survey of its members which details the impact which the Section 12J incentive has had on the SA economy.



Dino Zuccollo, chairman of the 12J Association of South Africa

Dino Zuccollo, chairman of the 12J Association of South Africa says, “The 2020 Section 12J industry report demonstrates that the incentive has not only managed to create jobs, but it has done so more economically to the fiscus than other government-backed job creation incentives. Through Section 12J, SMMEs are being meaningfully supported at a time when funding for these businesses has all but dried up. In the Association’s view, the survey findings make a clear case that the June 2021 Section 12J sunset clause should be extended until at least 2027.”

“In only five years, this tax incentive has grown into a mature and successful incentive. At February 2020, Section 12J has total assets under management exceeding R9 billion, the bulk of which has been invested by SA’s high net worth individuals (57% of total investment) for a minimum of 5 years. This is particularly significant in the wake of the devastation caused by the Covid-19 pandemic, at a time when the majority of high net worth investor capital is being invested offshore.”

Of the R9bn raised, an approximate R5.5bn (or 59%) has been invested into more than 360 SMMEs, implying an average investment size of R15m per business. These businesses, in turn, support an approximate 10,500 jobs across a variety of industries including education, agriculture, renewable energy, hospitality and tourism, student accommodation and many others.

Based on the Association's calculations, the Section 12J incentive has been cost-effective for the South African government, at an average cost of approximately R126,000 per job currently created and approximately R30,000 based on the total jobs which are expected to be created by the incentive in years to come.

Respondents indicated that 74% of the jobs created have been for previously disadvantaged individuals and 25% of industry investments have been made outside of major metropolitan areas. This is in stark contrast to other job-creation focused incentives in South Africa, which cost up to R450,000 for each job created.

Additional key findings include:

- Respondents indicated that of the R9.3 billion raised, R7.6 billion would not otherwise have been invested in similar SMME initiatives had it not been for the attractiveness of the Section 12J legislation.
- 57% of total industry capital under management has been raised from individuals, 35% has been raised from companies and 8% has been raised from trusts.
- Of the approximate R5.5 billion which has been invested into SMMEs, the survey finds that 76% is incremental i.e. had it not been for Section 12J, an approximate R4.2 billion would never have been invested into local SMMEs.
- An estimated R2 billion was raised in February 2020 with insufficient time to invest prior to the Covid-19 lockdown, making the industry investment rate (of 59% of total capital raised) closer to 75%.
- Section 12J has created a vibrant, SMME investment focused ecosystem which gives SMMEs access to not only financial capital, but mentorship and guidance not previously available.
- 100% of respondents surveyed believe that the Section 12J legislation should be extended beyond the current June 2021 sunset clause.

Zuccollo concludes, "As is the case in the UK, which has a similar legislation to Section 12J, the survey proves that the underlying Section 12J investee companies will quickly begin to pay more tax than the aggregate of all Section 12J deductions granted. Through Section 12J, government has effectively put the private sector to work in creating an efficient, SMME investment focused ecosystem which will ultimately pay for itself.

"As National Treasury points out in its 2019 Economic Strategy document: 'Creating an environment in which SMMEs can thrive is inextricably linked to creating conditions in which all businesses can thrive.' As Covid-19 causes our fiscal deficit to bulge even further, we should be extending incentives such as Section 12J - we simply cannot afford not to."

Download the [Section 12J Industry Report](#) (PDF File: 6.21MB)

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