

Electric Vehicles White Paper: Tax incentives, climate goals to drive EV industry

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On 5 December 2023, the Department of Trade, Industry and Competition (dtic) published the Electric Vehicles White Paper (White Paper), which is South Africa's first true policy pronouncement on the manufacture, sale and use of electric vehicles (EVs).



Image source: Mke Bird from [Pexels](#)

Although South Africa is late to the party in the creation of such a policy document, the White Paper is a decisive step in the transformation of the South African automotive industry, and it is intended to lay the foundation for the development and implementation of a South African EV market.

When we think about EVs, we typically imagine futuristic and sustainable transport that will play a large role in combatting climate change. We do not, however, immediately consider the industrial challenges and opportunities that EVs may bring.

Economic impact

The South African automotive industry plays a crucial role in the South African economy, and this is especially true of the manufacture of automotives and automotive components.

According to the White Paper, the automotive manufacturing industry accounts for 2.9% of South Africa's GDP. The White Paper further states that the export of vehicles and automotive components accounted for 12.4% of South Africa's exports in 2022, worth over R200bn.

With a significant economic prevalence and inter-sectoral roots (as automotive manufacturing invariably involves mining high-grade elements, for instance), it is no surprise that the automotive industry accounts for 0.8% of South Africa's employment, paying over R30bn in formal wages.

It is thus wholly uncontroversial that the automotive manufacturing industry is a vital part of the country's economy and one that must be protected and developed at all costs.

Risk and opportunity

Many countries have committed to phasing out internal combustion engines (ICE), with countries such as Norway setting the goal that by 2025 all cars sold should be zero emission vehicles. The White Paper acknowledges that this global transition poses an existential risk to the South African automotive industry.

In identifying this risk, the White Paper recognises that the South African automotive manufacturing industry needs to pivot towards the manufacture of EVs and EV components to ensure South Africa's continued prevalence as a global exporter of vehicles and automotive components.

The White Paper also identifies an opportunity that is the corollary of this challenge, in that South Africa can use its existing manufacturing infrastructure and resources to ramp up the large-scale production of EVs and EV components. The manufacture and export of these components is undoubtedly going to become a global necessity, and this is a critical moment for the South African automotive industry to change gears.

Development support

To that end, the White Paper proposes 10 actions to support the development of South Africa's EV productive capacity. These 10 actions range in scope from local to international, with some suggesting regional incentives through the Southern Africa Development Community (SADC), the most relevant of which may be summarised as actions to:

- Increase levels of investment in the automotive assembly and manufacture of EVs in South Africa.
- Facilitate and develop a regional electric battery chain, from resource refinement, to production, manufacture and sale.
- Introduce a temporary reduction on import duties for batteries in vehicles produced and sold domestically.
- Secure or maintain duty free exports for EVs and EV components that are produced in South Africa.
- Leverage resource and development tax incentives to add value to the South African manufacture of EVs.
- Commercialise the production of green hydrogen as a source of sustainable fuels.
- Implement greater energy reforms.

Tax incentives

In carrying out these actions, the dtic has proposed a number of practical solutions that should be implemented in applicable legislation. These solutions include providing research and development (R&D) tax incentives to EV automotive manufacturers in terms section 11D of the Income Tax Act, 1962, such as a tax deduction of up to 150% of expenditure incurred in carrying out EV-related R&D, creating a procurement framework that would incentivise the state to tender with EV manufacturers, increasing spending on the creation of EV-related infrastructure such as charging stations, and providing consumer incentives for the purchase of EVs.

The dtic acknowledges that its proposed investment funding in the form of direct investment and tax deductions will impact South Africa's tax collection from original equipment (OEM) manufacturers in the automotive industry, which currently

contributes R36.9bn in tax revenue. However, the dtic has made the salient point that the decrease in tax revenue collection will be temporary, as the corporate tax levied on these OEMs following the implementation of the White Paper would yield the opportunity for greater tax collection in the foreseeable future.

Reducing carbon emissions

The fiscal importance of the development of the automotive industry aside, the adoption of EVs and other sustainable forms of transport is a crucial step in achieving climate change goals and decreasing carbon emissions.

The White Paper estimates that the transport industry is South Africa's third-largest source of carbon emissions, accounting for 11% of South Africa's production of greenhouse gases. The White Paper acknowledges that a South African automotive industry that incentivises the purchase of EVs, in tandem with other incentivisation mechanisms (such as carbon credits and carbon-related taxes), will be taking an important step in reducing South Africa's carbon emissions.

The dtic has laid down the following action items for early 2024 that will seek to achieve the ambitions of the White Paper:

- The publication of the dtic's architecture of the EV incentive package.
- The finalisation of amendments to the Automotive Production and Development Programme (APDP) Regulations and Guidelines.
- Further announcements from National Treasury regarding incentive programmes for original equipment manufacturers.
- The publication of amendments to the Automotive Investment Scheme Guidelines.

Although the White Paper has been published late in the day, the future of EVs and EV manufacture in South Africa has not stalled. The White Paper is a hopeful augury of South Africa's movement towards a just transition and will hopefully pave the road for a cleaner, more sustainable and more competitive automotive market.

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