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Incentives offered by SADC members (excluding South Africa)

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REGIONAL INTEGRATION, ECONOMIC COOPERATION IN SOUTHERN AFRICA
D P R U

INTRODUCTION

This policy brief outlines incentives offered by SADC members (except South Africa) to investors. Note that a separate brief examining South Africa's export and investment incentives has also been drawn up[1]. These briefs do not attempt to evaluate the incentives but instead highlight the main methods used by authorities to attract investment (both domestic and foreign).

Incentives are tools used primarily to **attract and focus** investment. When investors seek potential investment locations, they first look at the overall investment environment (for political and economic stability, expected rates of return etc) before making an initial decision. Thus, a favourable environment, coupled with a set of attractive incentives would guarantee a host country its fair share of investment. However, **incentives alone are not sufficient** to attract the kind of investment that is necessary to help the SADC members grow and therefore all countries must firstly strive for **a stable macro economy**.

Incentives must be well structured (in terms of simplicity as well as bureaucratic considerations) so as to encourage investment without creating any instability in the economy. It is important that they are **consistent and sustainable** and the **timely phasing in** of the incentives is crucial to their success.

Incentive systems generally consist of a set of incentives available to most new investors and then various other incentives that aim to promote certain types of investment in the economy. Investors are interested in the **direct incentives** (such as tax concessions, capital and other allowances, customs discounts etc) offered as well as **other factors** when making their investment decisions. These other factors include the ease of entry into the market, the ability to obtain internal finance as well as (in the case of foreign investors) the ability to repatriate profits to their home country. Investors are also concerned with the effective tax rate that often exceeds the rate quoted by the **investment promotion agencies** (IPAs). Finally, IPAs play an important role in attracting investors via their promotional activities as well as the level of informational and technical support they offer (BMAP: 2000).

ANGOLA

Upgrading and privatisation

By upgrading and privatisation activities, the government hopes to attract foreign direct investment (FDI). The following **improvements to infrastructure** have been made:

- onshore and downstream oil operations
- the national power grid
- telecommunications

[1] Tagg, Shannon. 2001. *South Africa's Investment and Export Incentives*. Policy Brief 01/P12. Development Policy Research Unit: University of Cape Town.

30 state-run companies plus the Bank of Commerce and Industry have been **nationalised**.

Foreign Investment

The **1994 Foreign Investment Law** transformed the economy from one that was hostile to FDI to one that embraced it. The law includes the following:

- Foreigners are guaranteed equal treatment.
- All sectors are open to FDI.
- Private commercial banking is permitted.
- International participation is welcomed in the mining sector.
- Foreigners are allowed to transfer dividends, profits and investment proceeds to their home country.
- Incentives encourage foreigners to employ locals.
- FDI procedures are simplified and made faster.
- Investments of less than $5 million not subject to government approval.

Export incentives

- Applications need to be made to the government for tax exemptions and other benefits.
- Successful applicants must contribute substantially to Angola's forex reserves.

BOTSWANA

Botswana has a strong, well-structured incentive programme and attracts FDI by promoting its sound economy. The government has invested heavily in economic infrastructure - its internal and external communications and transport networks are good. Grants are awarded on a case-by-case basis and the terms and conditions are negotiable.

The incentives are outlined as follows: general incentives, the Financial Assistance Policy (FAP), development centre initiatives and then export incentives.

General incentives

- Corporate tax is 15% for manufacturers.
- Profits, dividends and capital can be readily repatriated.
- There is no foreign exchange control.

The FAP

The FAP is run by the Department of Industrial Affairs. The following productive enterprises are eligible for the grants:

- Manufacturing
- Small and medium scale mining
- Agriculture (excluding cattle)
- Linking services and tourism

Grants are available for **capital equipment, unskilled labour and training** and the value of the grant depends on the size of the project:

- Small: investments in fixed assets less than 75000 pula.
- Medium: investments between 75000 and 2 million pula.
- Large: investments over 2 million pula.

Small project grants:

- Businesses must be locally owned.
- Value depends on location, female ownership and employment generation.
- The maximum value of the initial grant plus 2 expansion grants is 150000 pula.
- The maximum size of the initial grant is 50000 pula (calculated as 90% of investment less than 50000 pula plus 40% of investment greater than 50000 pula).
- The first expansion grant is only awarded once the business has operated successfully for 1 year.

Large and medium scale project grants:

- Initial criteria: projects must be less than 6 months old and must yield an expected return in excess of 6%.
- One set of grants per project is available per annum.
- Capital equipment grant: value depends on location and is a maximum of 1500/1000 pula for local/joint or foreign investments per job created.
- Unskilled labour: part of the wage bill (provided the wage rate is between minimum and double minimum) is reimbursed as follows - 80% in the first 2 years, 60% in the third year, 40% in the fourth year, 20% in the fifth year.
- Training grant: 50% of off-the-job training costs (tuition, accommodation, travel, materials, wages) for local employees during the first five years of a project are refunded (subject to productivity improvements).
- Both the unskilled labour and training grants cannot exceed 50% of value added (sales less tradable inputs less transfers to foreigners).
- A proportion of the grants must be repaid if the project fails.

Development Centre Initiatives

Selebi-Phikwe has been designated as the Priority Development Centre in Botswana. Companies located there pay corporate tax at 15% for the first 5 years of a project and are exempt from paying withholding taxes on dividends paid on the share of profits derived from exports for 10 years. The following large scale light manufacturing industries have been earmarked for development in Selebi-Phikwe: garment manufacturing, jewellery, automotive accessories, structural engineering, sanitary ware, furniture and mining accessories.

Export incentives

- Duty drawback facility in the procurement of raw materials used in exports.
- There are no import duties on machinery and equipment used to manufacture exports.

THE DRC

No outline of investment incentives is available for the DRC. The government realises that FDI will be crucial to its economic recovery and thus aims to attract FDI by opening all sectors to potential investors.

LESOTHO

In general, the incentives offered aim to increase the profitability of production in Lesotho for both foreigners and locals.

FDI incentives

- Free repatriation of profits and unlimited access to foreign exchange.
- No withholding tax on dividends.
- Lesotho National Development Corporation: loans, equity participation and loan guarantees.

Capital Allowances

- 40% in year one for new buildings, plant and machinery.
- Additional allowances for: mining, bad debts, rent paid, interest on property.
- Training allowance of 50% of the cost of approved courses for local employees.
- Tax holidays can be granted (for 10 years, whereafter the normal corporate tax of 15% applies).

Export incentives

- Export Finance Scheme: consists of a credit guarantee scheme, pre and post shipment credit schemes, refinance arrangements and counter guarantee arrangements.
- Duty drawback facility in the procurement of raw materials used in exports.
- Machinery and equipment used in manufacturing to produce exports is exempt from GST.

MALAWI

Investment in manufacturing, agriculture, tourism and mining is actively promoted by the use of tax concessions (as opposed to cash grants).

FDI

- Free entry and exit of foreign exchange.
- Foreigners are granted easy access to local finance.
- Profits and dividends can be repatriated easily.
- No restrictions on the payment of interest and principal on international loans.

Tax concessions
Tax allowances:

- 40% (20%) on new (old) buildings and machinery, plus an additional 15% if the investment is in a specific region.
- 50% for qualifying training costs.
- 100% on operating expenses accumulated 18 months prior to business opening.
- No withholding tax on dividends.
- Note: losses can be carried forward indefinitely to allow companies to take full advantage of tax allowances.

Tax holidays:

- For investments of between US$5 and US$10 million: a choice between a tax holiday of 5 years, or indefinitely paying tax of 15% exists.
- For investments greater than US$10 million: tax holiday of 10 years, or indefinite 15% tax.
- Note: normal corporate tax is at 38%.

In addition, Malawi has a number of double tax avoidance agreements in place.

Also, as an incentive to enhance the heavy duty vehicle fleet in Malawi, those vehicles with payloads greater than 10 tonnes are not subject to import duty.

Export incentives

- **EPZs**: in these areas there is no corporate tax, no withholding tax on dividends, no VAT, no duty on capital equipment and raw materials and no excise taxes on local raw materials and packaging. There is a transport tax allowance of 25% for international transport. Non-traditional exports are given an export tax allowance of 12% of export revenues.
- For manufacturers in bond: no duties on imported capital equipment used to manufacture exports, no excise taxes on local raw and packaging materials plus a duty drawback facility for the aforementioned materials.
- Horticultural products for export: equipment and raw materials used in their production can be imported duty free.

MAURITIUS

Mauritius has a very structured incentive programme and the incentives can be divided into various categories as outlined in the Industrial Expansion Act. Sections 6.1 to 6.6 outline incentives as specified by the Act. The agricultural and tourism sectors have been pinpointed as sectors worthy of additional development efforts and sections 6.7 and 6.8 discuss these development initiatives.

Strategic Local Enterprise: these concessions apply to local manufacturing industries that supply the local market and can prove that their activity is likely to enhance the industrial and technological capacity of Mauritius. Benefits:

- Permanent corporate tax rate of 15%.
- Tax-free dividends for 20 years.

Modernisation and Expansion Enterprise: these concessions benefit two types of investment projects.

- Firms investing in productive machinery and equipment (for example, automation equipment and processes, computer-aided-design (CAD) and computer-aided-maintenance (CAM) applications):
  - Exemption from customs duty.
  - For investments over R10 million: 10% income tax credit over 3 years.
  - Capital allowances of 125% of capital expenditures.
- Firms investing in antipollution and environmental protection technology:
  - Above concessions plus an initial allowance of 80% for expenses relating to the antipollution machinery or plant.

Industrial Building Enterprise: these concessions are available for companies that build and lease industrial buildings or levels greater than 1000 square meters. Benefits:

- 15% corporate tax rate.
- Tax-free dividends for 10 years.
- 50% exemption on registration dues for land purchase.
- No rent control as stipulated by the Landlord and Tenant Act.

Pioneer Status Enterprise: these concessions are offered to new companies (formed after 1 July 1993) that fall into the new technology, support or service industry categories, if they are likely to enhance industrial and technological development in Mauritius. Benefits:

- Corporate tax rate of 15% for 10 years.
- Tax-free dividends for 10 years.
- No customs duty or sales tax on scheduled equipment or materials.
- Free repatriation of profits, dividends and capital.

Small and Medium Scale Enterprises: these concessions are offered to SMES (that is, enterprises with production equipment valuing less than R5 million) involved in any manufacturing activity. Benefits:

- Permanent corporate tax rate of 15%.
- Exemption from customs duty/import levies on production equipment.

Offshore business: these concessions are offered to businesses involved in offshore banking, insurance, pension fund and fund management; international financial and management consultancy services; international trading and asset management; operational headquarters; shipping and ship management and aircraft financing and leasing; international financing and franchising; international data processing and IT services, and; international employment services. These businesses receive a range of benefits if all business is performed with non-residents in foreign currencies. Benefits:

- Tax-free profits.
- No impediments to the free flow of foreign exchange and profits can be expatriated free of charge.
- Concessionary personal income tax rates for expatriate staff.
- Two staff members are exempt from paying duty on imported cars and household equipment.
- Tax-fee importation of office equipment.
- No withholding tax on non-residents deposit interest payable from offshore banks, or dividends and benefits payable by offshore entities.
- No estate duty or inheritance tax on inherited shares.
- No capital gains tax.

Agriculture Development Scheme: this scheme offers the following benefits:

- 15% corporate tax.
- Tax-free dividends for 20 years.
- Free repatriation of capital, dividends and profits.
- No customs duty on machinery, equipment and spare parts.
- 50% exemption on registration fees for land and buildings purchased.

Investors in the hotel industry: two incentive schemes are in place:

- Hotel management incentives:
  - Tax-free dividends for 10 years.
  - Free repatriation of profits, dividends and capital (provided the investment is rated A status by the Central Bank).
  - Preferential rates for term loans and overdraft.
  - Corporate tax rate of 15%.
- Hotel development certificate:
  - As above, except corporate tax rate is 5%.
  - Also exempt from duty on approved imported equipment.

Export incentives

EPZs:

- There are a number of EPZs - activities include manufacturing, deep-sea fishing, printing and publishing, IT and agro-industries. **Benefits:**
- The Development Bank of Mauritius offers preferential finance to these enterprises.
- Corporate tax is 15%.
- Tax-free dividends for 20 years.
- No capital gains tax.
- Profits, capital and dividends can be repatriated free of charge.
- Two expatriate staff are fully exempt from personal income tax.

- Raw materials, machinery, equipment and spare-parts (excluding those for vehicles) are exempt from customs duties, import levies and sales taxes.
- Imported vehicles, with a capacity of 15 to 25 people, are exempt from 60% of the duty paid.

Export Service Zones (ESZs):

- Service companies, involved in the export of their services, - for example, accountancy, law, medicine, international marketing, quality testing, pre-shipment services, civil engineering, management consulting, reinsurance, entry port trade and transhipment - must have a 70% local participation rate to qualify for the benefits.

  Benefits:
- Corporate tax is 15%.
- Tax-free dividends for 20 years.
- Profits, capital and dividends can be repatriated free of charge.
- No import levy or customs duty on machinery, equipment, spare parts and goods to be re-exported.

Mauritius Freeport Authority (MFA):

- Benefits apply to firms involved in the transhipment and re-export trade - activities include warehousing and storage, breaking bulk, sorting, grading, cleaning, mixing, labelling, packing and repackaging, minor processing and simple assembly.

  Benefits:
- No corporate tax.
- No customs duty or sales tax on machinery, equipment and materials imported for exclusive use in this zone, or on goods to be re-exported.
- Access to offshore banking.
- Lower warehousing and storage fees.

MOZAMBIQUE

The government is committed to providing assistance to ailing businesses, plus encouraging investment in new projects. A set of incentives is available to encourage new activity in all sectors of the economy - most incentives are in the form of tax concessions.

New investment projects

These projects are entitled to customs duty and consumption and circulation tax relief, plus a 50% reduction in customs handling fees for:

- Feasibility study equipment.
- Equipment and building materials used in approved projects.
- Company cars (value must be less than 1% of the total project) and foreign staffs' personal goods.
- Raw materials, intermediate products and packaging materials for the production of exports, medicines, educational materials and foodstuffs.

- Raw materials, intermediate products and packaging materials for all other articles' first production run.

Operating ventures

For 5 years, taxable income is reduced by the total sum of investment in infrastructure, and plant and equipment. The following expenses qualify as losses for tax purposes:

- The construction and rehabilitation of public infrastructures.
- The private purchase of art and other cultural undertakings.
- 5% of the taxable profits of training workers.

Area specific tax concessions

For new and ailing companies in certain areas, additional tax incentives (for a maximum period of 10 years) are offered. These concessions are as follows:

- Niassa, Tete and Cabo Delgado: corporate and supplementary tax is reduced by 80%. (Note: the normal tax rate is 45% plus a 10% circulation tax on invoices).
- Other provinces outside the provincial capitals: taxes are reduced by 65%.
- Other provinces within the provincial capitals: taxes are reduced by 50%.

Investment in less developed provinces is rewarded by the further reduction of corporate tax as follows:

- Niassa, Tete and Cabo Delgado: 50% for 6 more years.
- Sofala, Manica, Zambezia and Nampula (excluding provincial capitals): 40% for 3 more years.
- Inhambane, Gaza and Maputo: 25% for 3 more years.

Industrial Free Zones (IFZs)

A number of zones are in the process of being developed - Industria de Mocambique site in Maputo Province, Sofala Province near the Port of Beira, Nampula Province and the Port of Nacala. Companies in these areas enjoy the following benefits:

- Tax-free dividends for 10 years.
- No customs duties, export or import taxes on construction material, machinery and equipment.

Export incentives

The Mozambique Institute of Export Promotion is responsible for drawing up the incentive programme. No details are available.

NAMIBIA

Namibia's incentive programme includes general incentives, FDI incentives, special incentives for manufacturers and exporters, EPZ incentives and SME incentives.

General incentives

The government promotes Namibia as a place in which to do business by emphasising its low corporate tax structures. In particular, general incentives in place are as follows:

- No capital gains tax.
- 10% tax on non-resident shareholders.
- No tax on dividends owed to companies.
- Buildings depreciated at 20% in year one and then at 4% per annum for the following 20 years.
- Manufacturing machinery and equipment is exempt from import taxes.
- Tax deductions for direct wages, training costs and exports.

FDI incentives

The Foreign Investment Act provides for a Certificate of Status Investment to be awarded. This certificate is dependent on the size and nature of the investment. Benefits include:

- Easy access to foreign exchange for the servicing of foreign loans, and the transfer of net profits, dividends, proceeds of sales and remittances.
- Currency gained from exports can be retained.
- Exemption from restrictions relating to business categories reserved for Namibian citizens.

Special incentives for manufacturers and exporters

Manufacturers:

- Only pay 50% of corporate tax for 5 years with a linear phasing out of the abatement over the next 10 years.
- No GST/ASD on the purchase or importation of machinery and equipment.
- Establishment tax package - this is a negotiable package.
- Special building allowance - buildings depreciated at 20% in year one and then at 8% per annum for the following 10 years.
- Export promotion allowance - taxable income is further reduced by 25%.
- Training and production wages - between 25% and 75% deducted from taxable income.
- Cash grants - 50% of the direct costs of approved export promotion activities.

Exporters:

- Exporters of manufactured goods produced inside or outside of Namibia are entitled to reduce taxable income by 80% of the income derived from the exports.

SME incentives

The programme is run by the Ministry of Trade and Industry and is supported by a Steering Committee that includes NGOs and private players. It consists of the following:

- The Small Business Guarantee Fund: the fund deposits money in commercial banks to serve as collateral for SMEs making loans. If an SME borrower defaults, the borrower assumes 10% risk, the commercial bank 10% and the SMGF 80% of the capital lent.
- The following areas have been identified as SME modules/industrial parks: Otjiwarongo, Gobabis, Epako, Uutapi, Ohangwena, Keetmanshoop, Karibib, Oshikango, Ondangwa and Windhoek.
- These areas house Technology Demonstration Centres and Common Facility Centres. To further assist in technology transfer, a database has been set up identifying contacts that can assist in providing the required technologies.
- Merchandising intermediaries and export promotion officers are responsible for helping SMEs to identify and gain access to local and overseas markets.
- A Group Purchase Scheme has been set up to co-ordinate the bulk buying of goods plus the sharing of shipping costs. An international database has been set up to aid in the sourcing of materials.
- The Institute of Management and Leadership Training runs a government sponsored intensive entrepreneurial training programme.

EPZ incentives

Enterprises satisfying these criteria are eligible for the incentives:

- Manufacturing, assembling, repackaging or break-bulk operations.
- export most of the goods to countries outside Southern African Customs Union (SACU) (30% production for local market allowed).
- Earn foreign exchange.
- Employ Namibians.

Note that there is no physical location for the EPZs - exporters may set up anywhere in Namibia.

Tax incentives:

- No corporate tax, GST, additional sales levies, stamp and transfer duties.

Other incentives:

- Training grant.
- Foreign exchange can be held in Namibian banks.
- No strikes or lock outs are allowed in the zone.
- Industrial facilities are provided at preferential rates.

SEYCHELLES

No formal incentive programme exists, but a number of institutions aim to assist investors in their projects. The **Investment Desk** offers advice to potential investors and helps investors source finance. The **Development Bank of Seychelles** (DBS) assists both locals and foreigners (subject to certain conditions) in finance for SMEs in agriculture, construction, fisheries, industry, tourism and transport.

The **Seychelles International Business Authority** (SIBA) is an independent body that aims to develop Seychelles as an international business and financial centre. It is responsible for registering offshore companies and trusts, managing the **Seychelles International Trade Zone** and (together with the Central Bank and the Insurance Authority) overseeing the offshore banking and insurance companies.

SWAZILAND

The incentives in place aim to promote investment in manufacturing, mining, tourism, commerce and the service industry, and generous capital allowance are used to attract capital investment.

Depreciation allowances

- 50% on new and used plant and machinery in year one (the balance is written off using a wear and tear allowance of between 10 and 15%).
- 50% on industrial buildings and hotels in year one, thereafter at 4%.

Other incentives

- Training expenditure is 200% tax deductible.
- Losses can be carried forward to offset against future profits for tax purposes.
- An allowance is granted for employee housing.
- For new companies, corporate tax is 10% for 10 years, and they are exempt from withholding taxes on dividends for the same period.

Priority areas

- The upgrading of infrastructure (in all areas) is receiving attention.
- The Matsapha Industrial Site has been earmarked as a priority area.

Tibiyo Taka Ngwane

This operation was formed in 1968 and holds a trust portfolio of various Swazi projects. The scheme operates with the support of major companies and international development bodies.

Export incentives

- A duty drawback facility exists on raw material inputs.
- 5 year tax holiday for newly established export manufacturing companies.
- Central Bank's Export Credit Guarantee Scheme: provides commercial banks with guarantee bonds to cover the risk of pre and post-shipment loans from these banks to investors.

TANZANIA

Certificate of Incentives

Corporate tax and depreciation incentives are provided to companies qualifying for this certificate. The value of the investment must be greater than US$100 000 for local businesses, or US$300 000 for foreign businesses. Benefits include:

- A maximum corporate tax rate of 30%.
- Withholding taxes of 10% on dividends and 0% on loan interest.
- Capital expenditure on industrial buildings, plant and machinery can be totally written off in year one.
- Losses can be carried forward indefinitely to offset against future profits.
- Reduced import tariffs.
- VAT can be deferred on project capital.
- Duty is 5% for investment in priority areas and 0% for investment in lead sectors.

Mining operations

- Mining operations: straight line accelerated depreciation of capital goods and yearly appreciation of unrecovered capital investment.
- Oil companies: long exploration periods (an initial 4 years, a 4 year extension and then another 3 year extension) and large exploration areas.

FDI

FDI is attracted by making the business climate as foreign investor friendly as possible.

- All projects are automatically entitled to employ 5 foreigners.
- 100% of foreign exchange, profits and capital may be transferred abroad.
- Residence/work permits and trading licences are easy to obtain.

Export incentives

An EPZ exists in Zanzibar, and companies in the zone are entitled to the following benefits:

- 10 year tax holiday.
- No duty on the imports of raw material and capital equipment.
- No VAT on manufactured exports.
- Import duty drawback facility on raw materials.

ZAMBIA

Zambia aims to boost its economy by attracting investment in industry, as well as encouraging smaller private sector initiatives.

Capital allowances

These are used to encourage investment in the mining, manufacturing and tourism industries.

- Buildings: 10% in year one, 5% thereafter.
- Plant and machinery: 50% wear and tear allowance in year one and two.
- Commercial vehicles: 20% wear and tear allowance.

- Other income generating capital expenditure: 25% wear and tear allowance.

Other incentives

- Expenditure on R&D and technical education is tax deductible.
- No duty on imported agricultural and mining machinery.
- No duty on certain raw materials - chemicals, iron, steel, rubber and plastics.
- Customs duty: 5% on capital equipment and other raw materials, 15% on intermediate goods and 25% on final products.
- Listed companies pay a lower corporate tax rate of 30% (as opposed to the normal tax rate of 35%).
- FDI incentives: all profits can be freely repatriated and there are no exchange controls.

Farming incentives

- Farming income is taxed at 15%.
- Dividends received by farmers are exempt from tax.
- Rural enterprises are exempt from customs and sales duty on machinery and equipment.
- Implements and machinery used exclusively for farming, qualify for a wear and tear allowance of 50% (straight line depreciation).
- A number of farming allowances are available, which reduce a farmer's taxable income in the year in which the expense was occurred. These allowances include:
  - **Development allowance** - for capital expenditure on tea, coffee, banana and citrus farming - taxable income is reduced by 10% of this expenditure.
  - **Farm work allowance** - for capital expenditure on soil erosion prevention work, borehole and well construction, aerial and geographical surveys and water conservation projects - taxable income is reduced by 100% of this expenditure.
  - **Farm improvement allowance** - for capital expenditure on farm improvements - taxable income is reduced by 100% of this expenditure.

Export incentives

An incentive programme exists for non-traditional exporters, producers of agro-products for export, tourism operators (provided foreign exchange earnings are 25% of gross annual earnings), companies involved in import substitution and rural enterprises. These investors are exempt from customs and sales duties on machinery and equipment used to establish, expand or rehabilitate their company.

ZIMBABWE

Zimbabwe's incentives fall under the following categories: general incentives, incentives for setting up in Growth Point Areas (GPAs) and EPZ incentives.

General incentives

- Foreign ownership: foreigners may have up to 100%, 35% and 70% share in companies in preferred sectors, reserved sectors and construction/specialised service sectors of the economy respectively.
- Dividend remittance threshold: for companies established before 1979 the threshold has increased from 25% to 50% of net after tax profits. For companies established after 1993 it is 100%.
- Free access to forex and free repatriation of investment capital, profits and dividends.
- No restrictions on local borrowing.
- Foreign Currency Accounts (FCAs): all export proceeds, investment inflows and capital transfers can be deposited into these accounts.
- Losses can be offset against future profits for 6 years (and indefinitely for mining).

Capital allowances:

- There is a special initial capital allowance of 25% (on cost) for industrial buildings, farm improvements, staff housing, tobacco barns, railway lines, equipment and vehicles.
- Thereafter, the wear-and-tear allowance is between 10 and 33.3% (reducing balance) for equipment, between 20 and 33.3% (reducing balance) for vehicles and 5% (on cost) for the other capital expenditure.
- Commercial buildings are depreciated at 2.5% per annum.
- For mining operations, 100% of capital expenditure is tax deductible.
- For farmers, 100% of capital expenditure on boreholes, fencing and water conservation works is tax deductible.
- Training investment allowance: 50% of the cost of buildings and equipment (over and above the capital allowance outlined above).

Tax exemptions:

- Imported equipment and machinery is exempt from import tax, surtax and customs duty.
- There is no tax on the sale of the following goods: unprocessed agricultural produce; goods intended for resale, raw materials to be processed further and packaging materials; goods to be used in the production of agricultural, industrial or manufactured products.
- Certain prescribed goods are tax free.

Growth point areas

- Businesses in growth point areas are allowed an additional capital allowance of 15% for buildings and equipment.
- They pay reduced corporate tax of 10% for the first 5 years of operation.
- Agriculturists, hoteliers, industrialists, manufacturers and miners in these areas do not pay sales tax on capital goods (excluding road motor vehicles) and building materials.

Export incentives

EPZs:

- Eligibility: only new and expansion projects in the manufacturing, processing, assembly and service sectors qualify; companies must export 80% of output; the project must boost employment and technical skills transfer.
- There are two types of EPZs: **industrial park** type EPZs and **stand-alone** EPZs.
- EPZ companies enjoy a 5 year tax holiday and then 15% corporate tax after the holiday.
- Tax exemptions: no withholding taxes on dividends, royalties and fees; no duty on imported goods; no fringe benefits tax for employees; no capital gains tax, surtax and sales tax on goods and services.

Incentives for exporters outside the EPZs

- Tax deductions: 8% for existing concerns that export 50% of their output and 10% for new concerns that export 40% of their output.
- To encourage employment generation, manufacturers receive a double tax deduction on wages and salaries if a certain number of permanent jobs are created by the project.