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## SEZ VAT alert:

Why your infrastructure grant  
might be losing 15% to SARS


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# Navigating the VAT discrepancy in section 8(5) vs. section 8(5A) for designated entities

## Understanding the SEZ VAT landscape

Special Economic Zones (“SEZs”) are vital engines for South African investment and job creation. They operate within a unique fiscal framework designed to attract capital through incentives like the 15% corporate tax rate, accelerated depreciation allowances, and employment tax incentives (ETI). While much focus is placed on the benefits of Section 12R and 12S of the Income Tax Act, the Value-Added Tax (VAT) implications of government grant funding often remain an overlooked.

At SNG Grant Thornton, our analysis of SEZ financial funding structures has identified a critical inconsistency in the VAT treatment of grants. For SEZ operators relying on government funding, this can mean the difference between receiving 100% of a grant for development and losing 15% of it to SARS.



**For SEZ operators, this is a funding-efficiency issue with direct implications for infrastructure delivery and investment readiness.**

## The common thread: government grants for development

SEZ operating companies frequently receive grants from national or provincial government departments and public entities. The objective is clear: stimulate regional development, build infrastructure, and create trade value chains. The income tax treatment of grant is relatively clear: perspective is clear, grants listed in the 11th schedule to the income Tax Act are exempted. However, the VAT Act does not treat all SEZs equally when this funding arrives.

## The legislative fork in the road

The VAT treatment hinges on a technical classification: Is the SEZ a “Designated Entity” or not?

- ✓ The Provision for Designated Entities (Section 8(5)): This section deems a designated entity to be supplying services to the public authority paying the grant. Critically, no zero-rating provision applies here. The result is standard-rated VAT at 15% .
- ✓ The Provision for Other Vendors (Section 8(5A)): This section deems a vendor (who is not a designated entity) to supply services to the public authority. Here, the VAT Act provides relief under Section 11(2)(t), allowing for a zero-rating (0% VAT).

## The unintended consequence for SEZ budgets

In practice, this creates a two-tier system within the SEZ programme:

- ✓ Some SEZs (classified as Designated Entities or subsidiaries thereof) must treat the grant as inclusive of 15% VAT.
- ✓ Other SEZs (not classified as Designated Entities) can apply a 0% VAT rate, preserving the full grant value for socio-economic objectives.

## Why this matters for infrastructure delivery


The original legislative intent behind Section 8(5) was to level the playing field where government-owned entities might compete with private vendors. However, SEZs are generally not competing with private business; they are providing public infrastructure platforms upon which private business operates.

When an SEZ receives a R100 million grant for bulk water or road infrastructure, the current VAT framework for designated entities effectively reduces that budget to R86.9 million after accounting for VAT payable. That R13.1 million is diverted from building roads to SARS.

## The path forward: a call for legislative alignment

At SNG Grant Thornton, we believe that the purpose of the funding should dictate the tax treatment, rather than the historical classification of the entity. Since all SEZs share a common mandate of infrastructure development and investment attraction, uniform VAT rules are essential.

To maximise the impact from government funding and to align with the zero-rating logic applied elsewhere in the SEZ incentive framework, legislative amendments to Section 11(2)(t) of the VAT Act are required. We are advocating for an amendment to the VAT Act that will explicitly allow all SEZs to zero-rate grants received from public authorities for infrastructure and development mandates, regardless of their “Designated Entity” status.



**Other SEZs (not classified as Designated Entities) can apply a 0% VAT rate, preserving the full grant value for socio-economic objectives.**

## How SNG Grant Thornton can assist SEZ operators

Navigating the intersection of the VAT Act and the SEZ Act requires specialist insight. Our team provides proactive guidance on:

- ✔ VAT Health-Checks: Reviewing the current treatment of government grants to ensure compliance and identify cash flow risks.
- ✔ Treasury Engagement Strategy: Assisting SEZs and industry bodies with to develop drafting technical submissions to National Treasury for in support of legislative reform.
- ✔ Financial Modelling: Demonstrating the cash flow impact of standard-rated versus zero-rated grant treatment on project feasibilities.

If your SEZ is grappling with the VAT implications of grant funding, or if you wish would like to participate in the broader to join the conversation on legislative alignment, please contact us.

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