

Manufacturing

- Generally subject to standard regime: METRs higher than special sectors (agr., mining, tourism), lower than financial (VAT exempt)
- High METRs due to highest ratio of equipment in capital structure of manufacturers across sectors
- In addition to tax: customs issues (heavy import dependency), competition from informal sector, lack of financing

Manufacturing METRs

Zambia	5.0%
South Africa	21.3%
Tanzania	15.3%
Rwanda	17.0%
Madagascar	23.8%
Lesotho	11.0%
Namibia	15.9%
Sierra Leone	27.0%
Mozambique	40.0%

Manufacturing – Special Regimes: Namibia

- General tax rate - 35%; Qualifying manufacturing -18%; General manufactured exports - 7%; Qualifying manufacturing exports - 3.6%
- Incentives are currently not serving as a catalyst for new investment; not accelerating export growth.
- Does not have any effect unless firms have a tax liability.
- Evaluation of investment projects done on the basis of a business case, with scenarios excluding the effect of incentives.
- Serious difficulties in defining the manufacturing sector and conflicting definitions used by MTI and MOF.

Manufacturing – Special Regimes: Lesotho Apparel

- Generous incentive package for manufacturers: 0% CIT apparel extra-SACU exports; 10% other manufacturing
- Manufacturing sector, dominated by apparel exports, has contributed negligibly to revenue from income tax, payroll contributions or VAT
- Minimal impact on investment decisions since firms already reporting losses (transfer pricing, external conditions)
- Selective incentives create pressures for granting similar concessions to other sectors

Manufacturing –administrative issues faced by firms

- Uneven application of tax regime (special incentives; inspections)
- Lack of guidelines to fully comply with tax declaration requirements (deductions etc)
- Complicated and time-consuming procedures
- Delays in VAT refunds for large exporters (constrains domestic linkages); Lesotho textiles scheme
- Lack of coordination between tax authorities and customs

Manufacturing – policy issues

- **Sector more sensitive to tax incentives due to high weight of equipment in capital structure.** Faster depreciation rates, investment allowances etc.
- **Customs administration.** Sector relies heavily on imports. Duty drawback, coordination with tax authorities etc.
- **VAT refunds.** High volume of exports (zero-rated) due to generally small internal markets. Set up systems to process refunds.
- **EPZs.** Encourage value-added processing by focusing on incentives (including non-tax) other than tax holidays.