



SUSTAINABILITY

Electric vehicle tax incentive: what electric vehicle manufacturers should know

12 February 2025 5 min read

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On 24 December 2024, Cyril Ramaphosa, the President of the Republic of South Africa, signed the Taxation Laws Amendment Act No. 42 of 2024, which introduces a significant tax incentive aimed at promoting the production of battery electric and hydrogen-powered vehicles in South Africa. This incentive reflects the South African government's commitment to transform the automotive manufacturing industry from the production of primarily internal combustion engine vehicles to include the production of battery electric and hydrogen powered vehicles as envisaged in the Electric Vehicles White Paper published in November 2023.^[1] Various African countries, like the Togolese Republic, Republic of Ghana, Republic of Benin, Republic of Uganda, United Republic of Tanzania and the Republic of Zambia, have introduced tax incentives for battery electric vehicles, not only to lower the cost of such vehicles to the consumer, but to boost investments in the local manufacture of electric vehicles.^[2] South Africa joins a laundry list of African countries that have adopted tax incentives, however, battery electric and hydrogen-powered vehicle manufacturers need to be aware of the manner in which the South African Revenue Service ("SARS") will apply this tax incentive.

The incentive allows taxpayers to claim income tax allowances of 150% of the cost of –

- any buildings (and improvements);
- new and unused plant and machinery (including the cost of installation of any foundations or supporting structures designed for the plant and equipment); and
- any improvements to plant and machinery acquired by the taxpayer,

that are used mainly in the production of battery electric or hydrogen-powered vehicles in South Africa.

The incentive will apply for 10 years, to assets brought into use from 1 March 2026 and before 1 March 2036.

SARS has also introduced anti-abuse rules, which prevent taxpayers from inflating the cost of the asset or improvement and from claiming the allowance for assets that the taxpayer has sold in terms of an instalment credit agreement.

If the taxpayer sells an asset or ceases to use that asset mainly in the production of battery electric or hydrogen-powered vehicles within five years, there will be a 50% recoupment of the cost of the asset. If the asset has been sold, the recoupment will be in addition to the normal recoupments provided for in section 8(4)(a) of the Income Tax Act No. 58 of 1962, but not exceeding the allowances claimed in respect of that asset.

The extent to which multinationals benefit from the incentives remains to be seen following the enactment of the Global Minimum Tax Act No. 46 of 2024, which introduces a minimum tax rate of 15%, through a domestic minimum top-up tax ("DMTT"), for companies forming part of a multinational group with revenues exceeding EUR750 million. The rules involve complex calculations, which allow for a level of exclusion from the DMTT based on the taxpayer's eligible payroll costs and tangible asset values. The effect of the section 12V allowance and the DMTT will have to be carefully modelled to ensure that taxpayers investing in the production of battery electric or hydrogen-powered vehicles obtain the full benefit of the section 12V allowance.

Even though this tax incentive is a leap in the right direction for battery electric and hydrogen powered vehicle manufacturers, the sustainability challenges that South Africa faces may dilute the benefits that the tax incentive aims to achieve. South Africa is heavily reliant on fossil fuel-based electricity, with approximately 80-85% of South Africa's electricity being generated via coal-fired power stations,^[3] which ranks South Africa as one of the most carbon intensive nations globally. While electric vehicles are marketed as having "zero tailpipe emissions" and are optically favoured, the reality is that charging these vehicles will add to the load already borne by the carbon-heavy and buckling electricity grid^[4] and potentially offer only marginally less greenhouse gas emissions, when measured from a supply-chain perspective. Vehicle manufacturers' should, therefore, consider a concurrent shift to renewable energy sources such as "off-grid solar powered battery charging infrastructure that can be made available to consumers^[5] to reduce reliance on the national electricity grid.

The manufacturing process for electric and hydrogen-powered vehicles, particularly their batteries, is energy-intensive and involves the extraction of rare earth metals like lithium, cobalt, and nickel.^[6] The mining of these materials often has significant environmental and social consequences, raising questions about the sustainability of scaling up electric and hydrogen-powered vehicles under this incentive. In addition, the disposal and recycling of electric vehicle batteries at the end of its life-cycle is frequently an overlooked issue. South Africa currently has limited infrastructure to handle the safe recycling of lithium-ion batteries, which pose environmental risks if not properly managed.^[7]

South Africa's 150% tax incentive for electric vehicle manufacturers is a bold move toward modernising the country's automotive sector and aligning with global climate goals. However, the tax incentive is undermined by systemic challenges, including a coal-dependent national grid, the environmental impact of electric vehicle manufacturing, limited adoption and sustainable waste management processes. For this incentive to deliver tangible sustainability benefits, it must be paired with investments in renewable energy, equitable electric vehicle adoption strategies, sustainable manufacturing and recycling practices and emissions control throughout the supply chain process. Only then can South Africa truly drive towards a greener automotive future.

[1] Electric Vehicle White Paper, November 2023, page I

[2] "Government Removes Tax on Electric Vehicles", 12 December 2024, available on <https://zanis.gov.zm/index.php/2024/12/12/government-removes-tax-on-electric-vehicles/#::-:text=Government%20says%20it%20has%20removed,of%20EVs%20in%20the%20country>. (accessed on 14 January 2025)

[3] <https://www.trade.gov/country-commercial-guides/south-africa-energy> (accessed on 20 January 2025)

[4] <https://www.energy.vic.gov.au/renewable-energy/zero-emission-vehicles> (accessed on 21 January 2025)

[5] <https://charge.co.za/media-statement-charge-welcomes-ev-tax-incentive-but-more-regulatory-action-needed-for-ev-charging/> (accessed 22 January 2025)

[6] <https://greenly.earth/en-us/blog/ecology-news/the-harmful-effects-of-our-lithium-batteries> (accessed on 24 January 2025)

[7] <https://ewasa.org/new-battery-recycling-plant-opens-in-gauteng/#::-:text=Unfortunately%2C%20battery%20recycling%20is%20a,its%20facility%20in%20Germiston%2C%20Gauteng>. (accessed on 24 January 2025)



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