



Doing Business

In

Mpumalanga





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December, 2009

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Doing Business in Mpumalanga

Introduction

Only three hours drive from Gauteng and two hours from Maputo in Mozambique; Mpumalanga is well placed for exposure to the markets of Gauteng, KwaZulu Natal and neighbouring countries.

Mpumalanga's regional economy is supported by excellent production, logistics and transport infrastructure, making it easy for local businesses to trade domestically and internationally, and making them more competitive at an international level.

The province boasts world-class infrastructure such as the Maputo Corridor, a 4 -lane highway that serves as a spine running across the province and linking it to the Mozambique Port of Maputo.

Table 1: Key Statistics of the Province and South Africa

	Mpumalanga	South Africa
Geographic Area (km ²)	76,642	1,221,246
Population	3.7	48.2
Population Growth Rate	0.8%	0.7%
Density (# of people per km ²)	48.4	39.5
Urbanisation Rate	39%	57.3%

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Literacy Rate	66.6%	73%
Labour Force	23%	55%
Unemployment Rate	21.5%	23.1%
Life Expectancy	47 Years	51 Years

Source: Global Insight Rex eXplorer Version 51 (2009)

Table 2: Sectoral Contribution to GDP - Current prices (R 1000): 2008

	National Total	Mpumalanga
Contribution to National GDP	-	7 %
1 Agriculture	3.3%	4.5%
2 Mining	9.5%	25.3%
3 Manufacturing	18.8%	19.3%
4 Electricity	2.3%	4.6%
5 Construction	3.1%	2.4%
6 Trade	12.7%	9.9%
7 Transport	8.1%	6.9%
8 Finance	21.7%	12.2%
9 Community services	20.5%	15.1%
Total Industries	100.0%	100.0%

Source: Global Insight Southern Africa

Labour Force

There is an abundance of labour in Mpumalanga and with access to 3 tertiary educational institutions the level of technical skill and literacy is continuously improving. There is a minimum wage law which is applied dependent on the industry sector and provinces.

Labour Laws

Unions are specifically organized in the various sectors and are strongly supported and represented country wide.

The key elements of South Africa's labour laws are:

- Maximum two days per week with no employment agreement constitutes casual labour. If the position becomes permanent an employment agreement must be signed.
- Dismissal must be fair and not for personal, union or political reasons. The process followed is one verbal warning, followed by two written warnings and consultation if necessary.

Notice periods

- 24 hour and 1 month notice is applicable depending on contractual terms between employers and employees

Retrenchment

The procedure that needs to be followed for a dismissal based on "operational requirements" (retrenchments) is regulated in terms of section 189 of the Labour Relations Act. The required procedure is as follows:

- **Consultation**
- **Retrenchment: Disclosing of information in writing**
- **Opportunity for Feedback**
- **Fair and objective criteria for selection**

Acts that could be helpful are:

- Machinery and Occupational Safety Act 1983
- Occupational Health & Safety Act 1993
- Basic Conditions of Employment Act
- Labour Relations Act

Remuneration Guidelines

Remuneration rates vary considerably from industry to industry as well within professional categories of various industries. The table below is indicative of (average) earnings in certain sectors.

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Table 3: Estimates of average monthly earnings, including bonuses and overtime payments, at current prices, by industry within 95% confidence

Industry	August 2007				November 2007			
	Lower Limit	Estimate	Upper Limit	RSE	Lower Limit	Estimate	Upper Limit	RSE
Mining and quarrying	7 688	7688	7688	0,0	0015	6016	6016	0,0
Manufacturing	7 296	7641	7986	2,3	7575	7985	8295	2,4
Electricity, gas & Water Supply	14 239	15446	5497	4,0	15375	16677	16677	4,0
Construction	4905	5497	6089	5,5	5142	5689	6514	6,1
Wholesale and Retail ,repair of motor vehicle ,motorcycles, personal and household goods, hotels and restaurants	5284	5698	6112	3,7	5415	5549	6283	3,6
Transport storage and communications	10360	11164	11988	3,7	10746	11604	12462	3,5
Financial intermediation, insurance , real estate and business services	8893	9905	10917	5,2	9073	10154	11235	5,5

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Community social and personal services	9870	10071	10978	1,0	10330	10583	10744	1,0
Total	8160	8409	6658	1,5	8457	8724	8991	1,6

Source: Statssa, 2008

Hours per Week

- Maximum of 46 hours per week or 9.15 hours per day or 12 hours per day including overtime.

- Maximum of 6 shifts per week or average of 42 hours per week

Additional Labour Costs

Workers compensation is calculated by the Labour Department according to specific industry and company size = 0.9% of wage or salary with a maximum wage/salary level of R36, 000 per annum.

Health insurance is not a statutory requirement. Typically larger companies contribute 50% to the employee's medical aid scheme. The cost of medical aid is normally around R1, 000 per member.

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Employees must receive full pay while on sick leave and five or six day workers receiving 10 and 2 days sick leave per annum.

Pension schemes are not an employer's typical responsibility but are normally applied like the medical aid provision at about 12% of the employee's taxable income.

Contributions to the Unemployment Insurance Fund (UIF) are payable by both the employer and the employee at a rate of 1% of all taxable earnings excluding commissions.

Accommodation

South Africa

South Africa provides standard housing with various prices for rented accommodation, and hotel rates.

Mpumalanga

The province has wide ranging accommodation facilities that cater for various market groups.

The following provide an indication of the prices of rented accommodation and cost of hotels for selected regions. More or less the same rates apply in the Mpumalanga Province depending on the location.

Table 4: Rented Accommodation per month

Flat rentals :standard units								
Average rates per month as at quarter 2007:4								
Region	Bachelor		1- Bedroom		2- Bedroom		3- Bedroom	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Johannesburg	R1 861	n/a	R2 761	n/a	R3 489	n/a	R4 135	n/a
Germiston	R1 232	n/a	R1 714	n/a	R2 086	n/a	R2 656	n/a
Pretoria	R1 726	n/a	R2 046	n/a	R2 540	n/a	R3 226	n/a
Bloemfontein	R779	n/a	R1 491	n/a	R1 980	n/a	R2 692	n/a
Durban	R1 807	n/a	R2 597	n/a	R3 104	n/a	R3 884	n/a
Cape Town	R1 968	n/a	R2 431	n/a	R3 049	n/a	R3 970	n/a
Port Elizabeth	R1 348	n/a	R1 743	n/a	R2 183	n/a	R2 917	n/a
East London	R1 581	n/a	R2 039	n/a	R2 645	n/a	R3 022	n/a

Source: Rode & Associates Property Economists, Consultants and Valuers

•SD - Standard deviation

Hotel Rates

These vary considerably from city to city and also on the time of the year. The following provide some indicative rates for both South Africa and the province.

Table 5: Hotel rates

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Facility rating	Rate
Five star	R 3 000 - R 5 000
Four star	R 1 500 - R 2 300
Three star	R 800 - R 1 200

Source: www.accomline.com

Permits for Foreign Staff

To work in South Africa, foreigners need to apply for the following:

- A temporary work permit – for one year, which may be extended, or
- Conduct own business – is a holder of more than 25% of company's shares – annual and renewable
- Permanent residence permit – recommended if employment longer than three years. It takes much longer to be approved as well as completing the application form from Home Affairs you must provide qualifications, motivation (employment contract or investment contract), letter of employment, job description, local advertisement, company feasibility study and monetary guarantee.
- Extensions of permit may be applied for subject to such application being lodged prior to the permit expiry date.

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- Anybody working in South Africa must register as a South Africa Tax Payer and must therefore be paid and taxed in South Africa. The remittance of excess income after tax is allowed as long as the person is a non-resident.

Electricity Costs

Eskom Holdings is the country's major entity which generates, transmits and distributes electricity.

It generates approximately 95% of the electricity used in South Africa. Electricity costs are mainly dependent on the annual Eskom price adjustment (normally inflation related). As a result of the electricity shortage challenges which the country currently experiences since 2007, large tariff increases are expected in the coming years to part fund the required capital expenditure for upgrading and expansion of capacity. Eskom tariffs will be split into non-municipal and municipal tariffs in compliance with the Municipal Financial Management Act. The table below provides indicative costs for business by Eskom.

The Business tariff is made up of a range of tariffs as follows:

Business rate 1: for supplies \leq 25 kVA using less than 622 kWh per month

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Businessrate 2: for supplies \leq 25 kVA and \leq 50 Kva

Businessrate 3: for supplies $>$ 50 kVA and \leq 100 Kva

Businessrate 4: for supplies \leq 25 kVA using less than 622 KWh per month

Source : (ESKOM,

2009)

This tariff is characterized by:

- A single c/kWh active energy type
- A R/ day network charge based on the NMD of the supply
- A R/day network charge based on the size of supply

Capital costs

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A connection charge will be payable in addition to the tariff for new connection or additional capacity

Table 6: Business Rates: Non – Local Authority Rates

	Business rate (R/POD/day)	Network charge (R/POD/day)	Energy charge (c/k/Wh)	Environmental levy (c/k/Wh)
Business rate1	R7.10	R8.24	R45.62	R2.25
Business rate2	R7.10	R13.90	R45.62	R2.25
Business rate3	R7.10	R24.04	R45.62	R2.25
Business rate4	R7.10	-	R116.05	R2.25

Source:

Eskom, 2009

Table 7: Business Rates: Local Authority Rates

	Business rate (R/POD/day) VAT incl.	Network charge (R/POD/day) VAT incl.	Energy charge (c/k/Wh) VAT incl.	Environmental levy (c/k/Wh) VAT incl.
Business rate1	R7.14	R8.29	R45.85	R2.25
Business rate2	R7.14	R13.97	R45.85	R2.25
Business rate3	R7.14	R24.12	R45.85	R2.25
Business rate4	R7.14	-	R116.66	R2.25

Source:

Eskom, 2009

Water Rates

South Africa

South Africa has a relatively well developed water infrastructure, with a network of dams and inter-basin transfers schemes across the country. This has played a very important role in terms of agricultural irrigation facilitation during dry periods. Water is provided by various water boards on primary and secondary basis. Water rates vary from one region to another.

Mpumalanga

Water tariffs in the Province also vary according to the service provider as well to the different users who can be classified into Industrial, Commercial and Residential. The users pay certain tariffs normally determined by the local authorities (Local Municipalities). The Tariffs are adjusted annually. Tariffs are distinguished between domestic tariffs and Business tariffs. Normally, monthly charges are applicable for water and wastewater services provision, and these are calculated based on the amount of water consumed by customers in a particular month. Other charges, apply separately based on the relevant activities or services provided and are also determined by the local authority. These include:

- New connection charges
- Admin/ Connection fees
- Remainder/ Warning Fees

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- Disconnection / Reconnection Fees

Company Tax

Companies with a turnover of R6 million or less, pay no tax on the first R35, 000 of taxable income.

- 10% up to R250 000 and then 29% on profits
- Plus a Secondary Tax on Companies (STC) o 12.5% payable by the company not the shareholder) on dividends declared, less dividends received
- The effective rate for company's who distribute all their current profits by way o dividends is 37.88%

For the establishment of a new business, a double deduction of expenses incurred limited to the first R20, 000 of deductions is allowed

Branch Tax

Overseas companies registering a branch in South Africa instead of a separate company will be taxed at a flat rate of 34% with no STC tax applicable

Labour Tax Rates

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Varies according to income on a sliding scale from 18% (at the initial level of R35 000) to 40% (which is the marginal tax rate applicable from R300,001 per annum)

Depreciation Rates – General Rules

- 40% straight line for the first year and 20% for the subsequent 3 years – new and unused manufacturing equipment bought into use and acquired after 1st March 2002.
- SMMEs where turnover does not exceed R6 million with the same criteria as per 9.1 qualify for 100% deduction in the first year
- 20% straight line for non-manufacturing equipment or manufacturing equipment that does not meet the above criteria. However, SMMEs qualify for a 50:30:20 depreciation.
- 2-10% straight line for buildings. However, should the building be in a designated (renewal) urban area, then the rate will be 20% over 5 years for refurbishments, while new commercial and residential buildings will qualify for 20% in the first year and 5% in the succeeding 16 years.

Residential Property Tax

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On purchasing property transfer duties are payable to the Government:

- 0% on the first R190,000
- 5% on 190,001 to R330,000
- 8% on the amount over R330,001

Commercial and Industrial property Tax

Either transfer duty at 10% of the price or if the seller is a registered vendor, recoverable VAT at 14% is payable to the Government. In addition marginal conveyancing charges are payable to the attorneys registering the new title.

All property owners must pay rates on an annual basis to their local authorities or services provided in their area. This tax is based on the municipal valuation of both land and buildings and ranges from a combined percentage of 0.55% to 2.88%. Each Municipality should be consulted with regard to their formula for calculating rates and taxes.

Other Company Taxes

- A 1% Skills Levy is applicable to companies with an annual payroll of over R250, 000
- VAT is 14% and reclaimable, with exports being zero rated

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A 12% withholding tax is applicable to the South African Company remitting royalties to other countries.

Capital Gains Tax applies to South African residents on worldwide asset disposals and to non-residents on disposal of SA fixed property or branch assets. Capital gain or loss is the difference between realization proceeds and base cost.

Exclusions of gains and losses apply inter alia in respect of primary residence (max.R1m), personal assets (furniture, jewelry etc.) and assets not used for business. Limited rollover (deferral) relief available for assets destroyed or expropriated and for reinvestment in manufacturing or transport industry asset upgrades. Individuals enjoy an annual exclusion of gains or losses up to R10, 000.

Only a portion of the aggregate gains are taxed. Companies are taxed on 50% of the gain (effective rate 30% on 50% = 15%). Individuals are taxed on 25% of the gain (effective maximum rate 42% on 25% = 10.5%)

Assessed capital losses may not be applied to reduce the amount of ordinary income that is taxed and must be carried forward for set off against future capital gains.

Repatriation of Capital & Earnings

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There is no restriction on repatriation of capital by non-residents through normal banking channels.

There are no dividends & branch profit restrictions provided the transfers are made out of trading profits. Interest payments are freely transferable provided the rate is reasonable with regard to the nature of the loan and current interest rates.

Duties & Surcharge

South Africa is a signatory to GATT.

Machinery

Normally duty free with a few non-capital machinery items at 5%

No surcharge

14% VAT is payable but can be reclaimed after the 1st month as long as the company is registered as a VAT vendor before the machinery is imported.

Permits not normally required if new machinery. Secondhand and/or used goods are subject to import permits.

Raw Material

- Duties and surcharges range from 0% to 40% each. (All items presently showing a 5% surcharge are now zero rated)

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- The duties and surcharges may be waived/ rebated if the raw materials are used up in products that are exported.
- Permits are normally required.

Harbour Fees

Cargo dues on all commodities, articles, things, or containers, (full or empty) are levied at all ports.

Cargo dues are charged to recover the cargo contribution towards port infrastructure.

Table 8: Transnet National Port Authority Port Tariffs (April 2008)

	Imports	Exports
Bulk (dry & Liquid)	48.54	36.39
Break bulk	103.12	84.93
Break bulk empty returns	3.03	3.03
Motor vehicle on wheels	169.86	84.93

Source: Transnet (April

2008)

Ps: Tariffs subject to VAT at 14%. Tariffs in South African Rand.

Containers

The following fees apply per container:

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- ISO containers filled with MT returns of whatever nature being returned for filling, provided a certificate is given to the effect that they are being returned to the original sender for refilling as well as MT ISO containers are regarded as an empty container. Transshipments are excluded from this ruling.
- All Containers up to the size of 6m/20' container will be charged at 6m/20' container rate

Table 9: Coastwise Cargo

	Exports
All cargo per leg inwards or outwards, per ton	11.19
Break bulk empty returns	3.03
Containerised	
All cargo per leg inwards or outwards irrespective of contents ,per container : 6m / 20 ' containers	60.67
12m/ 40', 13,7m/45 containers	121.32

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Empty Containers , all sizes	60.67
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Source: Transnet (April

2008)

Ps: Tariffs subject to VAT at 14%. Tariffs in South African Rand.