



# **An Overview of Manufacturing Rebate and Drawback Procedures**

Customs & Excise



*South African Revenue Service*

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## Preface

This guide enhances the understanding of the customs processing procedures. It does not go into comprehensive technical and legal detail and should therefore not be used as a legal reference.

This guide has no binding legal effect.

Should you require more information you may –

- visit the SARS website at **[www.sars.gov.za](http://www.sars.gov.za)**;
- contact the SARS National Contact Centre –
  - if calling locally, on 0800 00 7277;
  - if calling from abroad, on +27 11 602 2093 (only between 8am and 4pm South African time);
- have a virtual consultation with a SARS consultant by making an appointment via the **SARS website**;
- visit your nearest SARS branch office, preferably after making an appointment via the **SARS website**; or
- contact your own tax advisor or tax practitioner.

Comments on this guide may be sent to **[C&E\\_LegislativeComments@sars.gov.za](mailto:C&E_LegislativeComments@sars.gov.za)**.

**Legislative Policy: Customs and Excise**  
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# Contents

<b>Preface</b> .....	<b>i</b>
<b>1. Purpose</b> .....	<b>1</b>
<b>2. Introduction</b> .....	<b>1</b>
<b>3. What are rebates?</b> .....	<b>1</b>
<b>4. What are drawbacks?</b> .....	<b>1</b>
<b>5. Value-added tax exemption</b> .....	<b>1</b>
<b>6. Legislative framework</b> .....	<b>2</b>
<b>7. Customs processing procedures</b> .....	<b>2</b>
7.1 Home use processing.....	2
7.2 Inward processing.....	2
7.3 Outward processing .....	3
7.4 Special economic zone processing.....	3
7.5 Drawback processing.....	3
<b>8. Overview of customs processing procedures</b> .....	<b>5</b>

## **1. Purpose**

This guide enhances the understanding of the customs processing procedures.

## **2. Introduction**

To stimulate the local manufacturing industry, a rebate of customs duty and/or a value-added-tax (VAT) exemption is provided for on specific imported raw materials used in local manufacturing in certain specified circumstances. Provision is also made in certain circumstances for a drawback of customs duty that the importer paid when importing goods that were used in manufacturing of goods that were subsequently exported. The Customs and Excise Act, 91 of 1964 (the Act) makes provision for duty rebates and drawbacks while the Value-Added Tax Act 89 of 1991 (VAT Act) makes provision for VAT exemptions.

## **3. What are rebates?**

A rebate is a full remission or part reduction of customs duties conditional upon the importer's compliance to specific conditions set out in the Act. Any imported goods, described in Schedule Nos. 3 and 4 to the Act, shall be admitted under rebate of customs duty applicable in respect of such goods at the time of entry for home consumption thereof to the extent stated in, and subject to compliance with the provisions of the rebate item in Schedule No. 3 or 4 in which the goods are specified. Every rebate item has its own extent of rebate of duty. The rebated duty becomes payable upon non-compliance with the specific conditions of the Act including the terms of the rebate item. Certain rebates of duty are conditional upon the granting of a permit from the International Trade Administration Commission (ITAC).

## **4. What are drawbacks?**

A drawback is a refund of customs duty that the importer paid when acquiring certain materials that were used in manufacturing, processing, packaging, or otherwise altering goods for the purpose of export. A drawback of customs duty paid on entry for home consumption on any imported goods described in Schedule No. 5 shall be paid to the person who paid such duties or any person indicated in the notes to the Schedule, subject to compliance with the provisions of the drawback item in which those goods are specified. Certain drawbacks of duty are conditional upon the granting of a permit from ITAC.

Importers can only submit a drawback application once they have exported the final product. Applicants must attach proof of export with their application. All export declarations must reflect the correct customs procedure code and drawback item on the clearance declaration prior to the goods being exported from South Africa. Drawback applications must be lodged within six months of the date of export.

## **5. Value-added tax exemption**

Section 7(1)(b) of the VAT Act imposes value-added tax (VAT) on the importation of any goods into the Republic by any person. Section 13 of the VAT Act provides for the collection of VAT on importation of goods, determination of value of the goods, and exemptions from VAT. Paragraph 8 of Schedule 1 of the VAT Act provides for other categories of goods that are exempt from the levying of VAT. These are identified by heading numbers or rebate items and the descriptions as contemplated in Schedule No. 4 to the Act, for example, item number 470.03 in Schedule 1 of the VAT Act and corresponding rebate item 470.03 in Schedule No. 4 of the Act. In some instances, the VAT exemption items contain additional

requirements or limitations or relaxations that differ from the Act. Even if the provisions of the Act and the Schedules to the Act are worded differently, the provisions of Schedule 1 to the VAT Act must be met to qualify for the VAT exemption.

## 6. Legislative framework

<b>Customs and Excise Act</b>	
Section 75	Specific rebates, drawbacks and refunds of duty
Rules	Rules for section 75 of the Act
Schedule No. 3	Industrial rebates of customs duties
Schedule No. 4	Rebates of customs duties, excise duties, fuel levy, road accident fund levy, environmental levy and health promotion levy
Schedule No. 5	Specific drawbacks and refunds of customs duties, fuel levy and health promotion levy
<b>VAT Act</b>	
Schedule 1	Exemption: Certain goods imported into the Republic – Paragraph 8

## 7. Customs processing procedures

### 7.1 Home use processing

Home use processing means the customs procedure under which manufactures can import raw materials under rebate of duty to produce goods for domestic consumption with certain exceptions if the export of the goods produced is mandatory in terms of the rebate item. Industrial rebates are specified in Schedule No. 3 of the Act, and offer a full or partial exemption of customs duty on the imported raw materials and are generally accessible to a wide range of industries such as textiles, food, machinery etc. The imported goods specified in Column II of Schedule No. 3 shall, subject to the provisions of section 75, be admitted for use in connection with the production or manufacture of goods in the industries specified, under rebate of customs duty to the extent stated in Column III of Schedule No. 3. The customs duty liability on the raw materials ceases as soon as manufacture has been completed or if the goods produced have been exported in certain cases, however VAT is payable at the time of entry clearance of the raw materials.

### 7.2 Inward processing

Inward processing means the customs procedure under which manufactures can import goods including raw materials under rebate of duty and exemption from VAT for manufacturing, processing or repair and subsequent exportation. The products obtained as a result of the manufacturing, processing or repair are called “compensating products”. The compensating products must be entered for re-exportation within a specific period prescribed in the rebate item. The main purpose of the inward processing procedure is to make it possible

for national enterprises to offer their products or services on foreign markets at competitive prices, thereby promoting economic growth and helping to provide more employment opportunities for national labour.

### **7.3 Outward processing**

Outward processing is the customs procedure whereby goods which are in free circulation, that is, not subject to customs control are temporarily exported from the Republic to undergo repair or processing operations abroad. The repaired product or compensating products resulting from the processing of these goods, as the case may be, are re-imported and released for home use with partial relief from import duty as only the added value being the cost of repair or processing is subject to the payment of duty and VAT on re-importation.

Further guidance is provided in the *Customs Outward Processing Guide*.

### **7.4 Special economic zone processing**

In advancing its efforts towards promoting economic growth and industrial development, the South African government, via the Department of Trade and Industry and Competition, established various special economic zones (SEZs) within designated areas in South Africa. Special economic zones are geographically designated areas of a country set aside for specifically targeted economic activities, supported through special arrangements and systems that are often different from those that apply in the rest of the country. These SEZs are supported by means of government-provided infrastructure, business support services and streamlined approval processes. A number of targeted tax incentives are provided by Government to ensure SEZs' growth, revenue generation, creation of jobs, attraction of foreign direct investment and international competitiveness, which include income tax, VAT and customs-related incentives.

Goods imported into a customs-controlled area (CCA) situated in an SEZ by a CCA enterprise are relieved from custom duties and exempt from VAT for the purposes of manufacturing (which includes processing, cleaning and repair) within the CCA. The liability for customs duties and VAT on imported goods used in manufacturing in the CCA, cease upon subsequent export. Goods manufactured in the CCA and subsequently supplied to the local domestic market are subject to the payment of the import customs and excise duties that were relieved at time of importation on the imported goods (raw materials). The supply of goods or goods manufactured from raw materials by a CCA enterprise to a receiving vendor in the Republic is subject to VAT under section 7(1)(a).

For a detailed explanation of how the VAT incentive operates, please consult Interpretation Note 40 (Issue 3) "VAT Treatment of the Supply of Goods and/or Services to and/or from a Customs Controlled Area of an Industrial Development Zone", available on the **SARS website**., by navigating to Legal Counsel » Interpretation and Rulings » Interpretation Notes » IN 21 – 40.

### **7.5 Drawback processing**

Drawback processing means the customs procedure that grants a refund of customs duties paid on goods used in the processing or manufacture of exported products or on materials contained in the goods or consumed in the manufacture of the exported products. This procedure allows manufacturers to recover duties paid on imported materials that are used in the manufacturing of goods that have been exported. The refund may be partial or total. The imported goods are used to process or manufacture of goods for export by domestic

industries. The refund of duties paid on the imported goods enables domestic industries to offer goods at competitive prices on international markets. Drawback procedures help promote export trade and are in the interest of the national economy.

## 8. Overview of customs processing procedures

	Home use processing	Inward processing	Outward processing	Special economic zone processing	Drawback processing
Schedule	Schedule No. 3	Schedule No. 4	Schedule No. 4	Schedule No. 4	Schedule No. 5
Part/s	Part 1 – Goods used in the manufacture of other goods  Part 2 – Goods used in the manufacture of other goods for export	Part 3 – Goods temporarily admitted under rebate of customs duties	Part 1 – Specific rebates of customs duties	Part 6 – Imported goods admitted under rebate of duty for use in the customs-controlled area (CCA) contemplated in section 21A	Part 1 – Specific drawbacks of customs duties
Items	Rebate items 303.00 to 321.01  Rebate items 334.00 to 392.01	Rebate item 470.00 – Goods temporarily admitted for processing, repair, cleaning, reconditioning or for the manufacture of goods exclusively for export	Rebate item 409.04 – Imported or locally manufactured articles sent abroad for processing or repair  Rebate item 409.07 – Compensating products obtained from goods temporarily exported for outward processing	Rebate item 498.01 – Goods of any description imported by a registered CCA enterprise into the CCA	Drawback items 501.00 to 521.00
VAT exemption items	N/A	470.00	409.4 and 409.07	498.01	N/A

	<b>Home use processing</b>	<b>Inward processing</b>	<b>Outward processing</b>	<b>Special economic zone processing</b>	<b>Drawback processing</b>
Registration/Licensing	Registration as importer and as rebate user of the relevant rebate item	Registration as importer, exporter and registration as rebate user of the relevant rebate item	Registration as importer, exporter and registration as rebate user of the relevant rebate item	Registration as importer, exporter and registration as rebate user of the relevant rebate item	Registration as importer, exporter and registration for the relevant drawback item
ITAC permit	Certain rebate items require an ITAC permit to utilise the rebate of duty	Required for items 470.03/00.00/01.00 and 470.03/00.00/03.00	Required for item 409.07	N/A	Required for rebate item 521.00/00.00/01.00