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## Article

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## An empirical study of the concepts process of manufacture and similar process

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The concepts process of manufacture and similar process are very important to manufacturing enterprises as new or unused machinery and plant must be employed in one of the two processes to qualify for a 50 % initial allowance. On the other hand only buildings or improvements thereto are in line for an investment or initial allowance if the assets are used in a process of manufacture. An empirical study of the two concepts concerned revealed that a process of manufacture or similar process is clear to the majority of responding companies. Allegations made by a number of companies concerning the two concepts do not have much substance, but the concept of process of manufacture is apparently a bigger source of doubt to the private sector than a similar process. Situations, such as proceeding from one process to the next or where machinery and plant are part of the building, do not always yield clear-cut answers. Possible solutions for increasing the clarity of a process of manufacture or a similar process include, amongst others, clear guidelines which should be issued by the Receiver of Revenue as well as a list of examples of processes of manufacture which are acceptable to the Receiver of Revenue.

Die begrippe proses van vervaardiging en soortgelyke proses is baie belangrik vir 'n vervaardigingsonderneming aangesien nuwe of ongebruikte masjinerie en toerusting in een van die twee prosesse gebruik moet word om vir 'n 50 % aanvangstoelae te kwalifiseer. Aan die ander kant sal slegs geboue of verbeteringe daaraan in aanmerking vir 'n investerings- of aanvangstoelae kom as die bates in 'n proses van vervaardiging gebruik word. 'n Empiriese studie van die twee betrokke begrippe het getoon dat 'n proses van vervaardiging of 'n soortgelyke proses aan die meerderheid van meewerkende ondernemings duidelik is. Die bewerings wat deur 'n aantal maatskappye met verwysing na die twee begrippe gemaak is, het nie veel waarde nie, maar die begrip proses van vervaardiging lewer klaarblyklik meer haakplekke vir die private sektor op as soortgelyke proses. Situasies soos die oorgang van een proses na die volgende of waar masjinerie en toerusting 'n gedeelte van die gebou vorm, lewer nie altyd duidelike antwoorde op nie. Die moontlike oplossings om die duidelikheid van proses van vervaardiging of soortgelyke proses te verbeter, sluit onder andere duidelike riglyne in wat deur die Ontvanger van Inkomste uitgereik word, asook 'n lys van voorbeelde van prosesse van vervaardiging wat vir die Ontvanger van Inkomste aanvaarbaar is.

### Introduction

When an enterprise acquires new or unused machinery or plant on or after 1 July 1985 to use in a process of manufacture or a similar process (other than in mining or farming), it qualifies for a 50 % initial allowance (Divaris and Stein, 1986:126–127). If used machinery or plant is however at stake, the initial allowance is reduced to 25 % if the assets are used either in a process of manufacture or similar process (Divaris and Stein, 1986:127). A 20 % investment allowance is available if a building is brought into use or improvements are completed before 1 July 1986 while an initial allowance of 17,5 % is appropriate for buildings as well as improvements which are erected on or before 31 December 1986. The buildings or the improvements concerned may either qualify for an investment or initial allowance when they are used in a process of manufacture, but not in a similar process, mining, or farming (Divaris and Stein, 1986:114–115). It is therefore clear that the concepts process of manufacture and similar process are very important when an enterprise wishes to qualify for tax relief concerning investments in machinery or plant, as well as buildings or improvements thereto.

When an enterprise wishes to determine whether a specific process qualifies as a *process of manufacture* or not, the following guidelines can be applied (De Koker, 1979:431–432):

- The final product must be essentially different to the material used in the process. For example, the cooling of water to obtain ice may be accepted as a process of manufacture.

- The process has to be an important stage in the manufacturing process, such as ginning cotton.

- If the physical substance of the material used in a process does not actually differ from the final product, skill has to be applied during the process. Blending of tea may therefore qualify as a process of manufacture.

- The size of the process can also determine whether it is regarded as a process of manufacture or not. An enterprise which prepares and distributes take-away food, for example, can be busy with a process of manufacture, while a restaurant does not qualify as such.

It must be emphasized that at present the Commissioner of Inland Revenue regards more than 50 processes as *similar* to a process of manufacture (Silke, Divaris and Stein, 1982:567–569), whilst it is not always clear whether or not a specific process will be accepted as a process of manufacture.

An empirical survey, which included 98 listed companies with manufacturing operations, was conducted (Mostert, 1983:302–315). This article is based on the information gained in this way, and discusses the opinions, allegations, sources of doubt, and proposed solutions regarding a process of manufacture and similar process by the companies concerned.

### Process of manufacture

Table 1 shows the *clarity* of the concept process of manufacture to the various sectors of the responding enterprises. As this classification basis gives an indication of the main activities of the companies concerned, it is

**Table 1** The opinions concerning the clarity of the concept process of manufacture, classified according to the sectors of the responding companies

Sectors	Always clear		Mostly clear		Seldom clear		Never clear		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
Industrial holding	6	50,0	4	33,3	2	16,7	0	0,0	12	100,0
Beverages	3	75,0	1	25,0	0	0,0	0	0,0	4	100,0
Building and construction	7	63,6	3	27,3	1	9,1	0	0,0	11	100,0
Chemicals and oil	6	75,0	2	25,0	0	0,0	0	0,0	8	100,0
Clothing, footwear and textiles	10	83,3	2	16,7	0	0,0	0	0,0	12	100,0
Electronics, electrical and battery	2	100,0	0	0,0	0	0,0	0	0,0	2	100,0
Engineering	9	60,0	6	40,0	0	0,0	0	0,0	15	100,0
Food	0	0,0	3	60,0	1	20,0	1	20,0	5	100,0
Furniture and household goods	2	66,7	1	33,3	0	0,0	0	0,0	3	100,0
Motors	3	100,0	0	0,0	0	0,0	0	0,0	3	100,0
Paper and packaging	5	55,6	4	44,4	0	0,0	0	0,0	9	100,0
Printing and publishing	3	100,0	0	0,0	0	0,0	0	0,0	3	100,0
Steel and allied	5	100,0	0	0,0	0	0,0	0	0,0	5	100,0
Stores	2	66,7	1	33,3	0	0,0	0	0,0	3	100,0
Sugar	1	100,0	0	0,0	0	0,0	0	0,0	1	100,0
Tobacco and matches	2	100,0	0	0,0	0	0,0	0	0,0	2	100,0
Total	66		27		4		1		98	
%	67,3		27,6		4,1		1,0		100,0	

possible to identify the manufacturing operations where the concept process of manufacture gives problems.

Table 1 shows that it is always clear to more than 67 % of the responding companies what the Receiver of Revenue means by a process of manufacture, while it is mostly clear to 27,6 % of the companies concerned. The concept process of manufacture is seldom or never clear to only 5 of the 98 contributory companies.

Classification of the opinions according to the sectors reveals that the concept concerned is seldom or never clear to only 3 sectors, namely, Industrial Holdings, Building and Construction, and Food. No general cause of friction can be identified and the following *allegations* were made concerning the causes of conflict being experienced :

- ‘Only one of two identical factories qualifies as a process of manufacture.’
- ‘The concept is generally vague.’
- ‘The clerks working for the Receiver of Revenue do not know the law and practice.’
- ‘The difference between a process of manufacture and a similar process is a source of doubt.’
- ‘The Receiver of Revenue only decides if a certain process qualifies as a process of manufacture when the installation is done.’
- ‘The Receiver of Revenue is in doubt whether new processes will qualify as a process of manufacture or not.’

The only comment necessary on these allegations is that the companies should discuss the affairs with the Receiver of Revenue, as many responding enterprises mentioned the fine collaboration with the Receiver of Revenue.

Although it is general knowledge that the Receiver of Revenue is willing to determine whether a process qualifies as a process of manufacture or not, the acceptance of the following situations is a *source of doubt* in practice:

- When the factory, cafeteria, and office accommodation are in the same building.
- While proceeding from one process to the next.
- When service processes are at stake in preparation of a process of manufacture.
- When machinery or plant is part of the building.
- Whether or not music studios used for recordings are accepted as a process of manufacture.
- The blending of tea or fertilizer.
- The processing of waste paper when the various activities are undertaken by different enterprises.
- When particular conversion activities are done in a warehouse.

Some responding companies were *discontented* as cold stores and warehouses (which are necessary for the protection of final products) and abattoirs are not accepted as processes of manufacture.

The responding companies which experience problems with the concept process of manufacture are not unanimous concerning the possible *solution*. Seven enterprises did not have any solutions for their problems, while approximately 56 % of the companies concerned asked for clear guidelines or a list of examples which are acceptable to the Receiver of Revenue.

#### Process similar to a process of manufacture

The *clarity* of the concept concerned appears from Table 2, where the opinions of the contributory enterprises are classified according to the various sectors in order to give an indication of the main activities of the responding companies.

The concept concerned does not cause any general problems in practice. Only 7,2 % of the responding companies had experienced causes of friction. The classification of the opinions of the contributory companies according to the various sectors shows that the activities of no particular sector can be identified as a source of vagueness.

The 7 responding enterprises to whom the concept was not always clear, made the following *allegations* with reference to a process similar to a process of manufacture:

– ‘Only one of two identical factories qualifies as a process of manufacture.’

– ‘The concept is generally vague.’

– ‘The concept includes a senseless collection of activities.’

The acceptance of the following situations as a process similar to a process of manufacture is a *source of doubt* to managers:

– While proceeding from one process to the next.

– Differentiating between machinery and buildings where the former is a part of the building.

– When service processes are undertaken in preparation of a process similar to a process of manufacture.

Just as the causes of friction did, which some responding companies experienced, the proposed *solutions* also varied. As long as the difference between a process of manufacture and a similar process is in force, clear guidelines will surely clarify the latter concept.

#### Summary

The preceding findings about process of manufacture and similar process lead to the conclusion that the concepts are clear to the majority of enterprises. It appears that the concept process of manufacture is a bigger source of friction to the private sector than similar process, although the latter concept also yields problems to some undertakings. Possible solutions to increase the clarity of the two concepts include clear guidelines which should be issued by the Receiver of Revenue, as well as a list of examples of

**Table 2** The opinions concerning the clarity of the concept process similar to process of manufacture, classified according to the sectors of the responding companies

Sectors	Always clear		Mostly clear		Seldom clear		Never clear		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%
Industrial holding	10	83,3	0	0,0	2	16,7	0	0,0	12	100,0
Beverages	4	100,0	0	0,0	0	0,0	0	0,0	4	100,0
Building and construction	11	100,0	0	0,0	0	0,0	0	0,0	11	100,0
Chemicals and oil	8	100,0	0	0,0	0	0,0	0	0,0	8	100,0
Clothing, footwear and textiles	11	91,7	1	8,3	0	0,0	0	0,0	12	100,0
Electronics, electrical and battery	2	100,0	0	0,0	0	0,0	0	0,0	2	100,0
Engineering	14	93,3	1	6,7	0	0,0	0	0,0	15	100,0
Food	4	80,0	0	0,0	0	0,0	1	20,0	5	100,0
Furniture and household goods	3	100,0	0	0,0	0	0,0	0	0,0	3	100,0
Motors	3	100,0	0	0,0	0	0,0	0	0,0	3	100,0
Paper and packaging	8	88,9	0	0,0	1	11,1	0	0,0	9	100,0
Printing and publishing	3	100,0	0	0,0	0	0,0	0	0,0	3	100,0
Steel and allied	5	100,0	0	0,0	0	0,0	0	0,0	5	100,0
Stores	2	66,7	1	33,3	0	0,0	0	0,0	3	100,0
Sugar	1	100,0	0	0,0	0	0,0	0	0,0	1	100,0
Tobacco and matches	2	100,0	0	0,0	0	0,0	0	0,0	2	100,0
Total	91		3		3		1		98	
%	92,8		3,1		3,1		1,0		100,0	

processes of manufacture which are acceptable to the Receiver of Revenue. The clarity of the concepts concerned is important as the investment and initial allowances will only become incentive measures when the private sector can be certain before investing their money that they will receive the tax relief.

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