

May 2018

Tax Newsletter

Reasons for the implementation of a carbon tax in South Africa

Carbon tax seeks to give effect to the polluter pays principle by ensuring that the real cost of greenhouse gas (GHG) emissions to the environment and society are explicitly incorporated into the prices of carbon intensive production activities.

The carbon tax aims to encourage companies to change their future behaviour by taking steps now to gradually change their fuel inputs, production techniques and processes by encouraging investments in energy efficient, low carbon technologies to lower their emissions. The introduction of the carbon tax is also aligned with South Africa's international commitments in terms of the Paris Agreement and the Kyoto Protocol.

The Draft Carbon Tax Bill as introduced in the National Assembly (proposed section 77) (the Bill) was tabled in December 2017 to provide for the imposition of a tax on the carbon dioxide equivalent of GHG emissions.

Who does the carbon tax affect?

Organisations who do not take action to reduce their “carbon footprint” will face punitive measures and be forced to pay tax to the state for producing higher amounts of air pollution. It is ultimately designed to encourage a transition to more environmentally-friendly ways of operating in various industries. The Bill provides further specific criteria in determining who will be affected by the carbon tax.

When will the carbon tax be implemented?

South Africa is expected to pass the Bill this year and implement the tax in January 2019. The Bill will be the subject of parliamentary hearings this year.

The imposition of carbon tax in terms of the Bill

What is classified as a carbon emission?

Producing excessive amounts of the following substances and pollutants will all require a

contribution to the carbon tax:

- fossil fuel combustion
- emissions from industrial process and product use and fugitive emissions
- carbon dioxide
- methane
- nitrous oxide
- perfluorocarbons
- hydrofluorocarbons
- sulphur hexafluoride

Taxpayers subject to tax in terms of the Bill are those persons (including any partnership or trust) who conduct any activity that results in the production of greenhouse emissions above certain thresholds determined by Schedule 2 to the Bill.

Examples of activities which are subject to the Bill include petroleum refining, iron and steel manufacturing and coal mining and handling.

What is the tax rate?

The tax rate is set at ZAR120 per tonne of CO₂e (carbon dioxide equivalent) produced.

To allow businesses time for transition, a basic percentage-based threshold of 60% will apply, below which carbon tax is not payable.

Inflationary provisions are included in the Bill to allow for the increase in the tax rate each year.

What is the tax base?

The carbon tax is levied on the sum of the GHG emissions of a taxpayer resulting from fuel combustion, industrial processes and fugitive emissions.

The Department of Environmental Affairs will specify a reporting methodology which is approved for purposes of determining the sum of GHG emissions.

If there is no applicable reporting methodology, then the Bill contains various formulae to be applied to calculate the tax base depending on the type of emission.

What allowances can be deducted from the tax base?

Once the tax base has been determined, a formula is used to calculate the tax payable. Provision is made for the reduction of the tax base in the form of various allowances that may be claimed depending on the nature of the emissions.

The sum of the allowances may not exceed 95% of the total GHG emissions of the taxpayer.

Conclusion

The complexity of the content of the Bill means that taxpayers should prepare themselves for its implementation. Organisations, specifically those conducting carbon intensive activities who have not yet acted to reduce their carbon footprint, may find themselves in a position where the carbon taxes owed to the South African Revenue Service begins to affect the organisation's business.

> [Read the full article online](#)