

Tax Alert

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Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

Asif Joosub

Cape Town
+27 (0) 21 529 2305
asif.joosub@pwc.com

Jason Daniel

Cape Town
+27 (0) 21 529 2498
jason.daniel@pwc.com

Carbon Tax Proposed Amendments: *The stick before the carrot*

In brief

On 29 July 2022 National Treasury published the draft 2022 Taxation Laws Amendment Bill ("**Draft 2022 TLAB**"), alongside various other tax bills which contain tax proposals made in the 2022 National Budget, for public comment. In this Tax Alert, we unpack one of the pertinent proposed carbon tax amendments and provide a summary of other related proposals.

In detail

The Draft 2022 TLAB proposes amendments to the Carbon Tax Act to bring into effect the policy set out under South Africa's climate change response and carbon tax price path as released by National Treasury in February 2022.

According to the draft Explanatory Memorandum on the Draft 2022 TLAB the proposed changes aim to provide "*the policy and investor certainty necessary to drive low carbon investments and meet South Africa's Nationally Determined Contribution and net zero emission commitments.*"

A three-year extension of the first phase (now set until 31 December 2025) as well as the relatively modest rate changes proposed for the period 2023 to 2025, are aimed at affording taxpayers the opportunity to continue to transition their activities towards low carbon, cleaner business practices and to take early action before the commencement of Phase 2 on 1 January 2026.

Proposed changes to the carbon tax rate:

Amongst the proposed amendments the most significant one relates to the

progressive increase in the carbon tax rate from 2023. The proposed changes to the carbon tax rate (per tCO₂e) reflect the following trajectory for the period 2023 until 2030:

- An increase of US\$1, US\$2 and US\$3 on the current rate of ZAR 144 for the 2023, 2024 and 2025 tax periods, respectively;
- A rate of US\$20 for the 2026 tax period; and
- An annual increase of US\$2.50 in the rate from 2027 to 2029 to reach a rate of US\$30 by 2030.

It is proposed that the "*Average Exchange Rate*" as defined in Section 1 of the Income Tax Act should be used to determine the rand equivalent of the above annual carbon tax rates.

These adjustments and the impact on the current rate are presented in the table below.

Proposed carbon tax rate trajectory for 2023 onwards		
Tax Period	Proposed Rate Increase / Revised Rate (US\$/tCO _{2e})	Proposed Revised Rate* (R/tCO _{2e})
2022	-	144.00 (current)
2023	1.00	160.00
2024	2.00	192.00
2025	3.00	240.00
2026	20.00	320.00
2027	2.50	360.00
2028	2.50	400.00
2029	2.50	440.00
2030	30.00	480.00
2031 onwards	TBC	TBC

* Estimated carbon tax rates calculated based on a 1 US\$ = ZAR16 conversion rate.

The stated intention behind the inclusion of US\$ rates is aimed to align ZAR carbon tax rates with the global carbon pricing as set down by the World Bank and IMF Carbon Price Targets. It is further intended to provide policy and investor certainty.

Summary of other proposed amendments to the Carbon Tax Act in the Draft 2022 TLAB:

- An extension of the current commitment to electricity price neutrality by a further three years until December 2025. This aligns with the extension of the First Phase and aims to incentivise the uptake of renewable electricity and to provide protection, over the short term, to households who would otherwise be subject to higher electricity prices.
- Proposals to clarify specific activities that taxpayers need to carry out in order to claim deductions (against their carbon tax liability) of payments of the electricity generation levy and additional renewable electricity purchased.
- It is proposed that eligible sequestration activities be limited to activities that are within the operational control of taxpayers conducting activities falling under IPCC Code 1A2D - paper, pulp and print, i.e. excluding sequestration activities managed by third parties.

Key takeaway

The proposed amendments to the Carbon Tax Act under the Draft 2022 TLAB, reconfirm South Africa's commitment to its Nationally Determined Contribution and net zero journey. The proposed amendments seek to align South Africa's carbon tax rate with global carbon prices and by doing so aims to penalise emitters and incentivise taxpayers' transition towards a low carbon trajectory.

Public comments on the Draft 2022 TLAB are due on 29 August 2022.

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