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Carbon Tax

Carbon Tax Act

Highlights of the Carbon Tax Act

- Tax rate will increase by CPI + 2% annually until 2022, and CPI thereafter
- Trade exposure allowance determined by ratio between production and imports and exports in sector
- DEA responsible for approval of emission factors, sequestration and Carbon Budget system participation
- Carbon tax liability for fossil fuel based electricity producers will be reduced by environmental levy payments (3.5 c/kWh), as well as a renewable energy premium to be announced by the Minister of Finance
- Broad range of sectors covered by carbon tax beyond heavy industry, including: food, beverages, tobacco, clothing, machine manufacturers, domestic aviation and navigation
- Persons subject to the tax included municipal and public entities

Who is liable?

Any person who conducts a greenhouse gas emitting activity with the combined total capacity above the specified threshold for that activity.

Example of thresholds:

Combustion emissions: 10 MW (th) input*

- Capacity determined at entity level (i.e. the sum of all activities)
- Based on total installed thermal input capacity (including standby equipment)

Fuel	Illustrative example (annual)
Other bituminous coal	16 400 tonnes
Natural gas	8 300 000 Nm^3
Paraffin	9 100 000 liters
Heavy fuel oil	8 100 000 liters

Fugitive and process emissions: None**

Agriculture, forestry and other land use, waste: NA

- No threshold for fugitive and process emissions
- All emitters will pay
- Carbon tax will not apply to emissions from agriculture, forestry and land use, except for stationary combustion emissions

* *Except for aviation, rail and naval fuel use (100 000 liters/year) and brick-making (4 million bricks a month)*
** *Except for CO_2 transport and storage (10 000 tCO_2/year)*

Design of carbon tax

- Carbon tax base of R120 per tonne of carbon dioxide equivalent (tCO_2e) emissions, based on fuel combustion, process and fugitive emission sources
- Basic allowances of 60% for combustion emissions, 70% for process emissions and 10% for fugitive emissions.
- Additional allowances such as trade exposure (up to 10%), performance allowance (up to 5%), voluntary Carbon Budget Programme participation (5%) and carbon offsets (up to either 5% or 10%)
- Annual payment expected to be done during July each year and will be administered through the Customs and Excise Act
- Draft SARS rules provides for registration and licensing of emissions activities based on IPCC codes

The carbon tax is effective from 1 June 2019. The first carbon tax period will be from 1 June 2019 to 31 December 2019. Thereafter, carbon tax periods will follow calendar years. Annual payment will be due in July of the following year.

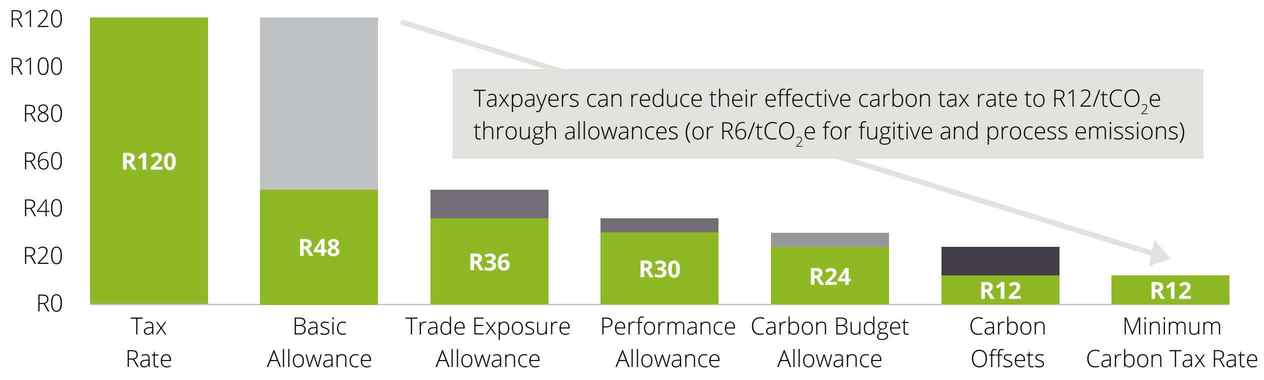
The carbon tax will be levied on the sum of greenhouse gas emissions from fuel combustion, industrial processes and fugitive sources determined using a reporting methodology approved by the Department of Environmental Affairs. Petrol and diesel emissions will be taxed via the fuel levy system from 5 June 2019.

Calculation of tax payable

$$X = \langle\{[(E-S) \times (1 - C)] - [D \times (1 - M)]\} + \{P \times (1 - J)\} + \{F \times (1 - K)\}\rangle \times R$$

X = Carbon tax payable
E = Combustion emissions
S = Sequestrated emissions
C = Sum of allowances for combustions emissions
D = Diesel and petrol emissions
M = Sum of allowances for diesel and petrol emissions
P = Process emissions
J = Sum of allowances for process emissions
F = Fugitive emissions
K = Sum of allowances for fugitive emissions
R = Rate of tax

Utilisation of allowances for combustion emissions



The regulations surrounding the following parts of the carbon tax are still outstanding:

- Performance allowance
- Trade exposure allowance
- Carbon offsets allowance

Carbon offsets

- Carbon offsets involve projects or activities that reduce, avoid or sequester emissions
- Projects are developed and evaluated under methodologies and standards, such as CDM, CVS and GS, which enable the issuance of carbon credits
- Demand for carbon offsets anticipated to exceed the supply
- Expected price in the region of R80 per offset
- Each offset will reduce liability by R120, up to allowance cap

Eligible project activities

- Renewable energy projects with generation capacity less than 50 MW
- REIPPPP bids signed after 9 May 2013
- Energy efficiency outside the carbon tax net and not claiming a section 12L deduction
- Transport energy efficiency and municipal waste projects
- AFOLU e.g. restoration of forests and grasslands, small scale afforestation and anaerobic biogas digesters

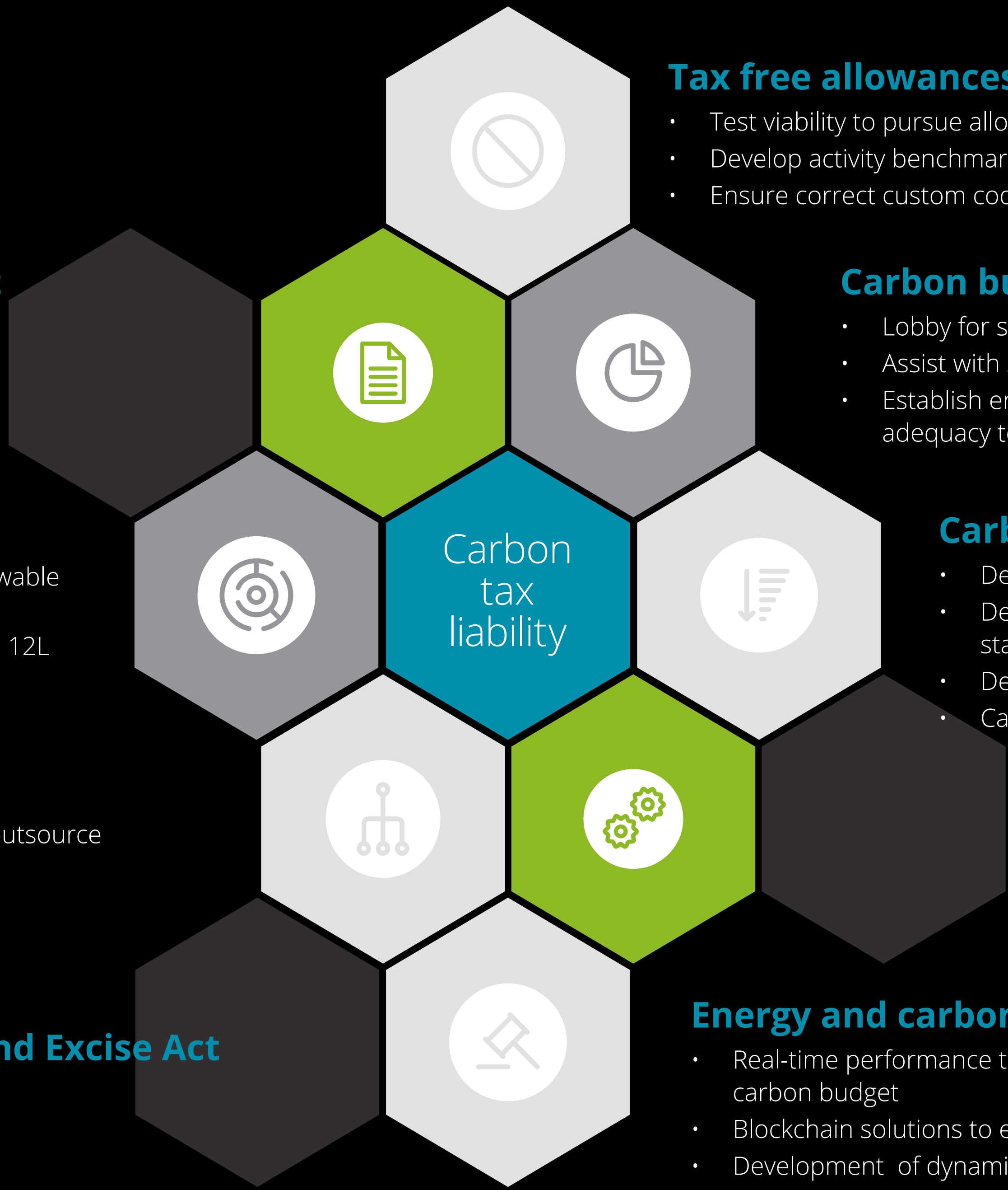
How we can help you get ready

- Determine if you are **liable** for carbon tax
- Assess your **readiness** for carbon tax
- **Evaluate** and **maximise** available carbon tax allowances and related incentives
- Assist with registration and licensing for **Customs and Excise**
- Investigate feasibility of mitigation strategies and low emission technologies and fuels
- Evaluation and registration of **carbon offsets** through CDM, VCS and GS

The draft Climate Change Bill provides for the imposition of mandatory carbon budgets. National Treasury has indicated an initial proposal to tax emissions in excess of the carbon budget at a rate of R600/tCO_2e, with no allowances.

Environmental accountability is the new normal

A strategic approach will be needed to manage all the aspects surrounding the carbon tax



Tax free allowances

- Test viability to pursue allowance initiatives
- Develop activity benchmarks
- Ensure correct custom codes for trade exposure

Greenhouse gas emissions report

- Ensure correct methodology
- Verify data completeness and correctness
- Define optimal information workflow procedure
- SANAS compliance tests

Carbon budget

- Lobby for sector carbon allocation
- Assist with science based targets
- Establish energy efficiency and renewable energy pipeline adequacy to meet budget

Mitigation strategies

- Financial feasibility of energy efficiency and renewable energy projects based on carbon price outlook
- Optimisation of grants and incentives i.e. Section 12L energy efficiency tax deduction

Carbon offsets

- Determine if proposed carbon offset project meets RSA criteria
- Develop project based on existing international carbon standards. i.e. CDM, VCS and Gold Standard
- Development and approval of local carbon offset standards
- Carbon offset open market – connect supply and demand side

Corporate structure

- Energy and carbon management as a service - outsource none-core business activities
- Tax efficient structures

Energy and carbon efficiency management processes

- Real-time performance tracking and exception reporting on deviation from carbon budget
- Blockchain solutions to ensure credibility of environmental data
- Development of dynamic digital reporting system

Administration under Customs and Excise Act

- Licensing and registration of emission activities
- Assistance with rebates and drawbacks
- Assistance with SARS audits

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