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Update: Carbon Tax Bill

Who is liable?

Combustion emissions: 10 MW (th) input*	
	• Threshold determined at entity level (i.e. the sum of all controlled facilities) • Based on installed capacity of fuel energy input

Fuel	Approximate threshold (annual)
Other bituminous coal	16 400 tonnes
Natural gas	8 300 000 Nm³
Paraffin	9 100 000 liters
Heavy fuel oil	8 100 000 liters

Fugitive and process emissions: None**

- No threshold for fugitive and process emissions
- All emitters will pay

Agriculture, forestry and other land use, waste: NA

- Carbon Tax will not apply to emissions for 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) and Other Carbonate use (100 t/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 60% allowance (70% for process and fugitive emissions and 75% for transport emissions)
- Additional allowance mechanisms:
  - Trade exposure (up to 10%)
  - Performance (up to 5%)
  - Voluntary Carbon Budget Programme participation (5%)
  - Offsets (Up to either 5% or 10%)
- Effective Carbon Tax rate between R6 and R48 per tCO_2e depending on allowances
- A Carbon Tax for petrol and diesel will be incorporated into the fuel levy system, and not be taxed directly
- Annual payment expected to be done by June each year and will be administered through the Customs and Excise Act

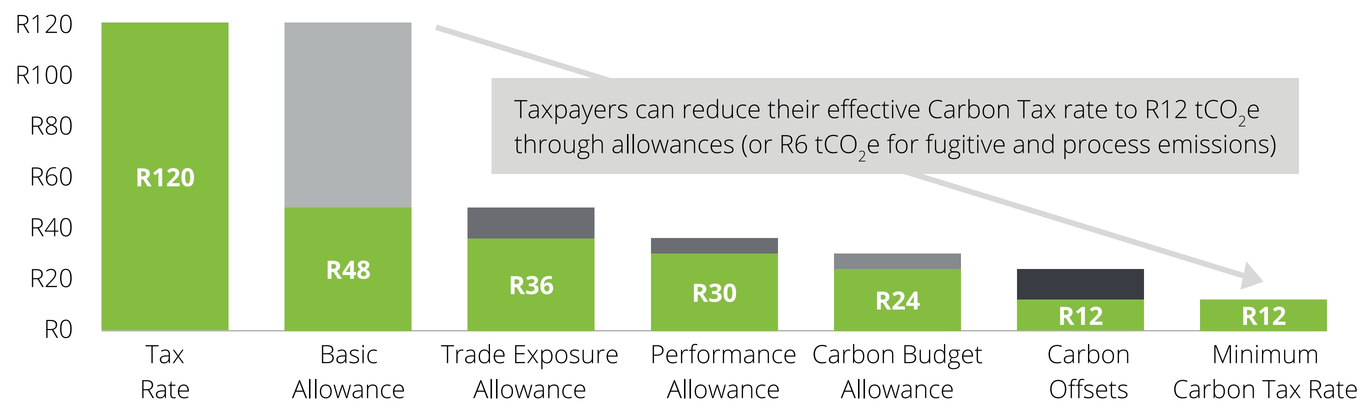
Highlights of the Carbon Tax Bill

- Tax rate will increase by CPI + 2% annually until 2022, and CPI thereafter
- Trade exposure allowance now 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
- Sectors covered that may previously not have expected to pay Carbon Tax: food, beverages, tobacco, clothing, machine manufacturers, domestic aviation and navigation
- Persons subject to the tax expanded to include municipal and public entities

The first period for the Carbon Tax will be 1 June 2019 to 31 December 2019. SARS rules for payment of the tax, and outstanding regulations on the allowances, are expected in March 2019.

Carbon tax will be levied on the sum of greenhouse gases from fuel combustion, industrial processes and fugitive emissions in accordance with a reporting methodology approved by the Department of Environmental Affairs

Utilisation of allowances for combustion emissions



The regulations surrounding the following parts of the Carbon Tax are still outstanding:
- Performance allowance
- Trade exposure allowance
- Licencing and rules from SARS

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 5% threshold

Eligible project activities

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

Calculation of tax payable

X = <{[(E-S) x (1 – C)] – [D x (1 – M)]} + {P x (1 – J)} + {F x (1 – K)}> x R

Where:

- 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

How we can help you get ready

- Determine **your liability** for mandatory GHG reporting and Carbon Tax
- Implement **verifiable GHG reporting structures** (different from regular sustainability, CDP or GRI reporting)
- Determine a **performance allowance benchmark** for your sector to submit to National Treasury
- Facilitate **participation** in the Carbon Budget programme
- Investigate **Tier 3 emission factors** for your low emission technologies
- **Evaluation** and **registration** of carbon offsets through CDM, VCS and GS

Contacts

Izak Swart
Tel: +27 (0)72 904 5428
Email: iswart@deloitte.co.za

Gerhard Bolt
Tel: +27 (0)82 937 3337
Email: gbolt@deloitte.co.za

Raynard Maneschijn
Tel: +27 (0)82 823 0772
Email: rmaneschijn@deloitte.co.za