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National Treasury
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BY E-MAIL: carbontax@treasury.gov.za

Dear Sir and/or Madam

PUBLIC COMMENTS ON THE DISCUSSION PAPER ON PHASE 2 OF THE CARBON TAX

1. We set out below, on behalf of the South African Institute of Chartered Accountants (“SAICA”), our comments and submissions to National Treasury (“NT”) on the discussion paper released by NT regarding the review of the Carbon Tax Discussion Paper: Phase Two of the Carbon Tax (“the Discussion Paper”).
2. We have deliberately tried to keep our submission as concise as possible, which does mean that you might require further clarification. Should you require any further clarification on any of the matters raised please do not hesitate to contact us.
3. We would like to thank NT for the opportunity to participate in this review. SAICA believes that a collaborative approach is best suited in seeking actual solutions to complex problems and we will continue to communicate and collaborate with NT and SARS.

COMMENTS

PUBLIC CONSULTATION: TIMING

4. The Discussion Paper was initially published on the 13th of November 2024, with a deadline for feedback and comments set for the 13th of December 2024. This translated into a period of only 22 business days to meaningfully consider, review and submit comments and feedback.
5. Unfortunately, SAICA's request for an extension to the deadline, dated the 27 November 2024, was unsuccessful. Yet, NT approved a three-month extension for comments on the 'Taxation of Alcoholic Beverages' Discussion Paper even though the latter is a shorter document than this Discussion Paper.
6. Considering the length of this Discussion Paper and the complexity of the issues covered, SAICA does not consider this to be a sufficient amount of time to provide an insightful and detailed submission.
7. SAICA is aware that NT will have a public workshop during January 2025 to discuss the comments submitted but we would still appreciate the opportunity to send additional comments to NT after the public workshop.

NATIONALLY DETERMINED CONTRIBUTIONS

8. The Discussion Paper mentions that revisions to the carbon tax rates for the 2nd Phase are necessary to "help achieve South Africa's NDC commitments for 2025 and 2030". This is the basis for various proposals within the Discussion Paper.
9. However, the Discussion Paper does not acknowledge South Africa's actual national greenhouse gas (GHG) emissions over the past few years.
10. In its 2021 updated NDC, South Africa committed to reducing GHG emissions to between 398 and 510 million tonnes of carbon dioxide equivalent (MtCO₂e) by 2025, and further down to between 350 and 420 MtCO₂e by 2030.
11. However, South Africa's 2022 GHG inventory¹ per the table below was 435 MtCO₂e, which is already close to the lower limit of the 2025 NDC target of 398 MtCO₂e.

¹ Government Gazette No. 50607 issued 8 May 2024 – [Draft 9th National Greenhouse Gas Inventory Report](#)

Table ES 1: Impacts of transitioning from AR2 to AR5 GWPs on the overall emissions between 2000 and 2022.

	Emissions with AR2 GWPs		Emissions with AR5 GWPs		Impact of change in GWP	
	(excl. LULUCF)	(incl. LULUCF)	(excl. LULUCF)	(incl. LULUCF)	(excl. LULUCF)	(incl. LULUCF)
	Gg CO ₂ e				%	
2000	476 861.9	446 961.4	489 747.5	462 205.4	2.7	3.4
2001	476 005.2	456 651.0	488 964.7	472 002.4	2.7	3.4
2002	484 725.3	468 360.2	497 651.3	483 692.9	2.7	3.3
2003	500 068.0	465 695.7	513 190.2	481 053.7	2.6	3.3
2004	511 790.2	485 929.7	524 902.7	501 254.4	2.6	3.2
2005	509 889.7	504 190.6	523 122.9	519 760.2	2.6	3.1
2006	500 850.5	489 020.8	514 091.2	504 500.4	2.6	3.2
2007	522 052.1	502 714.5	535 672.5	518 559.4	2.6	3.2
2008	518 440.6	512 877.7	532 320.7	529 003.6	2.7	3.1
2009	533 591.0	507 147.8	547 270.5	522 920.8	2.6	3.1
2010	513 118.4	497 009.7	526 971.4	512 987.3	2.7	3.2
2011	513 303.8	488 737.4	527 161.3	504 638.0	2.7	3.3
2012	521 851.5	496 005.2	536 003.0	512 196.6	2.7	3.3
2013	508 978.0	471 945.6	522 220.3	487 134.0	2.6	3.2
2014	509 474.4	481 452.6	522 899.6	496 835.8	2.6	3.2
2015	501 905.1	495 884.8	515 516.2	511 428.6	2.7	3.1
2016	496 339.9	473 786.2	509 870.0	489 254.4	2.7	3.3
2017	488 362.0	481 787.6	501 987.5	497 553.7	2.8	3.3
2018	489 041.8	487 530.8	502 130.2	502 893.9	2.7	3.2
2019	488 548.6	461 472.2	501 485.2	476 686.4	2.6	3.3
2020	459 358.9	420 560.5	472 437.8	435 918.6	2.8	3.7
2021	475 175.9	449 326.2	488 322.3	464 957.7	2.8	3.5
2022	465 609.9	420 146.1	478 887.5	435 827.7	2.9	3.7

12. The above table indicates that although there was a sharp decline in GHG emissions from 2019 to 2020, this is likely due to the COVID pandemic and resulting strict lockdowns. It is unlikely that these levels were achieved through the introduction of the carbon tax.
13. Post-pandemic, gross domestic product (GDP) growth of the South African economy has been very low. Therefore, it is unlikely that emissions (in the short-term) will return to pre-COVID levels. One reason for this is the well-documented closure of many companies operating in industrial sectors during 2023, when loadshedding was at its peak.
14. Therefore, the year-on-year increase of carbon taxes and the effective tax rate should be reflective of South Africa's NDC. Considering the decarbonisation levels that South Africa has achieved thus far, this should translate into a more conservative and gradual increase to carbon taxes on an annual basis.
15. It is important to note that South Africa is a developing economy and is still heavily dependent on fossil fuels. A just energy transition by South Africa towards the global fight on climate change must be conducted in a responsible manner that is beneficial but fair and reflective of the South African economy's needs.

16. Submission: Significant progress has been made in reducing emissions. However, it is debatable whether this was achieved as a result of the carbon tax.
17. Since the carbon tax is primarily designed as an instrument to drive emissions reductions, alignment with the NDC targets and South Africa's trajectory per the latest GHG inventory should inform the rate of introduction of changes in the tax rate and the phasing out of allowances.
18. Table 4 of the Discussion Paper indicates that the effective tax rate will increase from R46 per ton CO₂e in 2026 to R116 per ton CO₂e by 2030 for combustion emissions.

However, the 2024 Budget Review highlights the fact that:
 - the Independent Power Producer Procurement Programme has resulted in agreement for more than 8 000 megawatts (MW) of new generation capacity, totalling more than R270 billion in investment.
 - The solar rooftop tax incentive announced in the 2023 Budget has promoted the installation of solar panels that are now generating 5 200 MW of electricity for households and businesses.
19. Page 4 of the Phase 1 Review of Operation Vulindlela² further notes:
20. "The pipeline of confirmed projects is now over 130, amounting to approximately 22 500 MW with an estimated investment value of R390 billion. Several of these projects have already begun to connect to the grid, helping to alleviate loadshedding."
21. It is likely, therefore, that if there are any sudden increases in South Africa's energy demand, electricity generated from renewable energy sources should prove sufficient to meet such demand, instead of Eskom's coal-fired power stations.

REVENUE RECYCLING

22. Even with an assumed 10% decline in taxable emissions due to incentivised behavioural changes, this escalation in the tax rate would result in a 127% increase in carbon tax revenue for government over the five years of Phase 2.
23. The increase in the nominal tax rate from 2025 to 2026 is 31%, which is much higher than inflation. This already sends a strong pricing signal to businesses. The simultaneous decrease in the basic allowance, removal of the trade exposure allowance for combustion, and the removal of the basic allowance, will result in a significant increase in the carbon tax liability for industries. The result is a significant shock to businesses in terms of operational costs, which is unaffordable for these entities.
24. In South Africa, many industries are trade-exposed. Although it is understood that the removal of the trade exposure allowance is to shift towards incentive-based allowances, it must be noted that companies are trade-exposed as a whole and not only on process emissions.
25. The shift toward incentive-based allowances is supported, however the timing and level needs to be more gradual. Companies are not yet able to fully benefit from the carbon offset

² https://www.gov.za/sites/default/files/gcis_document/202405/operationvulindlelaphase1review.pdf

allowance, especially considering that a domestic carbon framework is not yet finalised, and the market is still too immature.

26. In addition to the above increases, it is expected that these increases may lead to indirect increases on operational costs (i.e. increases in the cost of cement and the price of fuel due to the increase in the carbon levy). Furthermore, although it is indicated that in principle the impact on the price of electricity is expected to be neutral, clarity is sought on the how the impact on the price of electricity has been determined.
27. Linking the qualification for the performance benchmark allowance to the approval of mitigation action plans is concerning. Companies in hard-to-abate sectors face significant challenges in implementing mitigation projects for direct emissions. Therefore, it is crucial to have clarity on how NT plans to implement this requirement, especially since the Draft Regulations for Mandatory Carbon Budgets and Mitigation Action Plans are not yet available for public comment.
28. Given NT's stated objective that the carbon tax primarily aims to reduce emissions, it is important to acknowledge the significant challenges industries face in achieving these reductions.

29. Submission: To address these obstacles and enhance the overall effectiveness of the carbon tax, we recommend exploring the below-mentioned additional measures to support South African industries in their decarbonisation efforts. This approach will ensure that the tax not only drives emissions reductions but also fosters sustainable industrial transformation.

- **Expanding the eligibility criteria for the carbon offset allowance:** Given the proposal to increase the carbon offset allowance by 15%, it is expected that there will be a significant demand for carbon offsets created in the market. Currently, there is already a shortage of carbon credits available to be retired in the Carbon Offsets Administration System.
- Although we welcome the extension of utilising carbon credits from projects implemented before 1 June 2019, it is proposed that NT consider increasing the threshold of carbon credits from renewable energy projects even further than the 30 MW threshold.
- **Retain and expand the section 12L incentive:** Section 12L of the Income Tax Act, No. 58 of 1962, ('the Act') provides for a deduction in respect of energy efficiency savings. It has been highly effective in promoting energy efficiency across industries, driving measurable reductions in energy consumption and emissions. Retaining and expanding the scope of this incentive during Phase 2 of the carbon tax—through to 2030—would significantly enhance its impact.

Currently, section 12L focuses on energy savings, which is vital for reducing electricity-related emissions (Scope 2). To further strengthen its effectiveness, the incentive's scope could be broadened to include additional measures, such as process optimisations and technologies that directly reduce GHG emissions (Scope 1).

Expanding the framework in this way would provide industries with greater opportunities to innovate and decarbonise, ensuring alignment with South Africa's climate goals while maintaining competitiveness. This dual approach would support industries in their low-carbon transitions while complementing the objectives of the carbon tax framework.

It is also important to recognise that some taxpayers might be liable for carbon tax, but not have an income tax liability for a particular year. Consequently, they are unable to utilise the full benefit of section 12L. It is therefore recommended that NT consider including section 12L as tradeable carbon tax allowance.

- **Support the Carbon Offset Market - reinstate section 12K:** Reinstating Section 12K of the Act, which provided an income tax exemption for revenues generated from the sale of Certified Emission Reductions ('CERs'), would significantly boost South Africa's carbon offset market.

This measure would incentivise greater participation in carbon offset projects by reducing the financial burden on project developers and enhancing the profitability of carbon credit transactions.

Making carbon revenues tax-free under a revived Section 12K or similar legislation, would further encourage investments in emissions-reduction initiatives, especially in sectors with high mitigation potential. By aligning this incentive with the current carbon tax framework, South Africa can promote the growth of a robust domestic carbon market, accelerate decarbonisation efforts, and attract private sector investment in low-carbon projects.

Such a measure would not only support the carbon offset market but also complement the country's broader climate goals and ensure alignment with global best practices.

- **Extend section 12BA to 2030:** Section 12BA of the Act has proven to be a highly effective incentive for driving renewable energy investments by offering a 125% tax deduction on qualifying assets.

Extending the applicability of this incentive beyond the current deadline of 28 February 2025 to 2030 would provide businesses, including mining and industrial sectors, with the certainty and flexibility needed to plan and implement large-scale renewable energy projects.

Given the ongoing energy challenges in South Africa and the critical need for a just energy transition, this extension would allow more companies to benefit from the incentive, accelerate the deployment of renewable energy infrastructure, and contribute significantly to decarbonising the economy. By extending section 12BA, government can sustain momentum in renewable energy investments, promote energy security, and align with national climate goals.

- **Decarbonisation Programme for Primary Industries:** South Africa's primary industries, such as mining and agriculture, are key to the economy but significantly contribute to emissions. To support their transition to low-carbon operations, we propose a targeted decarbonisation programme modelled on the *Manufacturing Competitiveness Enhancement Programme (MCEP)*³.

This initiative would provide financial support, technical assistance, capacity building, and R&D funding to drive emissions reductions, improve competitiveness, and ensure a just transition. By aligning with sustainability goals and supporting innovation, this programme

³ <https://www.thedtic.gov.za/financial-and-non-financial-support/incentives/mcep/>

would enable South Africa's primary industries to contribute meaningfully to national climate objectives while fostering economic resilience.

- **Dedicated Renewable Energy Funding for Primary Industries through the IDC:** To support South Africa's primary industries, such as mining and agriculture, in transitioning to renewable energy, we propose establishing dedicated funding mechanisms through the Industrial Development Corporation ('IDC').
- These mechanisms would provide concessional loans, grants, and risk mitigation instruments tailored to the unique challenges of these sectors. Public-private partnerships and technical assistance would further enhance project success, driving energy diversification, reducing operational costs, and lowering emissions.
- By leveraging its expertise, the IDC can accelerate renewable energy adoption in primary industries, fostering energy security, economic competitiveness, and alignment with national climate goals.
- **Establish a Decarbonisation Innovation Programme for Primary Industries:** To drive innovation and support decarbonisation in South Africa's primary industries, we propose a programme modelled on the *Support Programme for Industrial Innovation (SPII)*⁴. This initiative would provide financial assistance, grants, and technical support for developing and implementing innovative low-carbon technologies and processes in sectors such as mining and agriculture.
- By focusing on decarbonisation, the programme would enhance the competitiveness of primary industries, foster sustainable practices, and accelerate the transition to a low-carbon economy, contributing to South Africa's climate goals while promoting economic growth.
- **Fund Article 6 Activities Using Carbon Tax Revenue:** To support South Africa's participation in cooperative approaches under Article 6 of the Paris Agreement, we propose allocating a portion of carbon tax revenue to fund related activities. This includes the development of frameworks, capacity-building, and pilot projects for carbon credit generation and international trading.
- Such funding would enhance South Africa's ability to engage in global carbon markets, attract foreign investment, and leverage international support for its decarbonisation efforts, while ensuring alignment with national climate goals.
- **Fund the Implementation of the Framework for Approval of Domestic Standards:** We propose allocating a portion of carbon tax revenue to support the implementation of the *Framework for Approval of Domestic Standards*⁵. This funding would ensure the development of robust, locally relevant carbon offset standards tailored to South Africa's unique context.

⁴ <https://www.thedtic.gov.za/financial-and-non-financial-support/incentives/support-programme-for-industrial-innovation-spii/>

⁵ https://icroa.org/wp-content/uploads/2023/03/IETA-ICROA-Response_South-Africa-Framework-for-Approval-of-Domestic-Standards.pdf

- By strengthening the infrastructure for validating, verifying, and approving domestic projects, this initiative would enhance market accessibility, lower costs for project developers, and foster the growth of a vibrant and credible carbon market to support national climate goals.

CONCLUSION

30. SAICA again reiterates that a collaborative approach in addressing complex problems is best suited in seeking amicable solutions.

Should you wish to clarify any of the above matters please do not hesitate to contact us.

Yours sincerely

Prof Lee-Ann Steenkamp
Carbon Tax Committee: Chairperson

Mr Lesedi Seforo
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The South African Institute of Chartered Accountants