SUMMARY OF THE
DRAFT CARBON TAX BILL

This summary is taken from the Explanatory Memorandum

On 15 December 2017, National Treasury published the second Draft Carbon Tax Bill for public comment on their website together with the relevant annexures.
Documents are available from http://www.treasury.gov.za/public%20comments/CarbonTaxBIl2017/
Closing date for public comments in **9 March 2018**.

TAX BASE

Every entity that conducts an activity and emits GHG emissions above the threshold listed in Schedule 2 (aligned with the National Greenhouse Gas Reporting Regulations (NGERs).
All direct stationary and non-stationary greenhouse gas (GHG) emissions:

- Production and use of energy (fuel combustion and gasification)
- Fugitive emissions from fuels
- Non-energy industrial processes

Agriculture, Forestry and Other Land Use (AFOLU) and Waste Sectors are exempt for the first phase.

TAX-FREE ALLOWANCE

Several transitional tax-free allowances are provided for the first phase, which include:

- A basic tax-free allowance of 60%;
- An additional tax-free allowance of 10% for process emissions;
- An additional tax-free allowance of 10% for fugitive emissions;
- A variable tax-free allowance for trade-exposed sectors (up to a maximum of 10%);
- A maximum tax-free allowance of 5% for above average performance;
- A 5% tax-free allowance for companies with a Carbon Budget; and
- A carbon offset allowance of either 5% or 10%;

The total tax-free allowances during the first phase can be a maximum of 95%.
"Over time, these percentage-based tax-free allowances could be replaced with an absolute tax-free threshold which could be in line with the proposed Carbon Budget."

TAX RATE AND TAX LIABILITY

Headline rate of R120/tCO2-eq above the tax-free threshold.
Given the tax-free allowances, the rate will be between R6 and R48/tCO2-eq for the first phase.

Increase by CPI+2 annually until December 2022, thereafter in line with inflation.
Liability is calculated as the tax base (total quantity of GHG emissions from combustion, fugitive and industrial processes, proportionally reduced by the tax-free allowances) multiplied by the rate of the carbon tax.

REPORTING AND VERIFICATION

Every entity that conducts an activity and emits GHG emissions above the threshold stipulated in the NGERs must:
report their emissions into the National Atmospheric Emissions Inventory System (NAEIS), owned and administered by the Department of Environmental Affairs (DEA);
register with the South African Revenue Service (SARS);
calculate their carbon tax liability on their emissions and submit a tax return to SARS

SARS will verify the information submitted with the information in the NAEIS.

The Department of Energy (DoE) is the National Designated Authority (DNA) and will administer the Carbon Offset System.

PRELIMINARY CONCERNS

Although there have been extensive consultations with National Treasury, and written comments have been submitted on the Discussion Paper, previous versions of the draft Bill and associated policy documents, some of our key concerns remain:

- Crucially there is still no clear alignment between the carbon tax and other climate change mitigation instruments post 2020 as was committed to by National Treasury;
- The duration of the first phase of the tax is unclear and problematic given other climate change mitigation instruments; and
- A number of methodologies required to implement the tax and associated allowances are still under development.

National Treasury is, however, actively engaging with business on these matters and we will continue to work with government towards the development of sound, implementable policies to meet the country's commitment to address climate change.

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