Insight

The South African Carbon Tax

TURN CARBON TAX RISK INTO OPPORTUNITIES

- ***The South African Carbon Tax is set to be implemented by 1 June 2019***
- ***The initial marginal carbon tax rate will be R120 per tonne of CO2e (carbon dioxide equivalent)***
- ***The objective of the carbon tax is for SA to meet its climate commitments under the 2015 Paris Climate Agreement and to reduce its carbon emissions in line with the National Climate Change Response Policy and National Development Plan.***
- ***All companies liable to report their emissions to government are also carbon tax liable***
- ***To allow businesses to adapt and transition to low carbon alternatives in the first phase of the carbon tax (2019 – 2022), various tax-free allowances are applicable to a maximum of 95% of taxable emissions***
- ***An offset allowance of 5 or 10% (depending on sector) can also significantly reduce carbon tax payable***

What is a carbon tax?

A carbon tax is a fee imposed on each tonne of carbon dioxide equivalent (tCO2e) emitted. It is globally recognized as a core carbon pricing policy-instrument for reducing greenhouse gas emissions which are causing climate change. If set high enough, it becomes a powerful monetary disincentive that motivates switching to clean energy and low carbon activities.

Why is South Africa implementing a carbon tax?

The carbon tax is a fiscal instrument among the mix of measures that South Africa's government wants to deploy to shrink the country's national carbon footprint.

The idea of a carbon tax first came to light following South Africa's 2009 Copenhagen pledge to reduce emissions and was further developed following the publication of South Africa's National Climate Change Response White Paper in 2011. Considering stakeholder comments, the Final Bill is now set to be tabled. On 24 October 2018, the minister of finance announced the date of implementation to be 1 June 2019.

How is the carbon tax aligned with the mandatory GHG reporting?

The foundation of the carbon tax, including its administrative system, has been laid down through promulgation of the National Greenhouse Gas Emission Reporting Regulations in April 2017. The essence of these regulations is a list of activities that trigger companies to register their facilities where these so-called "listed activities" take place and the requirement to report associated greenhouse gas emissions. Through this the government has developed a good insight of emissions sources in the country and how the tax-payers are positioned in South Africa's economy.

Who will have to pay carbon tax?

Another link between the proposed carbon tax and the National Greenhouse Gas Emission Reporting Regulations is that the tax base is determined using calculation methodologies captured in the "Technical Guidelines for Monitoring, Reporting and Verification of Greenhouse Gas Emissions by Industry" which were published together with the Reporting Regulations.However, should certain emissions sources not be covered in these guidelines, the Bill provides for alternative calculations.

Which emissions sources will be taxed?

The Carbon Tax Bill identifies three types of emissions sources:

- Emissions from stationary combustion of fossil fuels (e.g. diesel-generators)
- Fugitive emissions (e.g. emissions from venting and/or flaring of mine methane and landfill gas)
- Emissions from industrial processes and product use (e.g. carbon emissions from the iron-ore reduction process, or from cement-, lime-, or glass- production processes)

In relation to a business' operations, sources of greenhouse gases are classified according to the level of control a business-owner has in terms of making less emission intensive operational choices. The different levels are formally labelled as Scope 1, Scope 2 and Scope 3 emissions. For purposes of simplification and significance to the proposed carbon tax, Scope 1 emissions are "direct" emissions and Scope 2 and Scope 3 are "indirect" emissions. The relevance in terms of the proposed bill is that only direct emissions are considered during the first phase of the implementation trajectory.

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Carbon Tax exposure is calculated using DEA approved methodologies. These methodologies are based on international guidelines for greenhouse gas inventories (as per IPCC). Most importantly, these guidelines differ from the conventional corporate methodologies as the GHG Protocol Corporate Standard and ISO 14064.

Which sectors will be taxed?

Not all domestic South African greenhouse gas emitting activities and sectors are included, partly because emissions from some activities are too difficult to quantify and other emissions, including refrigerants and mobile fuels like petrol and diesel, are regulated by other mechanisms such as the Montreal protocol and the general fuel levy.

Which greenhouse gases will be covered?

All six greenhouse gasses are covered under the carbon tax, i.e.:

- CO 2 (typically from fuel combustion activities)
- CH 4 (typically from waste and mining activities)
- N 2 O (predominantly from agricultural activities)
- HFCs (hydrofluorocarbons), used as refrigerants
- PFCs (perfluorocarbons) and SF 6 (sulphur hexa fluoride) associated with the electronics industry

Transitional provisions

The proposed SA Carbon Tax suggests a phased approach providing South Africa's historically carbon intensive industries to invest in cleaner technology whilst not compromising competitiveness. The first phase is envisaged to be from 2019 up and until 2022. In addition, the Bill allows for deduction of tax payable by making provision for a number of tax-free allowances:

- Basic allowance of either 60 or 70% over taxable emissions
- Fugitive emissions allowance of 10%
- Trade exposure allowance of max 10%
- Performance allowance of max 5%
- Carbon budget allowance of 5%
- Carbon offset allowance of either 5 or 10%

However, the total amount of allowances is limited to 95% of total taxable emissions. It is expected that in subsequent phases allowances will no longer be basedon percentages but will be aligned to allocated carbon budgets.

How will the carbon tax affect my company's bottom line?

The carbon tax is going to have an impact on your company's bottom line. But through effective management of your taxable emissions you can minimise this impact.

STEPS YOUR COMPANY SHOULD TAKE NOW:

1. Determine which activities and/or processes within your operations are generating tax liable greenhouse gas emissions;
2. Calculate the volumes of emissions from these activities and/or processes based on historic emissions;
3. Calculate how much carbon tax your company can save by making use of the proposed tax free allowances;
4. Develop a carbon offset strategy that addresses crucial questions, such as how and when to purchase carbon tax offsets. Purchasing carbon tax offsets can reduce carbon tax payable by up to 20%.

As a leading international carbon management advisory firm and offset provider, Climate Neutral Group is well-positioned to provide guidance on how the proposed carbon tax will affect your business and what you can do to minimise your exposure by optimised use of allowances and/or offsetting strategies. Climate Neutral Group has a diverse portfolio of South African carbon tax offsets which can help your company pay less carbon tax.

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