

CARBON TAX ACT 2019

Update on the Carbon Tax

**PARTNERSHIP FOR MARKET READINESS – 20TH PARTNERSHIP
ASSEMBLY**

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

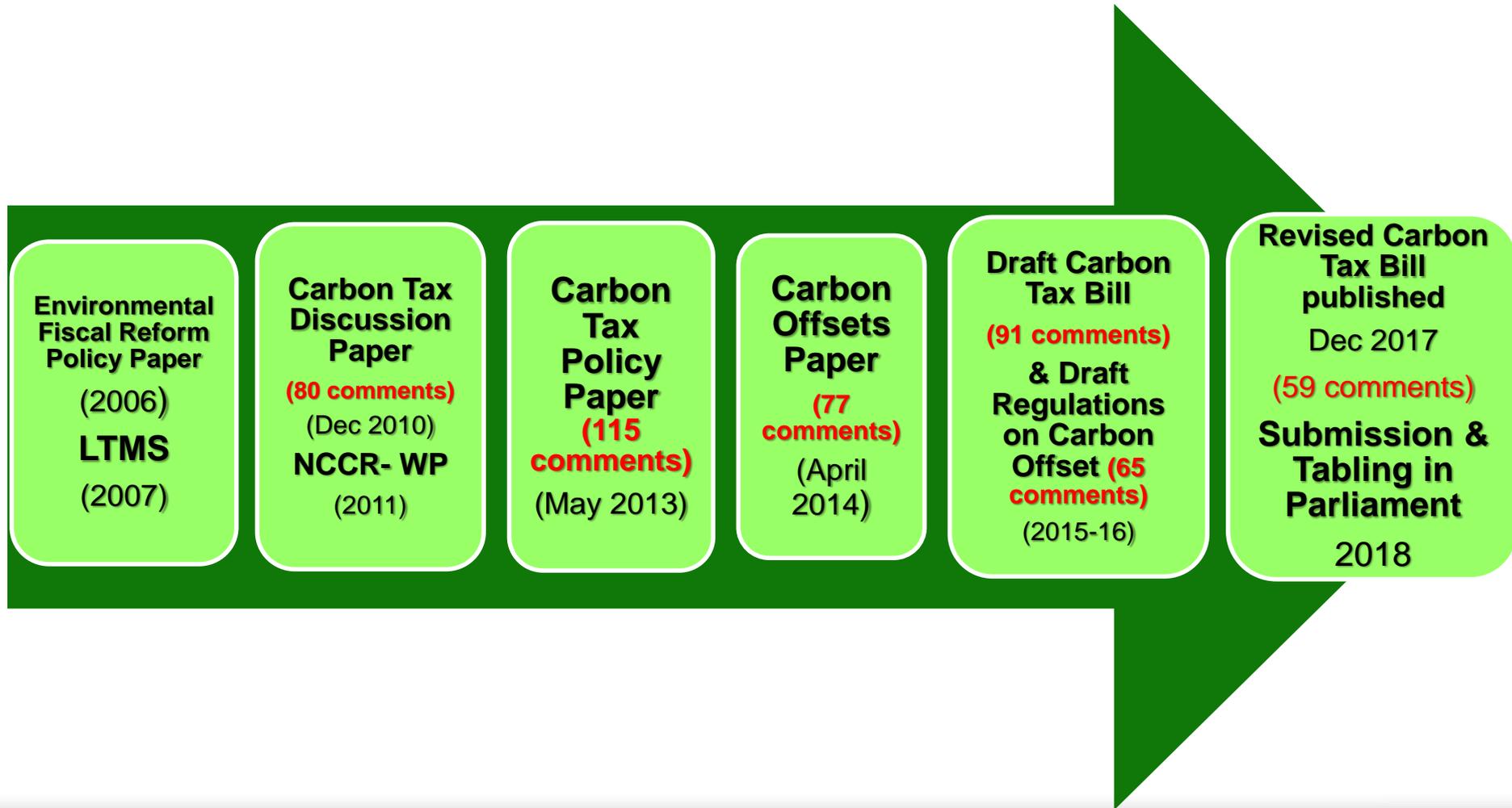
Background

- The **initial draft Carbon Tax bill** was published for public comment in **November 2015** following Cabinet approval in October 2015.
- **Cabinet adopted the second Draft Carbon Tax Bill and approved the submission of the draft bill to Parliament on 16 August 2017** noting the carbon tax as an integral part of the system for implementing government policy on climate change.
- **National Treasury published the second Draft Carbon Tax Bill in December 2017** for public comment, introduction in Parliament, and convening of public hearings by Parliament in early 2018.
 - The closing date for public comments on the Bill was 9 March 2018. **Fifty nine (59) written comments** was submitted to the Treasury
- Budget 2018 announcement that implementation will be from 1 Jan 2019 - Minister of Finance announced **postponement in the implementation date** of the carbon tax to **1 June 2019** in his MTBPS speech.
- **Carbon Tax Bill tabled on 20 November 2018 and submitted to the Standing Committee on Finance (SCoF) for finalisation.**

2018 Carbon Tax Bill and Parliamentary Meetings

- The **policies reflected in the 2018 Carbon Tax Bill is a refinement of the 2013 Carbon Tax Policy Paper, the initial 2015 Draft Carbon Tax Bill and 2017 Bill.** 2018 bill incorporates public comments received on these earlier documents.
 - **Informal briefing of the Joint Committee** – 13 February 2018
 - **Public Hearings on the Bill** – 14 March 2018
 - **National Treasury Response to Public Comments Hearings** – 7 June 2018
 - **Carbon Tax Bill Workshop** – 27 November 2018
 - **Carbon Tax Bill Meeting** – 4 December 2018
 - Report on NEDLAC Carbon Tax Bill Task Team (July to November 2018)
 - **Carbon Tax Bill meeting** – 5 December 2018
 - **Carbon Tax Bill Finalisation and Voting, SCoF** – 5 February 2019
 - **Customs and Excise Amendment Bill meeting** – 12 February 2019
 - **National Assembly** – 19 February 2019
 - **Briefing of the Select Committee on Finance** – 6 March 2019
 - **Public Hearings by SeCoF** – 12 March 2019
 - **Carbon Tax Bill Finalisation and Voting, SeCoF** – 19 March 2019
 - **SeCoF voting and passing of the bill** – 28 March 2019

Carbon Tax Consultation Process - timeline



Carbon Tax Policy Context

- South Africa voluntarily committed (at COP 15 in 2009) to curb GHG emissions by 34% by 2020 and 42% by 2025 below the BAU trajectory subject to support from developed countries - climate finance, capacity building & technology transfers.
- South Africa **ratified** the Paris Agreement in November 2016 and **endorsed** the submission of its Nationally Determined Contribution (NDC) which requires that **emissions peak in 2020 to 2025, plateau for a ten year period from 2025 to 2035 and declines from 2036 onwards.**
- **South Africa's emissions by 2025 and 2030 will be in a range between 398 and 614 Mt CO₂-eq, as defined in national policy.**
- **Paris Agreement** will require sizable reductions in energy-related greenhouse gas (GHG) emissions by large emitting countries, including in developing economies. The NDC noted **carbon tax** as an important component of our **mitigation policy** strategy to lower GHG emissions.
- Carbon tax forms an integral part of **climate change** response policy package under the National Climate Change Response Policy (NCCRP) of 2011, and in **National Development Plan (NDP)** as an important cost-effective instrument
- **The Carbon Tax Bill gives effect to the polluter-pays-principle** and helps to ensure that firms and consumers take these costs into account in their FUTURE production, consumption and investment decisions. Assists in reducing GHG emissions and ensuring SA will meet its NDC commitments as part of its ratification of the 2015 Paris Agreement.

SOUTH AFRICA'S CARBON TAX DESIGN FEATURES: Rate, Tax-free Allowances and Recycling Measures

Revenue

Carbon tax at R120 per ton of CO₂e

60% basic tax-free threshold

Max of 10% tax-free allowance for trade exposure

10% tax-free allowance for process and fugitive emissions

Up to 5% performance allowance

5% tax-free allowance for complying with carbon budgets information requirements

5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability

- Tax-free allowances of **60-95%** - effective tax rate of

R6 - R48 t/CO₂e

- No impact on electricity prices in the first phase

Revenue Recycling

Energy Efficiency Savings tax incentive

Credit against Eskom's carbon tax liability for the renewable energy premium built into the electricity tariffs

Credit for the electricity levy

Support for the installation of solar water geysers

Enhanced free basic electricity / energy for low income households

Improved public passenger transport & support for shift of freight from road to rail



Carbon Tax Policy Changes – 2013 to 2017

- 1. Electricity pricing and electricity levy:** Carbon tax (taken with electricity levy) will be revenue neutral in the first phase and have no impact on the price of electricity.
 - **credit for electricity generation levy** and for **renewable energy premium**
 - In addition business already benefits from **energy efficiency savings tax incentive – rate for allowance was increased from 45 to 95 cents/kWh in 2015**
- 2. Tax rates and thresholds** for phase 1 and 2 of the carbon tax: To provide policy certainty, **Section 5 of the bill was amended to** include the headline, marginal tax rate of R120/tCO_{2e}; and specifies the annual increase to the nominal carbon tax rate by a max of inflation plus 2 per cent.
- 3. Alignment of the carbon tax policy with the carbon budgeting system of the DEA:**
 - Phase 1: Introduction of the 5% carbon budget allowance in 2014
 - Phase 2: DEA and NT working on **alignment and integration of the carbon tax and carbon budget** instruments for phase 2, and no double penalty.
- 4. Carbon tax modelling study – modelling of the current design undertaken through the World Bank in 2016** and the socio-economic impact of the carbon tax shows a significant impact in reducing the country's emissions, without a significant impact on growth (negative 0.05-0.15%).

Carbon Tax Policy Changes – 2013 to 2017 (2)

5. **Trade exposure allowance** adjusted from a company to a sector-based trade exposure allowance. Further adjusted the qualifying threshold for the maximum allowance from 50 to 30 per cent trade intensity
6. **Carbon tax pass through** allowed for regulated sectors – liquid fuels
7. **Process and fugitive emissions** – provision of the 10 per cent additional tax free allowance
8. **Offset allowance** – scope of offsets expanded e.g. Inclusion of certain renewable projects and expansion to energy combustion activities
9. **Sequestration** – deduction for sequestered emissions e.g. from forestry plantations
10. **Application of thresholds** – Aligning reporting and classification of greenhouse gas emissions for tax purposes with mandatory emissions reporting to the Department of Environmental Affairs. Only emissions above the thresholds for reporting are subject to the tax (2016).

Next steps

- **The trade exposure Regulation** specifying the allowances for sectors and/or subsectors will be published shortly for public comment and finalisation.
- **The emissions intensity benchmark Regulation** will be published shortly & a review process through the PMR also started.
- A revised draft Regulation on the carbon offsets was published for further consultation in November 2018, a stakeholder workshop was held on 27 March 2019 **7 currently finalising the regulation.**
- **The carbon tax is, and will continue to be, an important instrument** as part of the **broader package of mitigation policy measures** under the National Climate Change Response Policy to help achieve our NDC target in a cost effective manner and nudge our economy onto a sustainable growth path.
- **The Carbon Tax Act No. 15 of 2019** was signed into law and gazetted on 23 May 2019 and comes into effect from 1 June 2019.

Thank you