SOUTH AFRICAN REVENUE SERVICE

DRAFT GUIDE ON THE TAX TREATMENT OF THE NET-BILLING TARIFF SYSTEM FOR EXCESS POWER GENERATED

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Draft Guide on the Tax Treatment of the Net-billing Tariff System for Excess Power Generated

Preface

This guide provides general guidance on the tax treatment of credits due to taxpayers for excess power generated from renewable energy sources and exported via the grid. Guidance is also provided on the tax treatment of the various expenses that are incurred by the taxpayer in generating such electricity.

It does not consider the technical and legal detail that is often associated with tax, and should, therefore, not be used as a legal reference.

This guide is not an "official publication" as defined in section 1 of the Tax Administration Act 28 of 2011 and accordingly does not create a practice generally prevailing under section 5 of that Act. It is also not a binding general ruling under section 89 of Chapter 7 of the same Act. Should an advance tax ruling or a VAT class ruling or VAT ruling under section 41B of the Value-Added Tax Act 89 of 1991 be required, visit the **SARS website** for details of the application procedure.

This guide is based on the legislation as at date of issue.

All guides, interpretation notes and binding general rulings referred to in this guide are available on the **SARS website**. Unless indicated otherwise, the latest issue of these documents should be consulted.

For more information you may –

- visit SARS website at **www.sars.gov.za**;
- contact the SARS National Call Centre –
  - if calling locally, on 0800 00 7277; or
  - if calling from abroad, on +27 11 602 2093 (only between 8am and 4:30pm South African time).
- have a virtual consultation with a SARS consultant by making an appointment via the **SARS website**;
- visit your nearest SARS branch, after making an appointment via the **SARS website**; or;
- contact your own tax advisor or practitioner.

Comments on this guide may be e-mailed to **policycomments@sars.gov.za**.

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Glossary

In this guide, unless the context indicates otherwise -–

- **"customer"** means a consumer of electricity that has entered into an agreement with a licensed distributor or transmitter of electricity;
- **"connection agreement"** means an agreement detailing the conditions under which the distributor intends to connect the prosumer;
- **"distributor"** means a trading licensee or its appointed representative that constructs, operates and maintains the distribution power system;
- **"draft net-billing rules"** means the draft rules established under section 35(3)(*k*) of the Electricity Regulation Act 4 of 2006;
- **"export credit"** or **"credit"** means the rate(s) at which energy is credited on a prosumer's bill at the end of each billing period for every kilowatt-hour (kWh) of surplus electricity exported to the distribution power system;
- **"NERSA"** means the National Energy Regulator of South Africa;
- **"prosumer"** means a customer that has entered into an agreement with a distributor and generates electricity on their side of the billing meter with an embedded generation facility that is primarily intended to offset part or all of their electricity requirements, provided that, for a non-household customer, those activities do not constitute its primary commercial or professional activity;
- **"VAT"** means value-added tax;
- **"VAT Act"** means the Value-Added Tax Act 89 of 1991; and
- **"the Act"** means the Income Tax Act 58 of 1962;
- the terms **"person"** and **"taxpayer"** are used interchangeably.

1. Background

The current energy crisis in the country coupled with the rising demand for electricity has resulted in various tax incentives and measures being introduced in an attempt to alleviate the pressure on the national grid[1] as well as comply with South Africa's international climate change commitments.

One such measure is the introduction of the net-billing tariff system as envisaged in the NERSA draft net-billing rules. Under these rules customers may receive export credits under a connection agreement for excess power generated from renewable energy sources, and that is exported via the grid,[2] provided that such customer's electricity generation is synchronised with the grid. Synchronisation usually occurs through the use of inverters.

The tax treatment of the export credit received for the excess power generated and exported by a taxpayer is considered in this guide. Related to this is the tax treatment of the various expenses that may be incurred by the taxpayer who participates in the net-billing tariff system.

[1] A grid (or power grid) is a network of power lines and associated equipment used to transmit and distribute electricity over a geographic area **www.collinsdictionary.com/dictionary/english/power-grid** [Accessed 12 June 2023].

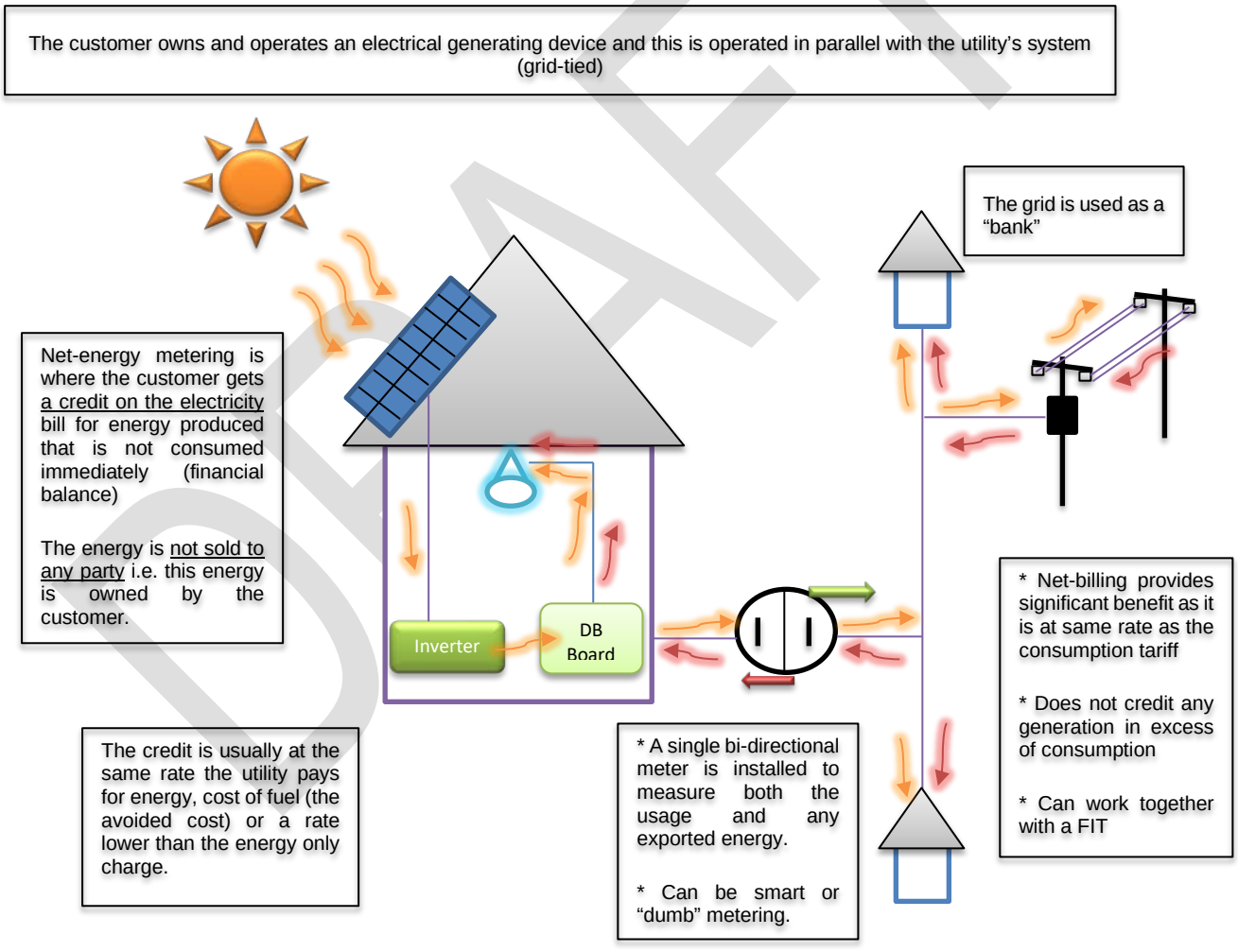
[2] See the full definition in Annexure B of the draft net-billing rules **www.nersa.org.za/wp-content/uploads/2023/04/Annexure-B-Net-Billing-Rules.pdf** [Accessed 12 June 2023].

2. Net-billing framework

Many persons install equipment in order to generate electricity from renewable energy sources. In some cases, there is an excess of electricity that is generated, and that may be exported under the net-billing tariff system. The excess power that is exported is temporarily "banked" or stored in the grid and essentially acts as a virtual battery that can accommodate more storage than a conventional battery.[3] The customer does not sell the excess power and is, at all times, the owner of the energy that is generated and exported through the grid. No payment is, therefore, received by the customer for the exported power.

While the customer is still charged the full tariff for the amount of energy consumed and capacity provided, such person receives credit in the form of export credits for electricity exported to the distribution power system, which is calculated using an export tariff approved by NERSA. All exported electricity is credited on the customer's electricity bill and used to offset any current or future electricity purchases.[4]

The following diagram depicts the general workings of the net-billing tariff.[5]



3 See the "Draft Net-billing framework – Proposed net-billing guidelines" **www.nersa.org.za/wp-content/uploads/2023/04/Draft-net-billing-framework.pdf** [Accessed 12 June 2023].

4 See 5.3 of the draft net-billing rules. Also see **2.3** for more information on the net-billing basis.

5 Diagram replicated from the original in the "Draft Net-billing framework – Proposed net-billing guidelines" **www.nersa.org.za/wp-content/uploads/2023/04/Draft-net-billing-framework.pdf** [Accessed 12 June 2023].

In order to benefit from the special dispensation under the net-billing tariff framework, the person must, amongst others, –

- enter into a connection agreement with the distributor;
- install a renewable energy system that meets the regulations and standards set by NERSA;
- have a bi-directional meter installed by a licensed service provider; and
- comply with all the technical requirements of the net-billing system.

2.1 Eligible forms of renewable energy sources

Eligibility of the net-billing scheme is dependent on renewable energy generation technologies. This includes, but is not limited to, facilities for the production of electrical energy that use solar, wind, water, geothermal, biomass, biogas, biofuel, or renewable fuel cell resources.[6]

2.1.1 Wind power

Wind power is a form of energy conversion in which turbines convert the kinetic energy of wind into mechanical or electrical energy that can be used for power. Historically, wind power in the form of windmills has been used for centuries for such tasks as grinding grain and pumping water.[7]

2.1.2 Solar energy

Solar energy is radiant light and heat from the sun that is harnessed using a range of technologies.[8] Solar energy technologies essentially convert sunlight into electrical energy either through photovoltaic panels or through concentrated solar energy technologies. This energy can then be used to generate electricity or be stored in batteries or thermal storage.

2.1.3 Water

Water or hydropower is a renewable source of energy that uses turbines in dams or other bodies of water to convert kinetic energy into electricity.[9] This electricity is then transferred into the electrical grid to power homes and businesses.

2.1.4 Biomass including biogas and biofuel

Biomass is regarded as any carbon-based material such as animal or human waste, plant material, food waste, and industrial waste such as reclaimed woody material which, when processed, can produce organic or biofuels.[10]

Biofuels can generally be used for a number of applications such as, but not limited to, energy generation in the form of electricity.

6 See 2.1 of the draft net-billing rules.
7 **www.britannica.com/science/wind-power** [Accessed 12 June 2023].
8 **www.solarschools.net/knowledge-bank/renewable-energy/solar/energy** [Accessed 12 June 2023].
9 **www.energy.gov/eere/water/how-hydropower-works** [Accessed 12 June 2023].
10 **www.dffe.gov.za/projectsprogrammes/biomassenergy** [Accessed 12 June 2023].

2.1.5 Geothermal energy

Geothermal energy is a renewable source of energy that is basically heat energy from the earth. Geothermal resources are reservoirs of hot water that exist or are human made at varying temperatures and depths below the earth's surface.[11] Wells are then drilled into these underground reservoirs to tap steam and very hot water that is brought to the surface for various uses such as electricity generation.

2.1.6 Renewable fuel cell resources

With renewable fuel cell resources, a fuel cell combines hydrogen and oxygen to produce electricity, heat, and water. Fuel cells convert the energy produced by a chemical reaction into usable electric power and the cell will produce electricity as long as fuel (hydrogen) is supplied.[12]

2.2 Persons eligible for the net-billing tariff system

Subject to the basic requirements mentioned in **2**, both natural and juristic persons are eligible to participate in the net-billing tariff. This includes persons that do not conduct any trade and persons that do conduct a trade.[13] Individuals that install the renewable energy generation technologies to residential properties and to commercial properties may therefore equally participate in the net-billing tariff system.

2.3 Net-billing basis

This guide is based on the following net-billing basis:[14]

- A prosumer will not be paid in cash for exported electricity.[15]
- The prosumer's electricity bill will be credited for exported electricity and set off against current and future electricity purchases equal to the financial value of kWh units from the distributor using export credits.
- If a prosumer's electricity bill exceeds the available export credits in a billing period, such excess will be rolled over on a month-to-month basis. This rollover process will work as follows:
    - The prosumer must be billed the applicable charges, but only the charges relating to the kWh units relating to the energy part of the bill can be offset with export credits. Export credits can be used only against the charge for electricity usage and cannot be set off against the fixed charge and non-energy portion of the bill.

11 **www.energy.gov/eere/geothermal/geothermal-basics#:~:text=Geothermal%20energy%20is%20heat%20energy,depths%20below%20the%20Earth%27s%20surface** [Accessed 12 June 2023].

12 **www.renewableenergyworld.com/types-of-renewable-energy/hydrogen/#gref** [Accessed 12 June 2023].

13 See the definition of trade in section 1(1) of the Act.

14 See 5.3 of the draft net-billing rules.

15 An exception to this rule could occur if an appropriate procurement agreement has been entered into between the prosumer and distributor. In such case, a different tax treatment will apply if no credit is granted but payment is received for excess electricity.

Example 1 – Net-billing by setting off export credits against electricity bill

Facts:

Customer X generates electricity through a photovoltaic solar energy system meeting the requirements set by NERSA. X does not use all of the generated electricity and the excess electricity is exported to the grid under a connection agreement entered into between X and the distributor. For the billing period, X consumed 1 000 kWh of electricity supplied by the distributor and had excess electricity of 1 500 kWh. The cost of electricity is R2,35 per kWh. The financial value of export credits is R2 per kWh*. The other charges for this billing period were as follows:

	R
Electricity usage (1 000 kWh @ R2,35)	2 350
Property rates	920
Waste management	300
Water	200
Sanitation	90

(Ignore VAT for purposes of this example.)

Result:

The export credit must be reflected on the bill as follows:

	R
Electricity usage (1 000 kWh @ R2,35)	2 350
Export credit (1 500 kWh @ R2 = R3 000 limited to R2 350)	(2 350)
Property rates	920
Waste management	300
Water	200
Sanitation	90
Total	1 510

The export credit can be used only against the charge for kWh usage and not against other charges imposed. The excess of R650 (R3 000 − R2 350) will be rolled over to the next billing period and set off against the electricity component of the bill in that period.

* Note that this financial value of the export credit is only an example. The official value as approved by NERSA must, therefore, be considered.

3. Income tax treatment

All references to "section" under **3** means a section of the Act unless otherwise specified.

The general framework for the determination of taxable income[16] has, as a starting point, the definition of "gross income" in section 1(1). A person that does not have "gross income" will generally not be liable for the payment of income tax.[17]

The term "person" is defined in section 1(1) and includes –

- an insolvent estate;
- a deceased estate;
- any trust; and
- any portfolio of a collective investment scheme.

Foreign partnerships are, however, excluded. A person can also include a natural person and a juristic person.[18]

3.1 Gross income

The term "gross income" as defined means –

> "the total amount, in cash or otherwise, received by or accrued to or in favour of such resident … excluding receipts or accruals of a capital nature …".

The definition of "gross income" continues to include specific amounts in gross income in paragraphs (*a*) to (*n*). These specific inclusions are, however, not relevant for purposes of this guide.

The phrases "amount in cash or otherwise" and "received by or accrued to" in the definition of "gross income" are considered below.

Amount in cash or otherwise

The word "amount" has been considered in various court cases. In *CIR v People's Stores (Walvis Bay) (Pty) Ltd*[19] it was confirmed that income, although expressed as an "amount" in the definition of "gross income", includes more than just money but may be every form of property[20] that has a money value earned by the taxpayer.

In *Commissioner, SARS v Brummeria Renaissance (Pty) Ltd*[21] a group of companies (the taxpayers) granted life rights over units in a sectional title scheme operating as a retirement village to the occupiers (life-right holders). As a *quid pro quo* (in exchange) the life-right holders granted interest-free loans to the taxpayers for as long as they occupied the units. The Supreme Court of Appeal had to consider the taxpayers' contention that the interest-free loans did not result in any "amount" being "received by" them that could be, and was, wrongly included in their gross income.

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16 See definition in section 1(1).

17 Capital gains tax and certain allowances may result in the liability to pay income tax. For more information on capital gains tax, see the *Comprehensive Guide to Capital Gains Tax*.

18 See definition of "person" in section 2 of the Interpretation Act 33 of 1957.

19 1990 (2) SA 353 (A), 52 SATC 9 at 21.

20 Every form of property includes corporeal and incorporeal property as well as debts and rights of action.

21 2007 (6) SA 601 (SCA), 69 SATC 205.

The *Brummeria* case may be referred to as authority for the following principles:

- The word "amount" in the definition of "gross income" is to be interpreted widely.
- The right to use the loan capital interest free (the right) has a monetary value.
- Even though the receipt or accrual of the right is in a form other than money (in this case the benefit of the use of an interest-free loan), that cannot be alienated or turned into money, it does not mean that the receipt of the right has no money value. The test to be applied in order to determine whether the receipt or accrual has a monetary value is an objective one and not subjective.
- The value of the receipt or accrual in a form other than money (in this case, the right to use an interest-free loan) constitutes an "amount" that "accrues" to the taxpayer and should be included in the gross income of the taxpayer for the year of assessment in which the right is received by or accrued to the taxpayer.

Received by or accrued to

The words "received" and "accrued" are not defined in the Act but have received judicial consideration.

In *Geldenhuys v CIR*, Steyn J stated that the words "received by" must mean –[22]

> "received by the taxpayer on his own behalf for his own benefit".

In *CIR v Genn & Co (Pty) Ltd*, Schreiner JA stated the following:[23]

> "It certainly is not every obtaining of physical control over money or money's worth that constitutes a receipt for the purposes of these provisions. If, for instance, money is obtained and banked by someone as agent or trustee for another, the former has not received it as his income."

In *W H Lategan v CIR*, Watermeyer J stated the following on the meaning of "accrued":[24]

> "In his Lordship's opinion the words in the Act 'has accrued to or in favour of any person' merely meant 'to which he has become entitled'."

Under the net-billing framework (see **2**), taxpayers that generate electricity through renewable energy sources may export any excess power via the grid. The excess power that is exported, is temporarily "banked" or stored in the grid and essentially acts as a virtual battery that can accommodate more storage than a conventional battery. The taxpayer does not sell the excess power and is at all times the owner of the energy that is generated and exported through the grid. No payment is received by the taxpayer for the exported power.

No amount is therefore received by or accrues to the taxpayer under the definition of "gross income" for the exported power. The credits are not a form of payment since it is the taxpayer's own electricity that is being returned in the form of a credit. The credit is akin to a discount on the use of electricity. Furthermore, the credit can only be used by the taxpayer that generated the electricity and whose excess power was exported. This means that the credit cannot be transferred or sold to another person and used to reduce that other person's bill.

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22 1947 (3) SA 256 (C), 14 SATC 419 at 430.
23 1955 (3) SA 293 (A), 20 SATC 113 at 123.
24 1926 CPD 203, 2 SATC 16 at 20. The entitlement principle was confirmed in *CIR v People's Stores (Walvis Bay) (Pty) Ltd* 1990 (2) SA 353 (A), 52 SATC 9 at 19.

For example, R500 worth of excess electricity is exported to the grid. This R500 is returned to the taxpayer by means of a credit that essentially reduces this particular taxpayer's electricity bill by R500.

No amount of the credit will, therefore, be included in the taxpayer's gross income.

3.2 Deduction of expenditure

Taxable income is the amount that remains after all allowable deductions and allowances have been deducted from income as determined under the Act. Most deductions are allowed under the so-called general deduction formula in section 11(*a*) read with section 23(*g*).

Under these sections the expense or loss must –

- be actually incurred;
- be in the production of the taxpayer's income;
- be laid out or expended for the purposes of trade; and
- not be of a capital nature.

Based on the structure of the Act, the expenses and losses must be incurred during the year of assessment.[25]

The two important requirements contained in the introduction to section 11(*a*) that have to be satisfied are that the taxpayer must be carrying on trade and that income[26] must be derived from trade. The extent to which the requirements "for purposes of trade" and "in the production of income" are met will depend on the specific facts of each case. The activities conducted by the taxpayer must produce income and the expenditure incurred must be sufficiently closely linked to an activity that produces income so as to be regarded as having been incurred in the production of income.[27] Expenditure incurred with a dual purpose may be apportioned.

The term "trade" is defined in section 1(1) and includes –

- every profession, trade, business, employment, calling, occupation or venture;
- the letting of property; and
- the use of or the grant of permission to use any patent, design, trademark, copyright or any other property that is of a similar nature.

The courts have held that the definition of "trade" is wide and not exhaustive. The question of whether any specific activity can be regarded as the "carrying on of a trade" is a question of law that depends on the facts and circumstances of the specific case.[28]

25 The term "year of assessment" is defined in section 1(1). See also section 5.
26 See definition in section 1(1).
27 See *Port Elisabeth Electric Tramway Co Ltd v CIR* 8 SATC 13.
28 See Interpretation Note 33 "Assessed Losses: Companies: the 'Trade' and 'Income from Trade' Requirements" for more detail.

In the event that a person that conducts a trade enters into a connection agreement with the distributor, certain expenses may be deductible under section 11(*a*), provided that such expenditure is linked to the taxpayer's income-producing activities. The taxpayer does not have to trade in electricity to be eligible for deduction of these qualifying expenses. These expenses may, for example, include administrative costs and other costs related to the exportation of the excess power. Under section 102 of the Tax Administration Act[29] a taxpayer bears the burden of proving that an amount or item is deductible.

Expenses or losses of a capital nature are not deductible. The courts have developed a number of tests for distinguishing whether expenditure is of a capital or revenue nature.

In *New State Areas Ltd v CIR*, Watermeyer CJ, after reviewing a number of decisions of the courts in the United Kingdom, said:[30]

> "The conclusion to be drawn from all of these cases seems to be that the true nature of each transaction must be enquired into in order to determine whether the expenditure attached to it is capital or revenue expenditure. Its true nature is a matter of fact and the purpose of the expenditure is an important factor; if it is incurred for the purpose of acquiring a capital asset for the business it is capital expenditure even if it is paid in annual instalments; if, on the other hand it is in truth no more than part of the cost incidental to the performance of the income producing operations, as distinguished from the equipment of the income producing machine, then it is a revenue expenditure even if it is paid in a lump sum."

A capital allowance may be claimed on the equipment installed to generate the electricity if the qualifying requirements are met, for example, under sections 11(*e*)[31] or 12B.

Each case will, however, be considered on its specific facts.

4. Value-added tax treatment

4.1 Background

Value-added tax is an indirect tax based on consumption in the economy. Revenue is raised for the government by requiring certain traders (vendors) to register and charge VAT on taxable supplies of goods or services. A person can only register for VAT if that person is carrying on an "enterprise" as defined in section 1(1) of the VAT Act, and that includes any activity carried on continuously or regularly by any person in South Africa or partly in South Africa resulting in income being earned from the supply of goods or services to another person, whether for profit or not.

The term "supply" is widely defined in section 1(1) of the VAT Act to include performance under any sale, rental agreement or instalment credit agreement. It also includes all other forms of supply, whether voluntary, compulsory or by operation of law. The term "taxable supply" includes all supplies made by a vendor in the course or furtherance of an enterprise and on which VAT should be levied.

A distributor of electricity (for example, a municipality) will supply electricity in the course or furtherance of their enterprise and VAT is levied on the supply at the standard rate of 15%.

[29] 28 of 2011.
[30] 1946 AD 610, 14 SATC 155 at 170.
[31] See Interpretation Note 47 "Wear-and-tear or Depreciation Allowance".

4.2 The value-added tax treatment of the net-billing framework

4.2.1 The prosumer

As mentioned in **2**, any excess of electricity generated by a prosumer from a renewable source may be exported to the grid and "banked" or stored in the grid. The prosumer does not sell the excess electricity and at all times remains the owner of the electricity that is generated and exported to the grid.

The prosumer does not supply the excess electricity to the distributor or any other person but merely "banks" the value of the excess electricity for future use. No payment will be received by the prosumer but rather the exported electricity is credited to the prosumer's electricity bill to offset against current or future electricity purchases.

As a result, the "banking" of excess electricity by the prosumer does not constitute a "supply" for the purposes of the VAT Act and will therefore have no VAT implications.

The prosumer does not conduct an enterprise or make taxable supplies in the course of banking the excess electricity. The prosumer would therefore not be required to register for VAT for this activity and as such would not be entitled to an input tax deduction on the acquisition of the renewable source. However, if the prosumer is a vendor that acquired the renewable source to further activities of another enterprise activity conducted by the prosumer, the prosumer may deduct the input tax on the acquisition of the renewable source to the extent it is applied to the making of taxable supplies.

4.2.2 The distributor

The net-billing framework does not affect the normal supply of electricity by the distributor to the prosumer from a VAT perspective. In particular, the "credit" created by the prosumer exporting excess electricity to the grid does not change the nature of the supply of electricity by the distributor or the consideration for that supply of electricity. The distributor is therefore not required to issue a credit note under section 21(1) of the VAT Act since none of the requirements of section 21(1) will be met.

As mentioned in 4.2.1, under the net-billing framework, the prosumer is not supplying the excess electricity to the distributor and the distributor is not paying the prosumer for the supply of this excess electricity. Therefore, the distributor will not be entitled to deduct input tax for VAT purposes since it is not acquiring the electricity for the purpose of making taxable supplies.

4.2.3 Example

Applying the above to Example 1 in **2.3**:

- Electricity to the value of R2 350 is supplied by the distributor to the prosumer. The distributor will be a VAT vendor and will be required to charge VAT at the standard rate of 15% on this supply of electricity.
- Excess electricity is exported by the prosumer to the grid to the value of R3 000 and is "banked" by the prosumer. The prosumer remains the owner of this electricity, which is merely stored on the gird for future use. Since the prosumer is not supplying the electricity to the distributor or any other person, the exporting of excess electricity by the prosumer does not have any VAT implications.

- The prosumer will be provided with an export credit of R2 350 on its account for that particular billing period (the export credit is limited to the value of electricity supplied by the distributor in that billing period and may not be offset against other charges imposed). This export credit does not change the nature or the consideration for the supply of electricity by the distributor to the prosumer and therefore the distributor is not required to issue a credit note in relation to the export credit.
- Furthermore, the distributor is not acquiring the excess electricity from the prosumer and is not paying the prosumer for this excess electricity. The distributor will therefore not be entitled to deduct input tax on the export credit.

To continue the example above, assume that in the next billing period the prosumer consumes electricity from the grid to the value of R3 650. The prosumer also generates excess electricity during the billing period and exports electricity to the value of R2 000 to the grid.

- The initial R2 650 of electricity consumed from the grid by the prosumer will represent the balance of the excess electricity exported to the grid in the previous billing period in addition to the excess electricity exported to the grid in the current billing period. This electricity belongs to the prosumer and is not supplied by the distributor but rather represents the prosumer "withdrawing" the balance of the excess electricity, which was "banked" in the previous and current billing period and will have no VAT consequences.
- The balance of electricity to the value of R1 000 (that is, R3 650 − R2 650) is supplied by the distributor to the prosumer and will be subject to VAT at the standard rate.

In the next billing period, the prosumer consumes electricity to the value of R4 000. Owing to inclement weather the prosumer does not export any excess electricity to the grid.

- There are no export credits carried over from the previous billing period or from the current billing period. Electricity to the value of R4 000 is therefore supplied by the distributor to the prosumer and will be subject to VAT at the standard rate.

5. Conclusion

Under the draft net-billing rules, participating taxpayers may receive export credits under a connection agreement for excess power generated from renewable energy sources, and that is exported via the power grid provided that such customer's electricity generation is synchronised with the grid. The taxpayer does not sell the excess power and is, at all times, the owner of the energy that is generated and exported. No payment is, thus, received by the taxpayer for the exported power.

The income tax treatment relating to the export credit received by the taxpayer is as follows:

- No amount is received by or accrues to the taxpayer under the definition of "gross income" for the exported power. The credits are not a form of payment, and no amount will, therefore, be included in gross income.
- A person who conducts a trade and enters into a connection agreement with the distributor may deduct certain expenses, such as administrative costs related to the exportation of excess power under section 11(*a*), provided that such expenditure is linked to the taxpayer's income-producing activities. The taxpayer does not have to trade in electricity to be eligible for a deduction of these qualifying expenses.
- A capital allowance may be claimed on the equipment installed to generate the electricity if the qualifying requirements are met, for example under sections 11(*e*) or 12B.

The VAT treatment relating to the export credit received by the taxpayer is as follows:

- The “banking” of excess electricity by the prosumer does not constitute a “supply” for the purposes of the VAT Act and will therefore have no VAT implications. The prosumer does not conduct an enterprise or make taxable supplies in the course of banking the excess electricity and will not be required to register for VAT for this activity.
- The “credit” created by the prosumer by exporting excess electricity to the grid does not change the nature of the supply of electricity by the distributor or the consideration for that supply of electricity. The distributor is therefore not required to issue a credit note under section 21(1) of the VAT Act since none of the requirements of section 21(1) will be met.
- The distributor will not be entitled to deduct input tax for VAT purposes since it is not acquiring the electricity for the purpose of making taxable supply.