



REPUBLIC OF SOUTH AFRICA

DRAFT EXPLANATORY MEMORANDUM

ON THE

DRAFT INCOME TAX AMENDMENT BILL, 2019

30 July 2019

[W.P. – '19]

1. INCOME TAX

1.1 REPEAL OF THE TAX EXEMPTION FOR CERTIFIED EMISSION REDUCTIONS

[Applicable provision: Section 12K of the Income Tax Act. No. 58 of 1962 (“the Act”)]

I. Background

In 2009, Government introduced a tax exemption for income generated from the sale of certified emission reduction credits arising from projects developed under the Clean Development Mechanism (CDM) of the Kyoto Protocol. The main aim of the incentive was to promote investments in eligible low carbon initiatives including renewable energy and energy efficiency projects in South Africa by partially offsetting the high project registration, monitoring and credit verification costs incurred by project developers.

II. Reasons for change

In the 2019 Budget Review it was announced that Government would repeal the tax exemption for certified emission reductions provision of section 12K of the Act on 1 June 2019. Under the Carbon Tax Act, No 15 of 2019 (“Carbon Tax Act”), Government allows taxpayers to reduce their carbon tax liability by investing in low carbon projects developed under international programmes or standards such as the CDM, Gold Standard and Verified Carbon Standard. Taxpayers will now qualify for a carbon offset allowance of up to a maximum of 10 per cent of its total greenhouse gas emissions under the Carbon Tax Act.

III. Proposal

To avoid a double benefit scenario, where the same emissions reductions lead to both an income tax exemption under section 12K of the Act and a lower carbon tax liability for a taxpayer under the Carbon Tax Act, it is proposed that the tax exemption for certified emission reduction units is repealed. It is proposed that the tax exemption for certified emission reductions is repealed to become effective from the date of introduction of the carbon tax.

IV. Effective date

The proposed repeal will come into effect on 1 June 2019.

1.2 EXTENSION OF THE ENERGY EFFICIENCY SAVINGS TAX INCENTIVE

[Applicable provision: Section 12L of the Act]

I. Background

In 2013, Government introduced the energy efficiency savings tax incentive to encourage investments in energy efficiency measures to help reduce emissions of greenhouse gases, address climate change, and promote efficient energy use. To date, the incentive has helped to promote significant investments in energy intensive sectors such as mining as well manufacturing amounting to about R 3 billion in total.

II. Reasons for change

The carbon tax came into effect on 1 June 2019 and during the stakeholder consultations on the carbon tax, some stakeholders were of the view that the energy efficiency savings tax incentive should be extended beyond 2020 to ensure that there is long term policy certainty on revenue recycling commitments made under the carbon tax. The energy efficiency savings tax incentive has a sunset provision where only energy efficiency savings generated prior to the year of assessment ending before 1 January 2020 will be eligible to qualify for the incentive.

III. Proposal

To cushion households and energy intensive industries from potential adverse impacts after the introduction of the Carbon Tax Act, and to help industries transition to lower carbon, energy efficient practices, Government had agreed to extend the duration of the incentive to be aligned with the first phase of the carbon tax, ending 31 December 2022. It is proposed that the energy efficiency savings incentive be extended to allow for energy efficiency savings deductions from the income of any person carrying on any trade in respect of year of assessment ending before 1 January 2023.

IV. Effective date

The proposed amendment will come into effect on 1 January 2020.