Carbon Tax Bill: What effect will this have on corporate SA?

The long-awaited Carbon Tax Bill, which is due to be implemented on 1 June 2019, will have a considerable impact on many of the large corporates that are currently operating in South Africa. As such, these companies will be under increasing pressure to find viable strategies to make their operations more sustainable.

© jordano2000 – 123RF.com

This is according to David French, director of Tax Consulting at Mazars, who says that the Carbon Tax Bill is the first of its kind in South Africa, and will require that many companies make fundamental changes to the way that they operate in the future.

“This is a complex piece of regulatory framework that will have a severe cost-impact on many large businesses – especially those in the industrial sector. In light of this, businesses will have to rely heavily on auditors who can advise from a risk and control perspective, tax consultants with an in-depth understanding of the Carbon Tax Bill in order to calculate and correctly apply tax credits, and experienced sustainability consultants who can advise on strategies to reduce operational carbon emissions.”

Carbon tax revenues could be harnessed to help South Africa's poor

Harald Winkler and Andrew Marquard 31 May 2019

Phase one

The Carbon Tax Bill is being implemented in two phases, with the first phase coming into play between 1 June 2019 and 31 December 2022, and the second phase planned to start in 2023. This approach will see the carbon tax burden increasing over time, with the aim of shaping the behaviour of both producers and consumers, motivating them to adopt a methodical transition towards a low-carbon economy through the use of cleaner technologies.

Upon implementation of the first phase, businesses will be taxed on the total quantity of greenhouse gas that their operation emits as a result of combustion, fugitive, and industrial processes over a given tax period, at an initial headline rate of R120 per tonne of CO_2 or its equivalent. This specifically includes carbon dioxide, methane, nitrous oxide, perfluorocarbons, hydrofluorocarbons, and sulphur hexafluoride.

"It is also important to note that carbon taxes will be imposed on liquid fuels at source, as an addition to the current fuel taxes; as well as on stationary emissions, that will be determined by source category as stipulated in the National Environmental Air Quality Act," says French.

How will the Carbon Tax affect mobility in South Africa?
Songo Didiza 21 Jan 2019

He explains that the phased approach is intended to minimise the impact that the legislation will have on the operating costs of companies. With this in mind, the first phase also introduces a number of tax-free allowances to soften the blow.

"These allowances include: a basic tax-free allowance of 60% for all activities; a 10% process and fugitive emissions allowance; a maximum 10% allowance for companies that use carbon offsets to reduce their tax liability; a performance allowance of up to 5% for companies that reduce the emissions intensity of their activities; and a maximum 10% allowance for trade-exposed sectors."

He says that the combined effect of all the above-mentioned tax-free thresholds can result in businesses reducing their carbon tax by up to 95%. "This means that businesses can realistically expect to be taxed between R6 and R48 per tonne of CO_2 in the first phase, if they claim correctly."

David French, director of Tax Consulting at Mazars

Importance of auditors and consultants

While this can give companies the time that they need to adjust to the carbon tax before it is fully implemented, French stresses that the role of auditors and tax consultants will be critical in achieving these much-needed savings. “Measuring carbon emissions, accurately reporting it, and correctly applying for the relevant tax allowances is going to be a complex process – one which will require an experienced team. Not only are there tax-free allowances to consider, but also tax credits for a renewable energy premium and the current electricity generation levy, and an extension of the energy efficiency savings tax incentive to keep in mind.”

Upcycling beats carbon tax, drives skills and B-BBEE compliance
Yasmine Mlemiec 16 Jan 2019

In closing, French states that the true impact of the Carbon Tax Bill will only be fully understood once it has been implemented. “However, the one certainty is that businesses can expect substantially higher costs of doing business. With this in mind, it is crucial to start looking at sustainability from a price perspective, and involving a tax team early on in the process,” he concludes.