NEWSLETTER
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EXPLORATION | CONSULTING | PROJECTS

The South African Carbon Tax Act

Stepping into Environmental Accountability

NEWSLETTER SPOTLIGHT

◊ **Carbon Tax acts as an environmental levy in attempt to reduce emissions and reform economies to cleaner processes**

◊ **First payments for South African Carbon Tax are due 31 October 2020**

◊ **The current tax rate payable is ZAR127/t of CO_2**

Setting the Scene: What is Carbon Tax?

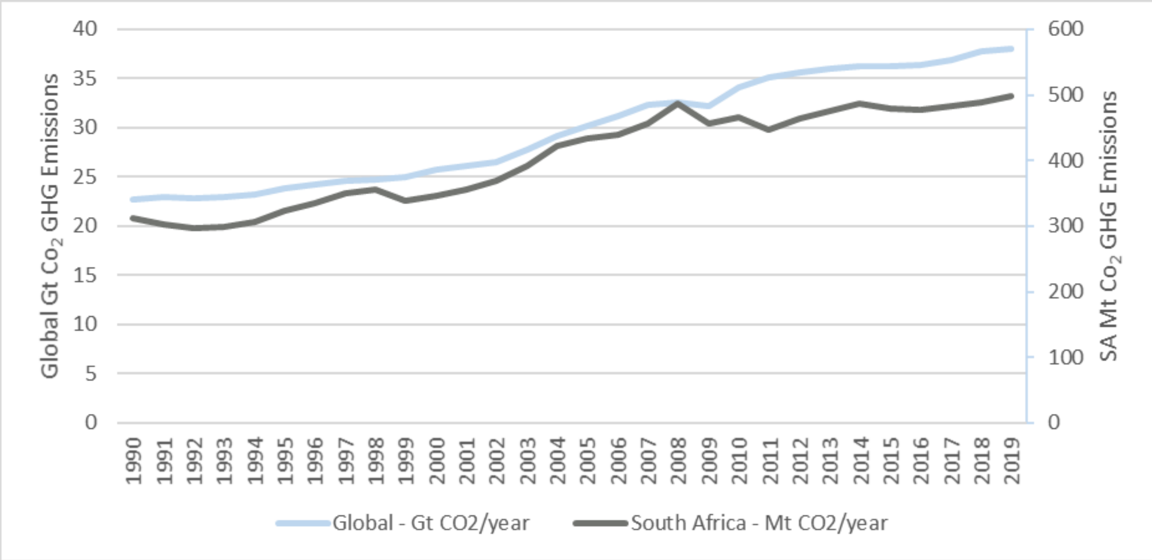
Carbon tax is a carbon pricing instrument that is implemented in an advance to stimulate action to economic restructure by holding entities liable for environmental damage caused by the human caused emission of greenhouse gases ("GHG") into the atmosphere. Proactive reform to reduce emissions through transition to cleaner technologies and optimised efficiencies is thus rewarded by financial incentive through reduced liabilities.

Effectively an environmental levy, carbon tax has been implemented in numerous countries in response to growing awareness of the risks of climate change and global warming, as further highlighted by the landmark Paris Agreement signed by 195 state parties in 2016, including South Africa. The Agreement aims to reduce global GHG emissions to limit average global temperature increase to below 2°C above preindustrial levels through collective international action. GHG emissions are reduced on the principle that demand shifts away from goods that include CO_2 in their pricing structure.

Global GHG Emissions

Fossil CO_2 emissions dominate GHG emissions, for which total GHG emissions from 1990 to 2015 increased some 50%. The global power industry continues to contribute most significantly to emissions as it provides a relatively cheap and accessible source of fuel. The trend in rising emissions from fossil fuel CO_2 from 1990 to 2019 is illustrated in Figure 1, with 2020 global trends likely to show marked changes in response to COVID-19. For the year 2019, global emissions increased by 0.9% from 2018, for which China, United States, EU27+UK and India accounted the largest share in global CO_2 emissions from fossil fuels (30.3%, 13.4%, 8.7% and 6.8%, respectively), with South Africa contributing 1.3%. As a nation still heavily reliant on fossil fuels, South Africa recorded a 36% increase in CO_2 emissions from fossil fuels in the period 1990 to 2019. Total South African GHG emissions for 1990 to 2015 increased by 32%.

Figure 1: Fossil CO_2 Emissions 1990-2019



Data Source: Crippa et al (2020)

The EU27+UK saw a continued decrease in their contribution over the past two decades. Countries including Finland, Sweden, Denmark and the Netherlands in particular have recorded notable declines in GHG emissions since imposition of carbon tax.

South Africa - Stepping Into Action

Climate Action Tracker continues to rate South Africa as “highly insufficient” in its efforts to align with the targets set in accordance with the Paris Agreement. In October 2019, Minister of Mineral Resources and Energy Mr Gwede Mantasha signed into action South Africa’s Integrated Resource Plan (“IRP 2019”), which acts as a national electricity infrastructure development plan. Implementation of the IRP 2019 is likely to be impeded by prioritisation of carbon-intense economic recovery efforts from COVID-19 ramifications above moves to cleaner processes.

In a more tangible and actionable move to reduce GHG emissions, the Carbon Tax Act, No. 15 of 2019 (“Act”) was gazetted on 23 May 2019, and came into effect on 1 June 2019. Through the act a taxpayer is liable to pay carbon tax where it conducts any activities set out in the detailed schedules of the Act and emits GHG emissions above the listed thresholds in respect of a tax period. The tax is levied based on the sum of the direct (or Scope 1) stationary and non-stationary GHG emissions expressed as a CO_2 equivalent resulting from the following activity categories:-

- fuel combustion (combustion of fossil fuels through stationary and mobile sources)
- industrial processes (chemical or physical processing and manufacturing); and
- fugitive emissions (unintentional release of GHG, e.g. methane release through coal mining activities).

Who Pays?

The tax is triggered on the “polluter pays” principle, with accountability vesting solely in the operating entity that is directly responsible for generating GHG above the applicable threshold. For example, a contractor that has installed and operates a diesel generator on site will be liable to account for the CO_2 equivalent emissions from the generator and include this into his own payable tax calculation. It is thus imperative for each entity in a corporate structure to be aware of its own operational control when determining its own tax liability.

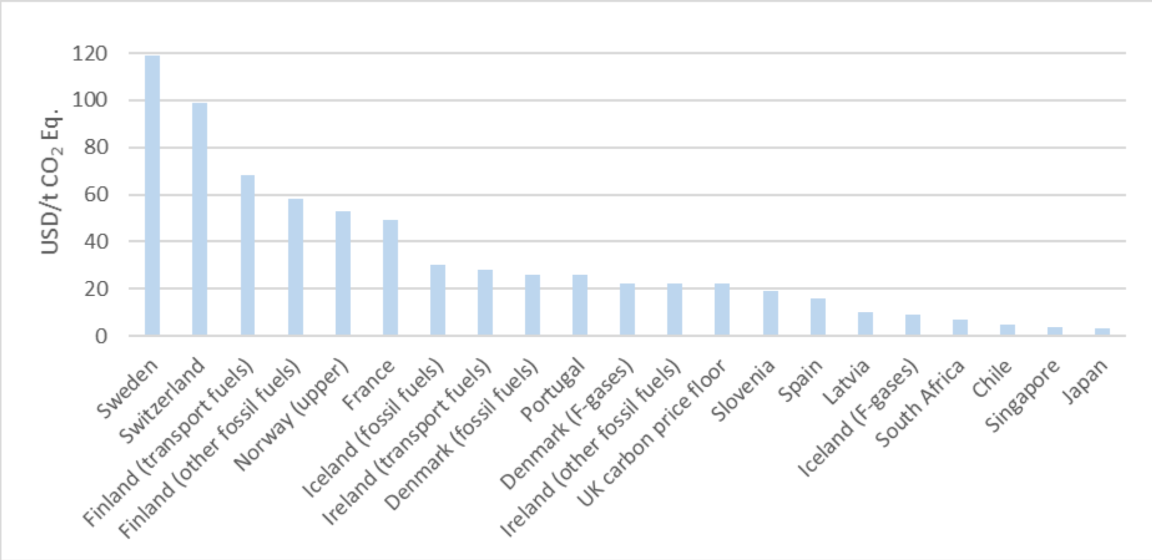
In addition to this, the tax is only applicable to activities that occur within the borders of South Africa. Sector exemptions are included in Phase one, including the likes of agriculture, forestry, waste and residential.

Tax Rate

In order to assist in the transition to a low-carbon economy and minimise the impact on businesses and electricity prices, the tax is implemented in phases, with the first Phase 1 currently running from 1 June 2019 to 31 December 2022. The tax deadline is 31 July annually for tax period running from 1 January to 31 December, but a relief was granted for first payments due to COVID-19, with first submissions due 31 October 2020. Carbon tax will be levied at a statutory rate of ZAR120/t of CO_2 equivalent of GHG emissions. Certain allowances apply in the first phase, to be revised thereafter. During the first phase the rate of ZAR120/t will be adjusted each year by the consumer price inflation (“CPI”) plus 2%. Thereafter, it will increase annually by CPI. The current tax rate payable is ZAR127/t.

A comparison of South Africa’s carbon tax pricing against some international players is illustrated in Figure 2.

Figure 2: Global Carbon Tax Pricing (USD/t CO_2 Eq.)



Data Source: World Bank (2020)

The liability for South Africans may be reduced through application of the various allowances available per source category activity. Allowances up to 95% may be applicable. In some instances, tax is only payable where allowances are exceeded. The tax liability may be further reduced through sequestration and offset initiatives, both of which are required to be certified and verified by competent authorities.

What This Means for You

Understanding your carbon tax liability in terms of the Act is crucial in terms of both legal compliance and appropriate budgeting. Moreover, GHG emissions need to be understood and accurately accounted for in order to move towards greener strategies and technologies.

Minxcon is able to estimate your carbon tax liability for your current operations, and predict potential liabilities for future projects. By incorporating these into the project planning stage, optimised strategies can be developed to actively promote the success of the project in moving towards environmental sustainability.

Source of CO_2 emissions data 1990-2019: Crippa, M., Guizzardi, D., Muntean, M., Schaaf, E., Solazzo, E., Monforti-Ferrario, F., Olivier, J.G.J., Vignati, E., Fossil CO_2 emissions of all world countries - 2020 Report, EUR 30358 EN, Publications Office of the European Union, Luxembourg, 2020, ISBN 978-92-76-21515-8, doi:10.2760/143674, JRC121460.

Source of GHG emissions data 1990-2015: Crippa, M., Oreggioni, G., Guizzardi, D., Muntean, M., Schaaf, E., Lo Vullo, E., Solazzo, E., Monforti-Ferrario, F., Olivier, J.G.J., Vignati, E., Fossil CO_2 and GHG emissions of all world countries - 2019 Report, EUR 29849 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-76-11100-9, doi:10.2760/687800, JRC117610.

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