national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Press Release regarding CO_2 vehicle emissions tax

Finance Minister Pravin Gordhan last week (19 August 2010) met with CEOs of the seven motor vehicle manufacturers in South Africa and a delegation from Business Unity South Africa (BUSA) to discuss their concerns about the introduction of CO_2 vehicle emissions taxation in South Africa.

Intention of the tax

The meeting agreed that a comprehensive and holistic approach is needed to deal with environmental challenges, and that such an approach should include both regulatory interventions and environmental taxes.

Environmental taxes are based on the ‘polluter pays’ principle and they seek to influence and change behavior. Transparency of the tax to the polluter is therefore important. In line with this, the meeting agreed that industry and National Treasury will encourage motor dealers to show separately on invoices the CO_2 vehicle emissions tax.

Inclusion of light commercial vehicles

The motor industry’s main concern was the inclusion of light commercial vehicles in the draft regulations issued for public comment on 2 July 2010, which the industry saw as a deviation from the 2010 Budget Review statement that “passenger cars” would be subject to the CO_2 vehicle emissions tax from 1 September. The meeting noted that National Treasury first proposed this tax as an ad valorem tax in the 2009 Budget and, after consulting the industry, had agreed to revise the proposal from an ad valorem tax (in terms of the Value Added Tax (VAT) Act, which defined motor cars more widely), to a specific tax in the 2010 Budget (in terms of the Customs and Excise Tax, which had a narrower definition of passenger cars).

Confusion arose from the discrepancy in the definition of a passenger vehicle or motor vehicle in the VAT Act and the Customs and Excise Act. The VAT Act's definition includes double cabs, while the Customs and Excise Act does not.

The industry's other concern about the inclusion of light commercial vehicles was based on the fact that reliable data on CO_2 emissions by light commercial vehicles (including double cabs) was not available and that there was no internationally applied test method to measure the emissions of light commercial vehicles. The National Regulator for Compulsory Specifications (NRCS) had, however, confirmed to National Treasury that its testing facility in East London measured CO_2 emissions for all vehicles tested at the facility, including light commercial vehicles. The industry responded that not all vehicles are tested at the NRCS facility

To allow manufacturers and importers sufficient time to test and determine the CO_2 vehicle emissions of all double cabs, the tax on double cabs will only be applied from **1 March 2011**. It has also been agreed that the threshold for double cabs be set at 175g/km and the tax rate at R100 for every g/km above the threshold.

The CO_2 emissions threshold for passenger cars (as defined in terms of the Customs and Excise Act) will remain at 120 g/km and the tax rate at R75 for every g/km above this threshold. This is the rate discussed with the National Association of Automobile Manufacturers of South Africa (NAAMSA) in the process of consultation. Similarly, the rate for double cabs was a joint decision based on a proposal by the industry.

Other light commercial vehicles, single cabs and light vans, will be subject to the CO_2 vehicle emissions tax at a date still to be decided. The meeting acknowledged the need to engage the NRCS, NAAMSA and the Departments of Energy and Trade and Industry on regulating and implementing systems for emissions testing of light commercial vehicles.

Minibus taxis are currently excluded from this tax as they are predominantly used for public transport. However, the position of minibus taxis will be reviewed when all other light commercial vehicles become subject to the CO_2 vehicle emissions tax.

Passenger cars (as from 1 September 2010) and double cabs (as from 1 March 2011) that cannot provide certified CO_2 vehicle emissions data will be subject to a tax based on a proxy CO_2 emission calculation, largely based on engine size. Such a proxy tax will include a significant penalty provision.

Availability of cleaner fuels

The meeting agreed on the need to expedite the availability of cleaner fuels in South Africa. Emerging economies such as China, Brazil and India have made significant progress with the introduction of cleaner fuels, which are especially necessary to help improve local air quality. Although cleaner fuels do not directly reduce CO_2 emissions the need for cleaner fuels to improve fuel efficiency is important. The introduction of the latest fuel efficient engine technology, which is directly related to CO_2 emissions, requires improved fuel quality.

Other measures

The meeting noted that one instrument alone is not sufficient to achieve the country's environmental goals. Complementary measures under consideration include the implementation of a CO_2 vehicle emissions tax on all cars, new and old, by reviewing vehicle license fees, which are implemented by provinces. As we improve our public transport infrastructure and opportunities, higher fuel levies may also be imposed.

Industry requested that government should take note of the cumulative impact of various tax measures (e.g. changes to the taxation of the fringe benefits of company cars, the CO_2 vehicle emissions tax, and new toll fees) on motorists and the domestic motor industry. National Treasury has noted these concerns and will ensure that tax reforms are equitable and will not unduly negatively impact economic growth and job creation. National Treasury undertakes a consultation process for all tax proposals, taking comments and concerns raised into account, as is feasible while still ensuring that the tax system meets the needs of the country as a whole.

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