national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Publication of the Draft Carbon Tax Bill for public comment

The National Treasury today publishes the Draft Carbon Tax Bill for public comment, following on the announcement made by the Minister of Finance in the 2015 Budget.

Cabinet approved the publication of the Bill and noted that the carbon tax forms an integral part of the system for implementing government policy on climate change as outlined in the 2011 National Climate Change Response Policy (NCCRP) and the National Development Plan. South Africa has committed to reduce greenhouse gas (GHG) emissions below business as usual by 34 per cent by 2020 and 42 per cent by 2025, as well as adaptation measures, as outlined in South Africa's Intended Nationally Determined Contributions (INDCs) recently submitted to the United Nations for the upcoming Conference of Parties (COP) 21 of the United Nations Framework Convention on Climate Change (UNFCCC) in Paris.

The carbon tax seeks to price carbon by obliging the polluter to internalise the external costs of emitting carbon, and contribute towards addressing the harm caused by such pollution. The Draft Carbon Tax Bill marks the next step in the consultation process conducted over the past 5 years, starting with the 2010 discussion paper on carbon tax, the 2013 Carbon Tax Policy Paper and the 2014 Carbon Offsets Paper. It takes into account comments received in writing, and from meetings and workshops, from a wide range of stakeholders including business, NGOs, academia, civil society and labour.

The publication of the Draft Carbon Tax Bill provides an opportunity for further comments on the design and technical details of the carbon tax policy and administration. It should be noted that the final tax rate, exemptions, and the actual date of implementation will be determined by the Minister of Finance through the annual Budget process.

The carbon tax will be implemented together with complementary measures like a reduction in the electricity levy and other measures to recycle revenue. Stakeholders are invited to provide comments on the environmental and socio-economic impact of the carbon tax (taking into account revenue recycling measures), as well as the design and legal wording of the Bill. A revised Bill incorporating comments received will thereafter be submitted to Cabinet for approval for tabling in Parliament.

Impact of the carbon tax on the economy

The impact of any tax on the economy can only be assessed when taking into account both the direct impact of the tax, as well as the way the resulting revenue is spent. Hence, to assess the impact of the tax, the revenue recycling measures must be taken into account.

The carbon tax will assist in reducing GHG emissions and ensure that South Africa is ready and better prepared to deal with future climate risks and challenges, and also be in a position to take advantage of new investment opportunities.

The carbon tax aims to change the behaviour of firms, incentivising them to shift towards cleaner technology when replacing/renewing machinery, technology or processes. To ensure that South Africa transitions to a low carbon, climate resilient economy in a cost effective and economically efficient manner, it is important that the objectives of inclusive economic growth, poverty alleviation, job creation and the lowering of our GHG emissions are appropriately balanced and the trade-offs effectively managed. Hence, given the developmental challenges that South Africa has to deal with and the internationally accepted common but differentiated responsibilities and respective capabilities principle (CBDR-RC) that requires more developed countries to make a greater effort to reduce global GHG emissions, South Africa's carbon tax will be gradually phased-in.

Various economic modelling to estimate the impact of a carbon tax were previously undertaken. One of the modelling[1] exercises initiated by the National Treasury indicates that a carbon tax with broad sector coverage implemented gradually and complemented by effective and efficient revenue recycling will contribute towards significant GHG emission reductions, and have only a marginal negative impact on economic growth over the short-term. Over medium to long term, the carbon tax will support the transition to a more sustainable low carbon economy and green jobs. Additional modelling is being undertaken by various stakeholders.

The tax has been designed to ensure that its overall impact (when taking into account revenue recycling measures) will, in the initial phase, be revenue neutral, and also neutral on the price of electricity. Hence, taking into account the current state of the mining and other distressed sectors, the combined effect of the rates/exemptions in the carbon tax and the reduction in electricity levy will be designed to ensure that such sectors are not adversely affected when the tax is implemented. The tax and revenue recycling measures are also designed to be revenue neutral from a macroeconomic perspective, but will not necessarily be neutral for (scope one) companies with significant emissions.

Carbon tax design

The revised carbon tax design as contained in the Draft Carbon Tax Bill includes the following features:

- A basic 60 per cent tax-free threshold during the first phase of the carbon tax, from implementation date up to 2020;
- An additional 10 per cent per cent tax-free allowance for process emissions;
- Additional tax-free allowance for trade exposed sectors of up to 10 per cent;

[1] Theresa Alton, et al, The Economic Implication of Introducing Carbon Taxes in South Africa, UNU-WIDER, 2012

- Recognition for early actions and /or efforts to reduce emissions that beat the industry average in the form of a tax-free allowance of up to 5 per cent;
- A carbon offsets tax-free allowance of 5 to 10 per cent;
- To recognize to role of carbon budgets, an additional 5 per cent tax free allowance for companies participating in phase 1 (up to 2020) of the carbon budgeting system;
- The combined effect of all of the above tax-free thresholds will be capped at 95 per cent; and
- An initial marginal carbon tax rate of R120 per ton CO_{2}-e will apply. However taking into account all of the above tax-free thresholds, the effective carbon tax rate will vary between R6 and R48 per ton CO_{2}-e.

These tax-free exemptions will range between 60 and 95 per cent of total emissions. This implies that the carbon tax will be imposed on only 5 to 40 per cent of actual emissions during this period.

The Department of Environmental Affairs (DEA) and the National Treasury have embarked on a process to ensure that the carbon tax is aligned with the proposed carbon budget system. During the first phase of the carbon tax (up to 2020), companies participating in the carbon budgeting process will qualify for an additional tax-free allowance of 5 per cent.

The tax-free percentage thresholds will remain fixed during the first phase, until 2020. The percentage tax-free thresholds might be reduced thereafter or may be replaced with absolute emission thresholds. Both the tax-free percentage thresholds and their subsequent replacement with absolute emission thresholds will be aligned with the proposed carbon budgets.

The carbon tax in the case of GHG emissions from the use of petrol and diesel will be added to the current fuel tax regime. Fuels used by the international aviation and international maritime sectors will initially be excluded from the carbon tax as these are covered by international agreements. Greenhouse Gas resulting from the use of such fuels will be priced in terms of the international agreements that are currently being developed. However, domestic aviation will be subject to the domestic carbon-related fuel taxation.

The National Treasury is in the process of finalising Regulations to give effect to the carbon offset scheme and is engaging the Department of the Energy (DoE) and the DEA on the administration aspects of the offset scheme. Draft regulations will be published for public comment in early 2016. The Regulations with respect to the emissions intensity benchmark as required by the performance based tax-free allowance will be developed over the next six months based on inputs received from the respective industry associations. Such inputs should use as reference acceptable benchmark methodologies.

Revenue recycling and Administration

The effectiveness of the carbon tax to reduce GHG emissions and the socio-economic impact of the carbon tax will be determined by the carbon tax rate, tax-free allowances and the various revenue recycling measures. These revenue recycling measures will include: (i) funding for the energy efficiency tax incentive already being implemented; (ii) a reduction in the electricity levy, (iii) additional tax relief for roof top (embedded) solar photovoltaic (PV) energy as already provided for the in 2015 tax legislation; (iv) a credit for the premium charged for renewable energy (wind, hydro and solar, as per the Integrated Resource Plan);

(iv) additional support for free basic electricity to low income households; and (v) additional allocations for public transport. Measures to encourage the shift of some freight from road to rail will also be supported.

Investments in green technologies and the growth of some sectors will benefit from this intervention especially the renewable energy sector which will be able to compete on a more level playing field in comparison to fossil fuels. A carbon tax will also have health co-benefits by helping to reduce local air pollutants.

The carbon tax will be administered by the South African Revenue Service (SARS). SARS will liaise with the DEA and be able to access the National Atmospheric Emissions Information System (NAEIS) which will contain emissions information as reported by companies. Energy use data reported to the DoE will also be incorporated into the NAEIS which will strengthen the monitoring and verification system to support the implementation of the carbon tax.

Due date for comments

The Draft Tax Bill, is published for public comments and is available on the National Treasury website: www.treasury.gov.za

Written comments should be submitted to Dr. Memory Machingambi, email: Memory.Machingambi@treasury.gov.za by the close of business on **15 December 2015.**

Issued by National Treasury
Date: 2 November 2015