



MEDIA STATEMENT

PUBLICATION OF GAZETTED AMENDMENTS TO THE CARBON OFFSETS REGULATIONS IN TERMS OF SECTION 19(C) OF THE CARBON TAX ACT, 2019 (ACT NO 15 OF 2019)

The National Treasury has published the gazetted amendments to the Carbon Offsets Regulations in terms of Section 19 (c) of the Carbon Tax Act (Government Gazette number 44818 dated 8 July 2021). The Carbon Offsets Regulations set out the eligibility criteria for carbon offset projects, a procedure for taxpayers claiming the carbon offset allowance and administration of the carbon offset system.

The Carbon Tax Act became effective from 1 June 2019. Section 19 (c) of the Carbon Tax Act makes provision for the Minister to issue Regulations for the carbon offset tax-free allowance in terms of section 13. The carbon offset tax-free allowance assists firms to cost-effectively reduce their emissions and carbon tax liability by up to 10 per cent of their total greenhouse gas (GHG) emissions by investing in low carbon, mitigation projects. The first set of the Carbon Offsets Regulations was gazetted in November 2019 (Government Gazette Number 42873 dated 29 November 2019).

The gazetting of the Amendments to the Carbon Offsets Regulations follows publication of the draft amendments to the Carbon Offsets Regulations on 31 March 2021. Taxpayers and stakeholders were given 30 days to submit their written comments to National Treasury, with the closing date of 30 April 2021.

National Treasury received twelve written submissions from a wide range of stakeholders including companies, industry associations, international and national carbon market consultants, project developers, and carbon market traders. The main comments and changes made to the regulations as a result of the comments received are summarised below:

- Proposals to include new definitions of national registries, Verra registry and certificate of voluntary cancellation are accepted. The regulations were amended to clarify that carbon credits from approved Clean Development Mechanism (CDM) projects issued under national registries will be eligible for listing as eligible South African carbon offsets. The definition of the Verra registry was aligned with the official Verra documentation and a new definition for a certificate of voluntary cancellation was included.
- Stakeholders were of the view that the crediting periods for non-Agriculture, Forestry and Land Use (AFOLU) Verified carbon standard projects should be specified in the regulation. This proposal was accepted under Sub-regulation 3(1)(c), where the crediting period for non-AFOLU projects was added to the regulation.
- There were requests for clarification of the utilisation period for offsets generated up to and including 31 May 2019, on project activities that are now taxable activities. Taking

into account that the carbon tax payment for the 2022 tax period has to be made by July 2023, the regulation has been amended to stipulate the date of 28 July 2023 by when the carbon offsets from activities that are included in the carbon tax net can be used by taxpayers. This is aligned with the due date for carbon tax accounts for the 2022 tax period, that is, the penultimate working day of July.

- Stakeholders expressed the view that the current wording in the Carbon Offsets regulations could be interpreted to mean that a taxpayer claiming any Section 12L energy efficiency savings allowance for any project will be prohibited from claiming any carbon tax offsets allowance, despite the project being completely unrelated. Accessing deductions under Section 12L of the Income Tax Act and the carbon offset allowance under the carbon tax is viewed as a double benefit for the same investments and emission savings. The regulation was amended to clarify that a taxpayer may not receive the allowance in respect of an offset of a project for which an allowance has been received in terms of section 12L.

General comments were also received, such as requests for the government to finalise the framework for local carbon offset standards that can be used to determine whether a project qualifies as a carbon offset project, and expansion of the geographic scope of offset projects beyond South Africa. A process is underway by the Department of Mineral Resources and Energy to publish the draft framework for local standards which was developed under the World Bank's Partnership for Market Readiness project for public consultation. The options for expanding the geographical scope of eligible offset projects including within the African region will be considered as part of the review and phase 2 design of the carbon tax.

Following receipt and consideration of public comments, further changes were made to the gazetted amendments to the Carbon Offsets Regulations in terms of Section 19 (c) of the Carbon Tax Act. The gazetted amendments to the Carbon Offset Regulations (**Annexure A**) and a detailed summary of the stakeholder comments on the draft regulations and responses (**Annexure B**) are available on the National Treasury website (www.treasury.gov.za).

Issued by National Treasury

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