

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1574 [NW1920E]
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1574. Mr T D Harris (DA) to ask the Minister of Finance:

- (1) What research was conducted to validate the National Treasury's decision not to abolish the levy on electricity from nonrenewable resources?
- (2) is it the National Treasury's intention to maintain the levy on electricity from nonrenewable resources once the carbon tax has been implemented?
- (3) how will the levy be structured in order to avoid double taxation?

NW1920E

REPLY:

- (1) The research done by the National Treasury is contained in the latest policy document on carbon taxes titled *Carbon Tax Policy Paper*, published on 02 May 2013 and available on the National Treasury website at:
<http://www.treasury.gov.za/public%20comments/Carbon%20Tax%20Policy%20Paper%202013.pdf>

The approach to the levy on electricity should be seen within this broader framework; which considers the potential link between the proposed carbon tax and the current electricity levy imposed on electricity generated from nonrenewable resources (and nuclear energy) which is discussed in the carbon tax paper. Specific facts that informed the National Treasury's decision to not abolish the levy on electricity from nonrenewable resources include the fact that revenue amounting to 1 cent/kwh of the current electricity levy is being applied towards funding subsidies for the rollout of solar water heaters (including the so-called Eskom subsidy for solar water heaters/geysers) and 0.5 cent/kwh is dedicated towards rehabilitating some of the roads being damaged by coal trucks transporting coal to the various power stations in Mpumalanga and surrounding areas.

- (2) and (3) Yes the intention is to maintain the electricity levy to cover as minimum the two elements discussed in response to question 1 above. Hence, as part of the revenue recycling options discussed in the carbon tax policy paper, the electricity levy could, for example, be phased down to around 2 cent per kwh from the current 3.5 cent per kwh over a two to three year period following the introduction of the carbon tax. In real terms this would mean a substantial reduction in the impact of this levy.

The following extract from page 18 of the said Carbon Tax Policy Paper addresses some of the questions raised by the honourable member.

“In the context of an initial relatively low, effective carbon tax rate (taking into account an initial modest rate and the tax-free thresholds), it can be argued that there is unlikely to be any effective double taxation in the foreseeable future. Double taxation may only become an issue if the carbon tax rate is set at a sufficiently high level to fully internalise the external costs associated with carbon emissions. The gradual phasing-down and restructuring of the current electricity levy (energy tax) could be considered as the effective carbon tax is increased over time”.