



Tax Alert



February 2019

Carbon Tax: A Burning Issue

Finance Minister Tito Mboweni delivered his maiden budget speech on 20 February 2019. During the Budget, the Minister confirmed that the Carbon Tax will be implemented on **01 June 2019**. With South Africa's commitment to tackling climate change, the tax engenders the "polluter-pays" principle. With the imminent implementation date, taxpayers need to take steps now to ensure compliance with a tax, which although simple in structure, is complex in application.

The Carbon Tax Bill has been passed by the National Assembly and sent to the National Council of Provinces for concurrence. Government's aim with the carbon tax is to ensure that businesses and households take into account the price of greenhouse gas emissions in their production, consumption and investment decisions.

Carbon tax imposes an initial levy of R120 per tonne of carbon dioxide equivalent ("CO₂e") of greenhouse gas ("GHG") emissions above set tax-free allowances (the allowances could reduce the initial carbon tax rate to as low as R6 – R48 per tonne of CO₂e).

Although the carbon tax is relatively simple in structure, its implementation is likely to be challenging. Carbon tax is based on fossil fuel consumption, industrial process emissions as well as fugitive emissions, all of which are not regularly or consistently measured by a large percentage of corporate South Africa.

The legislation has also been drafted in such a way that a taxpayer is required to account for its annual emissions and determine its carbon tax liability accordingly. The implementation date of 01 June 2019 is likely to create confusion as companies try to apportion their emissions for the 2019 calendar year and apply the set annual thresholds contained in the legislation.

Understanding the complexities involved in the introduction of this tax, it was announced during the Budget that the South African Revenue Service ("SARS") will publish draft rules for public consultation by March 2019. It is hoped that guidance will be included on how to account for the applicable seven month period in 2019 to ensure consistency.

Stricter Compliance from Joint Administration

It was again confirmed in the Budget that SARS and the Department of Environmental Affairs (“DEA”) will jointly administer the tax. The DEA will collect the emissions data which will form the carbon tax base and incorporate it into the South African National Atmospheric Emissions Inventory System (NAEIS). SARS will be responsible for tax collection and assessment and will be supported by the DEA to verify reported emissions.

Alignment between the DEA and SARS systems has reportedly already commenced with the intention that taxpayers will be able to use their DEA details for the SARS carbon tax registrations.

SARS’ access to the DEA’s emission databases will increase pressure on taxpayers to strictly comply with the applicable emission thresholds that, where exceeded, will result in tax being payable.

The draft rules to be issued by SARS in March 2019 will complement three sets of regulations pertaining to certain of the tax-free allowances catered for in the Carbon Tax Bill, namely

- draft regulations on the carbon offsets (published after public consultation in 2018);
- trade exposure regulations, which will be published before the end of this month; and
- benchmarking regulations, which will be published in March 2019 for further consultation.

No “double-benefit”

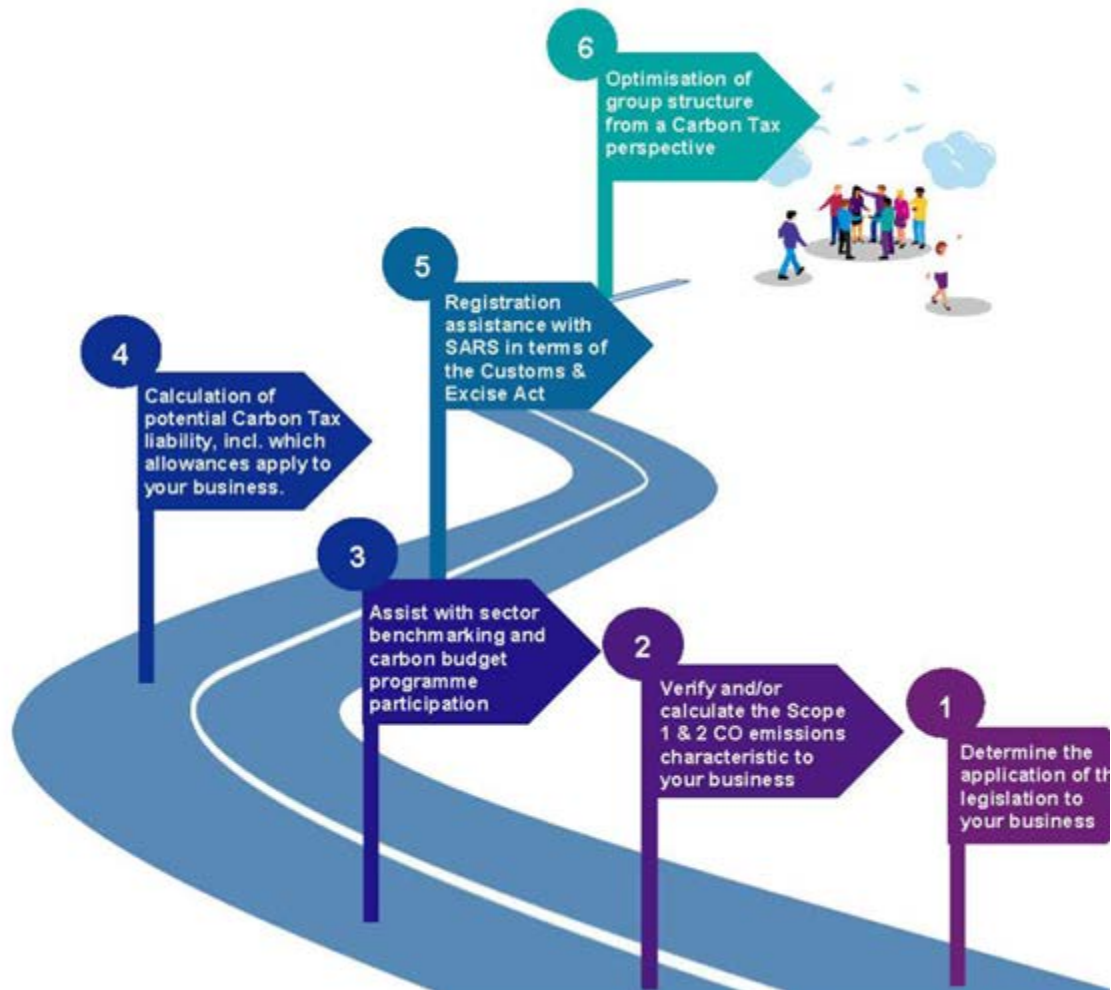
The Budget noted that with the introduction of the Carbon Tax, emission reduction credits could be used to reduce a taxpayer’s carbon tax liabilities. Accordingly, the tax exemption for income generated from the sale of certified emission reduction credits (section 12K) will be repealed from 01 June 2019.

This is to avoid a “double-benefit” arising, whereby the same emission reduction leads to both an income tax exemption and a reduced carbon tax liability for the same taxpayer.

How can KPMG help?

Taxpayers who do not currently measure their CO₂e emissions or who do not independently verify their emission calculations, will need to introduce systems soon to comply with the 01 June 2019 implementation date.

Utilising a multi-disciplinary team, KPMG can assist you to determine your company’s Carbon Tax exposure. With a phased approach, integrating engineering, tax and customs & excise expertise, we can help you each step of the way to prepare for the introduction of carbon tax:



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