

TAX & EXCHANGE CONTROL ALERT

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Proposals to increase the carbon tax rate from 2023 – 2030: The only way to reduce carbon emissions?

In the 2022 draft Taxation Laws Amendment Bill (Draft TLAB), a number of proposals were made regarding amendments to the Carbon Tax Act 15 of 2019 (Carbon Tax Act). The most significant proposal related to an increase in the carbon tax rate from 2023 onwards. The proposals were made against the backdrop of the announcement in the 2022 Budget Review ([see our 2022 Special Edition Budget Speech Alert](#)) that Phase 1 of the carbon tax would be extended until the end of 2025 and would not come to an end on 31 December 2022, as was previously stated.



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THE PROPOSAL

In the Draft Explanatory Memorandum on the Taxation Laws Amendment Bill, 2022 (Draft Memo), the proposal is summarised as follows:

- It is proposed that amendments are made to section 5(2) of the Carbon Tax Act to provide for the carbon tax rate adjustment by US\$1, US\$2 and US\$3/tCO₂e for the 2023, 2024, and 2025 tax periods ending on 31 December, respectively.
- The average exchange rate as defined in section 1 of the Income Tax Act 58 of 1962 (Income Tax Act), should be used to determine the rand equivalent annual carbon tax rate adjustment.
- It is proposed that a new subsection is inserted in section 5 of the Carbon Tax Act to provide for the carbon tax rate of US\$20/tCO₂e rand equivalent in 2026, with proposed annual increases of US\$2,50/tCO₂e for the 2027 to 2029 periods.

- For 2030, a carbon tax rate of US\$30/tCO₂e is proposed.
- For the 2026 to 2030 periods, it is also proposed that the average exchange rate as defined in section 1 of the Income Tax Act, should be used to determine the rand equivalent annual carbon tax rate adjustment.

THE REASONS FOR THE PROPOSAL

A number of reasons were given in the Draft Memo for the proposal, including:

- South Africa's international law obligations, including its nationally determined contribution commitments;
- IMF proposals regarding the minimum carbon price for developing economies;
- the proposed implementation of the EU's Carbon Border Adjustment Mechanism from 2026;
- to provide policy and investor certainty necessary to drive low carbon investments; and

- to ensure a just transition and to allow companies time to transition their activities towards low carbon, cleaner business practices and to take early action.

SUBMISSIONS RECEIVED

National Treasury hosted a virtual workshop on 8 September 2022, during which written submissions received by the 29 August deadline were discussed and parties making submissions had a further opportunity to address National Treasury in support of their submissions. The attendees who made submissions included representatives from industry bodies, banks and from affected business themselves. While it appears that most attendees at the workshop agree on the need for carbon tax, they oppose the proposed increases for, amongst others, the following reasons:

- the likely adverse impact on businesses in various industries;

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- the volatility of the rand, which could affect the amount of the annual increases and might undermine the aimed-for certainty;
- the failure to take account of certain hard-to-abate sectors, that is, sectors for which it is difficult to reduce or mitigate carbon emissions due to, amongst other things, technological constraints; and
- the absence of revenue recycling measures pertaining specifically to the carbon tax.

CDH also made a written submission to National Treasury and attended the workshop highlighting some of the abovementioned issues, including the potential adverse impact that the proposal could have on the domestic airline industry, which is a hard-to-abate sector and has been hit hard by the COVID-19 pandemic. This is evident from the number of airline companies that have gone into business rescue or liquidation recently.

Submissions were also made in support of the proposed annual increases, considering carbon tax rates in other countries and the rate at which climate change is currently occurring.

WAY FORWARD

Following yesterday's workshop, members of the public will have a further opportunity to make submissions to Parliament's Standing Committee on Finance. Once all the submissions have been considered and depending on whether the submissions are accepted, National Treasury will propose that the Draft TLAB be revised. The revised bill will then be tabled before Parliament.

It will be interesting to see what the ultimate outcome of the legislative process will be, as it is clear that there is much at stake, for business and the South African environment.

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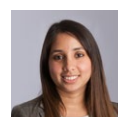
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BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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