



Tax and Legal News

#BudgetSpeech2023



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Carbon Tax – Extending the utilisation period in the Carbon Offsets Regulations

Environmental protection and climate change are at the forefront of many discussions globally, and the 2023 Budget Speech is no exception. As the first African country to introduce a carbon tax, the implementation thereof was designed to ensure electricity tariff neutrality (via the environmental levy offset to electricity tariffs), and incorporates a number of tax-free allowances, to reduce the initial impact on businesses, whilst encouraging the transition to a low carbon economy and meeting international climate action commitments.

The Carbon Tax Act No. 15 of 2019 (**the Act**) was assented to by the President on 23 May 2019 and became effective from 1 June 2019.

In the 2022 Budget, the first phase of the carbon tax was extended by three years from 1 January 2023 to 31 December 2025. In the current year budget speech, it was proposed that the utilisation period of the carbon offsets, as provided for in the Carbon Offsets Regulations, also be changed to align it with the extension of the first Phase of the carbon tax. These amendments will take effect from 1 January 2023.

While the Act sets out how the tax will be managed for Phase 1 (due to end on 31 December 2025), it is silent on the specifics of Phase 2, which is intended to run from 1 January 2026 to 31 December 2030, leaving many companies with unanswered questions regarding the future financial impact of the tax.

Carbon tax rate increase

The Act specifies that the initial rate of carbon tax of R120 per tonne will be increased by consumer price inflation (“CPI”) +2% per year until 31 December 2022, whereafter the rate of tax will be increased only by CPI.

It is, therefore, no surprise that the carbon tax rate will increase from R144 per tonne of carbon dioxide equivalent (**CO₂e**) to R159 per tonne of CO₂e for the 2023 calendar year.

The amendments will take effect from 1 January 2023.

Carbon Tax – Aligning the fuel emission factors with the methodological guidelines and regulations

In October 2022, the Department of Forestry, Fisheries and the Environment gazetted the amended methodological guidelines for quantifying greenhouse gas emissions.

The amendments include updated carbon dioxide emission factors for domestic (tier 2) emissions reporting for existing fuel types and added fuel types.

The updated emission factors will take effect for the department's 2023 reporting period, covering emissions during 2022.

To align the Carbon Tax Act (2019) with these guidelines, it is proposed that a new table be inserted into schedule 1 of the act to provide the tier 2 emission factors. Further changes to the emission factors may be added to the Tax Laws Amendments Act (2023) if the department publishes further updates. In addition, certain emission factors were added in schedule 1 for country-specific tier 2 carbon dioxide reporting.

The amendments will take effect from 1 January 2023.

Adjusting the formula for fugitive emission factors

Section 4(2) of the Carbon Tax Act provides the formulas to be used to calculate total greenhouse gas emissions. In 2019, changes were made to the formula for fugitive emissions to provide for converting the unit of the emission factors for the different greenhouse gases from volume to mass by multiplying by a density factor, followed by multiplying by 1 000 to convert to tonnes.

This is accurate for some Intergovernmental Panel on Climate Change code activities but not all, depending on the units of measurement in which the emission factors are expressed. It is proposed that the formula be changed to only multiply certain emission factors by 1 000.

Contact us

For additional information, queries on the impact of carbon tax on your business, or further assistance, please contact a member of our Carbon Tax Team.



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