



Tax Alert



February 2019

Carbon Tax – Will it affect your business?

After eight years of extensive stakeholder consultation, the amended Carbon Tax Bill was adopted by the Standing Committee on Finance last week, and is currently under consideration by the National Assembly. The Minister of Finance declared during the 2018 Medium Term Budget Speech that the carbon tax will become effective from 01 June 2019.

However, the first tax period of the Bill is yet to be determined and Gazetted by the Minister. Only emissions from the date so determined will be subject to carbon tax. More clarity on the date of implementation is expected to be made during the 2019 Budget Speech next week.

The Carbon Tax Bill (the “Bill”) addresses measures that Government is taking to meet its nationally-determined contribution in terms of the 2015 Paris Agreement on climate change. As such, the industry sectors which are affected by the Bill are far-reaching.

Commitment to competitiveness

The carbon tax has been designed to try to ensure that South Africa’s competitiveness is not compromised through its introduction. This is hoped to be achieved through both a phased-in approach and the inclusion of many tax-free allowances.

In addition, it is expected that there will be a range of tax incentives and revenue recycling measures which will be implemented to minimise the initial impact of the Bill. This may include

extending the period of the energy efficiency savings tax incentive that is currently in place beyond 01 January 2020.

The impact of the carbon tax will also be reviewed at least three years after implementation, taking into account the progress made in reducing Greenhouse Gas (GHG) emissions – which may result in changes to the rates and tax-free thresholds being made.

What's the cost?

The initial carbon tax rate is R120 per tonne of carbon dioxide equivalent (“CO₂e”) of GHG emissions above the tax-free threshold of a taxpayer. Taking into account the various tax-free allowances, this could translate into an initial effective carbon tax rate range as low as R6 – R48 per tonne of CO₂e.

The Bill also specifies that this rate must be increased by consumer price inflation (“CPI”) +2% per year until 31 December 2022, where after the rate of tax is increased only by CPI.

How will the carbon tax affect your business?

Carbon tax will be calculated per the sectoral activities classifications in Schedule 2 to the Bill. An extensive listing of activities is covered, including waste, industrial processing and agriculture.

As such, taxpayers will need to determine whether their GHG emissions (from fuel combustion, industrial processes and fugitive emissions) fall below the prescribed thresholds, and whether or not they will be liable for carbon tax.

Taxpayers affected will be required to submit environmental levy accounts and payments as prescribed in terms of Customs and Excise Act No. 91 of 1964 on an annual bases for every tax period.

What now?

Environmental protection and climate change is at the forefront of many discussions – and for now, carbon tax is here to stay. Companies are encouraged to take steps to understand the impact of the carbon tax on their business – including the implementation of procedures to measure and verify GHG emissions.

More announcements are expected to be made with regard to the carbon tax during the 2019 Budget Speech to be delivered on 20 February 2019. We will keep you updated.

For more information, contact:



Jenna Mason
Associate Director, Corporate Tax
KPMG SA
M: +27 (0)63 682 1387
E: jenna.mason@kpmg.co.za



Nicole de Jager
Senior Manager, Corporate Tax, R&D
KPMG SA
M: +27 (0)82 717 4762
E: nicole.dejager@kpmg.co.za



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