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***Examining  
Environmental Taxes –  
an overview***

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## ***Agenda***

- **The environmental tax policy framework**

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- **Environmental taxes and levies in South Africa**

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- **The carbon tax proposals**

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- **Future environmental taxes?**

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# ***The environmental tax policy framework***

## *Environmental tax policy framework*

National Treasury has stated intention to increase contribution of environmental taxes and levies to total tax revenues.

Implementation of this policy commenced with introduction of electricity levy in 2009 and continues with numerous environmental taxes introduced or increased since then.

Contribution of  
environmental taxes  
to total national tax  
revenues

2009 – R26.4bn (4.2%)

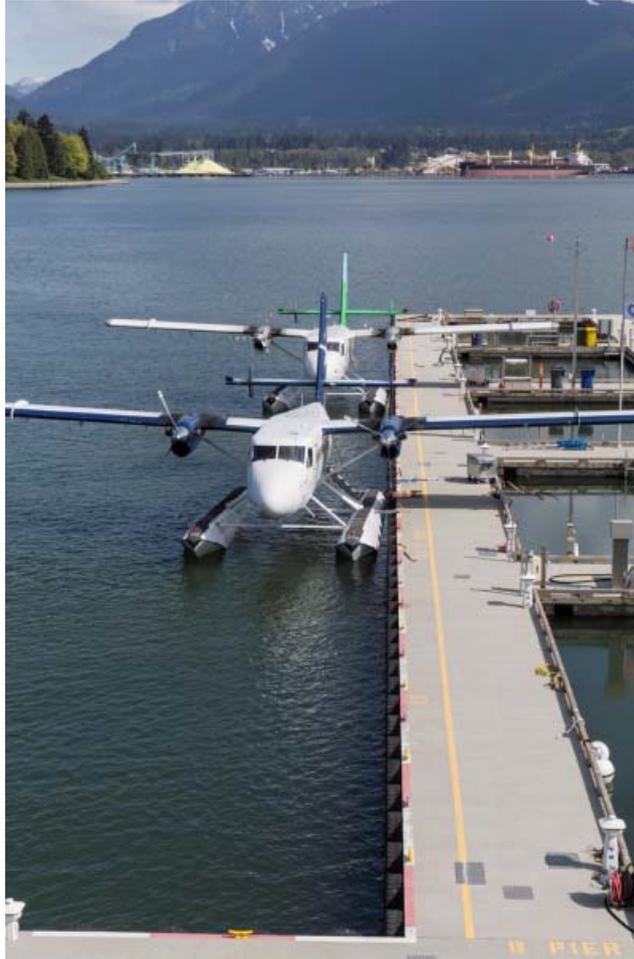
2014 budget – R57.5bn

**6.4%**

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# ***Environmental tax policy framework***

## ***Guiding principles and criteria***



- Viewed as appropriate policy instrument for negative impacts of economic activity
- Market-based instruments generally viewed as most efficient
- Recognised that must generally be combined with regulation
- Polluter pays principle
- Subsidies only appropriate in conjunction with other instruments
- Tradable permits not generally viewed as appropriate for SA

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# ***Environmental tax policy framework***

## ***Guiding principles and criteria***

- Horizontal and vertical equity (distributional impact)
- Certainty
- Simplicity
- Administration and compliance costs
- Environmental effectiveness

- Tax revenue
  - Elastic/inelastic demand
  - Use of revenues
- Competitiveness impacts
- Complementary measures

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# ***Environmental taxes and levies in South Africa***

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## ***Environmental levy on plastic bags***

- Levied on plastic carrier bags and flat bags imported or manufactured in SA
- Introduced 1 June 2004 (3c/bag)
- Current rate 6c/bag (since 1 April 2013)
- Regulations for minimum thickness of 24 microns
- Exceptions – Bread bags, refuse bags, bin liners, household plastic bags, primary packaging, plastic bags for export
- Agreement with major retailers to charge
- Revenue R260m



# ***Environmental levy on electricity***



- Levy on electricity generated other than from
  - Generation plants < 5MW
  - Renewable sources (geothermal, hydro, ocean currents, solar, tidal waves, wind)
  - Co-generation
  - Concentrated solar
  - Non-renewable sources where energy input < 15% of total
- Introduced 1 July 2009 at 2c/kWh
- Increased to 2.5c/kWh 1 April 2011
- Increased to 3.5c/kWh 1 July 2012
- Revenue R8.1bn

# *Environmental levy on filament lamps*

- Introduced 1 November 2009 at R3/lamp
- Applies to SA manufactured or imported lamps
- R4/lamp from 1 April 2013
- Revenue R184m



# ***Environmental levy on CO<sub>2</sub> emissions of motor vehicles***

Introduced 1 September 2010 for passenger vehicles



- Applies to new vehicles manufactured or imported
- Rate R75 per g/km CO<sub>2</sub> emissions > 120 g/km
- Extended to double cabs 1 March 2011
  - Rate R100 per g/km CO<sub>2</sub> emissions > 175 g/km
- Rates increased from 1 April 2013 to R90 and R125
- Revenue R2bn

## ***Other environmental taxes***



- Air passenger duty (R950m)
  - R100 SACU
  - R190 other international
- General fuel levy (R45bn)
  - Petrol 212.5 c/l
  - Diesel 197.5 c/l
  - Biodiesel 98.75 c/l
- Customs and excise levy on fuel (R1bn)
  - – 4c/l

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# ***The carbon tax proposals***

# ***Carbon tax proposals***



**Discussion paper – December 2010**

**Key design features – budget 2012**

**Policy paper issued May 2013**

- **Phased approach**
- **Phase 1 – 2015 to 2020**

# *Carbon tax proposals design features*

## Tax base

- Fossil fuel inputs
- DEA to prescribe emissions factors
- Process emissions and fugitive emissions?
- GHGs to be covered?
- Fossil fuels to be covered?
- Sources of emissions covered – non-stationary sources?
- Who will be liable for tax – emitter or supplier of fossil fuel?
- All emitters or large emitters?

## *Carbon tax proposals design features*

### Sector thresholds

- Percentage-based exemption threshold (60%)
- Adjustment for carbon intensity (+- max 5%)
- Higher exemption threshold for certain process emissions (+10%)
- Relief for trade-exposed sectors (max +10%)
- Offsets allowed (max 5% or 10%)

## *Carbon tax proposals – sector thresholds*

Sector	Basic tax free threshold (%) below which no carbon tax will be payable during the first phase (2015 to 2020)	Maximum Additional allowance trade exposure	Additional allowance for “process” emissions	Maximum offset percentage
Electricity	60%	-	-	10%
Petroleum	60%	10%	-	10%
Iron and steel	60%	10%	10%	5%
Cement	60%	10%	10%	5%
Glass & ceramics	60%	10%	10%	5%
Chemicals	60%	10%	10%	5%
Pulp & paper, sugar	60%	10%	-	10%
Agriculture, forestry, land use and waste	60%	-	40%	-
Fugitive emissions: coal	60%	10%	10%	5%
Other	60%	10%	-	10%

## ***Carbon tax proposals design features***

### ***Points to note on sector thresholds***

- Categorisation to sector proposed on firm basis
- Relief for trade exposure excludes scope 2 emissions
- Extent of relief for trade exposure dependent on exposure to exports (min. 5%) or exports and imports (min. 10%)
- Maximum relief at 25% exports or 50% exports and imports
- Basic tax-free threshold to be adjusted up or down by  $Z$  factor for relative carbon intensity against benchmark
- Measured at end of year – uncertainty
- Separate paper to be issued on offsets
- Only SA developed offsets to be allowed

# *Carbon tax proposals design features*



## **Tax rate**

- R120/ton
- Increase by 10% p.a.

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## *Carbon tax proposals design features*



### Revenue use

- Crucial to outcome of modelling
- Revenues not earmarked
- Tax shifting
- Climate change response white paper flagship programmes
- Support for low income households
- Other environmental taxes

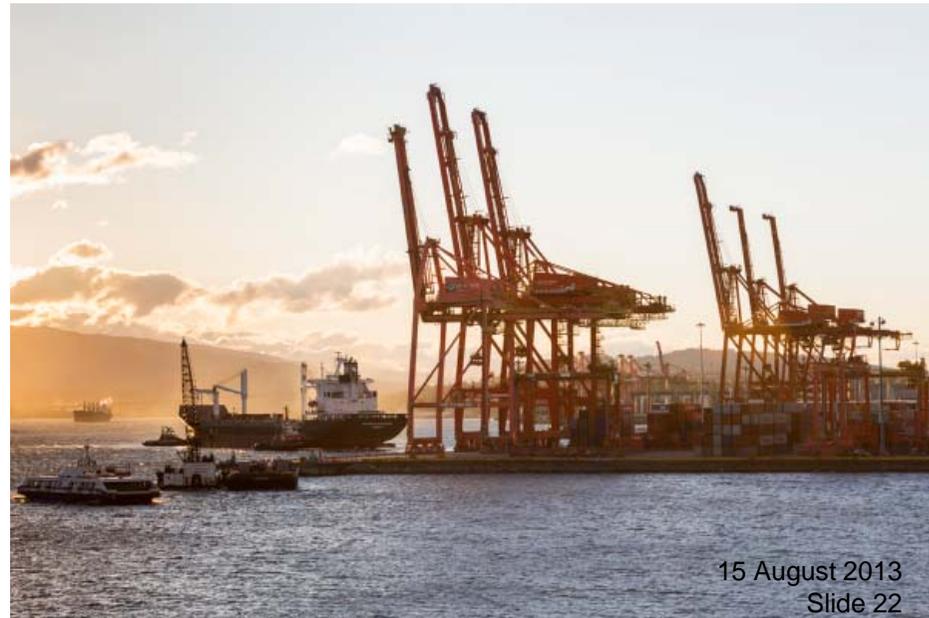
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# ***Future environmental taxes?***

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## ***Possible other future environmental tax developments***

- Waste water discharge levies
- International Oil Pollution Compensation Fund Contributions Levy
- Air pollution charges
- Levies on waste of various products (e.g. R2.30/kg tyre levy to be implemented)
- Landfill taxes
- Traffic congestion charges
- Motor vehicle licence fees
- Review of taxation of transport fuels based on environmental impact and energy content



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# *Questions?*

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