What carbon tax means to energy-intensive businesses

President Cyril Ramaphosa has signed the Carbon Tax Act into law and it will come into effect on 1 June 2019 to reduce the impact of climate change following the polluter-must-pay-principle, taxing greenhouse gas (GHG) emissions.

Image source: Getty/Gallo

The policy behind the introduction of carbon taxes is to ensure an environmentally sustainable economic growth path for South Africa and adherence to the Paris Agreement to reduce GHG emissions. The initial carbon tax rate is set at R120 per ton of CO2e, discounted to R48 per ton of CO2e given various taxfree allowances. “Businesses and consumers will feel the impact in their pocket, having to account for R1.8bn in carbon tax as estimated by National Treasury in the 2019 Budget Review. But how?” says Madelein Grobler, South African Institute of Chartered Accountants (Saica) project director: tax.

Big corporates

“Eskom comes first to mind being impacted by carbon tax, having the largest carbon dioxide footprint of 205.5-million tonnes per its 2018 *Integrated Report,/i>. National Treasury, however, has rolled out substantial relief in Phase 1 (until December 2022) for the electricity giant, due to the tax credit for the renewable energy premium built into the electricity tariffs and a credit for the existing electricity generation levy.*

Currently Eskom is paying 3.5 cents per kilowatt-hour, as an environmental levy on electricity generated from coal, nuclear and petroleum sources (i.e. non-renewable energy) that would serve as a “carbon tax credit”. South Africans can therefore breathe a sigh of relief for now in that the electricity price will probably not increase. However, the inevitable is only postponed, as consumers will fit the carbon tax bill in future, similar to the current environmental levy being recovered through sales.

Other energy intensive sectors such as mining, iron and steel will also benefit initially from Phase 1 as no additional production costs will arise with the electricity price staying the same. The other industry coming to mind is the petroleum and fossil industry. In this regard, Sasol’s preliminary estimates show that the impact of the tax can range between about R7m and R2bn pre-tax from the 2019 financial year.