

## FREQUENTLY ASKED QUESTIONS – CARBON TAX

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Questions	Answers	Reference
1. What is Carbon Tax?	Carbon tax is an environmental tax on the carbon dioxide (CO <sub>2</sub> ) equivalent of greenhouse gas emissions imposed in terms of the Carbon Tax Act No 15 of 2019 and Customs and Excise Act No 91 of 1964.	<a href="#">Carbon Tax Act No 15 of 2019</a> <a href="#">Taxation Laws Amendment Act No 34 of 2019</a>
2. What is the purpose of carbon tax?	Carbon tax is one of the Government's policy instruments to combat global warming by stimulating a low carbon economy.	
3. Which legislation governs carbon tax?	Carbon Tax Act No 15 of 2019 Taxation Laws Amendment Act No 34 of 2019 Customs and Excise Amendment Act No 13 of 2019	
4. Who is subject to carbon tax?	A carbon taxpayer is a person who undertakes a taxable activity listed in Schedule 2 of the Carbon Tax Act in respect of which – (i) it has an aggregated installed capacity equal to or above the tax threshold; or (ii) a tax threshold indicated as 'none' applies.	
5. What is an emission facility?	An emissions facility of a carbon taxpayer is the premises where such a taxable activity occurs over which it has operational control.	
6. What is the licensing obligation to the carbon taxpayer?	Every carbon taxpayer must – (i) obtain a consolidated licence for the combination of each of its emissions facilities as its customs and excise manufacturing warehouse for the generation of emissions liable to carbon tax; and (ii) designate the premises of its operational control in the Republic as the premises for such a consolidated licence.	
7. What is the licensing procedure?	Taxpayers have to submit their applications at their nearest Customs & Excise branch. Due to COVID-19 interruptions, a special process has been made available to taxpayers where they can mail their applications to <a href="mailto:Carbontax@sars.gov.za">Carbontax@sars.gov.za</a>	
8. How is a carbon tax return/account submitted?	The completed DA180, annexures and supporting documents must be submitted via the SARS eFiling platform through the "Excise Levies & Duties" option.	
9. How is the rate of carbon tax determined?	The rate of environmental levy must be determined in accordance with Section F of Part 3 of Schedule No. 1 and section 5 of the Carbon Tax Act.	
10. How is carbon tax allowance determined?	Allowances are determined in accordance with Part 6 of Schedule 6 and Part II and Part II of the Carbon Tax Act.	
11. What allowances available to taxpayers under the Carbon Tax Act?	<ol style="list-style-type: none"> <li>1. Basic Tax-free allowance</li> <li>2. Allowance for industrial emissions</li> <li>3. Allowance in respect of fugitive emissions</li> <li>4. <a href="#">Trade exposure allowance</a></li> <li>5. <a href="#">Performance allowance</a></li> <li>6. Carbon budget allowance</li> <li>7. <a href="#">Offset allowance</a></li> </ol>	Section 7 of the Act Section 8 of the Act Section 9 of the Act Section 10 of the Act Section 11 of the Act Section 12 of the Act Section 13 of the Act

Questions	Answers	Reference
<p>12. What carbon tax allowances are available to taxpayers?</p>	<ol style="list-style-type: none"> <li><b>1. Basic tax-free allowance</b> <ol style="list-style-type: none"> <li>(a) A taxpayer that conducts an activity that is listed in Schedule 2 of Carbon Tax Act in the column 'Activity/Sector' must receive an allowance in respect of those emissions, determined in terms of (b) below.</li> <li>(b) The percentage of the allowance referred to in (a) above must be calculated by matching the line in which the activity is contained in the column 'Activity/Sector' with the corresponding line in the column 'Basic tax-free allowance %' in Schedule 2 of the total percentage of greenhouse gas emissions in respect of a tax period in respect of that activity.</li> </ol> </li> <li><b>2. Allowance for industrial process emissions</b> <ol style="list-style-type: none"> <li>(a) A taxpayer that conducts an activity in respect of industrial process emissions that is listed in Schedule 2 in the column "Activity/Sector" must receive an allowance in respect of those emissions, determined in terms of (2) below.</li> <li>(b) The percentage of the allowance referred to in (a) above must be 10 percent of the total greenhouse gas emissions in respect of a tax period in respect of that activity.</li> </ol> </li> <li><b>3. Allowance in respect of fugitive emissions</b> A taxpayer that conducts an activity that is listed in Schedule 2 in the column 'Activity/Sector' must receive an allowance in respect of fugitive emissions equal to 10 per cent of the total greenhouse gas emissions in respect of the tax period in respect of that activity.</li> <li><b>4. Trade exposure allowance</b> A taxpayer that is liable for the carbon tax in respect of greenhouse gas emissions must receive an allowance up to a maximum of ten per cent in respect of trade exposure as measured by value of exports plus imports divided by the total production by sector or subsector that must be determined in a manner prescribed by the Minister in the regulations accessible at the link: <a href="#">Trade Exposure Allowance</a></li> </ol>	
<p>13. In calculating the emission equivalent for each activity, how is volume converted to mass?</p>	<p>For the conversion of volume to mass, use the appropriate density conversion factor provided in DEFF's Technical Guidelines for Monitoring, Reporting and Verification of Greenhouse Gas Emissions by Industry available at <a href="https://www.environment.gov.za/legislation/guidelines">https://www.environment.gov.za/legislation/guidelines</a></p>	
<p>14. What supporting documents are required for carbon tax deductions?</p>	<ol style="list-style-type: none"> <li>1. Sequestered emissions – Supporting documents: Standard confirmation letter from the Department of Environment, Forestry and Fisheries.</li> <li>2. Renewable energy premium - Supporting documents: Proof by taxpayer of deduction determination in terms of section 6(2)(c) and Renewable Energy Premium Regulations.</li> <li>3. Total environmental levy on electricity (DA176) - Supporting documents: DA176 accounts for the accounting period.</li> </ol>	<p><a href="#">Link to regulations</a></p>

Questions	Answers	Reference
<p>15. What supporting documents are required for allowances?</p>	<ol style="list-style-type: none"> <li>1. Basic tax-free allowance - Supporting documents: None.</li> <li>2. Allowance for industrial process emissions - Supporting documents: None.</li> <li>3. Allowance in respect of fugitive emissions - Supporting documents: None.</li> <li>4. Trade exposure allowance - Supporting documents: Proof by taxpayer of allowance determination in terms of relevant methodology prescribed in Trade Exposure Allowance Regulations.</li> <li>5. Performance Allowance - Supporting documents: None.</li> <li>6. Carbon budget allowance - Supporting documents: Standard confirmation letter from the Department of Environment, Forestry and Fisheries</li> <li>7. Offset allowance - Supporting documents: Carbon offset retirement certificate from the Department of Mineral resources and Energy</li> </ol>	<p><a href="#">Link to regulations</a></p> <p><a href="#">Link to regulations</a></p> <p><a href="#">Link to regulations</a></p>
<p>16. Do taxpayers have to apply for these allowances?</p>	<p>Sections 7 to 13, read with Schedule 2, of the Carbon Tax Act, 2019, provide for a range of allowances to reduce the taxable greenhouse gas emissions of a taxpayer. Taxpayers must receive the basic tax-free allowance, industrial process emissions allowance, fugitive emissions allowance, trade exposure allowance, performance allowance and carbon budget allowance where relevant. Taxpayers may choose to utilise the offset allowance where relevant. Taxpayers who are licensed for carbon tax would claim their relevant allowances when they submit their completed annual DA 180 carbon tax account, including the DA 180.02 allowances annexure to the account. As part of the processing of these accounts, SARS may subsequently request supporting documents from taxpayers for those allowances that require verification. Alternatively, taxpayers may upload such supporting documents at the time of submission of their accounts. The Carbon Tax Act, 2019, provides details for these allowances in the aforementioned sections and can be accessed at the link in the next column. The source documents, and supporting documents where applicable, for each allowance are specified in the SARS carbon tax external guide on the SARS carbon tax webpage.</p>	<p><a href="#">Carbon Tax Act</a></p> <p><a href="#">Carbon tax webpage</a></p>

Questions	Answers	Reference
<p>17. Are entities in the road transportation business subject to carbon tax?</p>	<p>The carbon tax is imposed in terms of the Carbon Tax Act, 2019, (the CTA) and administered as an environmental levy in terms of the Customs and Excise Act, 1964 (the Act).</p> <p>In terms of section 3 of the CTA, a person is subject to the carbon tax “if that person conducts an activity in the Republic resulting in greenhouse gas emissions equal to or above the threshold determined by matching the activity listed in the column ‘Activity/Sector’ in Schedule 2 with the number in the corresponding line of the column ‘Threshold’ of that table”.</p> <p>Rule 54FD.01(b) of the Act defines –  “tax threshold” as the value determined by matching the activity listed in the column ‘Activity/Sector’ with the corresponding entry in the column ‘Threshold’ in Schedule 2 of the CTA; and  “taxable activity” as an activity listed in Schedule 2 of the CTA in respect of which a –  (i) taxpayer has an aggregated installed capacity equal to or above the tax threshold; or  (ii) tax threshold indicated as ‘none’ applies.</p> <p>The licensing obligations of rule 54FD.02 of the Act apply only to those persons who are subject to the carbon tax. Rule 54FD.02(b) excludes from the licensing obligations any person who exclusively conducts an activity listed in Schedule 2 of the CTA in respect of which a basic tax-free allowance of 100% or a tax threshold of “not applicable” applies.</p> <p>IPCC Code 1A.3b Road Transportation is such an activity listed in Schedule 2 of the CTA with a tax threshold of “not applicable”. A person who exclusively conducts the IPCC Code 1A.3b Road Transportation activity would therefore not be required to apply for a carbon tax licence and would not be subject to the carbon tax.</p> <p>However, if a person in addition to the IPCC Code 1A.3b Road Transportation activity also conducts any other activity that is a taxable activity as defined in rule 54FD.01(b) of the Act, that person should obtain a carbon tax licence and would be subject to the carbon tax in respect of that taxable activity.</p>	
<p>18. Will foreign ships will be charged carbon tax if they dock at South African ports as the fuel they use produces greenhouse gas emissions?</p>	<p>The carbon tax design hinges on the greenhouse gas emissions reporting to The Department of Environment, Forestry and Fisheries (DEFF) under its National Atmospheric Emissions Inventory System (NAEIS). In general, therefore, the carbon tax applies to those persons (legal entities) that are required to report their greenhouse gas emissions to DEFF and Fisheries under NAEIS. As foreign ships fall outside the scope of this DEFF emissions reporting obligation, they by implication also fall outside the scope of the carbon tax.</p>	

Questions	Answers	Reference
<p>19. Is a person who conducts international aviation in the Republic subject to carbon tax?</p>	<p>In terms of the Carbon Tax Act, 2019, and the Customs and Excise Act, 1964, a person who conducts international aviation in the Republic is therefore not subject to the carbon tax in respect of such activity.</p> <p>The 2006 IPCC Guidelines for National Greenhouse Gas Inventories, as reflected in the National Greenhouse Gas Emission Reporting Regulations (NGER) under the National Environmental Management: Air Quality Act, 2004, of the Department of Environment, Forestry and Fisheries (DEFF), define international and domestic aviation based on departure and arrival locations and not by the nationality of the airline. International aviation is defined as flights that depart in one country with arrival in a different country. By contrast, domestic aviation is defined as flights that depart and arrive in the same country.</p> <p>In accordance with the Convention on International Civil Aviation (Chicago Convention), all civil aircraft must be registered with a national aviation authority. Aircraft are usually registered in the jurisdiction in which the carrier is resident or based, but leasing and financing conditions may require aircraft to be registered offshore in major financial centres. As mentioned, the IPCC Guidelines and NGER of DEFF do not define international and domestic aviation based on the nationality of the airline. The foreign registration of aircraft is therefore also not used to distinguish international and domestic aviation.</p> <p>In terms of the Air Services Licensing Act, 1990, a domestic air service licence would only be granted to an applicant where, inter alia, at least 75% of the voting rights are held by residents of the Republic, the applicant will be actively and effectively in control of the air service, and the aircraft is a South African registered aircraft. The legislative requirements for the operation of domestic air services in the Republic therefore in any event exclude entities that are majority owned or controlled by foreign airlines and the foreign registration of aircraft used in domestic aviation.</p> <p>In conclusion, the deciding factor for the carbon tax treatment of aviation is whether the activity is classified in terms of the IPCC Guidelines and NGER of DEFF as domestic or international aviation. While international aviation is not a taxable activity, Domestic Aviation of IPCC code 1A3a is subject to carbon tax. The nationality of the airline and registration of the aircraft do not play a role, as domestic law requires a person conducting domestic aviation to have a majority legal presence in the Republic and that aircraft used in domestic aviation be registered in the Republic.</p>	

Questions	Answers	Reference
<p>20. What is meant by allowance of 10% for Fugitive emissions?</p>	<p>Section 9, read with Schedule 2, of the Carbon Tax Act, 2019, provides for the fugitive emissions allowance as follows: “A taxpayer that conducts an activity that is listed in Schedule 2 in the column ‘Activity/Sector’ must receive an allowance in respect of fugitive emissions equal to 10 per cent of the total greenhouse gas emissions in respect of the tax period in respect of that activity.” This means that a taxpayer who conducts an activity listed in Schedule 2 that gave rise to fugitive emissions during a tax period, must reduce his total taxable greenhouse gas emissions for that tax period for that activity by 10 per cent. A taxpayer must receive this fugitive emissions allowance for a tax period where relevant, i.e. where the taxpayer caused fugitive emissions by conducting such an activity during that tax period. The Carbon Tax Act, 2019, provides details for this and other allowances and can be accessed at the link provided.</p>	<p><a href="#">Carbon Tax Act</a></p>
<p>21. With regard to a maximum tax-free allowance of 5 percent for above-average performance: we have a strategy to reduce our GHGs. Does this qualify as above-average performance?</p>	<p>Section 11 of the Carbon Tax Act, 2019, provides for the performance allowance as follows: “A taxpayer that has implemented measures to reduce the greenhouse gas emissions of that taxpayer in respect of a tax period must receive an allowance in respect of that tax period not exceeding five per cent of the total greenhouse gas emissions of that taxpayer during that tax period, determined in accordance with the formula: <math>Z = (A / B - C) \times D</math> in which formula -</p> <ul style="list-style-type: none"> <li>(a) “Z” represents the percentage to be determined that must not be less than zero;</li> <li>(b) “A” represents - <ul style="list-style-type: none"> <li>(i) the sector or sub-sector greenhouse gas emissions intensity benchmark as prescribed by the Minister; or</li> <li>(ii) where no value is prescribed as required in (i) above, the number zero;</li> </ul> </li> <li>(c) “B” represents the measured and verified greenhouse gas emissions intensity of a taxpayer in respect of a tax period;</li> <li>(d) “C” represents the number one; and</li> <li>(e) “D” represents the number 100.”</li> </ul> <p>A taxpayer should therefore determine the extent to which it qualifies for the performance allowance during a tax period by calculating the prescribed formula. Note that the “sub-sector greenhouse gas emissions intensity benchmark as prescribed by the Minister” represented by “A” must be sourced from the Greenhouse Gas Emissions Intensity Regulations of the National Treasury. Also, note that the “measured and verified greenhouse gas emissions intensity of a taxpayer in respect of a tax period” represented by “B” is the emissions data of that taxpayer for that tax period as measured and verified by the Department of Environment, Forestry and Fisheries in terms of the National Greenhouse Gas Emission Reporting Regulations under the National Environmental Management: Air Quality Act, 2004. The Carbon Tax Act, 2019, provides details for this and other allowances and can be accessed at the provided link. The source documents, and supporting documents where applicable, for each allowance are specified in the SARS carbon tax external guide on the SARS website. The Greenhouse Gas Emissions Intensity Regulations of the National Treasury can also be accessed at the provided link. The National Greenhouse Gas Emission Reporting Regulations of the Department of Environment, Forestry and Fisheries can be accessed at the link **.</p>	<p><a href="#">Carbon Tax Act</a></p> <p><a href="#">Carbon tax webpage</a></p> <p><a href="#">Greenhouse Gas Emissions Intensity Benchmark Regulations of Carbon Tax Act</a></p> <p><a href="#">The National Greenhouse Gas Emission Reporting Regulations of the Department of Environment, Forestry and Fisheries</a></p>

Questions	Answers	Reference
<p>22. The product is exported. Given that a reduction strategy is in place, do we qualify for the trade exposure allowance?</p>	<p>Section 10 of the Carbon Tax Act, 2019, provides for the trade exposure allowance as follows: "A taxpayer that is liable for the carbon tax in respect of greenhouse gas emissions must receive an allowance up to a maximum of ten per cent in respect of trade exposure as measured by value of exports plus imports divided by the total production by sector or subsector that must be determined in a manner prescribed by the Minister by regulation." A taxpayer should therefore determine the extent to which it qualifies for the trade exposure allowance during a tax period by applying the Trade Exposure Allowance Regulations of the National Treasury. The Carbon Tax Act, 2019, provides details for this and other allowances and can be accessed at the provided.</p>	<p><a href="#">Carbon Tax Act</a></p> <p><a href="#">Carbon tax webpage</a></p> <p><a href="#">Trade Exposure Allowance Regulations</a></p>
<p>23. Is carbon tax deductible for income tax purposes?</p>	<p>The definition of "duty" in section 1(1) of the Act is any duty leviable under the Act and includes, subject to Chapter VA, any environmental levy leviable under that Chapter.</p> <p>Section 54A under Chapter VA of the Act provides for the carbon tax as an environmental levy:</p> <p>Imposition of environmental levy.— A levy known as the environmental levy shall be— leviable on such imported goods and goods manufactured in the Republic as may be specified in any item of Part 3 of Schedule No.1; and collected and paid in respect of carbon tax imposed in terms of the Carbon Tax Act, 2019.</p> <p>Carbon tax payments by a company, being environmental levy payments and therefore duties paid by that company under the Act, are therefore deductible for income tax purposes.</p>	
<p>24. What is meant by "Installed capacity"?</p>	<p>The design of the carbon tax is underpinned by the National Greenhouse Gas Emission Reporting Regulations of the Department of Environment, Forestry and Fisheries, much of the carbon tax terminology is derived from those Regulations.</p> <p>"Installed capacity" is an example of such a term that is derived from the definitions and application of the underlying terminology in those Regulations as follows:</p> <p>In the Regulations, "installation" means a device, operation or process that provides a particular service or is used for a particular industry. An installation generally performs one or more of the activities for which GHG emissions must be reported to DEFF and is housed within a facility where such activities are being undertaken.</p> <p>In the Regulations and for carbon tax purposes, "total installed capacity" of a taxpayer is therefore derived to mean the total capacity of the installation of a taxpayer.</p>	



Questions	Answers	Reference
<p>25. What is the relationship between carbon tax and carbon fuel levy?</p>	<p>Section 4 of the Carbon Tax Act, 2019, (the Act) prescribes the tax base of the carbon tax. It stipulates those greenhouse gas emissions of which the carbon dioxide equivalent is subject to the carbon tax and specifically includes “greenhouse gas emissions resulting from fuel combustion”:</p> <p>Section 4(1) of the Act relates to greenhouse gas emissions determined in accordance with a Tier 3 method as defined in the National Greenhouse Gas Emission Reporting Regulations of and approved by the Department of Environment, Forestry and Fisheries (DEFF). Taxpayers should declare such emissions for carbon tax purposes in the relevant fields under B.1 on the DA 180 front page of the carbon tax account. The “Fuel combustion emissions” field should reflect greenhouse gas emissions resulting from fuel combustion, including the combustion of petrol and diesel, that were so reported to DEFF.</p> <p>Section 4(2) of the Act relates to greenhouse gas emissions determined in accordance with a Tier 1 or Tier 2 method as defined in the National Greenhouse Gas Emission Reporting Regulations of DEFF. Taxpayers should calculate such emissions for carbon tax purposes by completing the appropriate annexures to the DA 180 carbon tax account and carrying over the calculated emissions to the relevant fields under B.2 on the DA 180 front page of the carbon tax account. The “Fuel Combustion (Stationary)” and “Fuel Combustion (Non-Stationary)” fields should reflect the greenhouse gas emissions resulting from fuel combustion, including the combustion of petrol and diesel, calculated on annexures DA 180.01A.1 and DA 180.01A.2 respectively, using the formulas prescribed in section 4(2)(a) read with Table 1 of Schedule1 of the Act.</p> <p>Section 6 of the Act prescribes the manner in which the amount of carbon tax payable should be calculated. The total fuel combustion related greenhouse gas emissions of the taxpayer in respect of that tax period, which is represented by E in the calculation, should be expressed as determined in terms of section 4(1) or section 4(2)(a) of the Act. The number E should therefore include the fuel combustion related emissions from petrol and diesel that was so determined and declared as explained above. The fuel combustion related emissions from petrol and diesel are removed from the tax calculation thereafter as follows:</p> <ul style="list-style-type: none"> <li>(a) The petrol and diesel related emissions, which is represented by D, is first reduced by the sum of the relevant allowances represented by M, and the balance is then deducted from E in the calculation</li> <li>(b) The relevant allowances should be calculated on annexure DA 180.02 and the values for these variables declared and the tax calculation performed under B.3 on the DA 180 front page of the carbon tax account.</li> </ul> <p>In terms of the Carbon Tax Act, 2019, clients should therefore determine and declare their fuel combustion related greenhouse gas emissions arising from petrol and diesel and subsequently remove such emissions from the carbon tax calculation as specified in the legislation. The reason these fuel combustion emissions from petrol and diesel are ultimately removed from the carbon tax calculation is to prevent double taxation, as such emissions would already have been taxed under the carbon fuel levy as part of the fuel levy regime in terms of the Customs and Excise Act, 1964.</p>	

