Updated October 2023

South Africa Carbon Tax

Years in operation	Phase 1: 1 June 2019 - 31 December 2025 Phase 2: 2026
Overall cap and trajectory	N/A
Target(s)	South Africa's NDC aims to "peak, plateau and decline" its GHG emissions, so that its 2020-35 emissions will be in a range from 398 million to 614 million tCO2e, then decline in absolute terms from 2036 onwards. South Africa revised its NDC in 2021 to a target range of 350-420 MtCO2e by 2030.
Emissions reduced to date	The government is yet to release formal figures.
Sectors covered	The carbon tax has a broad coverage based on the IPCC sources and categories (2006) and applies to sources including: • Fossil fuel combustion and electricity generation, • Fugitive emissions such as methane emissions from mining, • Industrial processes: cement, iron, steel, glass, ceramics. All activities that emit above a specified threshold will be liable. In general, the installed capacity threshold below which tax liability does not apply is thermal capacity of 10 MW. The waste and AFOLU sectors were exempt from paying the tax or performing MRV until 2022.
GHGs covered	• CO_2 • Methane • N_2O • PFCs • GFCs • SF_6
Number of covered entities	The government is yet to release formal figures.
Allocation method	N/A
Trading rules	N/A

Use of offsets and linking	The carbon tax framework allows for the use of carbon offsets, which means that companies can invest in projects that reduce emissions elsewhere in exchange for carbon tax credits. Only carbon offsets originating outside the tax net are eligible to ensure that no double-counting of tax benefits occurs. Companies that are liable to pay the carbon tax may offset 5% or 10% of their taxable emissions using carbon credits issued by the Clean Development Mechanism, the Verified Carbon Standard and the Gold Standard. Certain eligibility requirements apply, and only offsets originating in South Africa and from projects that don't receive benefits from other government incentives (such as the Renewable Energy Independent Power Producer Procurement Programme or the energy efficiency tax incentive) are eligible.
Other features	The tax rate is applied per tonne of carbon dioxide equivalent (CO2e) emissions. When the carbon tax was first introduced, it was set at ZAR120/tCO_2e, and it was phased in gradually to give businesses time to adjust. The tax rate was expected to increase over time. In 2023, the levy increased from R144 to R159/t.
Penalties for non-compliance	The Carbon Tax is considered an environmental levy, not a tax, as contemplated in Section 54A of the Customs and Excise Act 91 of 1964. Thus, the administrative actions, as well as the collection and payment of the levy, are also regulated by the Customs and Excise Act. Penalties for non-compliance with the carbon tax would impose a criminal penalty upon conviction and/or an administrative penalty in terms of the Customs and Excise Act
Use of revenues	The carbon tax is revenue-neutral during the first phase. Revenue recycling measures complement the carbon tax regime to: • Address concerns about the impacts of the carbon tax on the competitiveness of firms operating in international markets (eg, via tax reductions, tax incentives) • Help address any potential negative impacts on the welfare of poorer households (in particular for energy and transport). According to Deloitte, an estimated R1.6 billion in carbon tax revenue was collected in the 2022 payment period. The carbon tax was designed so that these revenues collected would be recycled back into green initiatives.

Major Developments

In September 2020, South Africa submitted a Low Emissions Development Strategy to the UNFCCC in accordance with Article 4 of the Paris Agreement. This set out an ambition to "commit to ultimately moving towards a goal of net zero carbon emissions by 2050". Domestic legislation to help deliver this long-term ambition was published on 11 October 2021 – the National Climate Change Bill. This Bill transitions South Africa's carbon budget system from being voluntary to mandatory, and will be aligned with the carbon price. Section 24 (3) imposes a higher tax rate as a penalty for emissions exceeding the carbon budget. Further, there is no provision to permit unused budget to be carried forward to the following tax year.

To support in advising on South Africa's climate change response, President Cyril Ramaphosa also established a Presidential Climate Change Coordinating Commission at the end of 2020.

The Glasgow COP in 2021 saw South Africa secure a concessional finance commitment of $8.5 billion to support a just transition to a low-carbon economy. The funding was secured through a partnership with the US, UK, France, Germany and the EU, and will enable South Africa to access these funds in the next two to three years to support NDC targets.

A further development was the launch of a consultation in January 2022 on a 'Draft Framework for Approval of Domestic Standards', which is seen to support job creation, develop local capacity and importantly cater for small-scale and micro community projects and unlock potential in the AFOLU sector.

Market Commentary

The South African carbon tax came into force on 1 June 2019 and the first phase was due to end in 2022. However, in February 2022, Finance Minister Enoch Godongwana announced in the Budget Speech that the carbon tax rate will be increased by R10 to R144, and that Phase 1 is extended to December 2025. In the 2023 budget, the government increased the carbon price to R159. It is expected to continue to increase during Phase 1 and in the second phase, from 2026, the carbon tax rate will have a larger annual increase to reach R462/t by 2030.

Tax year	Rate (R/tCO2e)	Increase
2019	120	0%
2020	127	6%
2021	134	6%
2022	144	7%
2023	159	10%
2024	190	19%
2025	236	24%
2026	308	31%
2027	347	13%
2028	385	11%
2029	424	10%
2030	462	9%

Emitters are eligible for a range of relief measures, which include:

- a basic tax-free allowance of 60%;
- emitters with process or fugitive emissions are eligible for a further 10%;
- a variable tax-free allowance for trade-exposed sectors (up to a maximum of 10%);
- emitters with above average performance relating to sectoral benchmarks will be eligible for additional allowance up to a maximum of 5%; and,
- a further 5% can be applied by companies that have developed an annual carbon budget and report it to the government.
- 5-10% allowance for carbon offsets to reduce the carbon liability tax

Useful Links

World Bank State and Trends of Carbon Pricing 2019
Media statement on gazetting of offsets regulations
IEA/IRENA Renewables Policies Database

References

South Africa's Low-Emission Development Strategy 2050
Carbon Tax Act, 2019
Gazetted Carbon Offset Regulations

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