**CHALLENGES WITH THE PRACTICAL IMPLEMENTATION OF THE CARBON TAX**

Members have raised a number of concerns with respect to the practical implementation of the carbon tax. These issues and potential solutions are presented below. It should be noted that the proposed solutions require extensive engagement with a number of parties.

**Tax deductibility**

It is understood that the carbon tax is eligible as a deduction in terms of section 11 (a) read with 23(g) of the Income Tax Act, Section 11(a) provides for a taxpayer to claim a deduction of expenditure incurred in the production of income. The challenge here is to ensure that there is alignment of the carbon tax payer with the income tax payer and with the registered data provider submitting the GHG emission data to DEA. In order to facilitate the verification process contemplated by National Treasury in its Explanatory memorandum and the SEIAS report the entity registered by DEA as a data provider must be the same entity as registered with SARS for the payment of the carbon tax.

In view of the various company structures that exist BUSA proposes that the relationship between these different elements of the carbon tax system must be clearly set out in legislation.

The question of how such deductions will be applied to the benefit of the taxpayer also needs to be clearly set out in legislation.

BUSA proposes that the deduction must be implemented as a rebate against the taxpayer’s levy account rather than as a refund for which specific application must be made.

*Approach to the tax for companies with an assessed loss*

BUSA proposes companies that are in an assessed loss situation must be treated in a similar manner to the provisions in the Minerals Royalty Act for such companies. (section?)

Given the above, Section 3 of the carbon Tax Bill does not provide adequate detail of the taxpayer in this regard, BUSA believes this needs significant review.

**Tax Treaties**

In terms of the tax treaties that South Africa has with other countries, deductibility is allowed in respect of “normal” tax. In order to ensure reciprocity in respect of carbon tax, it is necessary that the carbon tax is included under the definition of “normal” in the Income Tax Act. Michael Honiball to provide input.

**Implementation issues**

*SARS rules*

BUSA’s experience with SARS rules on environmental levies has not been good and feedback from the sugary beverage industry has revealed that the draft rules are not adequately aligned with the legislation. BUSA therefore proposes that provision be made in the carbon tax bill for regulations to be developed which will deal with the complex interactions that are required to efficiently implement this tax.

*Schedule 3 of Bill*

Insufficient detail has been provided to allow the implementation approach to be meaningfully evaluated.

*Methodology*

Section 6(2) (c) and (d) are inadequately detailed to provide meaningful comment. In respect of 6(2)(c) it is proposed that both the methodology and the amount of the renewable energy premium be determined by the Minister in the Gazette not only the amount.

Section 6(2) (d) Eskom to provide input.