CARBON TAX BILL 2018

Final Response to Hearings

STANDING COMMITTEE ON FINANCE & PORTFOLIO COMMITTEE ON ENVIRONMENT

4 DECEMBER 2018

Presenters: National Treasury, Department of Environmental Affairs and South African Revenue Service

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SECTION A: BACKGROUND

Background

- The **initial draft Carbon Tax bill was published for public comment in November 2015** following Cabinet approval in Oct 2015.
- **Cabinet adopted the second Draft Carbon Tax Bill and approved the submission of the draft bill to Parliament on 16 August 2017** noting the carbon tax as an integral part of the system for implementing government policy on climate change.
- **National Treasury published the second Draft Carbon Tax Bill in** December 2017 for public comment, introduction in Parliament, and convening of public hearings by Parliament in early 2018.
  - The closing date for public comments on the Bill was 9 March 2018. **Fifty nine (59) written comments** was submitted to the Treasury
- Budget 2018 announcement that implementation will be from 1 Jan 2019 - Minister of Finance announced **postponement in the implementation date** of the carbon tax to **1 June 2019** in his MTBPS speech.
- **Carbon Tax Bill tabled on 20 November 2018** and **submitted to the SCoF for finalisation.**

2018 Carbon Tax Bill and Parliamentary Meetings

- The **policies reflected in the 2018 Carbon Tax Bill is a refinement of the 2013 Carbon Tax Policy Paper, the initial 2015 Draft Carbon Tax Bill and 2017 Bill**. 2018 bill incorporates public comments received on these earlier documents.
  - **Informal briefing of the Joint Committee** – 13 February 2018
  - **Public Hearings on the Bill** – 14 March 2018
  - **National Treasury Response** to Public Comments Hearings – 7 June 2018
  - **Carbon Tax Bill Workshop** – 27 November 2018
  - **Carbon Tax Bill Meeting** – 4 December 2018
    - NEDLAC Carbon Tax Bill Task Team Report (July to November 2018)
    - Carbon Tax Bill main changes and Overview
    - NT meeting with Industry (30 November 2018)
      - Future climate policy including alignment of the carbon tax and mandatory carbon budget
      - Administration of the carbon tax

Carbon Tax Consultation Process - timeline

Environmental Fiscal Reform Policy Paper
(2006)
LTMS
(2007)

Carbon Tax Discussion Paper
(80 comments)
(Dec 2010)
NCCR- WP
(2011)

Carbon Tax Policy Paper
(115 comments)
(May 2013)

Carbon Offsets Paper
(77 comments)
(April 2014)

Draft Carbon Tax Bill
(91 comments)
& Draft Regulations on Carbon Offset (65 comments)
(2015-16)

Revised Carbon Tax Bill published
Dec 2017
(59 comments)
Submission to Parliament
2018

Climate change policy - Context for Carbon Tax

- South Africa voluntary committed (at COP 15 in 2009) to curb GHG emissions by 34% by 2020 and 42% by 2025 below the BAU trajectory subject to support from developed countries - climate finance, capacity building & technology transfers.
- South Africa **ratified** the Paris Agreement in November 2016 and **endorsed** the submission of its Nationally Determined Contribution (NDC) which requires that **emissions peak in 2020 to 2025, plateau for a ten year period from 2025 to 2035 and declines from 2036 onwards**.
- **South Africa's emissions by 2025 and 2030 will be in a range between 398 and 614 Mt CO2-eq, as defined in national policy.**
- **Paris Agreement** will require sizable reductions in energy-related greenhouse gas (GHG) emissions by large emitting countries, including in developing economies. The NDC noted **carbon tax** as an important component of our **mitigation policy** strategy to lower GHG emissions.
- Carbon tax forms an integral part of **climate change** response policy package under the National Climate Change Response Policy (NCCRP) of 2011, and in **National Development Plan (NDP)** as an important cost-effective instrument
- **The Carbon Tax Bill gives effect to the polluter-pays-principle** and helps to ensure that firms and consumers take these costs into account in their FUTURE production, consumption and investment decisions. Assists in reducing GHG emissions and ensuring SA will meet its NDC commitments as part of its ratification of the 2015 Paris Agreement.

SOUTH AFRICA'S CARBON TAX DESIGN FEATURES: Rate, Tax-free Allowances and Recycling Measures

Revenue

- **Carbon tax at R120 per ton of CO_2e**
- 60% basic tax-free threshold
- Max of 10% tax-free allowance for trade exposure
- 10% tax-free allowance for process and fugitive emissions
- **Up to 5% performance allowance**
- 5% tax-free allowance for complying with carbon budgets information requirements
- **5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability**

- Tax-free allowances of **60-95%** - effective tax rate of **R6 - R48 t/CO_2e**

- No impact on electricity prices in the first phase

Revenue Recycling

- Energy Efficiency Savings tax incentive
- Credit against Eskom's carbon tax liability for the renewable energy premium built into the electricity tariffs
- Credit for the electricity levy
- Support for the installation of solar water geysers
- Enhanced free basic electricity / energy for low income households
- Improved public passenger transport & support for shift of freight from road to rail

South Africa’s Climate Change Response Governance Framework - (DEA)

National Development Plan - 2030

Medium Term Strategic Framework (5 year cycles)

National Climate Change Response Policy

MITIGATION

- 2008 Long term mitigation scenarios
- 2014 Mitigation potential analysis

ADAPTATION

- Long term adaptation scenarios
- Provincial vulnerability assessments
- Sector and Provincial Strategies

National Mitigation System

(carbon budgeting, **carbon tax,** mandatory reporting and planning)

National Adaptation Strategy

(Roadmap for climate resilience & Facilitating integrated sectoral, Provincial and Local responses)

National Climate Change Response Act

Climate Change Response Flagships: catalyse and scale-up implementation, and address constraints

Financing

SECTION B: MAIN CHANGES TO BILL FOLLOWING SUBMISSIONS AND HEARINGS

SCoF Considered December 2017 Draft Bill

- Hearings were based on December 2017 version of the draft bill
- First Response document of 7 June 2018 dealt with number of issues
- Outstanding issues relate to:
  - Alignment of the carbon budget and carbon tax
  - Taxation of liquid fuels, domestic aviation
  - Waste related activities

1. **Energy efficiency savings tax incentive extension (Budget 2019 proposal)**
2. **Other issues**
   - **NEDLAC Jobs Mitigation and Creation Plan Report**
   - **Administration of the tax – Customs and Excise Act**
   - **Future Climate Policy - Alignment with the carbon budgets**

- NEDLAC process

Tabled Bill incorporates following changes against Dec 2017 draft bill

1. **Taxation of domestic aviation fuels**
2. **Liquid fuels**
3. **Waste related activities**
4. **Payment of the tax**

Overview of Tabled Carbon Tax Bill and main changes against Draft Bill

- Minimal changes made to the bill

- **Definitions – carbon budget, fugitive emissions, person subject to tax**
- **Section 2** – imposition of carbon tax – no change
- **Section 3** – persons subject to tax – no change
- **Section 4** – tax base: specifies the calculation of the emissions combustion + fugitive + process emissions
- **Section 5** – rate of tax: provides for imposition of tax at R120/tCO_{2e} and adjustments to the tax ie. inflation +2 per cent in first phase up to 2022 and by inflation from 2023 onwards
- **Section 6 – Calculation of the carbon tax payable**
  - sum of combustion, fugitive and process emissions
  - Less the tax free allowances for each type of emission
  - Total emissions × Rate of tax

Overview of Tabled Carbon Tax Bill and main changes against Draft Bill (2)

- **Section 6 – Calculation of the carbon tax payable**
  - 6(1) – deduction in formula for sequestered emissions and petrol and diesel related emissions.
  - **The formula was changed to reflect the tax-free allowances provided for the liquid fuels sector ie. petrol and diesel emissions.**
  - 6(2) – electricity generation levy credit and renewable energy premium
- **Section 7:** Basic tax free allowance for fossil fuel combustion of 60 per cent – read with Schedule 2 which specifies the allowances per activity
- **Section 8: P**rocess emissions allowance of 10 per cent – basic 70 per cent
- **Section 9:** Fugitive emissions allowance of 10 per cent
- **Section 10:** Trade exposure allowance – up to max of 10 per cent
- **Section 11:** Performance allowance – up to max of 5 per cent
  - **Change to refer to measures not "additional measures"**
- **Section 12:** Carbon budget allowance of 5 per cent fro taxpayers that participate in the voluntary carbon budget system of DEA
- **Section 13:** Offset Allowance: up to 5 or 10 per cent
- **Section 14: limitation** on total tax free allowance up to 95 per cent

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Overview of Tabled Carbon Tax Bill and main changes against Draft Bill (3)

- **Section 15:** Administration – administration of the tax through the Customs and Excise Act
- **Section 16** – Tax period – calendar year January to December
- **Section 17 – Payment of the tax**
  - The payment period for the tax was amended to allow for one annual carbon tax payment
- **Section 18** – Reporting – annual reporting by the Commissioner of SARS total GHG emissions of taxpayers, and the revenues collected
- **Section 19:** Regulations
  - emissions intensity benchmarks
  - trade exposure
  - offsets
- **Section 20:** Amendment of laws
- **Section 21:** Short title and commencement – 1 June 2019

Overview of Tabled Carbon Tax Bill and main changes against Draft Bill (4)

- **Schedule 1: Tables of emission factors** by fuel type for energy combustion emissions, and emission factors by type of activity for process and fugitive emissions
- **Schedule 2: list of activities, applicable thresholds and allowances**
  - **Domestic Aviation**: amendment In activity to specify domestic aviation (activity 1A3a) and adjustment in allowances from 90 to 95 per cent with basic tax-free allowance increased from 60 to 75%; trade exposure allowance from 10 to 0 %
  - **Other Transport**: The basic tax-free allowances for transportation were changed to allow for administrative ease of implementation. For activity 1A3 (b-e), the basic tax-free allowance was changed from 60 to 75%; trade exposure allowance from 10 to 0 % and performance allowance was changed from 5 to 0%.
  - **Waste activities**: basic tax-free allowances for waste incineration was changed to allow for alignment in the tax treatment of energy generation (including heat and electricity recovery from waste).
- **Schedule 3**: Amendment of the Customs and Excise Act

SECTION C: KEY POLICY ENGAGEMENTS – NEDLAC AND ALIIGNMENT

NEDLAC Carbon Tax Bill Task Team - Jobs Mitigation and Creation Plan

- At the request of the SCoF and the PCoE, government, business and labour established a Carbon Tax Bill task team in NEDLAC to develop a Jobs Mitigation and Creation Plan.
- **To date, the task team held 7 meetings**. Initial presentations were made by all constituencies aimed at identifying sectors with potential job losses and job creation opportunities.
- **Progress:**
  - An initial progress report on the work of the task team was submitted to the SCOF on 14 August 2018.
  - **Proposals for the Jobs Mitigation and Creation plans were presented** by the government, business and labour constituencies to the task team on 16 October 2018.
- **Government proposals a collaborative effort of departments of Environmental Affairs, Energy; Transport, Labour, Science and Technology.** Initiatives targeted to the **energy, building, waste, water, biodiversity and transport sectors** as well as **cross cutting proposals** for **jobs reskilling and opportunities to tap into research, development and technology innovation; research partnerships and support.**

NEDLAC Carbon Tax Bill Task Team - Jobs Mitigation and Creation Plan (2)

- **Various presentations were made by sectors / companies to express their preliminary views on the impacts of the carbon tax**. Government raised the following concerns:
  - Difficult to determine whether the job impacts presented were actually due to the carbon tax or other factors
  - The analysis undertaken did not take into account mitigation opportunities within the sectors and how these measures could help to create jobs.
- **Business requested additional time from the Task Team to complete a study** to assess the impacts of the carbon tax on jobs to inform its proposals for the plan.
- The **research study was noted by the task team with the following concerns raised by Government**.
  - The modelling approach used to assess the impacts of the carbon tax on jobs was conceptually flawed from an economics perspective and not appropriate for measuring the impacts.
  - The model used was a static, linear model. The model was not dynamic and did not take into account price changes and assumed no technology substitution possibilities including the implementation of mitigation measures.
  - The model was therefore likely to over-estimate the impact on jobs.

NEDLAC Carbon Tax Bill Task Team - Jobs Mitigation and Creation Plan (3)

- **Significant convergence across proposals submitted by all constituencies**
- **Constituencies agreed that the report would include the combined ideas / proposals for a jobs plan** and the process of developing the plan would take place as part of the implementation of the Presidential Jobs Summit Agreement which already includes agreement on the need for a Just Transition.
- **Draft report has been completed by the Secretariat** and is expected to be finalised by constituencies by the end of Nov and submitted to the SCoF before the end of the year.

Further engagement – 30 November 2018 Meeting – Discussion with Industry

- Business raised concerns on the nature of the alignment, in particular the application of the higher tax rate and prior consultation on the proposed alignment
  - **NT clarified that this was a proposal for possible alignment which will form part of the consultation for the second phase (2022)**
    - **This process for the future does not (technically and legally) affect the carbon tax bill and the tax over the next 3-4 years**
  - Key principles guiding the proposed alignment was discussed including the polluter pays and the rationale for the higher rate
- Noted that the **Climate Change Bill** is currently under discussion in NEDLAC. The bill provides for the establishment of carbon budgets however, **draft bill does not specify the methodology for allocating budgets to companies.**
  - To ensure transparency in the process to determine carbon budgets and provide policy certainty to entities, the National Treasury recommends to the DEA that the climate change bill should specify the methodology and formula to be used to determine the level of the budget for an entity.
- The **appropriateness of applying both the carbon tax and carbon budget to emissions will also be assessed**. This will take into account the stringency of the budget relative to emissions reported by an entity will help determine if any adjustments to the allowances under the carbon tax will be required.

Further engagement – 30 November 2018 Meeting – Discussion with Industry (2)

- **Practical design and operational considerations for the carbon budget and tax alignment**
  - Punitive rate of R600/tCO_2e was an example of possible rate and is subject to consultation.
  - Time period for budget is 5 years and tax is annual. Annualisation of the budgets
  - Coverage of the budget versus coverage of the tax – direct emissions.
  - Scope 2 emissions – not covered under the carbon tax. Agreed with DEA on scope 2 emissions will be excluded from the carbon budget and addressed separately.
  - Thresholds for carbon budgets and carbon tax. Need to ensure alignment
- **National Treasury will continue to engage the DEA and affected stakeholders on the future climate policy including the alignment** – carbon tax is a key part of the climate policy package.

Discussion with Industry - Administration of the carbon tax through Customs and Excise Act

- The **Customs and Excise Act** is the most appropriate mechanism for administering the carbon tax
  - **Publication of rules for the implementation of the tax by SARS by March 2019.**
  - SARS to engage industry to help inform the drafting of the rules.
- The **modification of the NAEIS system to enable reporting of ghg emissions** has commenced under the PMR.
  - SARS, DEA and NT are working closely to ensure that the systems are aligned with regular meetings and workshops being held.
  - **Industry will be consulted during the 2nd quarter of 2019 on the design of the system, practicality and possible pilot reporting phase.**

Review of carbon tax

- National Treasury will undertake a review of the carbon tax after three years of implementation. This will take into account and include the following:
  - Assessment of the impact of the tax in helping with mitigation of emissions and its contribution to our NDC commitments under the Paris Agreement
  - Appropriateness of the rate of the carbon tax and the tax free thresholds. This will include further modelling analysis
  - Alignment with other mitigation instruments including the carbon budget
  - Inclusion of the AFOLU and waste sectors within the tax net
  - Review the interaction between the carbon tax, electricity levy and the renewable energy premium
  - Review the combined impact of the carbon tax on fuels and the motor vehicles emissions tax

Further policy issues associated with carbon tax

- **Regulation on the Carbon Offsets**:
  - The draft Carbon Offset Regulation which sets out the procedure for claiming the offset allowance was developed jointly by the National Treasury, Department of Energy and the Department of Environmental Affairs and published for public comments in June 2016.
  - A revised regulation taking into account stakeholder comments was published for public consultation on 12 November 2018.
- **Performance Regulations**:
  - Sectors including cement, liquid fuel refining, gold and platinum, ilmenite, clay brick manufacturing, ferro chrome, pulp and paper, iron and steel, coal-to-liquids, sugar milling, silico-manganese and nitric acid producers have developed and submitted benchmark proposals.
  - The National Treasury has initiated a review process through the World Bank Partnership for Market Readiness initiative to ensure that the proposed benchmarks methodologies and benchmark values are robust. Following the evaluation, the benchmark values will be published by way of Regulation.
- **Trade exposure Regulations**:
  - The trade exposure allowance regulations will be published shortly for public comment and finalisation.

CARBON TAX BILL – DETAILED CLAUSE BY CLAUSE

Summary of the Carbon Tax Bill

PART 1

- Clause 1
  - Definitions: Assist with interpretation of the Bill by explaining certain terminology used in the Bill.

- Clause 2
  - Imposes the Carbon Tax to be paid for to the National Revenue Fund.

- Clause 3
  - Specifies the persons that are subject to Carbon Tax ,namely those persons/ entities conducting activities in South Africa resulting in emission of greenhouse gas emissions above a specified threshold.

- Clause 4
  - Specifies the tax base upon which Carbon Tax is levied
  - Subclause (1)
    - Tax base is calculated from the sum of the greenhouse gas emissions of a taxpayer in respect of a tax period expressed as the carbon dioxide equivalent of those greenhouse gas emissions.
  - Subclause (2)
    - Prescribes a reporting methodology to be followed in determining emission factors for tax base calculation. Methodology prescribed by the Department of Environmental affairs or in the absence thereof the methodology prescribed in the Bill.

Summary of the Carbon Tax Bill continued

- <u>Clause 5</u>
- ➢ Prescribes the rate of Carbon Tax
- ❑ Subclause (1)
  - ➢ Specifies the rate of Carbon Tax at coming into operation of the Carbon Tax Act : 1 June 2019.
- ❑ Subclause (2)
  - ➢ Makes provision for increase in Carbon Tax rate up to CPI + 2 % till 31 December 2022
- ❑ Subclause (3)
  - ➢ Makes provides for increase of Carbon Tax rate after 31 December 2022 = equal to CPI.

Summary of the Carbon Tax Bill continued

- <u>Clause 6</u>

➢ **Prescribes the calculation of the amount of carbon tax payable.**

❑ **Subclause (1)**

- ➢ **Prescribes the use of a formula**
- ➢ **In essence the formula amounts to:**
  - ➢ **Sum of—**
    - **Fugitive greenhouse gas emissions;**
    - **Industrial process related greenhouse gas emissions;**
    - **Total fuel combustion related greenhouse gas emissions;**
  - ➢ **Minus petrol and diesel related greenhouse gas emissions;**
  - ➢ ***Factoring into each addition of an emission a deduction for the allowances.***

❑ **Subclause (2)**

- ➢ **Prescribes the formula for generation of electricity from fossil fuels.**
- ➢ **Determine the amount under subsection (1), then deduct from that the renewable energy premium and the environmental levy on electricity.**

❑ **Subclause (3)**

- ➢ **Explains the meaning of sequestrate namely capturing and storing of GHGs.**

Summary of the Carbon Tax Bill continued

PART II: Allowances

- **Clause 7**
- ➢ **Allowance for fossil fuel combustion.**
  - ❑ **Subclause (1)**
    - ➢ **Provides for allowance to reduce tax burden in relation to burning of fossil fuels.**
  - ❑ **Subclause (2)**
    - ➢ **Determination of by using Schedule 2.**

- **Clause 8**
- ➢ **Allowance for industrial process emissions.**
  - ❑ **Subclause (1)**
    - ➢ **Provides for allowance to reduce tax burden for process emmissions.**
  - ❑ **Subclause (2)**
    - ➢ **Determine by using Schedule 2.**

- **Clause 9**
- ➢ **Allowance in respect of fugitive emissions.**
  - ❑ **Subclause (1)**
    - ➢ **Provides for allowance to reduce tax burden relating to fugitive emissions.**
  - ❑ **Subclause (2)**
    - ➢ **Determine by using Schedule 2.**

Summary of the Carbon Tax Bill continued

- **<u>Clause 10</u>**
  - Trade exposure allowance.
    - Maximum of ten per cent.
    - Value of exports + imports / total production of sector or subsector.
    - Minister to make regulations for determining.

- **<u>Clause 11</u>**
- Performance allowance.
  - Aimed at tax payers who voluntarily reduce greenhouse gas emissions.
  - Prescribed emissions intensity benchmark prescribed by Minister / the emissions intensity of the taxpayer – one x 100.

- **<u>Clause 12</u>**
  - Makes provision for a Carbon Budget allowance of 5% of total of GHG emissions in tax period.

- **<u>Clause 13</u>**
- Creates an offset allowance.
  - Subclause (1)
    - Reduces carbon tax burden.
    - Manner is prescribed by Minister in Regulation.
  - Subclause (2)
    - Caps the allowance: cap is determined by using Schedule 2.

Summary of the Carbon Tax Bill continued

- <u>**PART III: Limitation of Allowances**</u>
- <u>**Clause 14:**</u>
- **Makes provision for limitation of sum of allowances**
  - **Limits allowances.**
  - **Limit is determined by using schedule 2.**

- <u>**Part IV: Administration**</u>
- <u>**Clause 15**</u>
  - **Administration, tax period and payment of tax**
  - **Subclause (1)**
    - **The Commissioner for SARS administers Act as if carbon tax were an environmental levy.**
    - **In terms of Customs and Excise Act.**
  - **Subclause (2)**
    - **Makes all aspects of administration subject to Customs and Excise Act.**

- <u>**Clause 16**</u>
- **Tax Period.**
  - **Subclause (1)**
    - **Makes clear that time tax must be paid is for a tax period.**
  - **Subclause (2)**
    - **1 January-31 December stipulated as tax period.**

Summary of the Carbon Tax Bill continued

- Clause 17
- ➢ Payment of tax.
  - ➢ Taxpayers must submit yearly environmental levy accounts.
  - ➢ Payments to be done as prescribed in Customs and Excise Act .

- PART V: Miscellaneous
- Clause 18
  - ➢ Reporting.
    - ➢ Commissioner must annually report to Minister.
    - ➢ Amount of GHG emissions for which taxpayers must pay tax reported.
    - ➢ Amount of carbon tax collected reported.
- Clause 19
- ➢ Specifies Regulations to be made:
  - ➢ Greenhouse gas emissions intensity benchmark for performance allowance.
  - ➢ Manner of determining the amount of the trade exposure allowance.
  - ➢ Carbon offsets.
- Clause 20
  - ➢ Amends Customs and Excise Act with reference to Schedule 3.
- Clause 21
  - ➢ Short title and commencement.

Summary of the Carbon Tax Bill continued

- <u>Schedule 1</u>

- Table 1
  - Used for determining of tax base
  - Carbon dioxide emissions
  - Methane emissions
  - Nitrous Oxide emissions
  - Default calorific value (Terra Joule per tonne) of a fuel type

- Table 2
  - Fugitive emissions
    - Used for determining of tax base
    - Carbon dioxide emissions
    - Methane emissions
    - Nitrous Oxide emissions
- Table 3
  - Determine industrial process emissions
    - Carbon dioxide emissions of a raw material or product
    - Methane emissions of a raw material or product
    - Nitrous Oxide emissions of a raw material or product
    - Hexafluoroethane (C2F6) emissions of a raw material or product
    - Tetrafluoride (CF4) emissions
    - Sulphur hexafluoride (SF6) emissions

Summary of the Carbon Tax Bill continued

- **<u>Schedule 2</u>**
  - **Determination of allowances for fossil fuel combustion (clause 7)**
  - **Determination of industrial process emissions (clause 8)**
  - **Determination of fugitive emissions (clause 9)**
  - **Determination of carbon budget allowance (clause 12)**
  - **Determination of capping of offset allowance (clause 13)**
  - **Determination of capping total allowances (clause 14)**
- **<u>Schedule 3</u>**
  - **Amends Customs and Excise Act**
- **Clause 1**
  - **Inserts a definition of Carbon tax Act into the Customs and Excise Act**
- **Clause 2**
  - **Inserts section 54 A as an imposition clause for the Carbon Tax to be an environmental levy**

Thank you

Carbon Tax Policy Changes – 2013 to 2017

1. **Electricity pricing and electricity levy:** Carbon tax (taken with electricity levy) will be revenue neutral in the first phase and have no impact on the price of electricity.
    - **credit for electricity generation levy** and for **renewable energy premium**
    - In addition business already benefits from **energy efficiency savings tax incentive – rate for allowance was increased from 45 to 95 cents/kWh in 2015**
2. **Tax rates and thresholds** for phase 1 and 2 of the carbon tax: To provide policy certainty, **Section 5 of the bill was amended to** include the headline, marginal tax rate of R120/$tCO_{2e;}$ and specifies the annual increase to the nominal carbon tax rate by a max of inflation plus 2 per cent.
3. **Alignment of the carbon tax policy with the carbon budgeting system of the DEA**:
    - Phase 1: Introduction of the 5% carbon budget allowance in 2014
    - Phase 2: DEA and NT working on **alignment and integration of the carbon tax and carbon budget** instruments for phase 2, and no double penalty.
4. **Carbon tax modelling study – modelling of the current design undertaken through the World Bank in 2016** and the socio-economic impact of the carbon tax shows a significant impact in reducing the country's emissions, without a significant impact on growth (negative 0.05-0.15%).

Carbon Tax Policy Changes – 2013 to 2017 (2)

5. **Trade exposure allowance** adjusted from a company to a sector-based trade exposure allowance. Further adjusted the qualifying threshold for the maximum allowance from 50 to 30 per cent trade intensity
6. **Carbon tax pass through** allowed for regulated sectors – liquid fuels
7. **Process and fugitive emissions** – provision of the 10 per cent additional tax free allowance
8. **Offset allowance** – scope of offsets expanded e.g. Inclusion of certain renewable projects
9. **Sequestration** – deduction for sequestered emissions e.g. from forestry plantations
10. **Application of thresholds** – Aligning reporting and classification of greenhouse gas emissions for tax purposes with mandatory emissions reporting to the Department of Environmental Affairs. Only emissions above the thresholds for reporting are subject to the tax (2016).