**Report of the Standing Committee on Finance on the Taxation Laws Amendment Bill [B26 - 2022] (National Assembly- section 77), dated 16 November 2022**

The Standing Committee on Finance, having considered the Taxation Laws Amendment Bill [B26 - 2022] (National Assembly- section 77) referred to it and classified as a Money Bill, reports the Bill as follows:

1. **INTRODUCTION AND BACKGROUND**
   1. The Tax Laws Amendment Bill (TLAB) was tabled in Parliament by the Minister of Finance on 26 October 2022, together with the 2022 Medium-Term Budget Policy Statement (2022 MTBPS). The TLAB is a section 77 (of the Constitution) Bill dealing with national taxes, levies, duties and surcharges.
   2. The tabling of this Bill was preceded by the publication of its draft version (Draft TLAB) on 29 July 2022, to solicit public comments. It contained some of the tax announcements made in Chapter 4 and Annexure C of the 2022 Budget Review.
   3. Following the budget announcement on 23 February 2022, the National Treasury held technical consultations with selected stakeholders to discuss the following proposals announced in the 2022 Budget Review: the impact of IFRS17 contracts on the taxation of short term and long-term insurers; clarifying the definition of “contributed tax capital”; and clarifying the tax treatment of collateral arrangements.
2. **PUBLIC PARTICIPATION** 
   1. The Committee was briefed by National Treasury and SARS on the Draft TLAB on 23 August 2022 and held public hearings on 14 September 2022. On 21 September 2022, National Treasury and SARS presented their detailed responses to the Draft TLAB to the Committee, addressing all the comments made during the public hearings and Committee briefings and deliberations.
   2. The National Treasury and SARS reported that they received 104 written submissions from the public and responded to these comments during their own consultation processes. They also hosted workshops which ran for two days on 08 and 09 September 2022.
   3. The Committee received written and oral submissions from the following organisations and/or individuals: Beer Association of South Africa (BASA), British American Tobacco South Africa (BATSA), Vapour Products Association of South Africa (VPASA), Association for Savings and Investment South Africa (ASISA), South African Institute of Chartered Accountants (SAICA), Business Unity South Africa (BUSA), Banking Association of South Africa (BASA), PriceWaterhouseCoopers (PwC), World Wide Fund for Nature (WWF), South African Securities Lending Association (SASLA), Sasol, Minerals Council, Cement &amp; Concrete South Africa (CCSA), Industry Task Team on Climate Change (ITTCC), Chemical and Amp; Allied Industries’ Association (CAIA), ArcelorMittal, South African Breweries (SAB), Richards Bay Industrial Development Zone Company SOC Ltd (RBIDZ), Vaping Saved My Life (VSML), Wicked Imports, Japan Tobacco International (JTI), Reinsurance Group of America (RGA), South African Iron and Steel Institute (SAISI), South Africa Tobacco Transformation Alliance (SATTA) and South African Breweries (SAB).
3. **OVERVIEW OF THE KEY TAX PROPOSALS IN THE TLAB**
   1. The 2022 TLAB amends the provisions and, in some instances, definitions, Schedules, Preambles, long titles and/or effective dates, and makes new provisions to some of the following statutes: the Income Tax Act, 1962; the Customs and Excise Act, 1964; the Value-Added Tax Act, 1991; the Taxation Laws Amendment Act, 2011; the Taxation Laws Amendment Act, 2013; the Carbon Tax Act, 2019; the Taxation Laws Amendment Act, 2019; and the Taxation Laws Amendment Act, 2021. The Bill contains 43 clauses plus one, two-part Schedule.
   2. Under the category of individuals, employment and savings, the proposals specifically dealt with the following amendments:
      1. Reviewing the timing of accrual and incurral of variable remuneration;
      2. Apportionment of the interest exemption and capital gains tax annual exclusion when an individual ceases to be tax resident;
      3. Reviewing the transfer of total interest in a retirement fund;
      4. Clarifying the compulsory annuitisation and protection of vested rights when transferring to a public sector fund;
      5. Clarifying paragraph (eA) of the definition of gross income regarding public sector funds;
      6. Retirement of provident fund members on grounds other than ill-health; and
      7. Clarifying the applicability of tax neutral transfers from a pension to a provident fund.
   3. Under the category of general business tax, the proposals specifically dealt with the following issues/amendments:
      1. Clarifying the definition of “contributed tax capital”;
      2. Refining the reversal of the nil base cost rules applicable to intra-group transactions;
      3. Clarifying the rule that triggers recoupment under the debt forgiveness rules; and
      4. Reviewing the debtor’s allowance provisions to limit the impact on lay-by arrangements.
   4. Under the category of taxation of financial institutions and products, the proposals dealt with the following issues/amendments:
      1. Impact of IFRS 17 insurance contracts on the taxation of short and long-term insurers
   5. Under the category of international tax, the proposals dealt with the following issues/ amendments:
      1. Clarifying the deeming provisions in respect of royalties derived by Controlled Foreign Companies;
      2. Clarifying the treatment of amounts from hybrid equity instruments deemed to be income under CFC rules; and
      3. Clarifying the treatment of amounts from hybrid equity instruments deemed to be income under CFC rules.
   6. On tax incentives, the following proposals were made:
      1. Interaction between the application of the assessed loss restriction rules and capital expenditure regime for mining operations;
      2. Interaction between the application of the interest limitation rules and capital expenditure regime for mining operations; and
      3. Tax treatment of an asset acquired as government grant in kind.
   7. Under value added tax (VAT), the proposals dealt with the following issues/ amendments:
      1. Reviewing the section 72 decisions regarding cross-border leases of foreign-owned ships, foreign-owned aircraft and foreign-owned rolling stock for use in RSA;
      2. Reviewing the section 72 decisions with regard to the VAT treatment of Flash Title Sales;
      3. Reviewing the section 72 decisions with regard to the VAT treatment of Documentary Evidence for Repossessions;
      4. Reviewing the section 72 decisions regarding the VAT Treatment of Registration of Certain Foreign Suppliers; and
      5. Reviewing section 72 decisions regarding the VAT Treatment of Pooling Arrangements.
   8. On carbon tax, the proposals dealt with policy issues.
   9. Under the category of Customs and Excise, the TLAB highlighted proposals for the introduction of taxation of electronic nicotine and non-nicotine delivery systems.
4. **KEY ISSUES RAISED IN THE PUBLIC HEARINGS**
   1. The key issues raised during the public hearings are the following: Customs & Excise: electronic nicotine and non-nicotine delivery system, and taxation of electronic nicotine and non-nicotine delivery system; Carbon Tax: Carbon Tax Rate Trajectory proposals from 2023 to 2030; electricity price neutrality extension; energy efficiency savings tax incentive extension; limiting carbon sequestration deduction to activities within operation control of the taxpayer; Income Tax: Individuals, Savings and Employment: reviewing the timing of accrual and incurral of variable remuneration; apportionment of the interest and capital gains tax annual exclusion when an individual ceases to be tax resident; clarifying paragraph (eA) of the definition of gross income regarding public sector funds; technical correction to the definition of “living annuity” in section 1 of the Income Tax Act; technical correction to the definitions of “pension preservation fund” and “provident preservation fund” in section 1 of the Income Tax Act; Income Tax: General Business Tax: clarifying the definition of “contributed tax capital”; refining the reversal of the nil base cost rules applicable to intra group transactions; clarifying the rule that triggers recoupment under the debt forgiveness rules; reviewing the debtor’s allowance provisions to limit the impact on lay by arrangements; Income Tax: Taxation of financial institutions and products: Impact of IFRS 17 insurance contracts on the taxation of short term and long term insurers; Income Tax: Business incentives: interaction between the application of the assessed loss restriction rules and capital expenditure regime for mining operations; interaction between the application of the interest limitation rules and capital expenditure regime for mining operations; tax treatment of an asset acquired as a government grant in kind; International Tax: clarifying the treatment of amounts from hybrid equity instruments deemed to be income under CFC rules; clarifying the exclusion of participatory interest in foreign collective investment schemes from the definition of foreign dividend Value Added Tax; general comments on the proposed amendments as a result of the 2019 amendments to section 72 of the VAT Act; reviewing the section 72 decision with regard to cross border leases of foreign owned ships, foreign owned aircraft and foreign owned rolling stock for use in South Africa; reviewing the section 72 decision with regard to “flash title sales; reviewing the section 72 decision with regard to the VAT treatment of the registration of certain foreign suppliers; and reviewing the section 72 decision with regard to the VAT treatment of pooling arrangements.
   2. This report will cover in detail only three main policy issues which are: the application of excise duty on vaping and electronic nicotine and non-nicotine delivery system, Carbon Tax, and Impact of IFRS 17 insurance contracts on the taxation of short-term and long-term insurers.

**Application of vaping and electronic nicotine and non-nicotine delivery systems**

* 1. In the 2022 Budget, a proposal was made to apply a flat excise duty rate of R2.90 per millilitre regardless of the nicotine content of the solutions with implementation effective from January 2023. After further consultation with SARS, the effective date has been postponed to June 2023 to allow for the administration systems to be put in place. As such, proposed amendments are made in the part 2 of Schedule 1 to the Customs and Excise Act in this regard.
  2. Comments were received regarding the proposed rate of duty. Comments in this area were about the rate of duty which many commentators believed was excessive. It was argued that this high rate will affect the trade of all legitimate and tax paying vendors, which has the potential to lead to a reduction in income tax generation, VAT and possibly lead to further job losses. It was further argued that the tax will make it difficult for smokers and vapers to access less harmful alternatives, leading vapers to return to combustible tobacco products or even un-regulated black-market products.
  3. Other commentators argued that vaping was a smoking cessation tool for adult smokers wishing to quit the habit. It was argued that it vaping is not smoking, it is combustion free and tobacco free, even if there may be tobacco flavoured variants of vaping liquid; and vaping has been scientifically proven to be at least 95% less harmful than smoking.
  4. In its response National Treasury pointed out that vaping products were not recognised nor approved by the Medicines and Related Substances Act, 1965 as cessation products. It explained that the World Health Organisation recommends that governments scale up policies and tried and tested interventions, such as brief advice from health professionals, national toll-free quit lines and cessation interventions delivered via mobile text messaging. And where economically feasible, should also consider promoting nicotine replacement therapies and non-nicotine pharmacotherapies for cessation.
  5. While other commentators called for a high flat rate such as R5/mil of e-liquids, others opposed the proposed rate of R2.90/mil. The National Treasury explained that this was an introductory rate and was comparable to other rates applied in other jurisdictions that have implemented excise duties on vaping and its products. The Minister of Finance makes the decisions about the excise rates and adjustments.
  6. Several comments were also made about the administration of the tax. Commentators highlighted that the vaping market was extremely fragmented and this could lead to fiscal evasion. Other commentators recommended the introduction of an electronic track-and-trace system. Other raised issue of the implementation. Concerns were also raised about the potential illicit trading of vaping products.
  7. To these comments, National Treasury pointed out that SARS, as the implementing agency, will ensure that all the necessary measures for licencing and registration of taxpayers is done for effective enforcement of the legislation. It further explained that the National Department of Health is leading Government on the matter of ratifying the World Health Organisation's Protocol to Eliminate Illicit Trade in Tobacco Products. As part of the Protocol, South Africa would be required to consider, as appropriate developing a practical tracking and tracing regime that would further secure the distribution system and assist in the investigation of illicit trade. It further acknowledged that the implementation of a track and trace system would be beneficial for the administration of all excisable products as it would equally apply.
  8. On the implementation date, the National Treasury pointed out that the initial proposal as announced in the 2022 Budget was to implement the excise duty from 1 January 2023. However, in the 2022 draft TLAB a consideration was made to have a later implementation date of 1 June 2023 to provide SARS and taxpayers sufficient time for the administration of the system. SARS will develop the administration rules and conduct stakeholder/taxpayer engagements.
  9. The National Treasury pointed out that Illicit trade is a concern for Government, both in terms of undermining public health and harm reduction objectives, and fiscal collections. Therefore, every effort will be made to ensure that administration of the system is strengthened to address the problem when it occurs. However, there can never be a full proof system since some of the illicit trade is influenced by acts of criminality.

**Carbon Tax Background**

* 1. The Carbon Tax Act, Act No 15 of 2019 was signed into law by the President in May 2019. The carbon tax came into effect on 1 June 2019. It 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. It is aimed at assisting in reducing Green House Gas (GHG) emissions and ensuring that SA meets its Nationally Determined Contributions (NDCs) commitments as part of its ratification of the 2015 Paris Agreement.
  2. Carbon Tax was introduced at a very low effective carbon tax rate with significant tax-free emission allowances ranging from 60 per cent to 95 per cent in order to provide current significant emitters time to transition their operations to cleaner technologies through investments in energy efficiency, renewables, and other low-carbon measures.
  3. The implementation of Carbon Tax interplays with the following policies: Paris Agreement & Nationally Determined Contributions for 2025 and 2030 – which set emissions targets; National Climate Change Response Policy (2011) and National Climate Change Bill – Bill introduced in National Assembly in February 2022 and published for public consultation by the Portfolio Committee on Environment, Forestry and Fisheries; Low Emissions Development Strategy (2020) – which seeks to achieve net zero emissions commitments by 2050; Carbon Tax Act (2019) – implemented on 1 June 2019; Sectoral emissions targets and carbon budgets, and mitigation plans – methodology and sector targets framework approved; Integrated Resource Plan (2019) – 2030 electricity plan; Energy Efficiency and Green Transport Strategies – to be implemented; Tax incentives for Energy efficiency, renewable energy, biofuels production, research, development and innovation and biodiversity conservation; Mandatory National Greenhouse Gas Reporting Regulations (2017) – which forms the basis for carbon tax and Greenhouse Gas Emissions Reporting to the United Nations Framework Convention on Climate Change; Presidential Climate Commission – which is tasked with the development of the Just Transition Framework and Implementation Plan; Just Energy Transition Partnership and Investment Plan – which seeks to enable access to climate finance to facilitate a just transition commencing with the electricity sector; Green Finance Taxonomy – which seeks to assist the financial sector respond to climate change; Hydrogen Masterplan - Hydrogen Society Roadmap launched in February 2022 for the development of a hydrogen economy; and the Electric Vehicle Roadmap (DTIC).
  4. Carbon tax is viewed by government as key to facilitating the Just Economic Transition. The policy rationale for a carbon tax is directly related to saving South Africa and the world from adverse climate change. The introduction of a carbon price will change the relative prices of goods and services, making emission-intensive goods more expensive relative to those that are less emissions intensive. This provides a powerful incentive for consumers and businesses to adjust their behavior, resulting in a reduction of emissions. Although it does not set a fixed quantitative limit on carbon emissions over the short term, a carbon tax at an appropriate level and phased in over time to the “correct level” will provide a strong price signal to both producers and consumers to change their behaviour over the medium to long term. It is hoped that this would minimise potential adverse impacts on low-income households and industry competitiveness through targeted revenue recycling and allowances.
  5. The National Treasury pointed out some risks on the implementation of carbon tax. It said that certainty on tax free allowances will be dependent on progress we will make in reducing emissions and minimising impacts of climate change. There are also significant risks of carbon border adjustments and additional future costs on business which are likely if the carbon footprint and emissions intensity of exported products are not reduced.
  6. It said that the carbon tax will force companies to reevaluate their long-term investment decisions, shifting away from emissions-intensive production toward low-carbon technologies. This can prepare South African firms for the global technological transition and strengthen their competitiveness in the future. The National Treasury pointed out that the first mover competitive advantage gains among developing countries creates incentives to leapfrog development via early adoption of low carbon technologies through research, development, innovation. Carbon tax is key to facilitating a just transition and complements the work underway by the Presidential Climate Commission on Just Transition framework and decarbonisation pathways towards achieving net zero emissions by 2050.

**Carbon Tax proposals announced in Budget 2022**

* 1. Budget 2022 made proposals for the extension of the first phase revenue recycling measures by 3 years ending in Dec 2025 (i.e. 1 January 2023 to 31 Dec 2025) to assist companies transition and aid the economic recovery. For the second phase of the carbon tax, considering South Africa’s ambitious NDC commitments and efforts to meet the 1,5deg temp goal, proposals include ramping up the carbon tax from 2026 to 2050 and strengthening carbon price signals. This aims to provide policy certainty to companies on the carbon price path over the short, medium and long term to guide their planning and future investment decisions. It is envisaged that this will also assist with meeting South Africa’s net zero emissions commitments by 2050.
  2. Budget 2022 proposed increases in the carbon tax ratefor the 2023 to 2025 tax periods by a minimum of US$ 1; and increasing to US$20 in 2026 and at least US$30/tCO2e in 2030. To give effect to the carbon tax rate announcements made in Budget 2022, the following amendments were proposed in the 2022 draft TLAB: In 2023 to 2025**:** it is proposed that amendments are made to Section 5(2) of the Carbon Tax Act to provide for the carbon tax rate adjustment by US$1, US$2 and US$ 3/tCO2e for the 2023, 2024, and 2025 tax periods ending on 31 December, respectively; In 2026 and 2030: it is proposed that amendments are made to Section 5(2) of the Carbon Tax Act to provide for that the carbon tax rate increases to US$20/tCO2e rand equivalent in 2026 and US$30 in 2030; In 2027 to 2029**:** It is proposed that amendments are made to Section 5(2) of the Carbon Tax Act to provide for the carbon tax rate adjustment by US$2, 5 /tCO2e per year for the 2027 to 2029 tax periods.
  3. Comments received from stakeholders broadly support the carbon tax and recognise the importance of the carbon tax for the country’s transition. Some stakeholders, however, do not support the carbon tax rate of US$20/tCO2e in 2026 and US$30/tCO2e in 2030 as they are of the view that it is too soon and too high and will inhibit investment in decarbonisation technologies and growth of new low-carbon growth sectors. They believe that the timing of the rate adjustments and potential removal of the tax-free allowances will result in very high costs within a short timeframe for business to absorb and mobilise the capital needed to transition to low-carbon operations which could result in a premature shut-down of companies.
  4. These stakeholders are of the view that the annual carbon tax rate should be increased by inflation plus 2 percentage points until at least 2030 to allow for reviewing and aligning of different policies, and the higher carbon price is considered post 2035, on a date to be informed by detailed analysis of viable mitigation and socioeconomic considerations.
  5. Other stakeholders are of the view that the implementation of an effective carbon price is a powerful tool to change behaviourby altering economic incentives and is a crucial mechanism to mitigating South Africa’s emissions and meet its commitments to limit global temperature increases under the Paris Agreement. They believe that pricing carbon correctly to reflect the actual costs of emissions to society would be transformative in limiting the worst impacts of the climate crisis.
  6. Some stakeholders are of the view that clause 38(1)(e) of the 2022 draft TLAB should indicate the progressive increase in the carbon tax rate necessary to ensure long term mitigation towards net zero emissions by 2050. They recommended that increases to the carbon tax rate post 2030 in clause 38(1)(e) of the 2022 draft TLAB should be commensurate with the best available science related to effective GHG emission reduction and in accordance with South Africa’s Nationally Determined Contribution in force at the time. They further recommended that increases to the carbon tax rate post 2030 in clause 38(1)(e) of the 2022 draft TLAB should be commensurate with the best available science related to effective GHG emission reduction and in accordance with South Africa’s Nationally Determined Contribution in force at the time.
  7. Some stakeholders are of the view that it is important for South Africa’s international competitiveness to have a domestic carbon price that is aligned with the international carbon price but at the same time also considers South Africa’s unique socio-economic circumstances. They are of the view that a domestic price higher than the international price will put an undue cost burden on the South African industry.
  8. There is broad agreement on the other hand that a domestic price lower than the international price could potentially impact negatively on demand for South African goodsand may have cost implications in systems like the proposed European Union Carbon Border Adjustment Mechanism. Providing clarity of the pathway is essential both for incentivising investments into carbon emissions mitigation by the private sector, and for ensuring alignment with the international standards set by trading partners.
  9. They further noted that the EU’s Carbon Border Adjustment Mechanism (CBAM) will effectively price high-carbon South African products out of the market, especially if this is replicated by other jurisdictions. The argument is that the imposition of the EU Carbon Border Adjustment Mechanism (CBAM) from 2027 will make access to international markets more challenging for South African carbon intensive products. Any allocated product (iron & steel, fertilisers, cement, and aluminium at present) will be subject to the EU’s rate from a purchaser perspective – a steel purchaser will effectively pay the difference between SA’s carbon price and the EU price to the EU.
  10. Some further argued that pegging the price at the same level as the EU means that there is no difference, and that the South African fiscus will capture the total benefit of the tax. Imposition of a corresponding carbon price in the South African context therefore provides stronger local incentive for decarbonisation, increases the revenue for the fiscus that can better fund positive decarbonisation incentives, and will more rapidly drive decarbonisation and improve the competitiveness of South African products on an internationally priced market.
  11. In response to these submissions, the National Treasury did not accept proposals of rate increases by inflation plus 2 percentage points until 2030, with higher prices only considered after 2035. It said thatSouth Africa has made commitments in the Nationally Determined Contribution commitments under the Paris Agreement for a peaking of emissions in 2025, and a rapid decline in emissions in 2030. It said that emissions will decline in the range of 350 to 420 million tonnes and for the first time, the climate targets are compatible with the 1,5c temperature goal.
  12. The National Treasury said that a credible price on GHG emissions is crucial and can go a long way towards building up a cost-effective climate policy framework. It clarified that the 2022 carbon tax rate proposals aim to provide policy certainty on the rate trajectory and a credible price signal to help achieve the NDC commitments approved by Cabinet. It added that the proposed rate increases of inflation plus 2 percentage points until 2030 with higher prices implemented after 2035 does not sufficiently reflect the polluter pays principle and the anticipated growing climate risks. It is also not in line with the carbon prices required to meet the 2deg temperature goal under the Paris Agreement in a cost-effective manner.
  13. The National Treasury explained that the High-Level Commission on Carbon Prices, IMF, and the National Business Initiative analysis and assessment of the carbon prices recommends minimum effective carbon prices of at least US$25 by 2025 and US$40 by 2030 to adequately internalize the externality costs of climate change.
  14. It stated further that for the headline carbon tax rates proposed in the draft TLAB, the effective carbon tax rates assuming average tax-free allowances of 80 to 85 per cent would be about R46 to R62/tCO2e (~US3-$4) in 2026 and R69 to 99/tCO2e (~US$4,5 - $6) in 2030. This rate is much lower if the other deductions such as the carbon tax deductibility for income tax purposes, sequestration and the cost recovery mechanism for the liquid fuel sector are considered.
  15. The National Treasury further explained that although the proposed 2022 draft TLAB rates are below the carbon prices required to fully internalise the externality costs of climate change, they would start to align with the average effective carbon tax rates implemented globally. It explained that this would not impose a significant tax burden on companies but would send an important price signal to drive future investment decisions and companies that invest in low carbon technologies and energy efficiency measures now will have a lower carbon tax liability. The National Treasury added that globally, a shift toward low-carbon production is inevitable. The sooner local companies can begin the transition, the more competitive they will be and avoid the imposition of carbon border adjustments.
  16. The National Treasury accepted submissions that recommended that increases to the carbon tax rate post 2030 in clause 38(1)(e) of the 2022 draft TLAB should be commensurate with the best available science related to effective GHG emission reduction and in accordance with South Africa’s Nationally Determined Contribution in force at the time. It said that it must be noted that every tonne of greenhouse gas emitted has far reaching consequences that should be accounted for in applying the polluter pays principle. It said that if efforts to reduce emissions are not taken urgently, the repercussions of high emissions will be suffered by the future generations, which would not be in line with the principle of intergenerational equity.

1. **COMMITTEE OBSERVATIONS** 
   1. The Committee notes and welcomes the high levels of public participation shown in the processing of this Bill, starting from the consultation processes of National Treasury and SARS, who received over a hundred submissions during the consultative processes and responded to them. The National Treasury and SARS held workshops over two days on 8 and 9 September to workshop the draft Bills with stakeholders.
   2. The Committee is satisfied with the way this Bill was processed, and the detailed comments provided by the National Treasury to those public comments. This does not mean that there would be consensus in all the proposals made in the Bill, as some issues are very contentious.
   3. On vaping tax proposals in the Bill, the Committee notes that there would always be disagreement on the rate and structure of the new proposed taxes on electronic nicotine and non-nicotine delivery systems (ENNDS). While other stakeholders oppose the imposition of this tax, others support it and recommend a higher rate than the R290/ml proposed in the Bill. The Committee notes that proposed excise rate of South Africa compares to other rates applied in other jurisdictions that have implemented vaping taxes.
   4. On the proposed increases in carbon tax, the Committee notes that South Africa faces severe and growing climate risks including extreme weather events such as storms, flooding and droughts**,** which will have major implications for the South African economy. The Committee agrees that there is a need for deep and urgent emissions reductions, and the implementation of a carbon tax that is meaningful, avoids double incentives and underpins South Africa’s NDC commitments to the Paris Agreement.
   5. The Committee further notes that the carbon tax increases proposed are well below what experts recommend as necessary to meet the goals of the Paris Agreement**.** The Committee notes also that there are real socio-economic costs of not dealing with climate change. South Africa has experienced some of the climate change events which shocked the country’s fiscal framework, the recent one being the recent floods in KwaZulu-Natal and the Eastern Cape.
   6. The Committee further notes that several comments that were made by stakeholders were accepted by the National Treasury as such that the US$ carbon tax rates be converted to the Rand equivalent, and other proposals under the following amendments: electricity price neutrality extension; energy efficiency tax incentive extension; limiting carbon sequestration deduction to activities within operational control of the taxpayer; and extension of carbon sequestration deduction to 1A2J sawmilling activities.
   7. Lastly, the Committee notes the many other progressive amendments in the Bill.

1. **CONCLUSION** 
   1. The Committee reports the Bill.

The Democratic Alliance (DA) reserves its position.

Report to be considered.