



# Tax & Legal – News Alert



22 February 2024

## Carbon Tax

### Carbon tax rate increase

The Carbon Tax Act specifies that the initial rate of carbon tax of R120 per tonne will be increased by consumer price inflation (“CPI”) +2% per year until 31 December 2022, whereafter the rate of carbon tax will be increased only by CPI.

It is, therefore, no surprise that the carbon tax rate is increased with 19.49% from R159 to R190 per tonne of CO<sub>2</sub>e.

The amendments will take effect from 1 January 2024.

### Carbon fuel levy and carbon tax cost recovery

Effective 3 April 2024 the carbon fuel levy will increase to 11 cents per litre for petrol and 14 cents per litre for diesel.

The carbon tax cost recovery quantum for the liquid fuels sector increased from 0.66c/litre to 0.69c/litre, effective 1 January 2024.

### Carbon tax - Second phase

A gradual reduction (from 1 January 2026 to 31 December 2030) of the carbon tax's basic tax-free allowance was proposed by government in the 2022 budget.

A discussion paper outlining proposals for the second phase of the carbon tax is expected to be published for public comment later this year.

### Carbon Tax - Aligning schedule 1 of the Carbon Tax Act

It was announced in the 2023 budget that changes to the carbon dioxide emission factors and net calorific values for the relevant fuel types are necessary, to ensure alignment between the Carbon Tax Act and the Department of Forestry, Fisheries and the Environment's Methodological Guidelines for Quantification of Greenhouse Gas Emissions (the Methodological Guidelines).

It is therefore proposed that the schedule 1 fuel combustion emissions factors and net calorific values are updated, and new fuel types are added, as set out in the tables contained in Annexure C to the 2024 Budget Review.

It is also proposed that the density factors for calculation of the carbon fuel levy is changed from 0.75 to 0.7405 kilogram per litre for petrol and from 0.845 to 0.8255 kilogram per litre for diesel.

The amendments will be effective from 1 January 2024.

### **Alignment between the carbon tax and carbon budget**

The 2022 Budget announced a higher carbon tax rate of R640 per tonne of CO<sub>2</sub> equivalent on all greenhouse gas emissions exceeding the carbon budget, to be legislated once the Climate Bill is enacted (currently under consideration in Parliament).

It is now proposed that the higher tax rate will come into effect after the Climate Bill is enacted and the Department of Forestry, Fisheries and the Environment gazettes the relevant regulations. Such implementation is expected from 1 January of the calendar year after the legislation is finalised.

In addition, once the mandatory carbon budgeting system comes into effect, the carbon budget allowance of 5 per cent would fall away with a proposed equivalent increase of the carbon offset allowance by 5 per cent to encourage investment in green energy projects.

### **Electricity – Carbon offsets projects**

An increase in the limit for renewable energy projects that can qualify for the carbon offsets regime, from 15 megawatts to 30 megawatts is proposed to promote further investments in renewable energy.

The Department of Mineral Resources and Energy aims to finalise the framework for the approval of domestic carbon offset standards this year, which will reduce the cost burden on carbon offset project developers for the registration and approval of offset projects.

### **Including default emission factors for additional fugitive emissions source categories**

The Methodological Guidelines included the default emission factors for fugitive emissions from coal mining, oil and gas operations.

It is proposed that the fugitive emissions table in schedule 1 of the Carbon Tax Act be updated to include the default emission factors for fugitive emissions from coal mining, oil and gas operations and emission factors for the relevant emission source categories based on the 2019 refinements to the 2006 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories, which will take effect from 1 January 2024.

### **Renewable energy premium deduction**

It is proposed that the Carbon Tax Act be amended to allow electricity generators to continue to claim the renewable energy premium deduction for power purchase agreements ceded to the National Transmission Company of South Africa, which will take effect from 1 January 2024.

### **Aligning eligible Clean Development Mechanism project offsets with the Article 6(4) mechanism under the Paris Agreement**

Under the Carbon Tax Act, offsets generated from approved projects developed under the Clean Development Mechanism (CDM) of the Kyoto Protocol are eligible for use by taxpayers for purposes of the carbon offset allowance.

A new market mechanism to replace the CDM is provided by the adoption of Article 6(4) of the Paris Agreement (decision taken in November 2022), which sets out the process for transitioning activities from the CDM to the Article 6(4) mechanism and include about 48 projects that are eligible for the transition to the new mechanism.

National Treasury in consultation with the Department of Mineral Resources and Energy and the Department of Forestry, Fisheries and the Environment will consider the inclusion of the new mechanism as an eligible carbon offset standard and measures to facilitate and ensure alignment of the transitioning of existing CDM projects. In this regard, the Minister of Finance will publish draft amendments to the regulations for public comment and further consultation in 2024.

**For more information and assistance, please contact:**



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Kind Regards

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