Dear Madam

COMMENTS: CARBON TAX DISCUSSION PAPER

We thank you for the opportunity to provide input on the carbon tax discussion paper. We set out below the SAICA carbon tax Sub-Committee’s (a Sub-Committee of SAICA’s National Tax Committee) submission comments.

The discussion paper is very broad, and sets out the rationale for the implementation of a carbon tax rather than an emissions trading system, the various methods of imposing a carbon tax, and some issues that are specific to the South African context. Since it is intended as a discussion paper, it is general in nature and does not propose a definitive outline for the imposition of a carbon tax in South Africa.

However, it appears that National Treasury favours an upstream proxy carbon tax on fossil fuels since it appears that this may be the easiest to administer. This would be combined with the use of tax credits for carbon capture and storage as an incentive to reduce carbon emissions. In theory it may be argued that this is correct, and may be more widely accepted than a downstream approach, the following general commentary should be noted:

- The document makes reference to the South African Revenue Service as being best-placed to administer the tax, since it may cut down on the possibility of fraud and corruption. This is still a huge concern, and the paper has not made much reference to how the taxes collected through this channel will be administered or allocated. While it is agreed that taxes cannot be completely ring-fenced for a specific purpose, it is concerning that this tax may be viewed as just another means of collecting income and will not be directed toward incentives to establish viable means of renewable energy, carbon reduction programmes, public education on these matters, etc. One only has to think back to the infamous plastic bag levy – it’s still being levied, millions in revenue have been collected and virtually none of that revenue can be accounted for, even though it was to be utilised to set up plastic bag recycling plants. The carbon taxes collected run the same risk of mismanagement, unless some guidelines are put in place setting out how this revenue collected should be directed.
• The upstream collection also runs the risk that the costs will simply be passed on to the consumer. This may have the effect that the consumer will end up footing the bill, while having no alternative supplier of the services (e.g. electricity, ESKOM is the only supplier). At the same time the entities concerned may not engage in alternatives to reduce their carbon emissions. It is, therefore, suggested that restrictions are put in place prohibiting these costs from being passed on to the consumer, at the very least restricting them.

Once the discussion paper is published relating to an emissions trading programme, it would be interesting to compare the two. Specific commentary should be made once National Treasury has committed to a specific route, and draft legislation has been issued. While the carbon tax discussion paper is quite extensive, it is very broad, making it difficult to comment on.

Please do not hesitate to contact us, should you have any questions regarding the above.

Yours faithfully

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The South African Institute of Chartered Accountants