Dear Sir/Madam

SUBMISSION: DRAFT INTERPRETATION NOTE ON THE DEDUCTION FOR ENERGY-EFFICIENCY SAVINGS

1. Please find below our response to the request for comments on the draft Interpretation Note on the deduction for energy-efficiency savings.

Paragraph 4.3.1 - Page 5 - maintaining the level of activity output

2. The statement “the activities of a project that generates energy-efficiency savings by conserving energy while maintaining the level of activity output are considered to be eligible projects under section 12L and could qualify for a deduction under this section" is misleading.

3. It appears to imply that if the level of activity output were to decline from one year to the next, even if energy-efficiency savings were to be achieved relative to the actual output, the taxpayer would not qualify for the allowance.

4. Submission: We do not agree with what appears to be alluded to and if it was not intended it should be amended accordingly in relation to year to year activity output decline but with actual year to year energy savings.

Paragraph 4.7 - Example 1 - New baseline calculation

5. It is unclear what is represented by the ‘y’ axis in the graph. The description is ‘kWh’ but as the ‘x’ axis represents time (years), it does not make sense that the total usage
would remain constant over time as appears to be indicated by the nearly horizontal readings. One would expect the readings to slope upwards from left to right as the total kWh increased over the year.

6. If the ‘y’ axis represents ‘average daily usage in kWh’ then the graph would make sense. However, the blocks in the graph, showing actual energy consumption for the year, seem to indicate that the ‘y’ axis does not represent average daily usage in kWh.

7. Submission: The description of the ‘y’ axis should be clarified, or alternatively the graph should be redrawn.

Paragraph 4.8.1 - Example 2 - Exempt income

8. In this example a body corporate removed all electric geysers from the common property and replaced them with solar geysers in a particular year of assessment. It is concluded that the body corporate may claim a portion of the energy savings in terms of section 12L based on the percentage of its ‘income’ as defined, to its total gross income.

9. However, Regulation 6(2) states that ‘a person may not receive the allowance in respect of energy generated from renewable sources other than energy generated from combined heat and power’.

10. ‘Combined heat and power’ is defined to mean the production of electricity and useful heat from a fuel or energy source which is a co-product, by-product, waste product or residual product of an underlying industrial process.

11. Submission: It would seem that the allowance should not be applicable on the facts of the example and the example should be updated.

Paragraph 4.9 - Concurrent benefits

12. Submission: It should be expressly stated that a tax allowance, for example section 11(e), is not a ‘concurrent benefit’.

Yours faithfully
Pieter Faber
PROJECT DIRECTOR: TAX
The South African Institute of Chartered Accountants