Tax breaks make going green viable and attractive

Over the past 10 years, South African businesses have earned R22 billion in tax incentives while avoiding 27 megatons of greenhouse-gas (GHG) emissions and reducing their energy costs. Business owners have two more years to get a tax break for doing their bit to keep climate change in check.

What does a brick works, premium food retailer, gold mine and bus company have in common? The answer is huge savings in energy costs and significant tax breaks thanks to taking advantage of the 12L tax incentive contained in South Africa's Income Tax Act.

The incentive came into effect on 1 November 2013, and a decade later 117 companies have implemented around 313 projects under its provisions. Some of the results are staggering. Harmony Tshepong Gold Mine reduced its income tax liability by R5,7 million in the 2017 financial year with energy-saving projects that cut its electricity bill by R4,5 million, reduced consumption by 6 000MWh and avoided 5 640 tons of GHG emissions.

Food retailer Woolworths invested R100 million in 2015 and has since saved more than 20 000MWh of electricity, amounting to around R35 million. More than 19 000 tons of CO_2 had not ended up in the atmosphere as a result.

The Golden Arrow Bus Company in Cape Town and Algoa Bricks in Gqeberha are smaller scale success stories. Golden Arrow reduced its energy consumption by 2,5% by improving the fuel efficiency of its fleet. In the 2017 financial year, the company saved R1,8 million and avoided 2 014 tons of CO_2. Having upgraded one its kilns, Algoa reduced its energy consumption by 19% in its 2018 financial year.

"These four very different case studies show the universal relevance of the 12L Tax incentive," says Stalin Ndlovu, senior M&V advisor at the South African National Energy Institute (SANEDI), the agency tasked with administering the 12L Tax incentive on behalf of the National Treasury and SARS.

The crux of the tax incentive is that businesses qualify for a 95-cent reduction in taxable income for every 1kWh of energy consumption saved. This places measurement and verification at the heart of the six-step 12L process:

1. Register your project online at www.saneditax.org.za
2. Appoint one of the 11 SANAS-accredited measurement and verification (M&V) bodies listed on http://home.sanas.co.za to compile and submit a baseline report to SANEDI.
3. The SANEDI panel reviews the report and either accepts or rejects it. If rejected, the report can be revised and resubmitted.
4. Approved projects proceed to implementation over a 12-month period, after which an M&V performance assessment is submitted to SANEDI.
5. The SANEDI panel reviews the assessment. If rejected, it can be adjusted and resubmitted.
6. SANEDI issues the tax certificate you submit with the tax return applicable to the project period.

"We have seen over the years that it is important for businesses to familiarise themselves with the 12L Tax incentive regulation and SANAS 50010:2018, which sets out how energy performance and demand savings are measured," says Ndlovu. "Making sure you understand these documents will go a long way to ensuring success."

To date, 12L projects have already contributed 8% to South Africa's nationally determined contribution, or NDC, which is our target for reducing GHG emissions under the Paris Climate Agreement. Under current legislation, businesses with eligible projects who's Savings are realised by the end of December 2025 can continue to benefit by turning energy efficiency into profits.

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