Section 12 L
of
the Income Tax Act

National Road Show – Midrand
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- What is 12L
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The National Energy Act, 2008 (Act No. 34 of 2008), Section 7 (2) provides for SANEDI to direct, monitor and conduct energy research and development, as well as undertake measures to promote energy efficiency throughout the economy.

www.sanedi.org.za
What is 12L Tax Incentive

A **deduction** from the income tax in respect of energy efficiency savings

Where a person must prove the verified energy efficiency savings in conducting a trade within a specified year of assessment
Background and Key Dates

2009 – then Minister of Finance announced incentives for those that can demonstrate energy efficiency savings.

2009 – Section 12 I in place for large industrial projects.

9 December 2013 – 12 L promulgated with an effective date of 1 November 2013.

Carbon Intensity Chart

- Brazil
- OECD Europe
- Nigeria
- United States
- Indonesia
- China
- Australia
- India
- South Africa

grams of CO₂ per kWh of electricity
Tax incentive of 95 c per verified kWh, (or equivalent kWh).

Original incentive was 45 c per verified kWh

Applications for the tax period up until 28 Feb 2015 will received 45 c per kWh

Tax incentives are currently offered for an effective 12 months of energy savings.

Only applicable to registered businesses.

No concurrent benefits allowed – there are some exceptions

A SANAS accredited body to sign-off on the M&V reports.
Where Does 12 L Fit into the Bigger Picture

Industrial & Mining Sector
Final demand reduction of 15% by 2015

Commercial & Public Building Sector
Final demand reduction of 15% by 2015

Residential Building Sector
Final demand reduction of 10% by 2015

Transport Sector
Final demand reduction of 9% by 2015

Reduction of National Energy Demand of 12% by 2015

DoE Targets for the Various Sectors by 2015
How Does It Work?

Entire Facility

Boundary of Intervention
How Does It Work?

kWh Saved for Assessment Year

Energy Innovation for Life
How do the Numbers Work Out?

Example of 12 L

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verified Approved Savings in kWh</td>
<td>R 1 000 000.00</td>
</tr>
<tr>
<td>Tax Incentive Rate</td>
<td>R 0.95</td>
</tr>
<tr>
<td>Tax Incentive</td>
<td>R 950 000.00</td>
</tr>
<tr>
<td>Marginal Tax Rate of Entity</td>
<td>28%</td>
</tr>
<tr>
<td>Net Profit to be taxed</td>
<td>R 2 000 000.00</td>
</tr>
<tr>
<td>Tax that would have been Paid Over to SARS</td>
<td>R 560 000.00</td>
</tr>
<tr>
<td>New Taxable Amount</td>
<td>R 1 050 000.00</td>
</tr>
<tr>
<td>New Final Tax Amount</td>
<td>R 294 000.00</td>
</tr>
<tr>
<td>Tax Saving</td>
<td>R 266 000.00</td>
</tr>
<tr>
<td>Effective After Tax kWh Allowance</td>
<td>R 0.266</td>
</tr>
</tbody>
</table>
How Does the Assessment Cycle Work?

Assume a Plant that operates 24/7/365 and has a constant usage of 1,000 kWh per month.

The annual baseline usage will be 12,000 kWh.

Assume an intervention where there is a 50% reduction in usage to 500 kWh per month.
Scenario 1: Savings for Single Tax Cycle

Verified kWh Savings = 12 000 – 6 000 = 6 000 kWh
Scenario 2: Savings Over 2 Tax Cycles

Year 1 = 12 000 – 9 500 = 2 500 kWh
Year 2 = 9 500 - 6000 = 3 500 kWh

2 500 kWh + 3 500 kWh = 6 000 kWh
Scenario 3: Savings Over 3 Tax Cycles

Annual Consumption

ENERGY INNOVATION FOR LIFE
What IS Covered?

- Classical Energy Efficiency – Retrofits of Equipment
- Greenfield Projects, *(required to construct the baseline from comparable data in the relevant sector)*.
- Captive Power Plants - Projects that improve the energy conversion efficiency > 35 %

Where the project is an *energy conservation* project that does not reduce the energy conversion efficiency of the activity, but maintains the same level of activity output and boundary conditions, as determined by *SANS 50 010*.

The project uses underutilised energy generated from an industrial process.
What is NOT Covered *(Regulation 6)*?

- **Renewable Sources** and **Co-Generation** are ‘generally’ excluded, other than waste-heat recovery or under-utilized energy.

- **Captive Power Plants**, where the energy conversion rate is **less than 35%**

- Concurrent benefits.

- Savings achieved before 1 November 2013 do not qualify – savings must be verified according to SANS 50 010 though and signed off by SANAS M&V
Agreed Exclusion to Concurrent Benefits?

Eskom IDM - Provisional

Monday to Friday

Saturday and Sunday

Section 12 i
SANEDI’s VALUE ADD

Must provide an ‘Assurance Function’ for the South African Revenue Services (SARS)

Must consolidate, analyse and report to the Department of Energy, National Treasury and SARS.

Must assist wherever possible, to ‘make it happen’!

Provide, maintain and improve the on-line database, to streamline the process & issue an ‘EE Tax Certificate’.

Develop and constantly improve the Guidelines.

Integrate current fragmented basket of activities into a ‘workable’ solution!
Some Points to Note

- This is the first-ever ‘Negawatt-based’ tax incentive globally!
- This is an ENERGY incentive and NOT only an ELECTRICITY incentive.
- SANEDI does NOT charge any fees for this activity!
- The on-line database is securely protected & confidentiality of all information submitted will be maintained!
- This is in no way the ‘perfect’ EE-solution!
The South African government wants to promote the efficient use of energy as a means to safeguard the security of supply. This will also have the knock-on effect of combatting greenhouse gases as a large part of the South African energy mix is generated from coal, which is obviously an environmentally unfriendly fuel source.

Therefore, the key aspect to be addressed through this legislation is efficient use of energy, more than generation of energy. There are other regulations that are in place or in the pipeline to address this.
<table>
<thead>
<tr>
<th>Key Performance Indicators</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects Registered on system</td>
<td>108</td>
</tr>
<tr>
<td>Baseline in progress</td>
<td>44</td>
</tr>
<tr>
<td>Inactivated projects</td>
<td>37</td>
</tr>
<tr>
<td>Deregistered</td>
<td>13</td>
</tr>
<tr>
<td>Certificate Issued</td>
<td>14</td>
</tr>
<tr>
<td>Incentives Claimed</td>
<td>R 5 664 845 667</td>
</tr>
</tbody>
</table>
THANK YOU

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www.saneditax.org.za

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