Government urged to drop carbon tax

Opposition parties on Tuesday (4 June) urged government not to proceed with its proposed carbon tax, becaus of its negative impact on SA's growth rate and the minimal impact it would have on global emissions.

By Linda Ensor 5 Jun 2013

But Treasury officials rebutted these arguments, stressing the need - during a meeting of Parliament's standing committee finance - that the tax was important as this would send a signal to industry to change its behaviour.

Treasury has released a final policy paper on the proposed carbon tax which will take effect from January 2015. Public comments on the proposals can be made until 2 August. Draft legislation providing for the proposed carbon tax would be finalised by the end of this year or early 2014, MPs were told.

Democratic Alliance finance spokesman Tim Harris questioned the wisdom of SA taking the lead in imposing another tax a time when SA's economic growth was well below those of its peers.

"SA can't afford to be the first developing country to impose this tax," Harris said.

He said there was little point to SA adopting a carbon emission tax on its own unless all countries did so. Its carbon emissions were miniscule relative to those of the US and China and reducing them would have little impact on global warming.

Tax imposed gradually

Harris' sentiments were shared by Congress of the People MP Nic Koornhof, who said the tax would send "the wrong sign at the wrong time".

But Treasury's chief director of economic tax analysis Cecil Morden stressed that the tax would be imposed gradually and there would be high thresholds during the first 10 years so industry could adjust and have time to invest in cleaner technologies.

In a briefing to Parliament's standing committee on finance on the carbon tax proposals, Morden rejected as unfounded th fears that a carbon tax would be onerous on companies and would result, for example, in a sharp hike in electricity prices because Eskom is a higher emitter of carbon.

"The tax will kick off at a low level," he said, adding that it was important to send the right signal to industry.

"After 10 years the tax would go up very steeply and this prospect would incentivise industry to change its behaviour," he added.

Morden argued that there were economic advantages to SA being among the leading countries in the world to impose a carbon emission tax.

"Early adoption of a low carbon intensive growth path can result in a competitive advantage in low carbon technologies," h noted, though he added that there were several countries taking action to reduce carbon emissions.

Tax policy

"What SA is proposing is on the fringes of what is happening elsewhere," Morden said.

Treasury deputy director general Ismail Momoniat agreed there was a need for an international co-ordinated action but emphasised the importance of SA signalling its intentions as a developing country.

He thought it was a "very bleak" approach to say that if the US and China did nothing there was no point in any other coun doing so.

"Government is committed to the policy," Momoniat said.

In terms of the Treasury's carbon tax policy paper a carbon tax will be imposed at a rate of R120 per ton of CO^2 above the basic tax free threshold of 60% with annual increases of 10% until 2019-20. "The thresholds would not be adjusted for inflation at the beginning of the implementation of the tax," Morden said.

An additional tax free allowance of 10% would be given for process emissions and a maximum of 10% for trade exposed sectors. Carbon offsetting would be allowed to reduce the carbon tax liability by a maximum of 5% or 10% depending on t sector.

The overall tax-free allowance for an entity would be capped at 90% of actual verified emissions for the first five years.

Morden said tax-free thresholds would be reduced during the second phase between 2020 to 2025 and could be replaced with absolute emission thresholds thereafter.

Source: Business Day via I-Net Bridge