

Renewable energy, solar tax incentive introduced for businesses, individuals

Government is introducing a R9bn tax relief programme to support the country's clean energy transition, increase electricity supply and limit the impact of consistently high fuel prices.



Source: Gallo/Getty

The programme was on Wednesday, 22 February, unveiled by finance minister Enoch Godongwana while delivering the 2023 Budget Speech.

The 2023 Budget Review report indicates that while R4bn in relief was provided for households that install solar panels, R5bn was provided to companies through an expansion of the renewable energy incentive. Above this, there would be no increase in fuel levies, resulting in R4bn in tax foregone, reads the report.

Expansion of renewable energy tax incentive

Godongwana said the tax incentive available for businesses to promote renewable energy would be temporarily expanded to encourage rapid private investment to alleviate the energy crisis.

The current incentive allows businesses to deduct the costs of qualifying investments over a one- or three-year period, which creates a cash flow benefit in the early years of a project.

“There will be no thresholds on the size of the projects that qualify, and the incentive will be available for two years to stimulate investment in the short-term,” Godongwana said.

Treasury said businesses are able to deduct 50% of the costs in the first year, 30% in the second and 20% in the third for qualifying investments in wind, concentrated solar, hydropower below 30 megawatts (MW), biomass and photovoltaic (PV) projects above 1MW.

“Investors in PV projects below 1MW are able to deduct 100% of the cost in the first year.

“Under the expanded incentive, businesses will be able to claim a 125% deduction in the first year for all renewable energy projects with no thresholds on generation capacity,” said Treasury.

The minister said the adjusted incentive will only be available for investments brought into use for the first time between 1 March 2023 and 28 February 2025.

For a business with positive taxable income, the deduction will reduce its tax liability. For example, a renewable energy investment of R1m would qualify for a deduction of R1.25m.

Using the current corporate tax rate, this deduction could reduce the corporate income tax liability of a company by R337,500 in the first year of operation.



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Rooftop solar tax incentive

To increase electricity generation, government is also proposing a rooftop solar incentive for individuals to invest in solar PV.

The minister said individuals will be able to receive a tax rebate to the value of 25% of the cost of any new and unused solar PV panels.

“To qualify, the solar panels must be purchased and installed at a private residence, and a certificate of compliance for the installation must be issued from 1 March 2023 to 29 February 2024.”

Godongwana said the rebate is only available for solar PV panels and not inverters or batteries.

“It [the rebate] can be used to offset the individual’s personal income tax liability for the 2023/24 tax year up to a maximum of R15,000 per individual.”

For example, an individual who purchases 10 solar panels at a cost of R40,000 can reduce their personal income tax liability for the 2023/24 tax year by R10,000.

Godongwana said changes to the Bounce Back Loan Guarantee Scheme are also proposed to incentivise renewable energy, rooftop solar, and address energy-related constraints experienced by small and medium enterprises.

“Government will guarantee solar-related loans for small and medium enterprises on a 20% first-loss basis. National Treasury will launch the Energy Bounce Back Scheme in April 2023,” he said.