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## **Green projects now tax-incentivised**

This year's Budget Speech was uneventful from a tax perspective.

One area, though, that did receive some attention from such a perspective was the environment. A number of initiatives were announced to address environmental challenges, most specifically climate change.

The extent of the environmental challenges facing South Africa was emphasised, as well as the particularly severe impact that they can have on poor communities (for instance those sited close to industrial areas). The international trend towards the use of market-based instruments to address environmental challenges was referred to as precedent for the proposed initiatives.

The first proposed incentive is additional income tax allowances for energy efficient equipment. These allowances may be as high as 15%, but they will be conditional upon proof of resulting energy efficiencies. Such efficiencies will be measured over a two- or three-year period and will have to be certified by the Energy Efficiency Agency. The additional allowances are intended to complement provisions in environmental legislation that require the elimination of inefficiencies in the use of energy, water and raw materials.

In a related issue, the clarification of the tax treatment of certified emission reductions (CER's) in terms of the Kyoto Protocol's clean development mechanism was announced. It is proposed that proceeds from the disposal of primary CER's will either be tax exempt or subject to Capital Gains Tax (CGT) rather than normal income tax. Secondary CER's will be classified as trading stock and taxed accordingly. It is intended that this clarification will encourage clean development mechanism projects in South Africa.

While the above two initiatives will decrease the tax burden on environmentally beneficial projects, there are then several initiatives that will increase the tax burden on environmentally unfriendly products. It was proposed that the levy on plastic bags be increased from 3c to 4c per bag.

A new environmental levy on incandescent light bulbs was also proposed. It would be in the approximate amount of R3 per bulb and would be levied at the manufacturing or import level.

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