CATALYST
solutions

SAEEC Renewable Energy Convention 2024

Unlocking Green Potential: A Guide to South Africa's Renewable Energy Tax Incentives

06 June 2024

Catalyst Solutions

Company Overview

Founded in 2012, our group of companies service our Clients by identifying and focusing on projects that drives innovation, energy efficiency, reduce carbon emissions and its impact on the environment.

INNOVATION

Innovation related grants and incentives to maximize the return on investment on R&D undertaken.

- R&D Tax Incentives
- R&D Cash Grants
- R&D Funding
- South Africa, Australia, Germany and the United Kingdom

CARBON

Assisting clients to decarbonize, unlocking growth and ensuring resilience in a low carbon world.

- Carbon footprinting and verification
- Carbon tax management
- Target setting and decarbonisation
- Carbon reporting
- Climate change risk and opportunity identification and management
- Climate change strategies
- Carbon offset development and trading

ENERGY

Assisting clients to drive down energy cost by identifying savings opportunities and tracking performance.

- Energy savings assessments
- Energy performance optimization
- Alternative energy advisory
- Section 12L energy efficiency tax incentive
- Energy measurement and verification
- Energy Performance Certificates (EPC)
- Energy management system implementation (ISO 50001)

INCENTIVES

Partnering with clients to maximize benefits through various tax incentive and grant programmes.

- Tax Incentives
- Government Grants (CIP and MSP)
- Blended finance advisory and fundraising (Green and other investments)
- Supplier and enterprise development
- Localisation initiatives
- Employment incentives

ESG TECHNOLOGY SOLUTIONS – Powered by ECONEST

Sustainability Reporting for Complex ESG Needs

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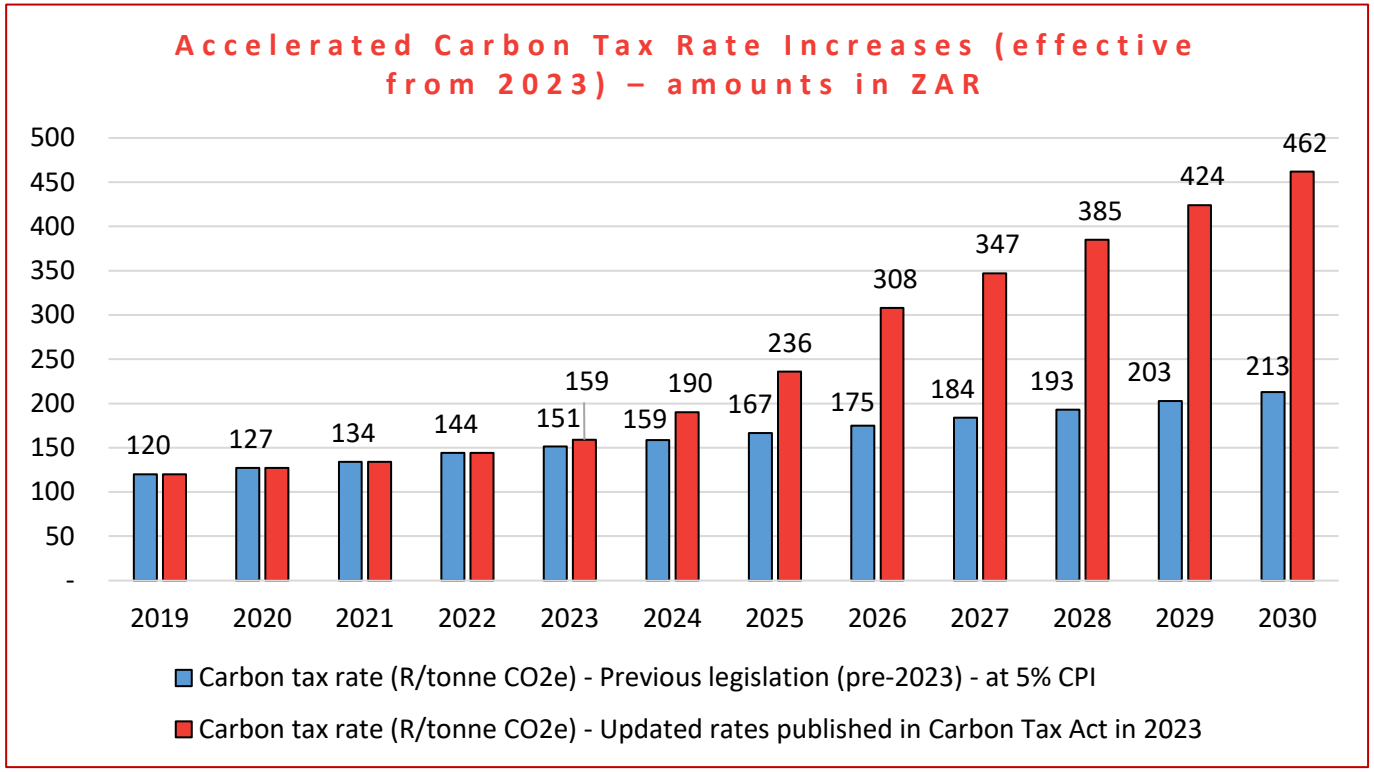
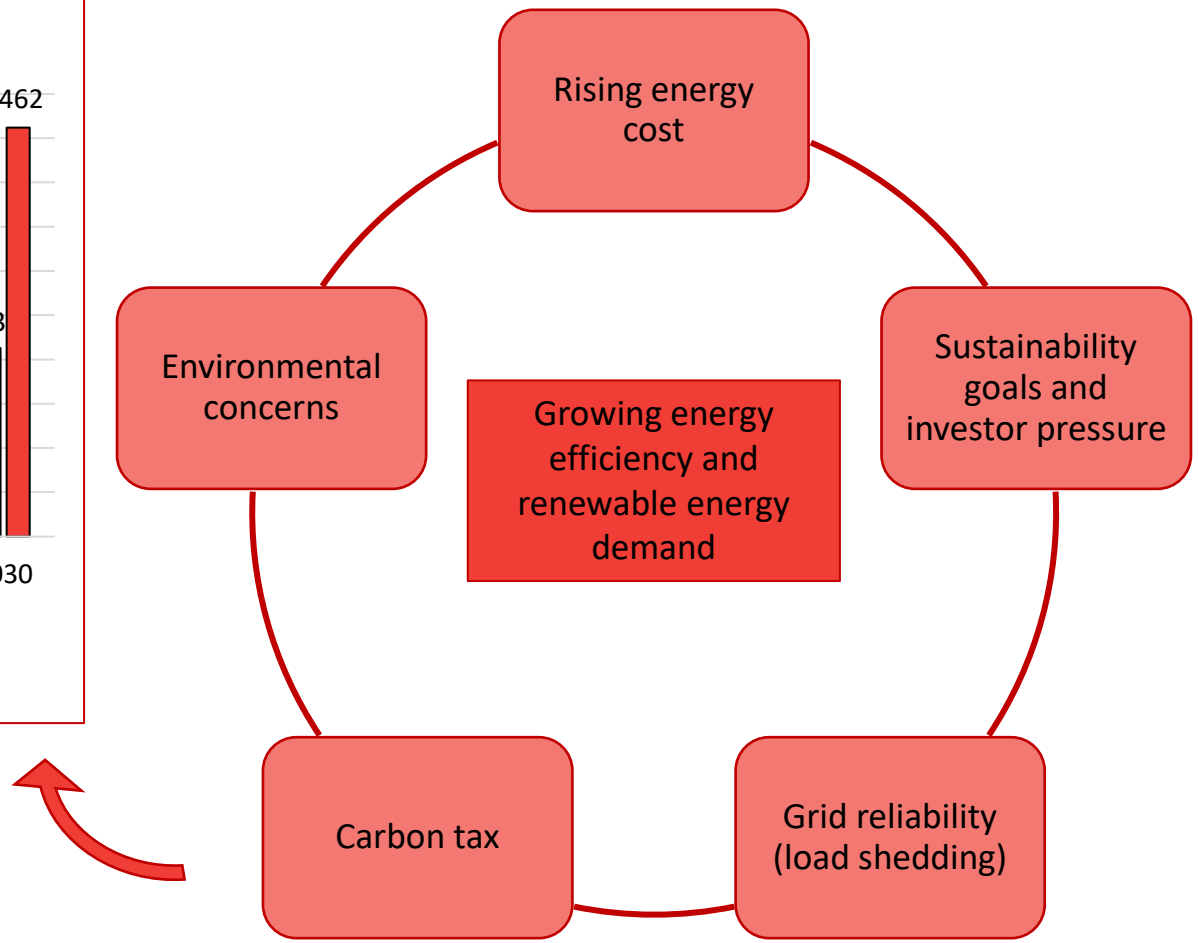
INTRODUCTION





SECTION 12B RENEWABLE ENERGY TAX INCENTIVE

Section 12B: Deduction in respect of certain machinery, plant, implements, utensils and articles used in farming or production of renewable energy

Timing:

- Introduced before March 2023 (i.e. before section 12BA)

Purpose:

- To promote investment in renewable energy equipment by allowing an accelerated tax deduction on the cost of such equipment.

Key Features:

- Qualifying Assets: Applies to machinery, plants, and equipment used for generating renewable energy, including solar pv systems, wind turbines, hydropower, and biomass (limited to 30 MW) energy equipment.
- Depreciation Allowance:
  - For projects over 1 MW: allows an accelerated depreciation over 3 years:
    - 50% in year one
    - 30% in year two
    - 20% in year three
  - For solar pv projects under 1 MW: allows 100% write-off of the cost of the asset in the first year of use.
- Eligibility: Available to taxpayers who own and use the renewable energy equipment in their business operations.
- Benefit: Immediate tax benefit by reducing taxable income significantly in the year the asset is acquired and brought into use.

SECTION 12BA ACCELERATED RENEWABLE ENERGY TAX INCENTIVE

Section 12BA: Enhanced deduction in respect of certain machinery, plant, implements, utensils and articles used in production of renewable energy

Timing:

- Introduced after March 2023
- Sunset clause: 01 March 2025

Purpose:

- To promote investment in renewable energy equipment by allowing an enhanced accelerated tax deduction on the cost of such equipment.

Key Features:

- Qualifying Assets: Applies to machinery, plants, and equipment used for generating renewable electricity, including solar pv systems, wind turbines, hydropower, and biomass energy equipment.
- No limitation on the generation capacity
- Depreciation Allowance: 125% for all projects, regardless of size
- Eligibility: Available to taxpayers who own and use the renewable energy equipment in their business operations.
- Benefit: Immediate tax benefits by reducing taxable income significantly in the year the asset is acquired and brought into use. From a taxation perspective, the 100% is a temporary difference (accelerated allowance) and the 25% is a permanent difference (additional deduction).

SECTION 12B AND 12BA ENHANCED RENEWABLE ENERGY TAX INCENTIVE

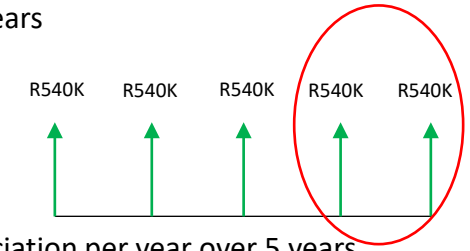
Differences in Cash Benefit Between Section 12B and Section 12BA

Example to illustrate advantages of tax incentives and the key difference between section 12B and section 12BA: a solar pv project not exceeding 1 MW that costs R10 million

Straight-line depreciation (no tax incentive)

Depreciation: Assume straight-line depreciation over 5 years

Tax Calculation Example:



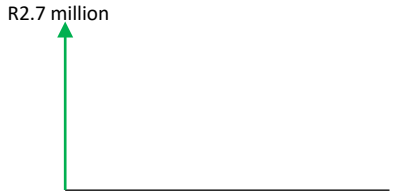
Assume a corporate tax rate of 27%.

- R10 million (project cost)/5 years = R2 million depreciation per year over 5 years
- After tax benefit each year over 5 years = R2 million x 27% = R540 000
- Total tax benefit over 5 years = R2.7 million

Section 12B:

Depreciation Allowance: 100% in the first year (solar pv project not > 1 MW)

Tax Calculation Example:



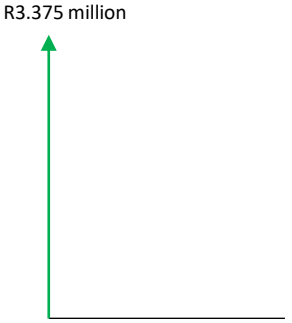
Assume a corporate tax rate of 27%.

- Year 1 Depreciation Allowance: R10 million (project cost) x 100% = R10 million
- After tax benefit in Year 1 = R10 million x 27% = R2.7 million

Section 12BA:

Depreciation Allowance: 125% in the first year of use

Tax Calculation Example:



Assume a corporate tax rate of 27%.

- Year 1 Depreciation Allowance: R10 million (project cost) x 125% = R12.5 million
- After tax benefit in Year 1 = R12.5 million x 27% = R3.375 million
- Tax Saving as a result of the Permanent Difference in Year 1: R10 million (project cost) x 25% (Enhanced Depreciation Allowance portion) = R2.5 million x 27% = R675 000

Present Value of Tax Savings

To accurately compare the cash benefit, it is necessary to consider the present value (PV) of tax savings because receiving tax benefits sooner is more valuable than receiving them later. Accounting for this, it is evident that phased benefit under normal depreciation circumstances will result in a slightly lower present value of tax savings compared to the immediate benefit under Section 12B and Section 12BA.

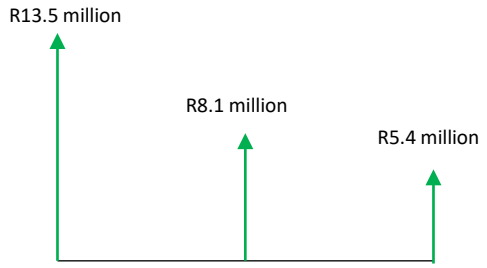
Section 12BA has an additional after-tax benefit of R675 000 (25% Permanent Difference)

SECTION 12B AND 12BA ENHANCED RENEWABLE ENERGY TAX INCENTIVE

Differences in Cash Benefit Between Section 12B and Section 12BA

Example to illustrate advantages of tax incentives and the key difference between section 12B and section 12BA: a wind farm project with a generation capacity of 10 MW that costs R100 million

Section 12B:



Depreciation Allowance:

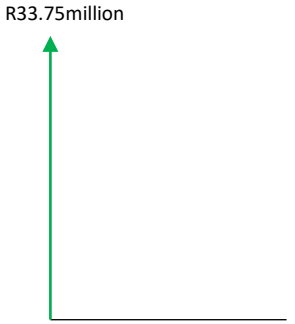
- 50% in year one
- 30% in year two
- 20% in year three

Tax Calculation Example:
Assume a corporate tax rate of 27%.

- Year 1 Depreciation Allowance: 50% of R100 million = R50 million.
- After tax benefit in Year 1: R50 million x 27% = R13.5 million.
- Year 2 Depreciation Allowance: 30% of R100 million = R30 million.
- After tax benefit in Year 2: R30 million x 27% = R8.1 million.
- Year 3 Depreciation Allowance: 20% of R100 million = R20 million.
- After tax benefit in Year 3: R20 million x 27% = R5.4 million

Total after tax benefit over the three years: R27 million

Section 12BA:



Depreciation Allowance: 125% in the first year of use

Tax Calculation Example:
Assume a corporate tax rate of 27%.

- Year 1 Depreciation Allowance: R100 million (project cost) x 125% = R125 million
- After tax benefit in Year 1 = R125 million x 27% = R33.75 million
- Tax Saving as a result of the Permanent Difference in Year 1: R100 million (project cost) x 25% (Enhanced Depreciation Allowance portion) = R25 million x 27% = R6.75 million

Section 12BA has an additional after-tax benefit of R6.75 million (25% Permanent Difference)

Timing is crucial for Section 12BA: sunset date is 01 March 2025

SECTION 12U TAX INCENTIVE FOR INFRASTRUCTURE RELATED TO RENEWABLE ENERGY

Section 12U: Additional deduction in respect of roads and fences in respect of production of renewable energy

Purpose:

- To promote investment in renewable energy equipment by allowing accelerated depreciation on infrastructure supporting renewable energy equipment.

Key Features:

- Qualifying Assets: Applies to the construction and improvements (excluding repairs) of roads, fences, and support structures for the fences for generating electricity from solar pv systems, wind turbines, hydropower (not exceeding 30 MW), and biomass energy equipment.
- Generation capacity allowance: must exceed 5 MW
- Depreciation Allowance: 100% in year one
- Eligibility: Available to taxpayers who own and use renewable energy equipment in their business operations.
- Benefit: Tax deduction - reducing taxable income in the year the assets are brought into use.

SECTION 12L ENERGY EFFICIENCY TAX INCENTIVE (SPECIFIC APPLICATION)

Section 12L: Deduction in respect of energy efficiency savings

Purpose:

- To encourage businesses to adopt energy efficiency measures by providing a tax benefit.

Benefit:

- Tax certificate (deducted from taxable income): 95c per kWh quantified savings
- Tax savings as a result of the Permanent Difference: 95 c/kWh x 27% = 25.65 c/kWh

Key Features:

- **Excludes** renewable energy generation with the exemption of energy generated from combined heat and power (CHP) systems where electricity and useful heat are produced from an energy source which is a co-product, by-product, waste product or residual product of an underlying industrial process.
- An example of an eligible project could be switching to a biomass boiler that is operated from biomass that is a co-product, by-product, waste product or residual product **from own operations**
- Eligibility: Available to taxpayers who own and use renewable energy equipment in their business operations.
- Benefit: Tax deduction (Permanent Difference) - reducing taxable income in the performance assessment year.

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INTRODUCTION TO SPEAKER

Elizna du Toit

Elizna is a chemical engineer with a master’s degree in mechanical engineering. As a Certified Measurement and Verification Professional (CMVP®), she is skilled in the Measurement and Verification (M&V) of energy efficiency savings, and she has assisted clients in obtaining more than R115 million in shareholder value through the Section 12L energy efficiency tax incentive. She is a Technical Signatory with Catalyst Solutions, a SANAS-accredited inspection body for the measurement and verification of energy savings.