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South African National Energy
Development Institute (SOCI) Ltd.



Section 12-L
of
the South African Income Tax Act

IEA EE Training Week for Sub-Saharan Africa



15 October 2019

ENERGY INNOVATION FOR LIFE

Barry Bredenkamp
SANEDI



mandate

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.

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for South Africa



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South African National Energy
Development Institute (SOCI) Ltd.



No. 37019 GOVERNMENT GAZETTE, 8 NOVEMBER 2013

GOVERNMENT NOTICE

NATIONAL TREASURY

No. 855 8 November 2013

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GOVERNMENT NOTICE

National Treasury

Government Notice

855. Income Tax Act, 1962: Notice of the date upon which section 12L (deduction in respect of energy efficiency savings), as inserted by Act 17 of 2009, amended by Act 7 of 2010 and substituted by Act 22 of 2012 comes into operation on **1 November 2013**.

Printed by and obtainable from the Government Printer, Bosman Street, Private Bag X85, Pretoria, 0001

SANEDI's 12-L “Value Add”

- Must provide an **‘Assurance/ Verification Function’** on behalf of SARS.
- Must **consolidate, analyse and report** to DoE, 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 supporting **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!
- 🇳🇬 A general **myth** exists that 12-L was the cause of the suspension of the **IDM-funding**!
- 🇳🇬 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**!

Background and Key Dates



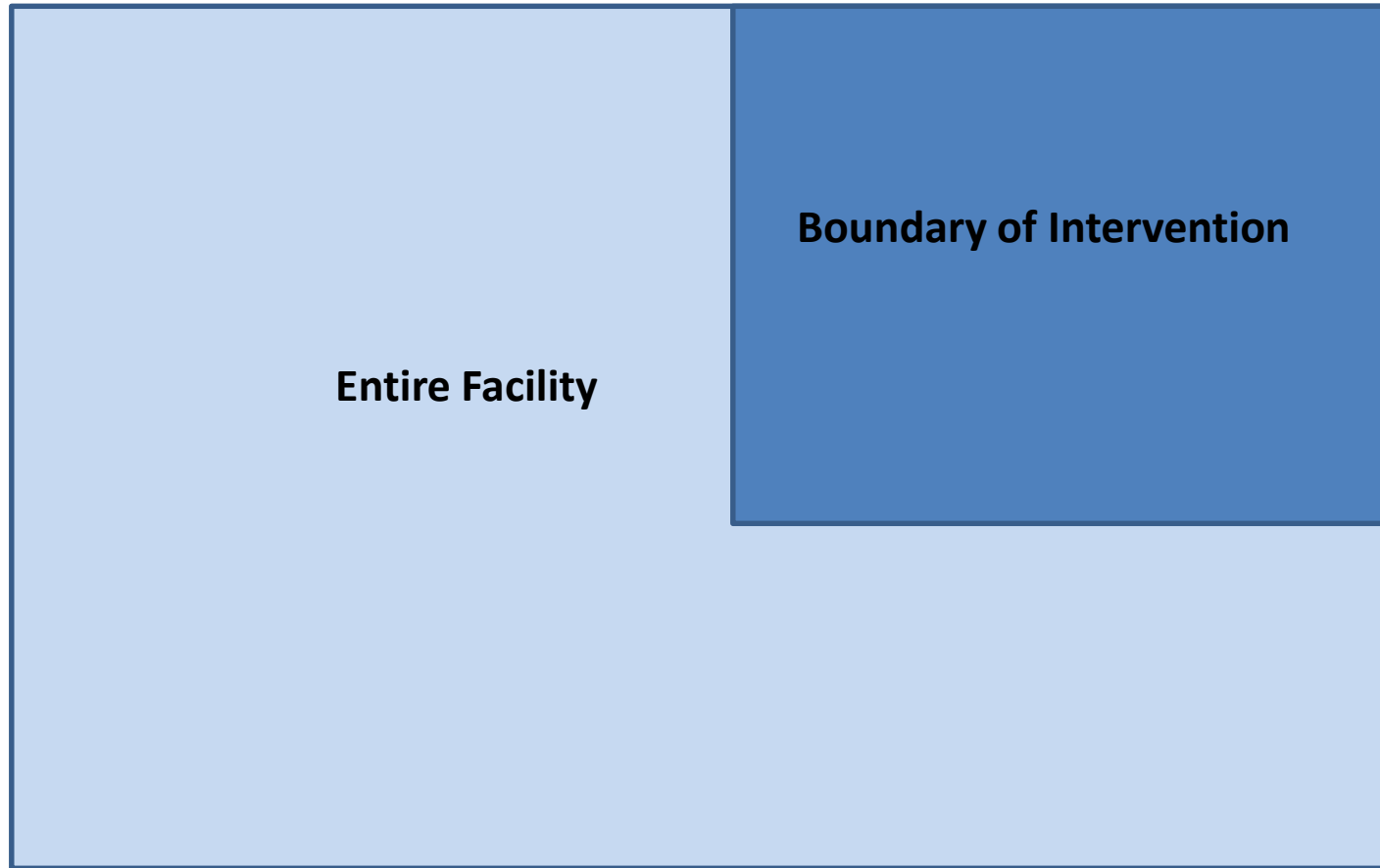
-  **2009** – then Minister of Finance announced incentives for those that can demonstrate *energy efficiency savings*.
-  **2009** – Section **12-I** in place for *large industrial projects*.
-  **9 December 2013** – 12-L promulgated with an effective date of **1 November 2013**.
-  **1 January 2020** – 12-L available for any year of assessment for trade ending before 1 January 2020.
-  2019 - Extended to **1 January 2023**.

12-L in a Nutshell

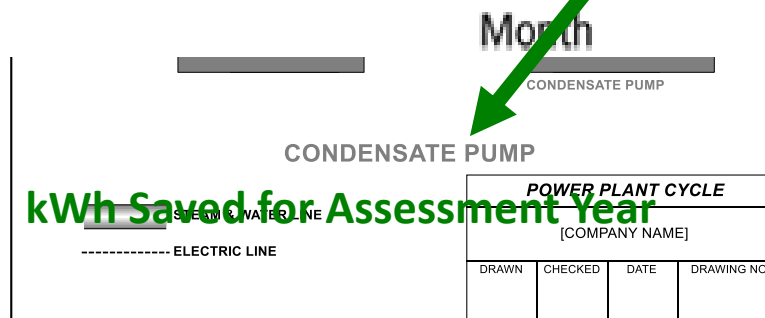
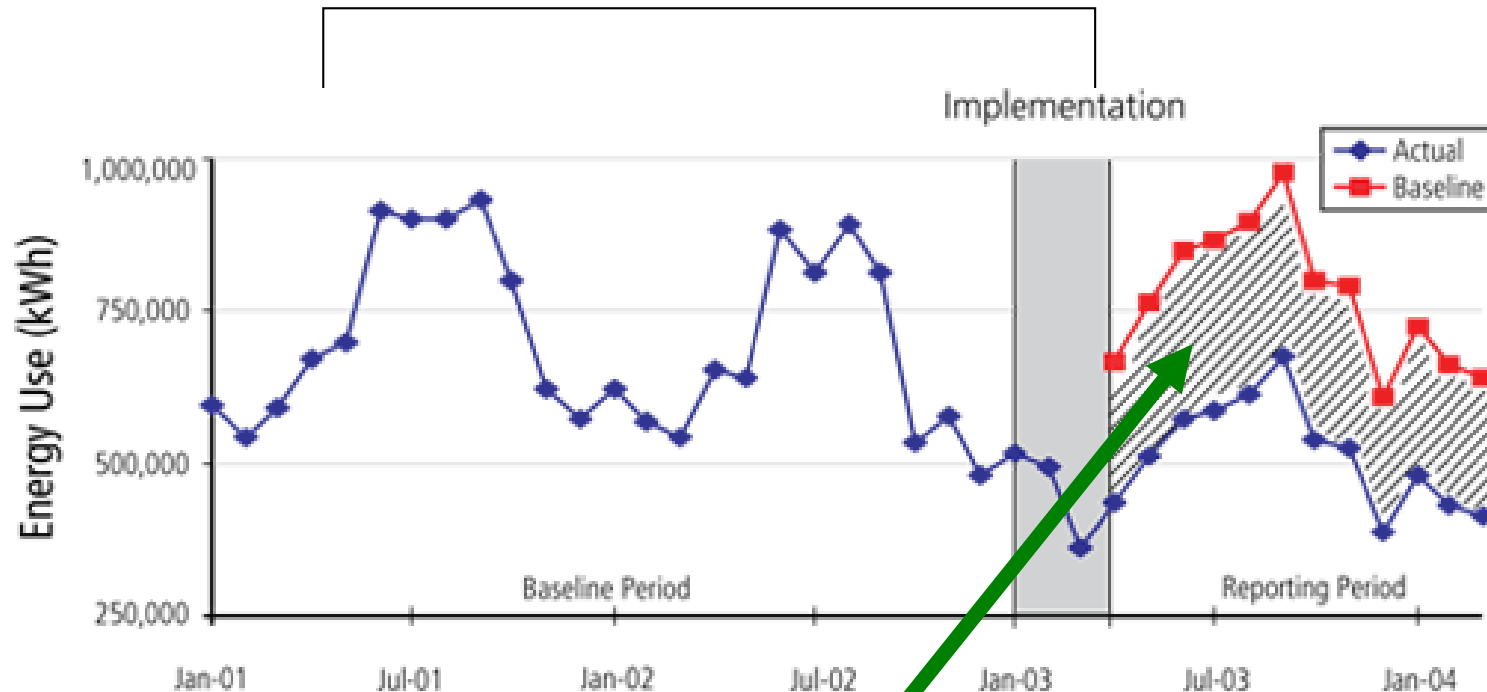


- Initial tax incentive of **45 c per verified kWh**, (or *equivalent kWh*) – **now 95c/kWh, (from 2015)**
- Tax incentives are currently offered for **one (1) *assessment year*** of kWh savings.
- Only applicable to **registered businesses**.
- No concurrent benefits** allowed.
- A **SANAS accredited** body to sign-off on the **M&V** reports.

How Does It Work ?



How Does It Work ?

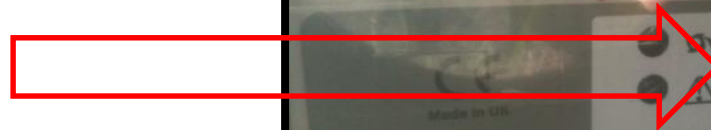


How Does the Assessment Cycle Work?

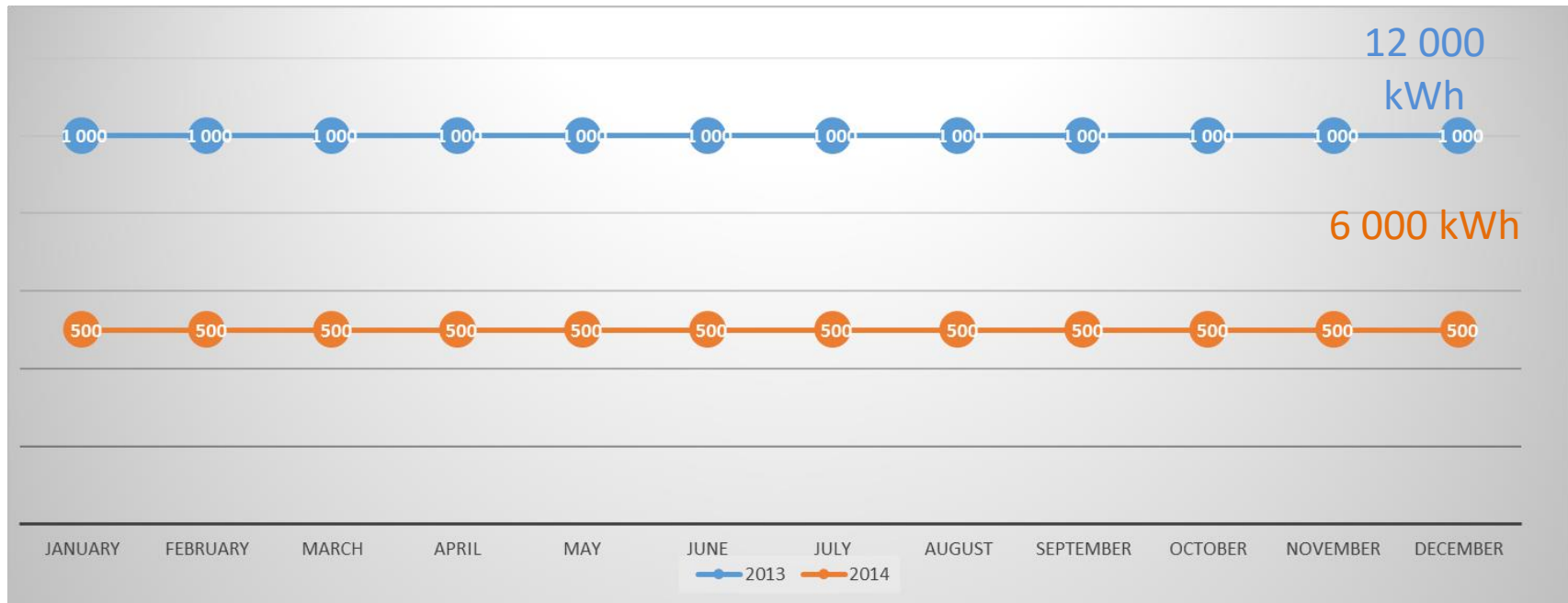


- Assume a Plant that operates 24/7/365 and has a constant usage of 1 000 kWh per month.
- The annual baseline usage will be 12 000 kWh.
- Assume an intervention where there is a 50% reduction in usage to 500 kWh per month.

kWh

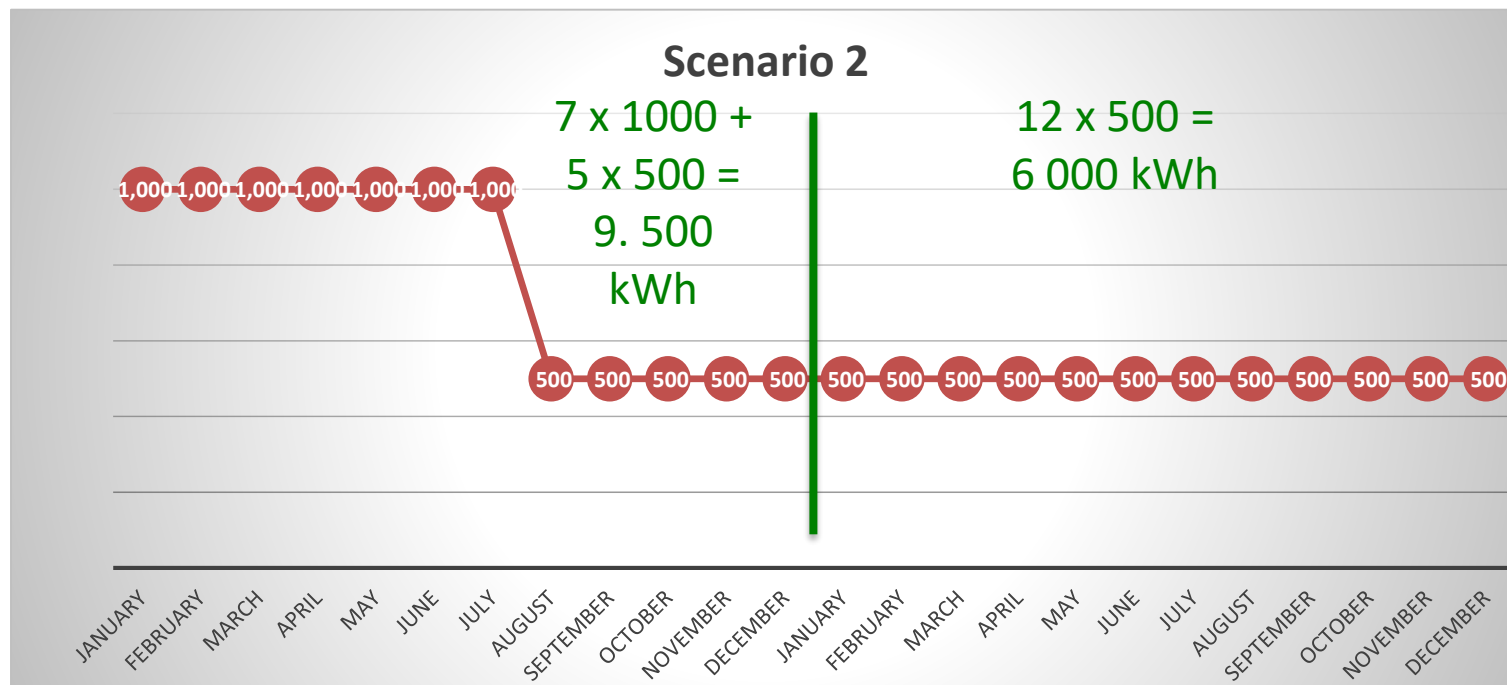


Scenario 1: Savings for Single Tax Cycle



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 - 6 000 = 3 500 kWh

2 500 kWh + 3 500 kWh = 6 000 kWh

What is **NOT** Covered (*Regulation 6*)?



-  **Renewable Sources** are ‘generally’ excluded, other than waste-heat recovery or under-utilised energy.
-  **Captive Power Plants**, where the energy generated is **less than 35%** of the requirements for the facility.
-  Concurrent benefits.





Captive Power Plant – *an example*



- 🇮🇳 Must be for own use & not fed into or ‘wheeled’ through the grid.
- 🇮🇳 Must be more than 35% of the kWhs or equivalent kWhs of energy input that would have been required in respect of that year of assessment.
- 🇮🇳 This can be interpreted as an **exception to the rule**, where **renewables** are excluded from 12L, if all the above criteria are met.

What IS Covered ?



-  Greenfield Projects, *(required to construct the baseline from comparable data in the relevant sector).*
-  Projects that improve the energy conversion efficiency.
-  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.

Guidelines

*(in **support** of the 12-L Regulations)*



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Select Link to 12-L Online Application



The 12L regulation sets out the process for determining the quantum of energy efficiency savings, and the requirements for claiming the proposed tax deduction.

Section 12L incentives include all energy efficiency projects that reduce energy use and is claimable until 2020. It is important to note that the tax incentive is available for savings in all energy forms and not only electricity.

The expected tax relief would be a 45 cents deduction on taxable income per kilowatt hour of energy saved – subject to all the conditions in the 12L regulations being met.

The regulation for 12L sets out the process for determining the quantum of energy efficiency savings, and requirements for claiming the proposed tax deduction.

SANEDI will be running workshops across the country on the process. Dates for the workshop will be published shortly on this website.

[Link to the 12L online application Website](#)

There is a list of Frequently Asked Questions that have been compiled.

Please see below the attachment with the FAQs. Please read through this for more information on the process.

05 February 2014 - The Green Business Guide

The 12L regulation was promulgated in December 2013 and is currently "...

[Q&A with Andrew Gilder, Senior Associate in environmental la...](#)

30 January 2014 - 25degrees.net

Late last year, COP19 discussions were held in Poland regarding develo...

Blog

- + bigEE BAT
- + Renewable energy post2
- + Renewable Energy Article
- + Working for Energy Article
- + SANEDI's Mandela Day Celebrations

SANEDI Building Energy Consumption Feed

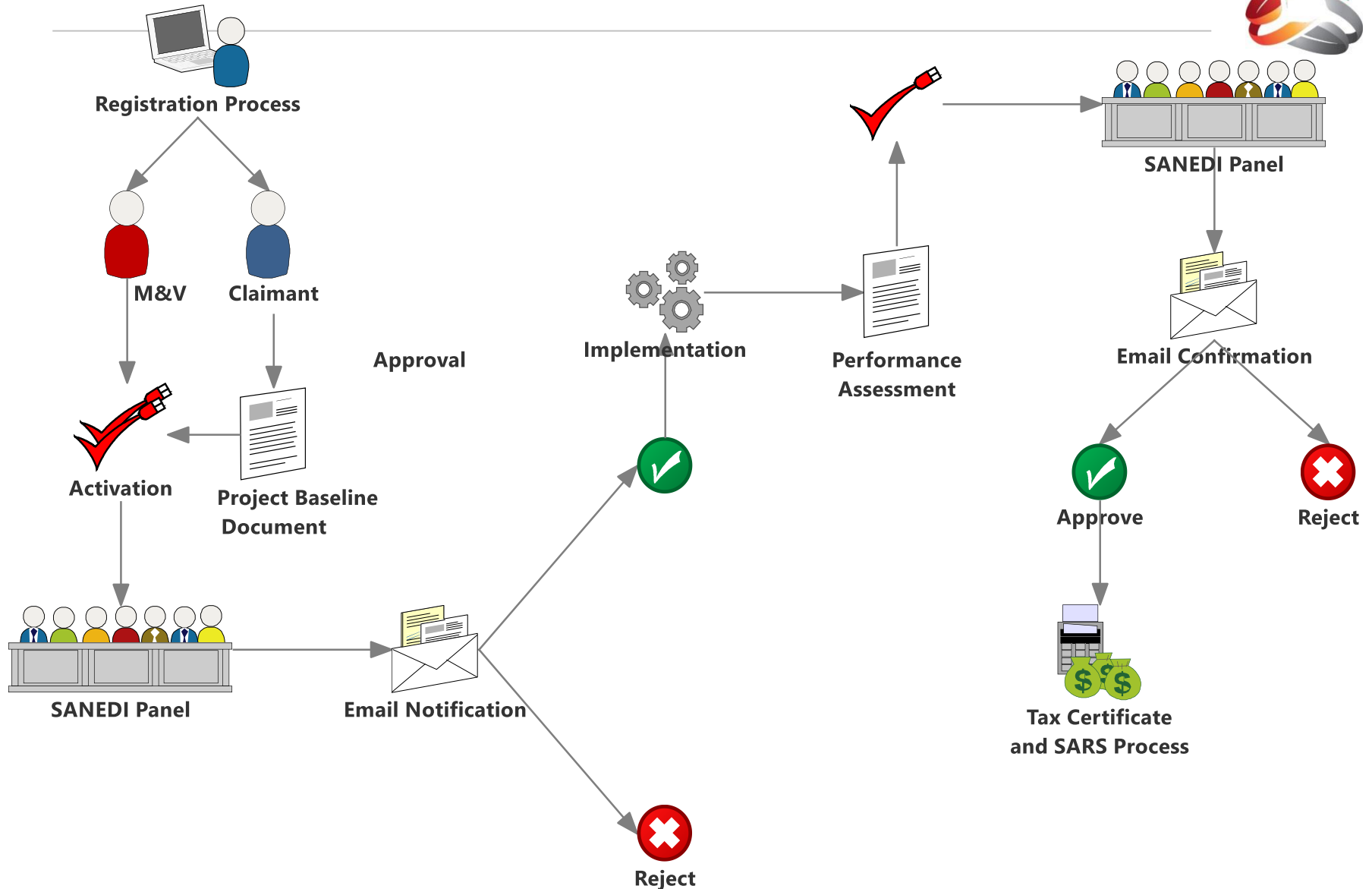
sanedi.org.za/wp-content/uploads/2013/12/Picture1.jpg

Eligibility Checklist and Data Gathering



F0	The tax allowance is Rand	R	135 000
F1	Estimation of the tax incentives for this project is:	R	37 800
F2	Your total M&V verification cost must be lower than:	R	37 800
F3	Life time “kWh saved” tariff based on total investment, ignoring financing interest rates and other additional operating costs are:	R	0.20
F4	You are only required to hire a SANAS Accredited M&V body who employ an M&V professional to perform the M&V according to SANS 50010 if the tax incentive will be claimed. You are not required to hire any member of an M&V body for registration or any other services related to project design. However consulting an M&V professional at this stage may provide you with a better understanding of the complexity or simplicity of M&V of your project idea in particular with respect of drawing the project boundary and M&V costs involved Estimation of kWh equivalent savings for the year of assessment		
F5	Would you like to proceed with the eligibility test: Yes/No ?		

SANEDI ONLINE Tool



Conclusion and the Way Forward



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Tax-based or Rate-based Incentives?



 **Energy** vs Electricity Efficiency?

 Longer & consistent **planning** 'windows'?

 Revenue Neutrality/ 'Win-Win' options?

 *Tax Rebate = Reduced Energy/ Operational Expenses =
Higher Profits = More Taxes!*

Conclusion & the Way Forward



- 🇳🇮 Continue improving the process, Regulations, database, etc., to resolve any misunderstandings relating to the interpretation of the Act and the Regulations.
- 🇳🇮 Provide National Treasury with recommendations to enhance/ improve the current incentive.
- 🇳🇮 Independently commission a bi-annual review of the functionality of the system, as well as the overall ***energy-and-economic impacts*** of the ***12-L Tax Incentive***.

System *SECURITY*



The **12-L Energy Efficiency TAX On-line System** has been developed, using the concept of (WAMP) *Windows-Appache-PHP-MySQL DataBasE* and is currently hosted by *Hetzner*.

In order to professionally secure this website, it was decided to apply for a *SSL certificate* for the current (*to be revised*), saneditax.org.za domain and this certificate has already been issued by *Hetzner*.





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THANK YOU



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