PHASE 2 CARBON TAX DISCUSSION PAPER:

OVERVIEW OF PROPOSALS

Stakeholder Consultation Workshop

16 January 2025

Environmental & Fuel Tax Directorate

Tax & Financial Sector Policy
National Treasury

16 January 2025

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

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Climate Change is an environmental and economic risk…

- **Climate change remains the largest environmental risk and challenge to the world**. The Intergovernmental Panel on Climate Change (IPCC) in its Sixth Assessment Report (AR6) confirms that it is expected that global surface temperature will continue to increase until at least the mid-century under all emissions scenarios considered, exceeding the global warming goals of 1.5°C and 2°C during the 21st century unless deep reductions in greenhouse gas (GHG) emissions occur in the coming decades.
- Limiting human-induced global warming to a specific level requires limiting cumulative carbon dioxide (CO_2) emissions, reaching at least net zero CO_2 emissions, along with strong reductions in other GHG emissions which would also improve air quality.
- **The 27th United Nations Climate Change Conference held in Egypt in 2022 adopted the Sharm el -Sheik Implementation Plan**. It acknowledged that the impacts of climate change exacerbate the global energy and food crises, particularly in developing countries.
- The **plan stressed that the complex and challenging global geopolitical situation** and its **impact on the energy, food and economic situations**, as well as the additional challenges associated with the socioeconomic recovery from the coronavirus pandemic, ***should not be used as a pretext for backtracking, backsliding or de-prioritizing climate action.***

South Africa's Climate Policies and Measures to facilitate a Just Transition

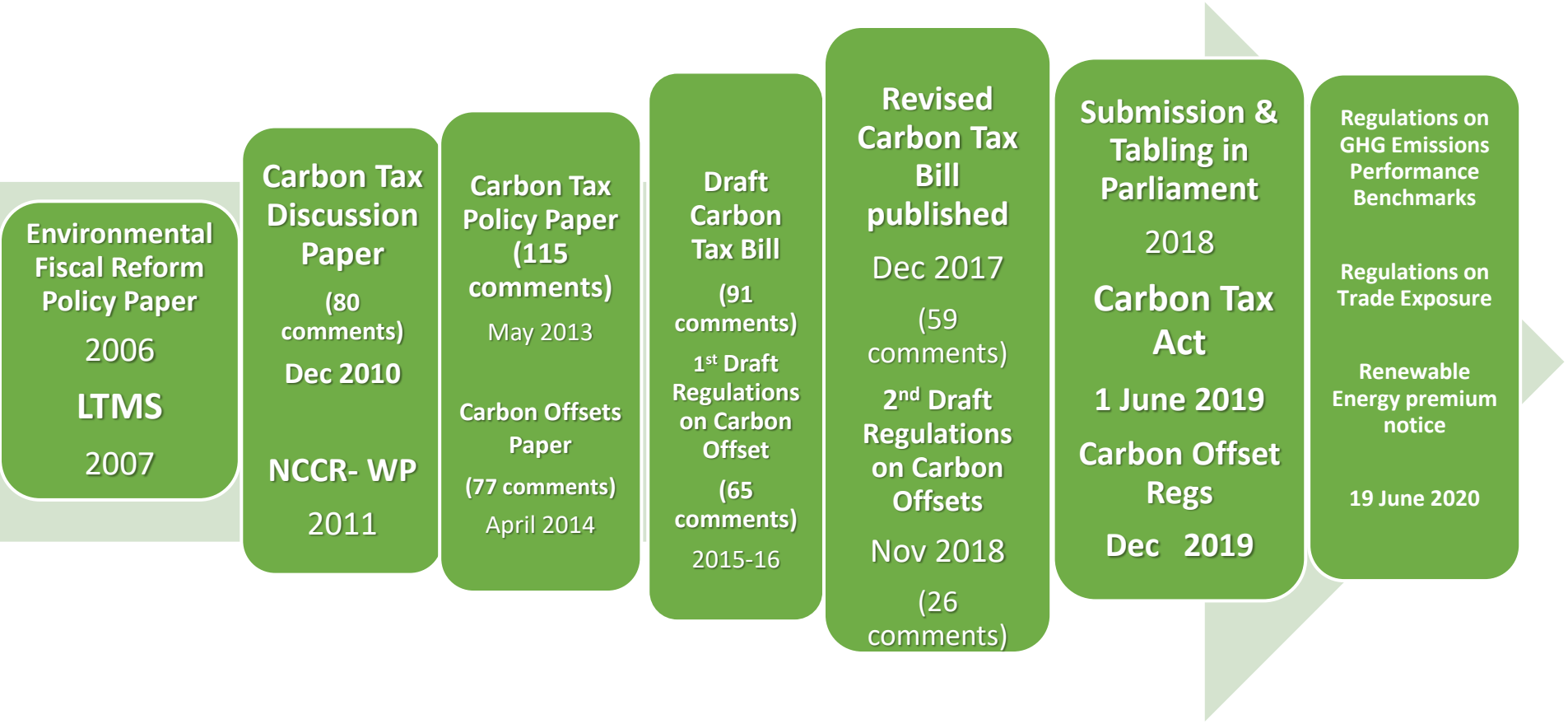
- **As a top 20 emitter of greenhouse gas emissions globally, South Africa made commitments under Paris Agreement** to reduce greenhouse gas emissions and to contribute to global efforts to limit warming to well below 2°c above pre-industrial levels and to pursue efforts to achieve the 1,5°c temperature goal.
- **South Africa's commitments are set out in the 2nd and 3rd Nationally Determined Contributions (NDCs)** submitted to the UNFCCC at the COP26 meeting.
- **This requires a peaking of greenhouse gas emissions in 2025** in the range of **398 to 510 Megatonnes (Mt)** and a **sharp decline in emissions from 2026 to 2030** in the range of **350 to 420Mt**.
- **A rapid and significant decline in emissions from the energy sector** esp electricity generation, liquid fuels and road transport will be necessary, taking into account the just transition.

- **Carbon Tax Act (2019)** – implemented on 1 June 2019
- **National Climate Change Act – signed into Law by the President of South Africa on 23 July 2024**
- **Sectoral emission targets, carbon budgets, and mitigation plans** – methodology and sector targets framework approved.
- **Low Emissions Development Strategy (2020)** – net zero emissions commitments by 2050
- **Integrated Resource Plan (2019)** – indicative 2030 electricity plan
- **Tax incentives** for energy efficiency, renewable energy, biofuels production, biodiversity conservation and new energy vehicle production
- **Carbon offset administration system (COAS**) – approval of carbon offset projects and issuance of offset certificates
- **Mandatory National Greenhouse Gas Reporting Regulations** (2017) – basis for carbon tax and Greenhouse Gas Emissions Reporting to the UNFCCC
- **Just Energy Transition Investment Plan –** climate finance to support strategic decarbonisation of the electricity sector
- **Green taxonomy** and Sustainable finance paper

BACKGROUND – Carbon tax process

- Carbon tax forms an integral part of **climate change** response policy package under the **National Climate Change Response Policy (NCCRP) of 2011**, and in **National Development Plan (NDP)** as an important cost-effective instrument
- **The Carbon Tax policy was developed over a 10-year period** following extensive stakeholder consultations after **a Carbon Tax Discussion paper published in 2010, and** the **Cabinet approved Carbon Tax Policy Paper, published in 2013,** setting out the policy rationale,, design considerations and outlining proposals for the imposition of the carbon tax.
- **The Carbon Tax Act No 15 of 2019 was signed into law by the President in May 2019.** The carbon tax came into effect on 1 June 2019.
- **The Carbon Tax Act gives effect to the polluter-pays-principle** and helps to ensure that firms and consumers take these costs into account in their FUTURE production, consumption and investment decisions. Assists in reducing GHG emissions and ensuring SA will meet its NDC commitments as part of its ratification of the 2015 Paris Agreement.
- **The Carbon Tax was introduced at a very low effective carbon tax rate with significant tax-free emission allowances** ranging from 60 per cent to 95 per cent to provide current significant emitters time to transition their operations to cleaner technologies through investments in energy efficiency, renewables, and other low-carbon measures.
- **Phased approach to the introduction of the taxes -** Starting off at a relatively modest rate initially coupled with generous tax-free allowances. **Tax rates and allowances to be adjusted over time to facilitate a structural transition to a low carbon**, climate resilient economy in a cost-effective manner.

Carbon Tax Consultation Process - timeline



Rationale for Carbon tax and design considerations

- **Policy rationale for a carbon tax**
  - **The introduction of a carbon price will change the relative prices of goods and services**, making emission-intensive goods more expensive relative to those that are less emissions intensive. This provides a powerful incentive for consumers and businesses to adjust their behaviour, resulting in a reduction of emissions.
  - A carbon price / tax will influence future investment decisions and reduce the price-cost differentials between fossil fuel-based electricity and renewable energy.
  - **Although this option does not set a fixed quantitative limit to carbon emission over the short term**, a **carbon tax at an appropriate level and phased in over time to the "correct level" will provide a strong price signal to both producers and consumers to change their behaviour** over the medium to long term.
  - **A carbon tax that is implemented gradually and complemented by effective and efficient revenue recycling can contribute to significant emission reductions.**
- **First mover competitive advantage gains among developing countries** creates incentives:
  - ➢ To promote new green industries and access new export markets
  - ➢ For the adoption of low carbon technologies through research, development and innovation
- **Minimise potential adverse impacts on low-income households and industry competitiveness** through targeted revenue recycling.
- A **reduction of GHG emissions also improves air quality** hence environmental quality.

CARBON TAX DESIGN FEATURES: Rate, Tax-free Allowances and Recycling Measures (2024)

Tax rate and allowances

- **Carbon tax at R190 per ton of CO_2e (~US$10)**
- 60% basic tax-free threshold
- Max of 10% tax-free allowance for trade exposure
- 10% tax-free allowance for process and fugitive emissions
- **Up to 5% performance allowance**
- 5% tax-free allowance for complying with carbon budgets information requirements
- **5 or 10% allowance for Carbon Offsets – to reduce the carbon tax liability**

- Tax-free allowances of **60-95%** - effective tax rate of **~R10 – R76 t/CO_2e**
- No impact on electricity prices in the first phase until Dec 2025

Revenue Recycling

- Energy Efficiency Savings tax incentive
- Credit against electricity generators carbon tax liability for the renewable energy premium built into the electricity tariffs
- Credit for the electricity levy

Tax free allowances

	GHG Emissions			
	Combustion	Process	Fugitive	
Tax free allowances				
Basic	60	60	60	
Process emissions	n/a	10	n/a	
Fugitive emissions	n/a	n/a	10	
Trade exposed	10	10	10	Max = 10
Performance based (Z - factor)	5	5	5	Max = 5
Carbon budget	5	5	5	
Offsets	10	5	5	
Total	**90**	**95**	**95**	

Combustion emissions have a lower overall tax-free threshold due to the fuel switch options available.

Budget 2022 Announcements

Climate change response and carbon tax price path

- *South Africa's climate commitments are set out in the Cabinet-approved nationally determined contributions, which were submitted to the United Nations Framework Convention on Climate Change at the 2021 UN Climate Change Conference.*
- *To meet these commitments, the country's greenhouse gas emissions must peak by 2025 and then quickly decline to between 350 million and 420 million tonnes by 2030, and approach net-zero emissions by 2050. The carbon tax is integral to lowering emissions. In addition, the country will need to enact legislation and implement carbon budgets and sector emission targets to reduce emissions. Simultaneously, South Africa's exports of carbon-intensive goods such as iron and steel are likely to face carbon taxes in Europe, which will reduce their competitiveness.*
- *To prepare South Africa for the structural transition to a climate-resilient economy, government proposes to progressively increase the carbon price every year by at least US $1 to reach US$20 per tonne of carbon dioxide equivalent by 2026. For the second phase, government intends to increase the carbon price more rapidly every year, to at least US$30 by 2030, accelerating to higher levels by 2035, 2040 and up to US$120 beyond 2050.*
- *The basic tax-free allowances will also be gradually reduced to strengthen the price signals under the carbon tax from 1 January 2026 to 31 December 2030. To encourage investments in carbon offset projects, government intends to increase the carbon offset allowance by 5 per cent from 1 January 2026.*

Budget 2022 announcements (2)

- **Extension of phase 1 revenue recycling measures for 3 years ie. 2023 to 2025**
  - Extension of the **Energy Efficiency Savings tax incentive (12L)**
  - **Electricity price neutrality** – credit for electricity generation levy and renewable energy purchases extended to Dec 2025
- **Carbon tax rate trajectory (2023 to 2030)**
  - At the request of business for policy certainty on the tax rate, the carbon tax rates from 2023 to 2030 were announced in budget
  - **The 2022 Taxation Laws Amendment Act** provides for the tax rates changes until 2030.

Year	Rate (R/tonneCO2e)	US$ (tCO2e)
2023	159	8
2024	190	10
2025	236	13
2026	308	16
2027	347	19
2028	385	21
2029	424	23
2030	462	25

Publication of the Phase 2 Carbon Tax Discussion Paper for public comment

- **In the 2024 Budget, government announced the publication of a carbon tax discussion paper** before the end of 2024 outlining tax design options for the 2nd phase of the tax from 2026.
- **The Phase 2 Carbon Tax Discussion paper was published for public comment in Nov 2024.** The closing date for public comments was 13 Dec 2024.
- This paper provides an update on the carbon tax design and contains proposals for the 2nd phase of the carbon tax from 2026 to 2030, and beyond, where appropriate, including adjustments and restructuring of the tax-free allowances and appropriate revenue recycling measures to facilitate a just transition.
- **The paper aims to provide policy certainty to taxpayers** on the carbon tax design **from 2026 to 2030**, and **2031 to 2035,** where feasible, and **help to guide investor decisions** over the medium to long term.
- As at 13 December 2024, 56 written submissions were received including from companies, industry associations, financial institutions, non-governmental organisations, carbon market project developers and participants and academia.

Main Proposals – Balance Between Incentives and Disincentives

Incentives	Disincentives
• **Carbon offset allowance** – proposed increase in the carbon offset allowance by 15 percentage points to 20 and 25 per cent for process / fugitive and combustion emissions. Stimulate local carbon market activities and encourage additional investments in alternate clean energy, energy efficiency etc	• **Basic tax-free allowance** – reduction by 10 percentage points in 2026 and by 2,5 percentage points /yr from 2027 until 2030. Aims to strengthen the effective carbon tax rate to promote behaviour change.
• **Performance allowance** – increase the performance allowance for combustion emissions by 5 percentage points to 10% from 2026. • **Energy efficiency** – expand the scope of the carbon offset scheme to include Section 12L projects as the 12L incentive comes to an end in 2025.	• **Trade exposure** – increase the trade intensity threshold from 30 to 50%. Allocate 5% trade exposure allowance for electricity generation to the performance allowance
• **Electricity price neutrality** – remove the electricity generation levy and apply the carbon tax on electricity from 2026. Extension of the electricity price commitment as electricity generating entities can reduce tax liability to zero by offsetting the renewable energy premium against carbon tax liability	• **Carbon budget** – carbon tax alignment – apply the higher carbon tax rate on ghg emissions above the carbon budget allocated to companies by the DFFE for a 5year period.
• **Green hydrogen production** – extend the 100 per cent depreciation allowance for solar PV to green hydrogen gas production as recommended in the Cabinet approved Green Hydrogen Commercialisation Strategy of 2023	

Proposals for tax free allowances from 2026

PROPOSAL FOR COMBUSTION EMISSIONS TAX FREE ALLOWANCE ADJUSTMENTS		10 PERCENTAGE POINTS REDUCTION IN BASIC IN 2026 & 2.5 PERCENTAGE POINTS REDUCTION PER YEAR FROM 2027 + 15 PERCENTAGE POINTS INCREASE IN CARBON OFFSETS + 5 PERCENTAGE POINTS INCREASE IN PERFORMANCE - TRADE EXPOSURE - CARBON BUDGET ALLOWANCE									
		NDC 3					NDC 4				
YEAR	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Basic	60	50	47.5	45	42.5	40	37.5	35	32.5	30	27.5
Carbon offset	10	25	25	25	25	25	25	25	25	25	25
Performance	5	10	10	10	10	10	10	10	10	10	10
Trade exposure	5	0	0	0	0	0	0	0	0	0	0
Carbon Budget	5	0	0	0	0	0	0	0	0	0	0
Max Allowance	**85**	**85**	**82.5**	**80**	**77.5**	**75**	**72.5**	**70**	**67.5**	**65**	**62.5**

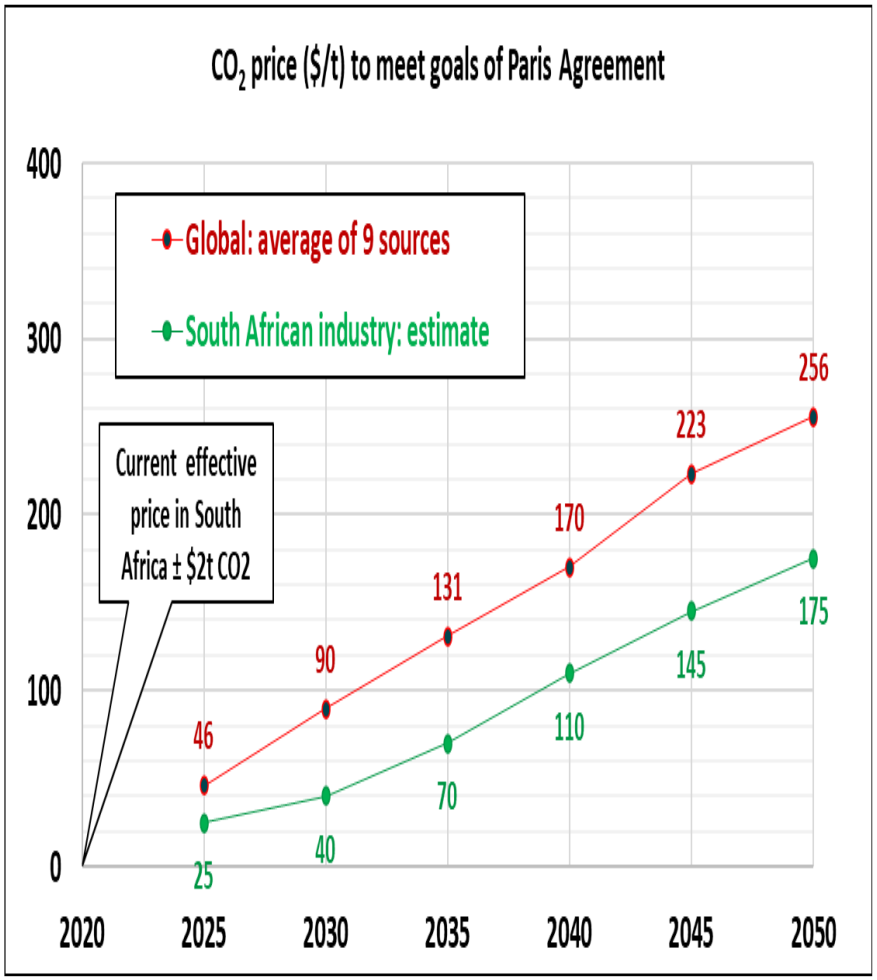
PROPOSAL FOR FUGITIVE AND PROCESS EMISSIONS TAX FREE ALLOWANCE ADJUSTMENTS		10 PERCENTAGE POINTS REDUCTION IN BASIC IN 2026 & 2.5 PERCENTAGE POINTS REDUCTION PER YEAR FROM 2027 + 15 PERCENTAGE POINTS INCREASE IN CARBON OFFSETS - CARBON BUDGET ALLOWANCE									
PROCESS AND FUGITIVE		NDC 3					NDC 4				
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Basic	60	50	47.5	45	42.5	40	37.5	35	32.5	30	27.5
Process and fugitive	10	10	10	10	10	10	10	10	10	10	10
Carbon offset	5	20	20	20	20	20	20	20	20	20	20
Performance	5	5	5	5	5	5	5	5	5	5	5
Trade exposure	10	10	10	10	10	10	10	10	10	10	10
Carbon Budget	5	0	0	0	0	0	0	0	0	0	0
Max Allowance	**95**	**95**	**92.5**	**90**	**87.5**	**85**	**82.5**	**80**	**77.5**	**75**	**72.5**

Basic tax-free allowance proposals

- To strengthen the price signal and improve the incentives under the carbon tax, it is proposed that the basic tax-free allowance is gradually reduced, and the incentive-based allowances are adjusted to provide flexibility to companies to reduce their carbon tax liability and improve the emissions intensity of their processes.
- This will help to facilitate a just transition to a lower carbon economy in a phased manner and ensure a credible effective carbon tax on the margin to encourage behaviour change.
- It is proposed to reduce the basic tax-free allowance by 10 percentage points in 2026 and by 2.5 percentage points per year from 2027 until 2030.
- A reduction of the basic tax-free allowance by at least 2,5 percentage points per year from 2031, where South Africa's NDC commitments under the Paris Agreement could be considered.
- The relatively moderate adjustments to the basic tax-free allowance for 2026 to 2030 will help to facilitate a just transition to a lower carbon, green economy and promote investments necessary for the economic recovery.
- The proposed changes entail a shift to incentive-based allowances to promote emission reductions and encourage investments in carbon offset projects.
- This is combined with an increase to the carbon offset allowance by 15 percentage points and a 5-percentage point increase in the performance allowance for combustion emissions in 2026.

Reduction in basic by 10% in 2026 and by 2,5%/yr from 2027					
		Combustion		Process / fugitive	
Year	Marginal Tax Rate (R/tCO_2e)	Maximum allowance	Effective tax rate (R/tCO_2e)	Maximum allowance	Effective tax rate (R/tCO_2e)
2026	308	85.0%	**46**	95.0%	**15**
2027	347	82.5%	**61**	92.5%	**26**
2028	385	80.0%	**77**	90.0%	**39**
2029	424	77.5%	**95**	87.5%	**53**
2030	462	75.0%	**116**	85.0%	**69**
2031	462	72.5%	127	82.5%	81
2032	462	70.0%	139	80.0%	92
2033	462	67.5%	150	77.5%	104
2034	462	65.0%	162	75.0%	116
2035	462	62.5%	173	72.5%	127

CARBON PRICES ARE LIKELY TO BE HIGHER THAN EXPECTED – National Business Initiative (NBI), 2021



The global average trajectory is based on **nine published global scenarios** which are compatible with the goals of the **Paris Agreement. These numbers are much higher than the current average effective cost of around $2/t CO2**(that is a headline rate of $18/t) (NBI).

Studies conducted recommend carbon prices of US$25 to 50/t$CO_2$e by 2030 for developing economies to at least achieve the 2-degree temperature goal under the Paris Agreement and reaching global carbon price of about US$100/ t$CO_2$e (Intergovernmental Panel on Climate Change and High Level Commission on Carbon Pricing) .

In 2023, the International Monetary Fund conducted a high-level modelling study of the carbon price required to achieve South Africa's NDC targets of 350 to 420 MT by 2030 and net zero emissions by 2050.

Suggested a carbon price of about US$120/t$CO_2$e by 2030, without considering other mitigation measures including implicit carbon pricing through regulatory measures.

Carbon offsets allowance

- The carbon offset component of the carbon tax has a dual purpose:
  - To serve as a flexibility mechanism that will enable industry to invest in mitigation projects at a lower cost to what would be achieved in their own operations, and thereby lower their tax liability (i.e. seeks delivery of least cost mitigation).
  - To incentivise mitigation in sectors or activities that are not directly covered by the tax and/or benefiting from other government incentives, especially in transport, AFOLU, waste.
- **Expanding the scope of carbon offsets**
  - In light of developments under Article 6 of the Paris Agreement, cooperation between countries on market mechanisms can promote cost effective emission reductions. The following proposals are made:
    - **Increase carbon offset allowance by 5% to a maximum of 10% for process or fugitive and 15% for combustion emissions.**

Carbon Offsets Allowance – Proposed Options to Adjust Allowance (2)

- **Option 1:**
- To stimulate carbon market activities under the carbon tax, **an increase of the carbon offset allowance by 15 percentage points from 5 to 20 per cent for fugitive and process emissions and from 10 to 25 per cent for combustions emissions is proposed**.
- Although this is not aligned with the restrictions on the use carbon offsets globally, it could provide an important economic and financial incentive on the margin and the necessary policy certainty to help expedite low carbon investments and encourage technology innovation in the short to medium term.

- **Option 2**
- **An alternative approach is to phase in a gradual increase in the carbon offset allowance by 5 percentage points per year until it reaches 25 per cent.** This would be combined with an equivalent reduction in the basic tax-free allowance. Similar to the option above, this would strengthen the economic incentives under the carbon tax further and promote additional low carbon investments.
- **There is likely to be a shortage of credit supply in the short term and companies would be afforded a longer time period** to prepare and have projects ready in order to access the higher offset allowance.
- As companies acquire the necessary knowledge and expertise in project development and investor confidence increases, the market could develop rapidly over the medium to long term.
- **As the market develops and there is learning by doing, and the institutional infrastructure for offsets generation and exchange is strengthened**, a carbon pricing instrument would play a crucial role in carbon market development and crowding in private sector investment.

Carbon offset allowance (3)

- **Extend utilisation period for offsets**. To ensure sufficient supply of credits and liquidity in the market, it is proposed that the utilisation period for carbon offsets generated from projects approved under eligible standards before the introduction of the carbon tax including renewable energy is extended for an additional three years until 31 December 2028.

- **Small scale community projects.** To encourage development and inclusion of micro, small-scale and community projects in the eligible offsets pool, small-scale renewable energy projects developed as part of a programme of activities could be considered for inclusion under the carbon offsets. Several standards including the new Article 6(4) mechanism under the Paris Agreement caters for the development of a programme of activities consisting of a group of small-scale initiatives.

- **Publication of the framework for evaluating local carbon offset standards.** The draft framework entitled: *South African Carbon Offsets Programme: Draft Framework for Approval of Domestic Standards* was published for public comment in January 2022. The Department of Electricity and Energy, National Treasury and the Department of Forestry Fisheries, and the Environment aim to finalise and publish the framework for implementation before the end of the financial year.

- **Article 6(4) mechanism.** In the 2024 Budget, government announced possible inclusion of the Article 6(4) mechanism as a replacement of the CDM and eligible standard for the carbon offset mechanism under the carbon tax. Once the Article 6(4) mechanism standards and methodologies are approved and the mechanism registry is operationalised, it is proposed to include the mechanism as an eligible standard under the carbon offset scheme (Discussion Paper)

- **These proposals aims to support the development of the domestic carbon market** and crowd in private sector investment.

Energy efficiency savings tax incentives (Section 12L)

- **The EES incentive was introduced in Nov 2013 with a sunset clause of year of assessment ending before 1 January 2020.**
- To align with the first phase of the carbon tax ending on 31 Dec 2022 and to provide additional tax relief to industries as they transition their activities, **12L was extended by 3 years in Budget 2019 to years of assessment ending before 1 January 2023** ie. ending on 31 Dec 2022. Extended for 3 yrs in the 2022 Budget to Dec 2025
- To date, the **main beneficiaries of the Section 12L incentive has been the mining and coal and gas to liquid fuels sectors**. Some estimates indicate that the incentive has to date cost the fiscus around R3 to R20billion (NT and SANEDI estimates) to date.
- Tax-compliant businesses have directly contributed to overall energy efficiency savings of 29.9 TWh and reduction in greenhouse gas emissions of 28.6 $MtCO_2eq$ from 2013 until end of September 2024.
- **Energy efficiency**: the Section 12L Energy Efficiency Savings (EES) tax incentive comes to an end in December 2025. To assist industries in the short term and to encourage additional investments in energy efficiency measures, **it is proposed to expand the scope of the carbon offset scheme to allow eligible energy efficiency projects including those developed under the 12L tax incentive.**

Carbon tax and electricity sector reforms

- **Several important energy sector reforms were implemented through Operation Vulindlela.** A key milestone was the enactment of the Electricity Regulation Amendment Act by the President in August 2024. The ERA aims to promote the restructuring of the electricity supply industry, encourage competition in electricity generation and establishment of the Independent System Market Operator over the short, medium and longer term.
- **A partially liberalised electricity supply industry combined with the implementation of an effective carbon price will provide important price signal** on the margin for behaviour change by electricity generators towards alternative lower carbon energy sources and energy efficiency improvements. Encourage dispatching decisions of electricity generators towards lower carbon electricity generation and expedite investments in utility scale and off grid renewable energy to support energy security of supply.
- **Electricity generators do not claim the performance allowance as the sector did not develop a benchmark.** To enable electricity generators to benefit from the performance allowance, a benchmark has been developed for the electricity sector. This is based on the emissions intensities of the existing coal power stations and aligned with the grid emission factor used for scope 2 emissions by process and fugitive emitters in their approved benchmarks.
- **It is proposed to increase the performance allowance for combustion emissions by 5 percentage points to 10 per cent from 2026.** **A greenhouse gas emission intensity benchmark of 0,94tCO_2e/Mwh is proposed** for the electricity sector from 2026 until 2030.

Electricity price neutrality

- To protect households and energy intensive companies from potential adverse impacts of higher energy prices, electricity generators can offset the electricity generation levy and renewable energy premium against the carbon tax liability.
- **In 2022 the electricity price neutrality commitment was extended to Dec 2025** to allow for the economic recovery after the COVID pandemic. It was also proposed that the electricity price neutrality commitment could be extended for a further 3-5 yrs to facilitate a just transition.
- It is **proposed to remove the electricity generation levy and apply the carbon tax on electricity generation from 2026.** This would be a shift from one tax to another and would not impact electricity prices. The renewable energy premium credit can be utilised by electricity generators to reduce their carbon tax liability to zero.
- **Electricity generators would be able to claim the carbon offset allowance** of up to a maximum of 25 per cent of their carbon tax liability

Other proposals

- **Trade exposure allowance:**
  - increase in the qualifying threshold for the full trade exposure allowance from 30 to 50 per cent, aligned with the average trade intensity of the economy. The updated list of sectors and allowances is provided in the draft paper.
  - Allocation of the 5 per cent trade exposure allowance for combustion emissions to the performance allowance to increase the incentive to electricity generators to change their behavior
- **Carbon budget – carbon tax**
  - Extensive consultations were held between the DFFE and NT and stakeholders on the options for aligning the carbon tax and carbon budgets to ensure that there is no double penalty for emissions
  - It was agreed with the DFFE that a higher carbon tax rate would apply as a penalty on GHG emissions above the level of the carbon budget and a higher tax rate of R640/tCO2e was announced in the 2022 Budget.
  - The mandatory carbon budget system is expected to come into effect from 1 January 2026, once the Climate Change Act is operationalised and the carbon budget regulations and the mandatory greenhouse gas mitigation plan regulations are gazetted
  - Aamendments to the Carbon Tax Act to provide for the higher tax rate will be published in either the 2025 or 2026 Taxation Laws Amendment Bill.
- **Carbon budget allowance:**
  - The carbon budget tax-free allowance of 5 percent was initially implemented for the voluntary carbon budget phase (2016 – 2022 and extended to Dec 2024) to promote participation in the system and provision of data to government until the mandatory system is implemented.
  - An extension of the carbon budget allowance for an additional year until 31 December 2025 is proposed.

Other proposals (2)

- **Tax incentive for Green Hydrogen:**
  - The Green Hydrogen Commercialisation Strategy was approved by Cabinet in October 2023 for implementation. The strategy recognises the long-term demand potential for green hydrogen gas of between 15 to 20 per cent of global energy demand.
  - It recommends the phasing in of increases to the carbon tax rate or carbon fuel levy, removal of fossil fuel subsidies and building on existing renewable energy-based regulatory tax incentives set out in the Income Tax Act to support green hydrogen production.
  - It is proposed to extend the 100 percent depreciation allowance for solar PV and wind to green hydrogen production As part of the revenue recycling measures under the carbon tax
- **Additional priorities:**
  - Fund the expansion of the electricity grid and transmission infrastructure.
  - Reskilling workers' programmes.
  - Free basic electricity support targeted to renewable based electricity.
  - Support for enhancing public transport infrastructure and transport vouchers for low-income households.
  - Support funding for off-grid renewables for communities.
  - Improving and strengthening municipal infrastructure to promote climate resilience (energy, transport, solid waste collection and separation, wastewater management etc.)
  - Enhancing the working for water, fire, waste and other environmental sector programmes of the DFFE to promote climate mitigation and adaptation efforts.
  - Targeted support through the Disaster Risk Reduction fund and possibly Climate Change Response Fund to be established under the 2024 Climate Change Act.

Thank you