

**8th GLOBAL CONFERENCE
ON ENVIRONMENTAL TAXATION - MUNICH**

**South Africa's Path towards an
Environmental Fiscal Reform
Agenda**

Special Workshop on EFR in Developing, Emerging and Transition Economies

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OUTLINE

- Introduction
- Macro economic developments
- Socio-economic challenges
- Environmental trends and challenges
- Draft National Framework for Sustainable Development
- Overview of the draft Environmental Fiscal Reform Policy Paper
- Environmental and tax legislation reforms
- Public comments on the draft EFR policy paper
- Concluding remarks



INTRODUCTION

- The South African economy has recorded robust economic growth post 1994.
- South Africa has made progress to address issues of unemployment, poverty and inequality, but much more needs to be done.
- Rate of resource consumption has increased.
- The National Framework for Sustainable development has identified the following areas that require action:
 - Excessive resource use for energy generation;
 - Rising waste levels;
 - Soil degradation;
 - Poor local air quality; and
 - Water scarcity and quality concerns.
- It's not just the quantity of growth that matters but also quality, and incorporating sustainable development considerations in policy development and decision making is actively being pursued.
- The role of market-based instruments particularly environmentally-related taxes to complement regulatory measures is being explored.



INTRODUCTION (cont.)

- The paper elaborates on:
 - Progress towards achieving economic and social goals; and the contribution of growth strategies to environmental degradation in SA;
 - Provides an overview of the draft environmental fiscal reform policy paper focusing on the scope of the paper and discussion of the proposed criteria;
 - Existing environmentally-related taxes and charges and possible reforms thereof;
 - Consideration of new environmentally-related taxes; and
 - Role of an appropriate regulatory framework to support the development of market-based instruments.

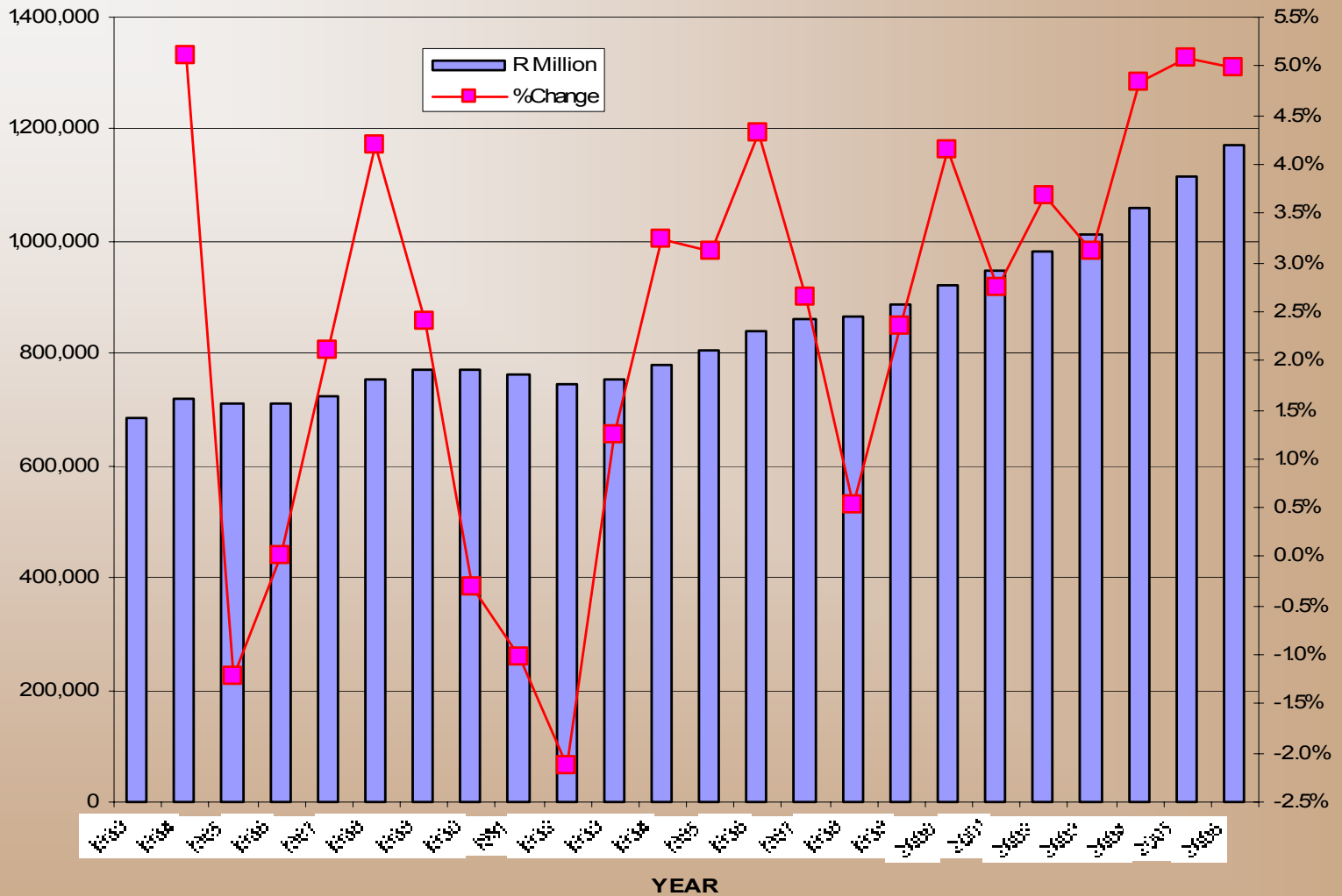


MACRO ECONOMIC DEVELOPMENTS

- Real GDP has grown at an average annual rate of 3.0 per cent since the advent of democracy in 1994.
- In comparison, average annual real GDP growth rate for decade ending 1993 was a mere 1.01 per cent.
- Between 2004 and 2006, the annual average growth rate increased to 5 per cent.
- Improvements in the GDP growth rate was accompanied by lower inflation, decreased government debt service costs and improvements in the fiscal balance.
- This higher level of economic growth must be sustained to facilitate significant reductions in the levels of unemployment, poverty and income inequality.



REAL GDP: (a) R million (2000 prices) (lhs); (b) %Change (rhs)



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SOCIO-ECONOMIC CHALLENGES

- Unemployment levels remain unacceptably high
- Significant income inequalities.
- The South African economy is characterised as a dual economy, with limited social mobility for a large section of the population.
- In terms of the Millennium Development Goals, SA has set the following targets:
 - Halve the proportion of people living in poverty;
 - Halve and reverse the trend of HIV and Aids;
 - Halve and reverse incidences of malaria and TB; and
 - Halve the number of people without access to safe drinking water and sanitation
- Low income households are most adversely affected by environmental degradation.



Employed (Million) (lhs) : Unemployment (%) (rhs)



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INCOME DISTRIBUTION

	Real per capital annual income : 2000 prices		Share of total income	
	Poorest 20%	Top 10%	Poorest 20%	Top 10%
1994	843	46,113	2.0%	53.9%
1995	688	45,320	1.7%	54.4%
1996	758	46,746	1.8%	55.6%
1997	778	47,508	1.8%	54.3%
1998	799	51,355	1.7%	55.4%
1999	812	51,338	1.8%	55.4%
2000	808	50,692	1.8%	55.3%
2001	741	50,745	1.6%	55.2%
2002	806	48,928	1.8%	53.5%
2003	889	56,685	1.8%	56.3%
2004	940	55,293	1.9%	55.4%
2005	1,026	68,048	1.7%	55.5%
2006	1,051	70,144	1.7%	55.9%

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Gini-coefficient



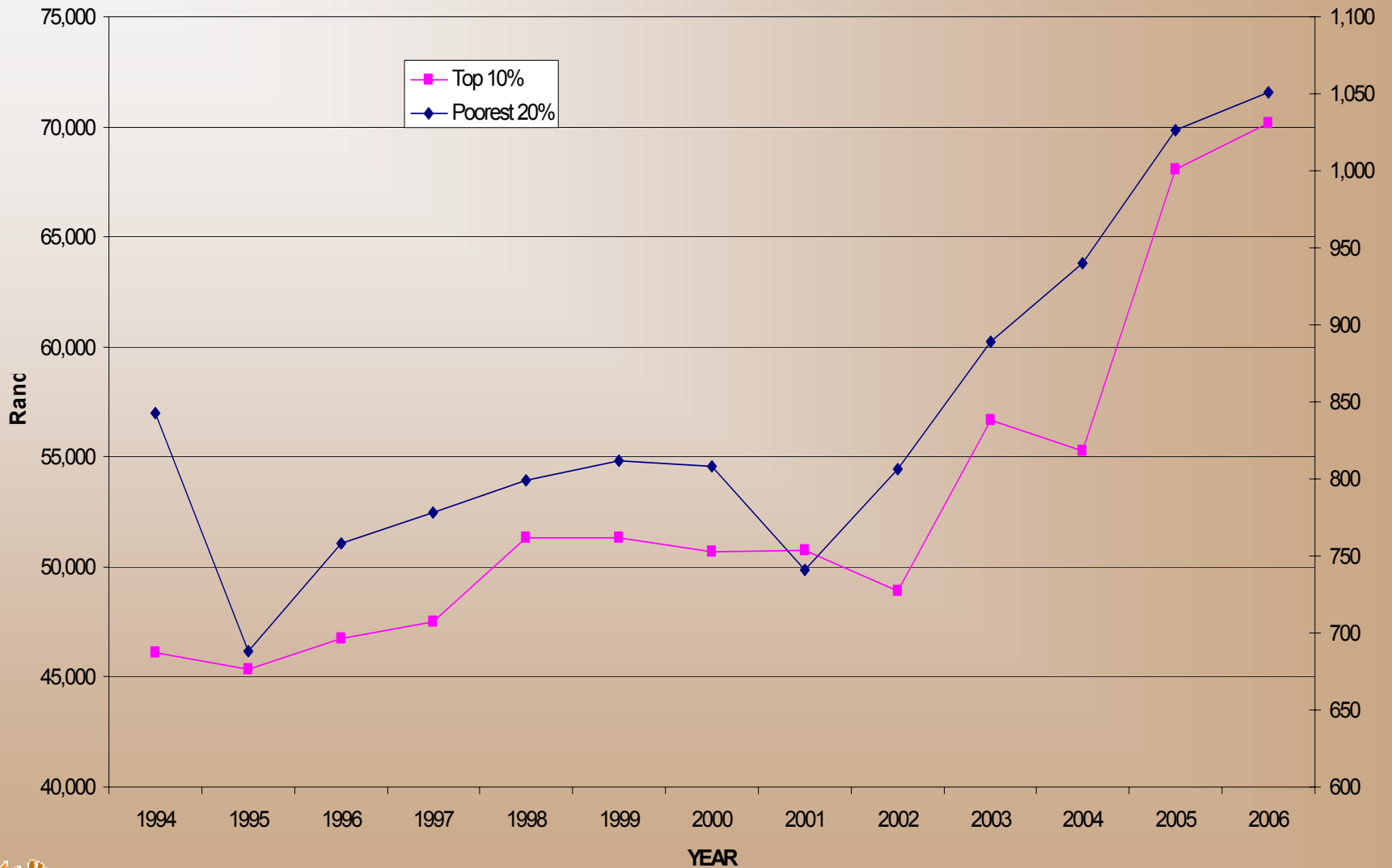
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Real Per Capita Annual Income, 2000 = 100 (Top 10% lhs & Poorest 20% rhs)



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ENVIRONMENTAL TRENDS

- As a developing country, the key challenge for SA is to ensure an improvement in human development indicators and reduction in poverty levels; and
- Simultaneously ensure that development objectives are pursued in an environmentally sustainable manner.
- The draft National Framework for Sustainable Development analyses and identifies the most urgent trends related to energy, water, soil, and waste as a result of economic growth strategies:
 - Rising per capita electricity consumption reaching 3860 kWh per person per annum by 2003;
 - Excessive freshwater consumption per capita and inefficient water use by key industrial and agricultural sectors;
 - Rising CO₂ emissions per capita (more than 7.4 metric tons per person per annum by 2003); and
 - Faster growth of municipal solid waste than the average economic growth rate, nearing average of 2kgs / person / day in some cities.



ENVIRONMENTAL CHALLENGES

- Air pollution and climate change;
- Biodiversity loss and damage to terrestrial ecosystems;
- Land degradation;
- Water pollution and water quality management; and
- Waste generation.



ENERGY AND CLIMATE CHANGE

- SA generates 90 per cent of electricity from coal - sufficient low cost coal supplies and historical excess electricity generation capacity manifests itself in low electricity prices and a highly energy intensive economy.
- Coal-based electricity responsible for bulk of GHG emissions in South Africa.
- SA ranks in the top 20 highest GHG emitters in the world and is the largest emitter in Africa, accounting for 42 per cent of continent's carbon emissions.
- Energy pricing in SA - can we begin to partially internalise externalities to facilitate a more efficient allocation of resources that would not compromise economic growth, and promote social and environmental benefits?



DRAFT NATIONAL FRAMEWORK FOR SUSTAINABLE DEVELOPMENT

The draft Framework notes that:

- Economic growth can be decoupled from rising resource consumption and increased waste outputs via the application of technologies and systems that reduce the so-called “total material requirements” of expanding production and consumption.
- In practical terms, then, if we wish the pursuit of growth to meet human development needs to become sustainable, we must pursue growth that respects the limits of our ecosystems by making sure that growth strategies are not dependent on intensive / inefficient resource use - efficiency is the key to accelerated and shared growth, otherwise resource based constraints and degraded eco-system services will undermine growth.



DEVELOPED VS. DEVELOPING COUNTRIES

- The use of MBIs and other interventions to address negative externalities associated with global concerns e.g. Climate Change, has raised a debate about the relative roles of developed, emerging and developing economies.
- Du Plooy argues: Depletion of minerals and other non-renewable resources, dumping of toxics, biopiracy and excess use of the planet's CO₂ absorption capacity all serve to demonstrate how the inequalities between developing and developed countries are expressed in the ecological front.



A VIEW FROM AUSTRALIA

In a recent address to: The Curtin Public Policy Forum the secretary of the Treasury in Australia, Ken Henry, listed eight medium-term challenges that economic policy advisers (in Australia) should be thinking about, these include inter alia:

- (a) “increasingly challenging issues in the inter-relationship between energy, climate change and water; and
- (b) some deeply entrenched failures in environmental management, including loss of biodiversity, partly due a history of exploitation of the ‘commons’ ”.

He also argues that:

“Market mechanisms will have to be used to do more, not less, of the allocation task, but with more attention paid to the role of government in defining property rights, pricing for externalities, and representing the interests of future generations”.



ENVIRONMENTAL FISCAL REFORM IN SOUTH AFRICA

- Environmental fiscal reform refers to the interface between *environmental* and *fiscal* policy measures.
- An opportunity exists to undertake reforms to existing MBIs and develop new environmental tax instruments to achieve environmental goals.
- The draft Environmental Fiscal Reform Policy Paper provides the foundation to build on and support other environmentally related initiatives in South Africa.



INTERVENTION OPTIONS

- Command-and-control measures:
 - Use of legislative or administrative regulations that prescribe certain outcomes;
 - Usually target outputs or quantity, e.g. minimum ambient air quality standards, within which business must operate.
- Market-based instruments:
 - Policy instruments that attempt to internalise environmental externalities through the market by altering relative prices that consumers and firms face;
 - Utilise the price mechanism and complement command-and-control measures. Under certain circumstances MBIs are considered more efficient than command-and-control measures.



SCOPE OF THE POLICY PAPER

- The policy paper focuses mainly on taxes and charges whilst giving due consideration to the importance of incentives where appropriate.
- It presents a guiding framework and criteria that should be used in developing and evaluating environmentally-related taxes and charges for South Africa.
- Expenditure reforms such as direct subsidies for environmentally beneficial activities are not considered in the paper.



DEFINITION OF ENVIRONMENTALLY-RELATED TAXES

- The OECD definition of an environmentally related tax has been adopted:

“a tax whose tax base is a physical unit (or proxy of it) that has a proven specific negative impact on the environment”

- Although the definition does not make reference to the *intent* of the tax, *intent* is important but should not be used for classification purposes;
- The paper distinguishes between taxes and user charges, however the difference is not always clear cut in practice.



TAXES VERSUS USER CHARGES

TAXES	USER CHARGES
<p>No direct benefits accrue to individuals in exchange for payment.</p>	<p>A marketable service is provided to identifiable beneficiaries.</p>
<p>Payments are enforced in terms of legislation.</p>	<p>Direct and proportional benefits accrue to beneficiaries in exchange for payments.</p>
<p>Governments or organs of state direct the use of revenues.</p>	<p>Transactions take place in a willing buyer willing seller market.</p>

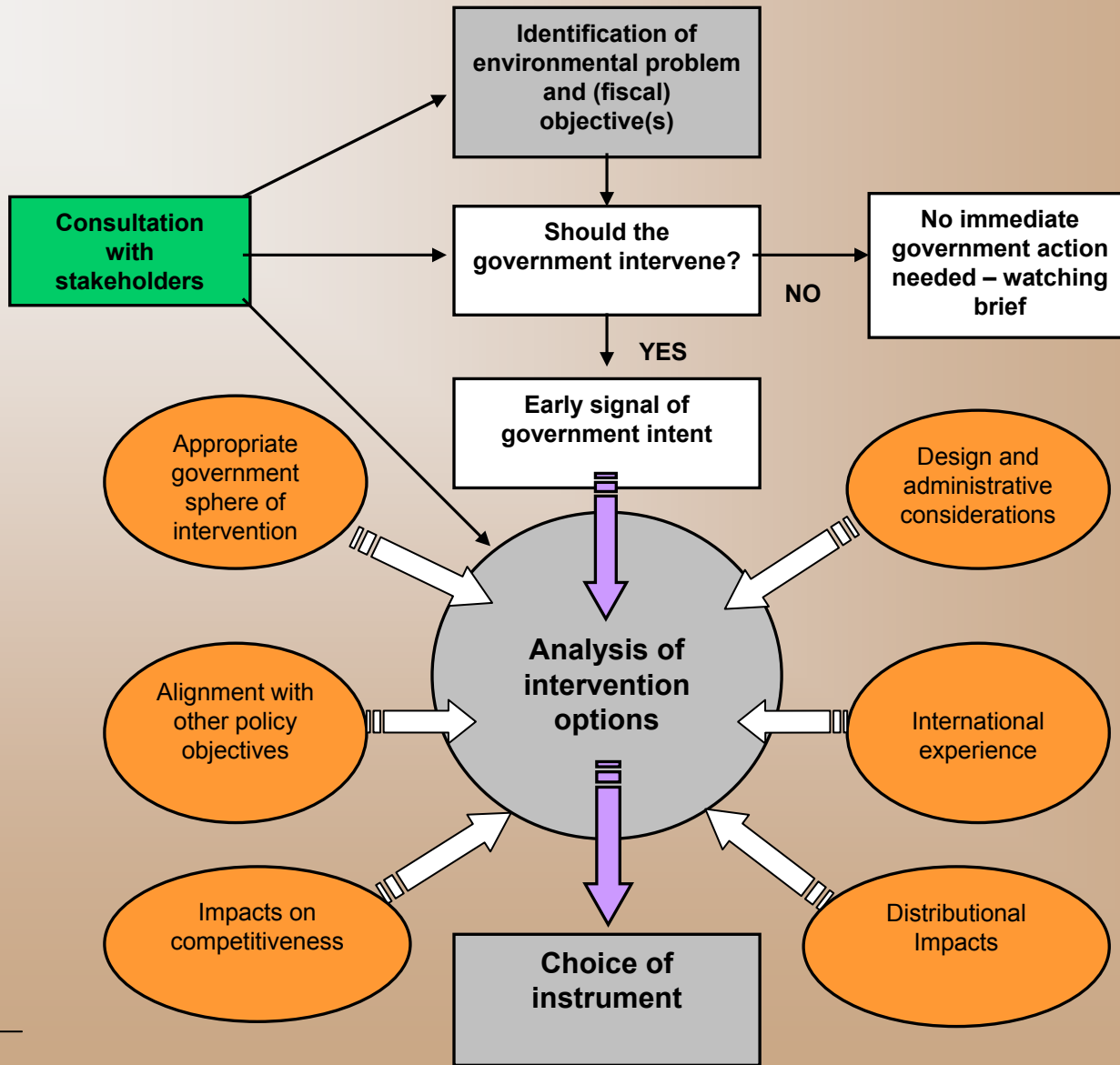


WHY THE NEED FOR A POLICY PAPER?

- Maintenance of a coherent tax policy framework;
- Development of a coherent process and framework to consider and evaluate environmental taxes; and
- Consider both environmental and revenue outcomes and the “double-dividend” hypothesis.



PROCESS TO EVALUATE OPTIONS



A FRAMEWORK FOR CONSIDERING ENVIRONMENTAL TAXES

- Market-based instruments have a number of advantages when used to supplement regulatory approaches.
- How should the relative merits of different environmentally-related tax proposals be assessed?
- What does a good environmentally-related tax look like?



CRITERIA / DESIGN CONSIDERATIONS

- **Environmental effectiveness** - must be linked to the environmental externality and aim for best design possible (e.g. exemptions);
- **Tax revenue** - level of revenues and revenue use;
- Support for the tax - public support and acceptance is important (e.g. tax payer morality);
- **Legislative aspects** - implications need to be considered (also WTO, SADC);
- **Technical & administrative feasibility:**
 - *Define taxable commodity;*
 - *Setting the tax rate;*
 - *Tax avoidance and evasion;*
 - *Collection costs; and*
 - *Compliance costs.*
- **Competitiveness impacts** - tax incidence is critical. May require adoption of mitigating measures;
- **Distributional impacts** - mitigation and compensation measures may need to be considered; and
- **Adjoining policy areas** - is the instrument capable of contributing to other social and economic objectives?



INTERNALISATION OF EXTERNALITIES - COMPETITIVENESS ISSUES

- Internalising negative externalities comes at a price.
- Aims to internalise externalities to a socially optimal level cannot be achieved overnight.
- There are “win-win” cases where more environmentally informed business practices could lead to corresponding improvements in competitiveness.
- Improved environmental performance may also improve access to certain markets - notably in the export sectors.
- However, these benefits are not immediately possible in all cases.
- A phased approach taking account of potential impacts on competitiveness must be adopted to give specific sectors time to adjust.



DISTRIBUTIONAL ISSUES - IMPACTS ON THE POOR

- The poor and low-income groups are often hardest hit by negative environmental externalities.
- Important for environmentally-related fiscal policy to ensure that environmental instruments are pro-poor where possible, or at least do not place a disproportionate burden on low-income groups.
- A sustainable growth path should provide protection and support to the poor.
- That is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.
- Tradeoffs to be well managed.



DOUBLE DIVIDEND

- Double dividend-hypothesis (e.g. reduce payroll taxes).
 - An improvement in environmental quality is secured (the first dividend)
 - Gains in economic efficiency and employment could be realised (the second dividend)
- Environmental tax has to raise revenue more efficiently than the tax that is reduced or replaced.
- These tax shifting exercises can effectively minimise the overall tax burden on affected sectors and still create required behavioural incentives.



EARMARKING

- For many stakeholders, there is a link between revenues from environmentally-related taxes and spending on the environment.
- The policy paper tries to maintain a clear separation of revenue and expenditure sides of the budget.
- In general, “full” earmarking is not in line with sound fiscal management practices.
- However, there is a need to consider different incentive options (many of which include revenue recycling in some shape or form - e.g. “soft” earmarking - plastic bag levy).



KEY MESSAGES

- Market-based instruments (e.g. environmentally-related taxes and charges) can complement and reinforce environmentally related regulatory measures and at the same time contribute towards fiscal objectives;
- A framework is proposed to consider and evaluate the use of market-based instruments;
- The development of environmentally-related tax proposals must be undertaken according to a specific set of criteria and should, as far as possible, be adequately integrated into a coherent fiscal policy agenda;



KEY MESSAGES (cont)

- The ‘full’ earmarking revenues from environmentally-related taxes is not in line with sound fiscal management practices. However, incentives and the “soft” earmarking of tax revenues, where appropriate, should be considered; and
- Special attention should be given to the possible distributional and competitiveness implications of environmental taxes and charges. The appropriate design and phasing-in of such taxes could deal with these two important aspects.



COMMENTS RECEIVED

1. Botanical Society of SA
2. Business Unity SA
3. Cape Nature
4. Chamber of Mines
5. DEAT
6. DME
7. DWAF
8. Edward Nathan
9. Energy Intensive User Group
10. Eskom
11. eThekweni Municipality
12. Esemvelo KZN Wildlife
13. Fiscal and Financial Commission
14. Forestry South Africa
15. Game Rangers Association of SA
16. Heron
17. ISES
18. International Monetary Fund
19. Institute for Zero-Waste in Africa
20. Mintek
21. Mulholland
22. NAAMSA
23. Packaging Council of SA
24. Paper Manufacturing Association of SA
25. Responsible Container Management Association of SA
26. S.A National Biodiversity Institute
27. Sustainable Energy South Africa
28. World Wide Fund for Nature
29. Meakin and Company
30. University of Pretoria
31. Wildlife and Environment Society of SA



PUBLIC COMMENTS: MBI VS. REGULATIONS

- Some organisations expressed concern that the policy paper advocates the use of market-based instruments over regulatory (command and control) measures. The paper actually argues that market-based instruments should only be considered if regulatory measures on its own do not achieve the desired environmental objectives.
- The complementarity between MBIs and regulatory measures is emphasized throughout the policy paper.
- However, there may be instances where environmentally-related taxes are able to address environmental concerns more efficiently.



FRAMEWORK AND CRITERIA FOR EVALUATING ENVIRONMENTALLY RELATED TAX PROPOSALS

- Commentators generally supports the proposed framework and criteria to determine the most appropriate form of intervention. Many suggested the inclusion of *desired environmental outcomes / consequences* as part of the framework to ensure indicators are developed to assist with an *ex post* evaluation of the instrument.
- The suggested environmental effectiveness criterion could help to provide an indication of the particular environmental market failure that the instrument seeks to address.



EARMARKING

- Most commentators expressed support for some form of earmarking of environmentally-related tax revenues for environmental activities. They argue that it would promote stakeholder support for the policy intervention.
- Generally, revenue earmarking is not in line with sound fiscal management practices, as it undermines the transparent budgeting process. Proposals for earmarking need to be evaluated on a case-by-case basis. The first best option would be on-budget funding through the normal budgetary process, a possible second best alternative may be the partial or “soft” earmarking of such tax revenues.



“POSITIVE” INCENTIVES

- The polluter-pays-principle, which states that those responsible for negative environmental externalities should bear the costs of internalising those externalities, underpins most of the interventions proposed in the policy paper.
- Many organisations also recommended the application of the provider gets principle where providers of public goods are rewarded. This could take the form of positive incentives to promote environmentally beneficial activities.
- Although the policy paper does elaborate on the potential role that fiscal incentives could play in achieving environmental outcomes, the need for and role of such (positive) incentives will be investigated further.



CURRENT ENVIRONMENTALLY-RELATED TAXES AND CHARGES

SECTOR	LEVY (charge)	TAX RATE
Transport fuels	General Fuel Levy	121 cent per litre (petrol). 105 cent per litre (diesel). 63 cent per litre (biodiesel).
	Road Accident Fund Levy	41.5 cent per litre.
	Equalisation Fund Levy	Currently zero
	Customs and Excise Levy	4 cents per litre
Vehicle taxation	<i>Ad Valorem</i> Customs & Excise Duty	Graduated rate based on the vehicle price with an upper ceiling of 20 per cent.
	Vehicle Licensing Fees	Fees vary between different provinces – usually based on weight.
Aviation taxes	Aviation Fuel Levy	1,5 cents per litre on all fuel sales excluding foreign operators.
	Airport charges	Charges imposed to fund the operation of the South Africa Civil Aviation Authority (SACAA).
	Air Passenger Departure Tax	R120 per passenger; R60 per passenger to BLNS countries.
Product taxes	Plastic shopping bags levy	3 cents per bag
Electricity	NER Electricity Levy	A levy per kWh is implemented on all electricity generated to fund the National Electricity Regulator.
	Local Government Electricity Surplus	Implicit tax rates vary between different municipalities. Total surplus revenue raised is approximately R 1.4 billion (2005)
Water supply	Water Resource Management Charge	Charge rates vary according to different users. The aim is to recover costs associated with water supply and abstraction.
	Water resource development and use of water works charge	Charge rates vary according to different users. The charges aim to recover the costs associated with the construction, operation and maintenance of water schemes.
	Water Research Fund Levy	This levy earmarked to fund the operations of the Water Research Commission.
Waste water	Waste Water Discharge Charge System (proposed)	The WDCCS is in the process of being developed. 3 components are proposed for the system. 2 are cost recovery based charge and the third a levy/ tax on waste effluent.



REFORMS TO EXISTING ENVIRONMENTALLY RELATED TAXES

- **General Fuel Levy**
 - Petrol
 - Diesel
 - Biofuels
- **Motor Vehicle Taxes and Fees**
 - Excise duty - relatively low currently and based on the value of a vehicle. Possibly reform to incorporate environmental criteria such as engine size and energy efficiency.
 - Vehicle licencing fees
- **Solid Waste Management** - promoting the idea of the waste management hierarchy. Possible instruments include:
 - Product taxes (plastic bags levy)
 - Deposit refund schemes (glass bottles, tyres?)
 - Disposal taxes (landfill taxes)
 - Differential user-charges



TRANSPORT FUELS

- Petrol, diesel and biodiesel are classified as fuel levy goods and subject to the following fuel taxes:
 - General fuel levy;
 - Road accident fund levy; and
 - Customs and excise levy.
- A favourable fuel tax treatment for biodiesel was announced in Budget 2002 (30 per cent fuel levy concession - increased to 40 per cent in 2006).
 - Is this sufficient to encourage the production of biodiesel?
- Consideration is being given to a similar concession for bioethanol - subject to solving certain administrative concerns.
- Environmental and other benefits of biofuels - is it convincing?
- What about the impact on food prices and food security?



MOTOR VEHICLES

- Motor vehicles are subject to Value Added Tax (VAT) at the standard rate of 14 per cent.
- An additional *ad valorem* formula based excise duty is imposed on passenger and light commercial vehicles (medium and heavy commercial vehicles are exempt).
- Provincial government imposes road traffic fees:
 - An annual motor vehicle licence fee (based on weight of vehicles);
 - Operator licences fees - learners and drivers licences;
 - Roadworthy; and
 - Motor vehicle registration fees.
- Reforms to the ad valorem excise duty will be considered in future to account for environmental factors such as emissions and fuel efficiency (e.g. engine size, etc).



ELECTRICITY

- Electricity sales are subject to VAT at 14 per cent;
- Some municipalities are currently generating surpluses from electricity sales (revenues exceed the costs of providing the service). This could be viewed as an implicit tax.
- At national level, a small tax is levied on electricity generation which is earmarked to finance the National Energy Regulator of South Africa.
- FBE - providing about 50 Kwh per month of electricity free to indigent households



WATER SUPPLY AND WASTE WATER

- The sale of water is subject to VAT at the standard rate of 14 per cent.
- The following user charges apply:
 - Water resource management charge - covers costs associated with planning and implementing catchment management strategies, management of water quality and use, water resource protection and demand management;
 - Water resource development and use of water works charge - covers operation, construction, and maintenance costs of different water schemes;
 - Water research commission charge - used to finance operations of the Water Research Commission.
- FGS - free basic water 6kl per month to indigent households.



MINING

- In terms of the Mineral and Petroleum Resources Development Act:
 - all mining companies must complete an Environmental Management Programme Report and make financial provision for mine rehabilitation on closure.
- Mines can set aside funds using the following financial provision method/s:
 - Contributions to a dedicated trust fund; and / or
 - Financial guarantees.
- For contributions made towards an approved mining rehabilitation trust fund, the income tax act allows:
 - Deductions for income tax purposes; and
 - Tax free build-up of such reserves.
- The terms of the fund must be approved by the Minister of Minerals and Energy and the sole purpose must be environmental rehabilitation.



SOLID WASTE

- A number of **voluntary agreements** are implemented in South Africa to reduce waste generation and encourage recycling related to soft drink cans; glass bottles; paper and used motor vehicle lubricating oils.
 - The ROSE foundation was set up by the oil industry to collect and recycle used motor vehicle oils - about 60 % is recycled.
 - This initiative is financed by the industry - a voluntary levy.
 - A similar scheme is proposed for the management of used tyres.
- The only waste related **product tax** in SA is the levy on plastic shopping bags of 3 cents per bag.
 - The levy does not incentivise changes in consumer behaviour, it is currently too low - this is achieved by voluntary charging by retailers.
- **Refuse collection charges** by municipalities are intended to cover the costs of service provision and may be financed
 - Through an additional item on property taxes; and
 - Where households are charged directly, charge may be based on flat rate charges and / or household plot size.



NEW ENVIRONMENTALLY-RELATED TAX INSTRUMENTS

- **Electricity**
 - Electricity consumption tax; and/or
 - Fossil fuel input tax.
- **Water supply and use** - tax instruments probably less appropriate than alternative allocative instruments such as tradable permits;
- **Waste water** - DWA has already taken the initiative in this area and is in the process of developing the Waste Water Discharge Charge System (WDCS);
- **Air Quality Act**
 - Includes penalties or non-compliance fees.
- **Waste Bill**



FUEL INPUT TAX AND / OR ELECTRICITY CONSUMPTION TAX

- Coal based electricity is responsible for significant quantities of greenhouse gas emissions.
- A fuel input tax (tax on coal) or an electricity consumption tax could be considered to internalise externalities.
- This may also encourage the development of alternative energy sources and improvements in energy efficiency.
- Some preliminary work has been done in this regard.
- However, further work into the distributional and competitiveness implications of such a measure is required.



WASTE WATER DISCHARGE CHARGE SYSTEM (WDCS)

- The department of Water affairs and Forestry has proposed the following 3 tier charge structure:
 - Component 1 - an **administrative charge** based on the authorised volume of water discharged to cover the water resource management costs.
 - Component 2 - a **cost recovery charge** aimed at recovering the costs associated with mitigating the impact of waste water discharges including the costs of regional and specific water treatment programmes and quantifiable downstream costs imposed on other users. Base of the charge will either be the authorised volume or effluent load; and
 - Component 3 - a **deterrent charge (tax)** aimed at encouraging polluters to reduce the effluent load of water returned to the water resource. The tax base will be the (monitored) effluent load of water discharges and is likely to include the following pollution forms: salinity; nutrients; organic material; pathogens; and suspended solids. It is proposed that progressive rates be applied to pollution loads exceeding certain water quality management targets.



REFORMS TO ENVIRONMENTAL AND TAX LEGISLATION

(A) AIR QUALITY ACT

- The Air Quality Management Act aims to address air pollution holistically and covers atmospheric pollutants including:
 - Smoke or particulate emissions (coal and fuel burning)
 - Vehicle emissions
 - Dust from mining activities
 - Sources of greenhouse gases
 - Transboundary pollution
- Existing minimum ambient air quality standards apply to ozone, oxides of nitrogen, nitrogen dioxide, sulphur dioxide, lead particulate matter, and total suspended solids.
- The act allows for the use of emissions trading schemes and incentives to reduce air pollution.
- The role of charges / taxes to complement regulatory measures to achieve air quality objectives to be explored further.



(B) WASTE BILL

- SA implements the Waste Management Hierarchy as the guiding principle for waste management practices.
- It encourages waste avoidance, minimisation, recycling and reuse, waste treatment and final disposal (when all options exhausted).
- The Waste Bill seeks to apply a range of new waste management related concepts; and replace and / or clarify existing waste management legislation.
- The bill empowers the Minister of Environmental Affairs and Tourism to:
 - Establish regulations related to waste minimisation targets for specific goods / products; and
 - Implement financial incentives / disincentives to encourage behaviour towards waste management and generation.
- The use of MBIs as part of a strategy to manage waste will be explored.



(C) TAX LEGISLATION

- For income tax purposes, companies are allowed deductions for expenditures incurred in the production of income. Special depreciation rules apply to expenditures of a capital nature.
- Certain environmental protection expenditures of an operational and capital nature sometimes do not qualify for tax deductions similar to that for *normal* business expenses.
- Amendments to the Income Tax Act have been proposed to ensure that business expenses, operating or capital, incurred for the purpose of environmental protection is treated similar to other business expenses.
- Consideration is also been given to amend certain provisions of the municipal property rates regime to encourage private land owners to promote biodiversity conservation.



CONCLUDING REMARKS

- In the South African context, MBIs have a role to play in achieving environmental goals.
- This depends on the development of appropriate regulatory provisions and institutional capacities to properly monitor and enforce such measures and enhance their effectiveness.
- The draft Environmental Fiscal Reform Policy paper and the development of proper environmental regulations will contribute significantly to the effective implementation of environmentally-related tax measures.



Thank you.

Questions ???



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