
South Africa Economic Outlook

Budget 2023 and green incentives: Investment in renewable energy is now a fundamental business decision.

28 February 2022



About this document

In the wake of Budget 2023, this edition of the South Africa Economic Outlook focuses on green incentives and their role in encouraging local businesses to invest in renewable electricity generation. Investment in renewable energy will be a fundamental business decision in 2023 and beyond — it is the most direct solution for private businesses to improve their energy security situation.

Green incentives can help private businesses achieve Environmental, Social and Governance (ESG) goals, which in turn is essential for addressing our country's social and environmental challenges. As the world moves to combat climate change, decarbonisation has become a priority for governments and companies alike.

In addition to existing incentives for investment in renewable electricity generation, Budget 2023 announced new incentives for private businesses and households to invest in solar energy. This is part of the government's drive to significantly reduce electricity load-shedding — the number one brake on economic and employment growth — in the short-term.

In this report, you will find the following content:

- Climate risk: Green taxes and incentives can help businesses achieve environmental goals ([page 3](#)).
- Budget 2023: R9bn worth of incentives for businesses and households to invest in solar panels ([page 4](#)).
- ESG focus: Income Tax Act offers other incentives for investment in renewable electricity generation ([page 5](#)).
- Featured PwC research: Changes at SARS help improve South Africa's private business environment ranking ([page 6](#)).

Lastly, we reflect on how PwC can assist businesses with accessing green incentives aimed at increasing investment in renewable energy ([page 7](#)).

Macroeconomic forecasts (February 2023)				
Baseline scenario	2021	2022e	2023f	2024f
ZAR/USD	14.78	16.37	17.36	17.86
Consumer price inflation (%)	4.6	6.8	5.4	4.8
Repo rate (end-of-period)	3.75	7.00	7.00	6.50
Real GDP growth (%)	4.9	2.0	0.8	1.2
Unemployment rate (%)	35.3	33.0	33.4	33.8
Probability weighted average	2021	2022e	2023f	2024f
ZAR/USD	14.78	16.37	17.45	17.95
Consumer price inflation (%)	4.6	6.8	5.5	4.9
Repo rate (end-of-period)	3.75	7.00	7.03	6.53
Real GDP growth (%)	4.9	1.7	0.7	1.2
Unemployment rate (%)	35.3	33.0	33.5	33.8
Macroeconomic outlook				
<p>South Africa is experiencing an energy shortage that is having a profound impact on its economy. The country's power challenges are severely affecting economic growth and jobs at a time when the country urgently needs to recover from the aftereffects of the COVID-19 crisis to retain its competitiveness and attractiveness. PwC estimates that power cuts reduced potential real GDP growth by five percentage points in 2022. This cost the country around 600,000 in potential jobs.</p> <p>The channels of negative impact on the economy are diverse, including: weaker consumer confidence weighing on retail spending; lower business confidence impacting investment decisions; and tainted international perceptions limiting foreign investment. Looking beyond GDP, society also faced increased crime risk due to off-line security systems, longer journeys linked to delayed transport, and unreliable communication from slower mobile telecommunication services, amongst other issues. All of these factors contribute to heightened social risk in the country.</p>				

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Climate risk: Green taxes and incentives can help businesses achieve environmental goals.

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Leading organisations are generating value by reimagining how their capabilities will be deployed in a post-carbon world.

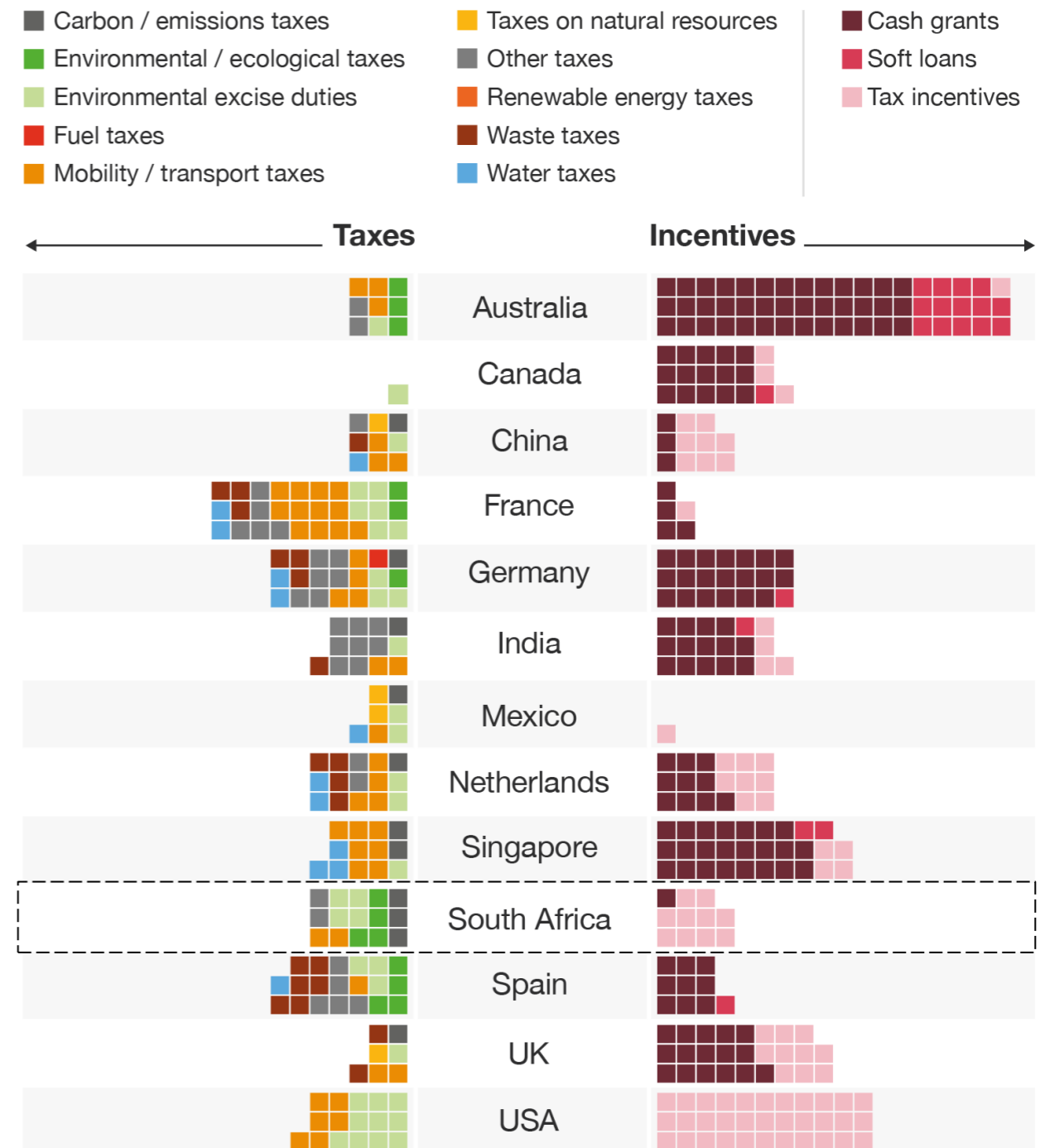
As the world moves to combat climate change, decarbonisation has become a priority for governments and companies alike. As noted in our recent report '[South Africa's just energy transition: moving from planning to action in 2023](#)', this year is anticipated to be a period of much greater climate action in South Africa. The government launched its Just Energy Transition Investment Plan (JET IP) at COP27 in November 2022, and arrangements for JET IP implementation started this month with initial stakeholder engagements. The implementation plan will be a product of efforts across government, civil society, trade unions and the private sector.

For private companies, evidence of decarbonisation is a powerful differentiator for businesses in an environment where having a CO₂ emissions target is merely a licence to operate. Leading organisations are generating value by reimagining how their capabilities will be deployed in a post-carbon world and appealing to sustainability-aware consumers, investors, staff and other stakeholders via sustainable transformations. Climate resilience is a powerful source of protection against disruption and value loss. In this regard, the November 2022 edition of this report ('[Sustainable options to plug the energy deficit](#)') looked at four net zero priorities that businesses should pursue as part of their building climate resilience: decarbonisation of operations and the supply chain; understand climate risk; mobilisation of sustainable capital; and robust reporting and audit.

One way that governments around the world are spurring decarbonisation progress is through green taxes and incentives. Although these compound the complexity of decarbonisation, the good news is that when companies take the time to view their strategic choices through a tax and incentive lens, they often decarbonise and improve the bottom line. However, in too many organisations, tax leaders are not in the room when key strategic decisions are made. These companies are missing opportunities, facing unexpected costs, and leaving benefits on the table that otherwise might help them accelerate their decarbonisation journey. While it may seem obvious, we argue that every current corporate strategy decision on sustainability goals should carefully factor in taxes and incentives. In fact, without understanding both, it is hard for companies to make the best business case for any net zero commitment.

Our recent publication '[Green taxes and incentives can help businesses achieve ESG goals](#)' notes that, across the world, there are taxes on everything from fuel and water to plastics and waste materials — all of which can affect the bottom line. These range from tax credits and grants for green investments to incentives to develop demand for low-carbon products in the construction of federal buildings and transportation projects. In South Africa, environmental levies have been in place for many years. These include levies on plastic bags, electricity generated in the country, and the CO₂ emissions of motor vehicles. Recent focus areas include carbon tax and a Climate Change Bill which are intended to impose mandatory carbon budgets on taxpayers. It is evident from policy documents that environmental tax remains a key focus area as South Africa aims to become a low-carbon economy.

Figure 1: Green tax and incentive landscape in selected countries



Source: PwC

Budget 2023: R9 billion worth of incentives for households and businesses to invest in renewables like solar panels.

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Private households can claim a 25% rebate on the cost of photovoltaic (PV) solar panels, up to R15,000 per individual.

The National Energy Crisis Committee (NECOM) announced in January their aim to recover and add 8,800 MW of capacity to South Africa's electricity supply during the course of 2023. From a renewables perspective, solar power will play a role in several of NECOM's endeavours. South Africa has one of the best solar generation profiles in the world and solar power can go a long way to help reduce electricity load-shedding. To this end, Budget 2023 announced incentives worth R9 billion for businesses and households to invest in renewable energy, including solar power generation. To be fair, rooftop solar is not as efficient as grid-scale solar, but because generation is established close to the area of consumption, the required investment in transmission and distribution infrastructure is limited.

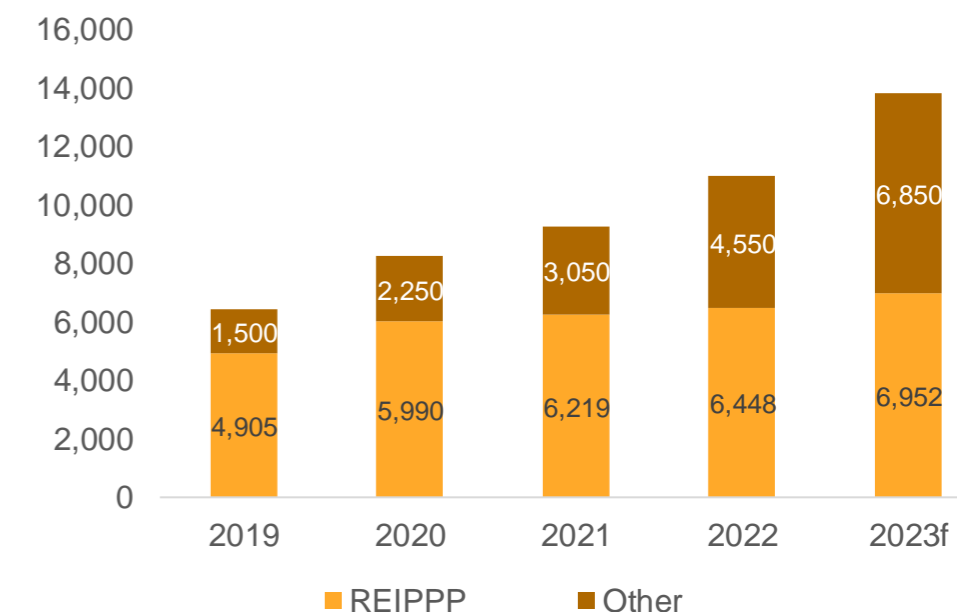
Private households will from next month be able to claim a 25% rebate on the cost of photovoltaic (PV) solar panels. The benefit of up to R15,000 per individual is available on new solar panels purchased and installed at a private residence between March 2023 and February 2024. However, the rebate against the personal income tax liability is only available for solar PV panels (mostly imported) and not on batteries (some of which are manufactured locally) and inverters. Limiting the incentive to solar panels is likely aimed at encouraging surplus solar power generation for feeding into the national grid instead of being exclusively used for household consumption via battery storage. Conversely, without batteries and inverters, a PV system can only provide input into the grid during daylight hours and not the peak-demand evening period. (See more detail [here](#) on the household solar incentive, including the claims process.)

Local businesses and households are already exploiting renewable energy options to improve their energy security.

Businesses were previously allowed to deduct the costs of qualifying renewable energy investments (including wind, concentrated and PV solar, hydropower and biomass) over a three-year period: 50% of the costs in the first year, 30% in the second, and 20% in the third year for qualifying investments. Budget 2023 proposes an increased capital allowance for renewable investments brought into use for the first time between March 2023 and February 2025. Under the expanded incentive, taxpayers will enjoy an increased allowance of 125% of the cost of qualifying investments in the first year the asset is first brought into use. Also, there will be no limitation of the maximum allowance claimed. The National Treasury has set aside R5 billion for this.

Local businesses and households are already exploiting renewable energy options to improve their energy security and will likely increase this with the newly announced incentives. South Africa had about 1,500 MW of private sector solar installations in 2019 outside of the Renewable Independent Power Producer Programme (REIPPP). The increased prevalence of load-shedding over the following years resulted in non-REIPPP installations increasing to 4,550 MW by the end of 2022, with expectations of another 2,300 MW to be added in 2023 to bring the total capacity to 6,850 MW. That will be almost as large as REIPPP solar capacity. Admittedly, most of the non-REIPPP installations are for self-consumption, either to reduce cost of supply and/or reduce the impact of load shedding. Restrictions on the amount that these systems may feed back into the grid and the cost of smart metres to do so have been significant hurdles to feeding excess generated electricity back into the grid.

Figure 2: Installed solar generating capacity (MW)



Source: PwC calculations based on data from SA Photovoltaic Industry Association (SAPVIA), Fitch Solutions, Moneyweb

The last time changes were made to green energy investment incentives was in 2016. The magnitude of current investment in renewables could not have been anticipated at that time considering the ramp-up in load-shedding from 2017 to the present. See [page 5](#) for more detail on other incentives that are available to businesses for investment in, for example, environmental treatment, recycling or waste disposal assets. Our post-budget analysis '[Load-shedding in the crosshairs as Budget 2023 announces R9 billion in incentives for businesses and households to invest in renewable energy like solar](#)' also looks at how South Africa could get regulations and incentives right to further encourage investment in renewables.

ESG focus: Income Tax Act offers other incentives for investment in renewable electricity generation.



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Energy efficiency, recycling and R&D are amongst the green investments qualifying for incentives.

Green taxes include taxes on pollution, energy, carbon emissions, fuel consumption, waste production and disposal, use of natural resources, motor vehicles, and other forms of transport. In turn, green incentives are financial benefits to encourage projects and investments that reduce environmental harm. They include government cash grants for such projects, and tax incentives that reduce tax liabilities to stimulate investment that mitigate environmental impact.

Getting a handle on the impact of various green taxes and incentives requires that South African companies first have a deep understanding of their carbon footprint to establish a baseline. This in itself is a complex process. Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organisation - e.g. emissions associated with fuel combustion in vehicles, generators, etc. Apart from focusing on Scope 1 emissions, companies also need to address the environmental footprint across their supply chains (Scope 2 and 3 emissions). Upstream and downstream emissions often dwarf the carbon impact of direct operations: for most companies, they make up 65%–95% of their carbon impact. Only once this is known can companies begin looking for ways to make the most of the tax and incentive landscape. The specific steps in optimising a decarbonisation strategy are:

- Calculate your carbon footprint;
- List all possible ways to reduce emissions;
- Calculate the cost after taxes and incentives; and
- Take action on options best aligned with your strategy.

In this fast-changing environment, it pays to look at all the options available to reduce emissions. Taxes are not just a cost to be managed or reduced. They form a major part of companies' contributions to productive societies and need to be effectively incorporated into strategy. With emissions reduction high on the list of priorities for many businesses and their customers, understanding how to achieve environmental goals in the most cost-effective manner should be paramount. Governments are looking for ways to help make this happen by increasing the number of incentives on offer and through targeted taxation. Businesses should be, too.

Aside from the newly announced incentives in Budget 2023, South African legislation already provides several other green grants, incentives and reliefs that aim to encourage and reward companies for implementing measures to combat climate change. The specific incentives under the Income Tax Act include, amongst others:



Energy efficiency savings: Section 12L provides as a deduction, in determining the taxable income of a taxpayer, an amount in respect of energy efficiency savings. The deduction will be calculated at 95c/kWh of energy efficiency savings and has to be measured and confirmed by an institution, board or body as prescribed by regulation.



Allowance on environmental treatment, recycling or waste disposal asset: Section 37B provides for an allowance with regard to the cost incurred in acquiring a new and unused environmental treatment and recycling asset or environmental waste disposal asset used in the context of manufacturing.



Capital allowances on roads and fencing linked to renewable energy facilities: Section 12U provides capital allowances for roads and fencing used in the generation of electricity greater than 5 MW from wind, solar, hydropower or biomass, comprising organic wastes, landfill gas or plant material. This allowance is granted in full in the year of expenditure and covers improvements (other than repairs) to the roads and fencing related to the generation project as well as the foundations or supporting structures.



Research and development (R&D): Aside from the general 100% deduction, Sections 11D and 11A provide for an allowance of an additional 50% for all expenditures incurred in respect of eligible R&D activities. The additional 50% uplift will only apply to R&D approved by the Department of Science and Technology. In this regard, R&D relating to green and energy-saving industries has been identified as a new area of focus.



Section 12I provides for an additional allowance for a company engaged in a **project that has been approved as an Industrial Policy Project (IPP)**. For a greenfield (new) project, a minimum investment in qualifying assets of R50m is required. Brownfield (expansion or upgrade) projects require a minimum additional investment in qualifying assets of R30m.

Our [Green Taxes and Incentives Tracker](#) contains information on and insights into the green tax and incentive landscape from PwC's local tax and legal specialists around the world. This knowledge can help businesses better understand the potential tax costs and benefits of the ESG agenda on their current and future operations.

Featured PwC research: Changes at SARS help to improve South Africa's private business environment ranking.



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Tax and regulatory environment is now South Africa's leading attribute on a sub-category level.

Staying with tax matters, changes at the South African Revenue Service (SARS) have helped to improve the country's private business environment ranking. PwC's recently launched EMEA Private Business Attractiveness Index 2022 ranks the relative attractiveness of private business environments across 33 countries in Europe, the Middle East and Africa (EMEA). South Africa ranks 25th in the assessment, marking an improvement on its 2021 position of 32nd out of 35 territories. The country is now ranked as a more attractive operating environment for private business compared to several European countries, including Hungary, Slovakia, Croatia, Bulgaria, Greece and Romania.

According to Duncan Adriaans, PwC Africa Lead for Private Business, it would appear that the initiatives taken by our government to make South Africa more business friendly are beginning to bear fruit. This reflects positively on the country's Economic Reconstruction and Recovery Plan (ERRP), which as part of structural reforms aimed at helping the economy recover from COVID-19, pledged to make it easier for businesses to operate in South Africa. For private companies, this provides an opportunity in 2023 to grow and contribute to employment creation at a national and community level.

The tax and regulatory environment is now South Africa's leading attribute on a sub-category level, with the country ranked 14th out of 33 territories. This is comparable to territories like Malta (ranked 12th) and Switzerland (15th) who are traditionally viewed as tax-friendly jurisdictions. On a practical level, South Africa ranks 17th for the time senior management spends in dealing with requirements imposed by government regulation. According to Elle-Sarah Rossato, PwC Africa Tax Controversy Leader, there have been noteworthy changes at SARS in recent years which have had a positive impact on the interaction between private

companies and the tax collecting authority. This includes its restructuring and the allocation of resources — including people and technology — to re-capacitate it. (We elaborated more on this in our recently published [Taxing Times 2022 Survey](#).)

Table 1: EMEA private business attractiveness rankings

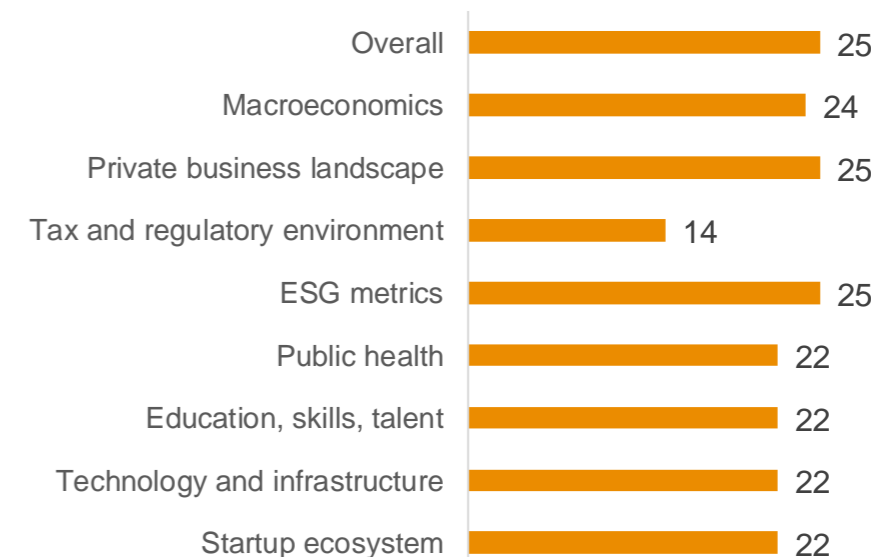
Country	Rank	Country	Rank	Country	Rank
Switzerland	1	Spain	12	Cyprus	23
United Kingdom	2	Belgium	13	Latvia	24
Sweden	3	Estonia	14	South Africa	25
Germany	4	Austria	15	Hungary	26
Denmark	5	Portugal	16	Slovakia	27
Netherlands	6	Lithuania	17	Croatia	28
Ireland	7	Italy	18	Bulgaria	29
Finland	8	Malta	19	Greece	30
France	9	Slovenia	20	Kenya	31
Norway	10	Czech Republic	21	Romania	32
Luxembourg	11	Poland	22	Nigeria	33

Source: PwC EMEA Private Business Attractiveness Index 2022.

However, while the improvement in South Africa's overall ranking is definitely welcomed, several business environment challenges still need to be overcome. When it comes to the private business landscape, South Africa finds itself in the bottom third of territories. Many of the private business environment sub-components actually perform quite well, including the percentage of global multinational corporations registered locally (ranked 13th), number of investors (15th) and deals recorded (17th), as well as the value of foreign direct investment (FDI) net inflows

(18th). The biggest negative factor in this sub-index is the country's interest rates, which ranks 31st out of 33 countries. The South African Reserve Bank (SARB) has lifted local interest rates by a cumulative 3.75 percentage points since November 2021 as it unwound the accommodative monetary policy seen during the worst of the COVID-19 pandemic. South Africa's central bank rate of 7.25% is currently significantly higher (i.e. making borrowing by private business relatively expensive) compared to, for example, the 3.00% level seen in the Eurozone countries.

Figure 3: South Africa private business environment rankings (out of 33 countries)



Source: PwC EMEA Private Business Attractiveness Index 2022.

While South Africa's overall standing in our EMEA publication has shown improvement, we know that the business environment for private business owners is never easy. Even though our latest comparative analysis indicates that South Africa has been able to improve the operating environment to a level superior to those of several EU countries, we are more engaged than ever with our clients in helping them navigate the challenges and opportunities found in the country's economy — including on the tax front.

PwC Economics services and contacts.

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How we can help.

Understanding the incentives to make cost-effective investments in energy security.

South Africa has extensive, proven resources of renewable energy, especially in solar, wind, and wave energy. Investment in renewable energy will be a fundamental business decision in 2023 and beyond. It is the most direct solution for private businesses to improve their energy security situation. Renewables also form part of a broader consideration of ESG factors within company strategy decisions.

South Africa already had numerous incentives in place for investment in renewable energy (see [page 5](#)) prior to Budget 2023 announcing steps to encourage rooftop solar installations (see [page 4](#)). Our team of tax experts have been helping clients to best utilise these types of incentives to make cost-effective investments in their energy security.

Our broader team of subject matter experts can help with diverse elements around this energy investment decision, including financing and transactional support, clean development management (CDM) project design and development, as well as greenhouse gases (GHG) data management and reporting.

Our services

The PwC South Africa Strategy & Economics team is a specialised unit of economists who serve our clients in a variety of ways. Our services include:

Measure your impact on the economy and society

- Environmental, Social and Governance (ESG) and Just Transition
- Economic Impact Assessment (EIA)
- Socio-Economic Impact Assessment (SEIA)
- Regulatory Impact Analysis (RIA)
- Total tax contribution
- Localisation calculations

Make decisions about risk and investment

- Macroeconomic research
- Market entry analysis
- Country and industry risk assessments
- Commercial due diligence assistance

Plan for future economic scenarios

- ESG scenario planning
- Economic and political scenario planning
- Industry and macroeconomic modelling
- IFRS 9 audit assist

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