

Banking on efficiency

Income Tax Act-based allowances for energy efficiency

The release of the regulation¹ on the allowance for energy-efficiency savings for public comment is delivering the currency upon which most organisations endeavour to capitalise: tax money! It is set to increase rapidly the uptake of energy efficiency, and is a key incentive to warrant energy efficiency economically viable.

Globally, governments influence energy and climate change policy by introducing various incentives and programmes to encourage sustainable development of their economies. Locally, the South African government has followed suit by corroborating its support of developing a greener economy.

Governments around the world use taxation either to penalise the excessive use of energy, or encourage reduced energy demand by granting monetary incentives.

This article endeavours to explain the financial, technical and organisational support afforded by local government through the Income Tax Act of 1962 for energy-efficiency tax incentives¹, and highlights the concurrent benefits of standardised energy-efficiency practices.

It concludes with recommendations for organisations wishing to claim these incentives, and individuals wishing to enter the career path of verifying energy savings for the purposes of these incentives.

Background

In 2009, then Minister of Finance Trevor Manuel announced there would be tax incentives for companies that can demonstrate energy savings. This set the ball in motion to employ the Income Tax Act of 1962¹ to propel energy efficiency from a conscientious platform to develop the local green sector into a viable economic sector.

Augmented with the Industrial Policy Action Plan (IPAP2) for 2010/11 to 2012/13,

which focuses on green, energy-saving industries and energy efficiency, an additional industrial energy-efficiency framework is provided to counteract higher energy prices, lower current levels of emissions, as well as create new goods and services markets.

Electricity efficiency is another integral component of the government's National Energy Efficiency Strategy.

Providing a platform to develop the green sector

To assist the growth of the local green sector, the South African government has provided financial support through the Income Tax Act¹; technical support in the form of South African National Standards (SANS); assurance through the accreditation of energy efficiency measurement and verification (M&V) bodies by the South African National Accreditation System (Sanas); and jurisdiction through the South African National Electricity Development Institute (Sanedi).

The Income Tax Act of 1962

The South African Income Tax Act of 1962 has offered tax incentives since 2009, using section 12i² – the Industrial Policy Projects investment incentive for manufacturing-related projects with a 10% energy demand reduction component³.

More recently, the proposed 12L: "Regulations on the allowance for energy-efficiency savings" has been released for public comment by 15 November 2011, and the date for promulgation of the regulation is still to be announced by the minister of Energy¹.

In terms of these tax allowances, industry will be entitled to claim a deduction for substantiated energy-efficiency savings.

The proposed regulation for 12L¹ sets out the process for determining the quantum of energy-efficiency savings, and

requirements for claiming the proposed tax deduction, which stipulates a prerequisite that energy savings reports have to be compiled by Sanas and accredited M&V bodies, and savings certified by Sanedi.

One of the requirements for an M&V body to be accredited by Sanas is to have a registered M&V professional employed.

As from 1 January 2012, Sanas accreditation will be a prerequisite pertaining to the 12i incentives.

Section 12i² incentives are specifically for manufacturing-related projects – which include the energy-efficiency component – and the incentive is claimable until 2015. Section 12L¹ 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.

Under 12i, projects that have already received incentives or grants under other types of schemes will be excluded, and such projects need to be ring-fenced and taken out of the equation when calculating and reporting savings for the tax claim. This provision has not been included into 12L, but opinions indicate it may happen⁴.

Income Tax Act incentives at a glance

12i is an income tax-based Industrial Policy Projects investment incentive, introduced in the 2008 Revenue Laws Amendment Act No. 60 of 2008 and gazetted in July 2010.

All green- and brownfield projects need to be manufacturing-related, and 12i includes energy-efficiency components where projects must result in a minimum of 10% energy demand reduction in a year that the investment is realised.

Incentives are available for five years from 2008.

12L is the regulation on the allowance for energy-efficiency savings under section 19 of the National Energy Act, 2008, read

with section 12L of the Income Tax Act of 1962. This regulation has been published for public comment, and the Department of Energy still has to determine the date of implementation.

Incentives are available until 2020.

Stakeholders in the energy-efficiency tax claiming process

It is important to become familiar with the stakeholders involved in regulating and controlling the system in order to ensure accuracy, credibility and transparency, as well as understanding the requirements by each within the tax claiming process.

Stakeholders at a glance

- Sanedi – Evaluates the energy savings reports of M&V professionals and issues tax certificates to organisations for submission to the South African Revenue Service (SARS) to claim section 12i and 12L tax incentives;
- Sanas – Accreditation of M&V bodies;
- Council of Measurement and Verification Professionals of South Africa (CMVPSA) – A council established to protect the interests of all M&V stakeholders by regulating and registering its M&V professionals who perform measurement and verification under the auspices of accredited M&V bodies; and
- SARS – Financial incentive provider.

Sanas

Sanas was tasked by the government to create an infrastructure in order to accredit M&V bodies for the purpose of 12L tax incentives¹. It is the ninth largest accreditation body in the world, and its technical structures are internationally recognised.

Accreditation is increasingly being used by regulators as part of managing regulatory risk, to ensure both the competence and consistency of outcomes of service providers used in the regulatory domain.

Mpho Phaloane, senior manager: Mechanical and Physical at Sanas, says: “Government needs complete confidence in the savings results presented through 12L, and assurance that the incentives can be granted without fear of subjectivity or conflict of interest; and Sanas, as the national accreditation body of South Africa,

has the infrastructure to independently confirm competence of M&V bodies.”

Bodies wishing to register for accreditation with Sanas to perform independent M&V of energy savings for energy-efficiency tax incentives have to comply with ISO 17 020⁵ for inspection management and SANS 50 010⁶ for performing M&V.

Details as to the Sanas requirements are available from the website at: www.sanas.co.za.



Mpho Phaloane, Sanas

The Sanas application and assessment process of M&V bodies⁷ involves the evaluation of staff technical competency which, in this instance, includes the registered M&V professional; validity and appropriateness of methods; traceability of measurements to national standards; suitability, calibration and maintenance of equipment; and quality assurance processes, among others.

The Sanas requirement protects participating accredited M&V bodies, assists in good business management, while ensuring sustainability of the accredited M&V body. Furthermore, these controls will establish a viable M&V market, introduce job opportunities, and augment local skills development.

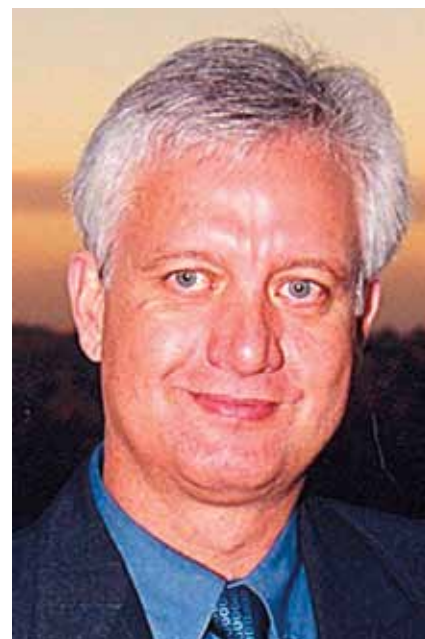
CMVPSA

To ensure M&V services and service providers are credible, trustworthy and transparent,

an independent professional body was established in the form of the CMVPSA – a chapter of the Southern African Association for Energy Efficiency.

Karel Steyn, board member of the CMVPSA, says: “It is important that an independent body exists to protect the interests of all M&V stakeholders, and the CMVPSA was established two years ago to take on the responsibility of registering and governing M&V professionals in South Africa.”

Sanas accredits M&V bodies, whereas CMVPSA takes responsibility for technical competency through registering qualified and suitably trained M&V professionals, who perform measurement and verification for the energy-saving reports under the auspices of an accredited M&V body.



Karel Steyn, CMVPSA

As the nature of claiming incentives for energy savings depicts that a claim is made for a measured void, or a measure that does not exist anymore, internationally accepted methodologies are applied to ensure accuracy⁴. These methodologies are locally standardised through SANS 50 010⁶ – the “Measurement and verification of energy savings” standard – and is a prerequisite for claiming tax incentives.

M&V professionals base their energy-savings reports on SANS 50 010, and

are required to be qualified to local and, therefore, international M&V competencies.

CMVPSA only considers application for registration from certified M&V professionals who have the required experiential background and fulfil the academic requirements; and registration is effected only after completing the mandated course and examination on "Fundamentals of energy metering, data handling, legislation and policies in the South African content and relevancy".

More details are available from the CMVPSA website: www.cmvpsa.org.za.

Sanedi

Sanedi was established in terms of section 7 of the National Energy Act of 2008 (Act No. 34). It is the organisation currently tasked with the responsibility of adjudicating, evaluating and supporting 12i projects to the minister for the Industrial Policy Projects investment incentive².

Sanedi is set to undertake a similar task for the 12L incentives, according to the regulation published for comment¹.

Adjudication of the 12L tax incentive claims will be based on the reports compiled by registered M&V professionals and Sanas-accredited M&V bodies to ensure accurate and transparent claims in alignment to SANS 50 010⁶.

The evaluation of M&V reports will be undertaken by specialist committees as appointed by Sanedi, according to the requirements specified in the regulation¹, issued for comment.

The documentation to accompany tax returns of organisations will be kept and maintained within Sanedi, which is tasked to manage a database for SARS and the minister of Finance, of all reports and certificates issued.

Energy-savings certificates will be issued by Sanedi, with a unique traceable number.

Organisations wishing to claim incentives are therefore required to appoint an M&V professional who forms part of a Sanas-accredited body as part of the requirements of the regulation¹ and register its intent with Sanedi in respect of any energy-efficiency savings measure for which the allowance is to be claimed.

Benefits of meticulous M&V

The cornerstone of any energy-efficiency claim lies in the proper measurements that are taken within the context of an internationally tried and tested standard such as SANS 50 010⁶, and then correlated and verified against a suitable baseline by an accredited body so that confirmed competence and conformity is ensured.

In a nutshell, this underscores the importance of effective M&V, but the additional benefits that such a system provides to an organisation should be taken into account as well.

Not only are energy savings quantified and assessed, but various other impacts on the energy use are identified – which, in turn, allows scope for even further energy savings.

Future focus areas for energy-efficiency activities are identified as well as potential problems in the project or programme implementation, before the project even commences. This assists with proper and complete initial implementation, thereby optimising any investment made and enabling maximum results to claim the maximum rebates, in addition to the lower energy bill.

Overall design, operation and maintenance of a manufacturing process are improved, as those involved know that the savings will be quantified by an independent party, and users become educated about the energy impact of the system and the process.

Besides managing risks for shareholders and stakeholders in the business, it will encourage further investment into optimised manufacturing, as the impact of an energy-efficiency project or programme can be evaluated against preset targets. When done by an accredited M&V body, credibility is improved, as impartial stakeholders are involved.

Preparing for energy-efficiency tax incentives

Identifying projects that may be viable for tax incentives is a good starting point. As soon as possible, sign on or contract with your potential Sanas-accredited M&V body that has a registered M&V professional employed because a shortage of these

may develop. Ensure, however, that your project is large enough in order to make the M&V process and tax incentive financially viable⁴.

Remember that not only large full-scale electrical projects qualify; projects such as lighting only; or the insulation of certain buildings on your premises; a major upgrade of air-conditioning systems, or drives; even reduced use of fossil fuels such as coal and diesel because an implemented energy-efficiency measure will qualify.

Organisations wishing to claim tax incentives

The regulation released for comment stipulates that organisations wishing to claim energy-efficiency tax incentives according to the 12L regulation¹ should take the following steps:

- Formally appoint an M&V professional who is part of a Sanas-accredited M&V body. Registered certified M&V professionals are listed on the CMVPSA website, with the Sanas-accredited M&V bodies listed on the Sanas website.
- Register with Sanedi for energy-efficiency tax allowance claims at www.saneri.co.za, supplying the details of your company and that of the Sanas-accredited M&V body.
- Task the M&V professional to compile an M&V plan and baseline report in accordance with SANS 50 010 for the energy-efficiency savings.
- Submit the M&V professional's M&V plan and baseline report to Sanedi at the beginning of the financial year for which you want to claim the tax incentive.
- Sanedi will furnish you with the approval for continuance.
- Upon the successful completion of the tax incentive approval process, Sanedi will issue a formal energy-savings certificate.
- Submit the certificate to SARS, together with the claim for the tax allowance as part of the customary tax returns.

It should be noted, however, that the 12L regulation is out for comment, and some of the procedures mentioned may change once finalised.

Current M&V service providers and M&V professionals

Current M&V service providers and M&V professionals wishing to become eligible for participation in preparing reports for organisations to submit energy-efficiency tax claims to Sanedi, should take the following steps:

- M&V professionals who wish to be registered under the auspices of an accredited M&V body should apply to the CMVPSA to start the process of evaluation and registration on its website.
- M&V service providers wishing to become M&V bodies should apply to Sanas for accreditation on its website.

M&V as a new career path

It is anticipated that a variation of types of M&V professionals and bodies will be essential in future, with a healthy mix of qualification levels and experiential requirements: from registered certified M&V professionals regulated and governed by the CMVPSA, to industry specialists for specific technologies, energy sources and market sectors.

The scope ranges from measurement and verification of specialised projects such as building insulation, lighting, pumping, control systems, etc. for a range of technologies in the industrial, residential, commercial and transportation sectors; as well as the array of energy sources such as liquid fuel, fossil fuel, renewables, biofuel, etc.

Sanas provides allowance for accredited M&V bodies to subcontract specialised services, or additional resources and expertise, to perform measurement and verification obligations – with the condition that the subcontractor's competence can be verified and demonstrated⁷.

Knowledge on M&V and energy efficiency in general, on all levels, will become more sought-after throughout industry, and therefore holds good opportunities for those interested.

Professor LJ Grobler, president of the SAEI, says: "A thorough understanding of energy-efficiency principles are required to perform M&V that can be substantiated.

"Persons who are equipped with sound knowledge of M&V provide assurance to

the client using the person's service, that maximum possible savings can be established to a degree of accuracy, as they are found on tried-and-trusted principles. This, therefore, creates a sound basis for development and huge opportunities for technically minded people wanting to enter into the energy-efficiency fields."



Prof. LJ Grobler, SAEI

Persons wishing to enter the M&V sector through the CMVPSA have to comply with the minimum academic and experiential requirements, and embark on energy management and M&V training to achieve the qualifications required for technical competence.

Training is provided by the SAEI and the American Association of Energy Engineers in conjunction with the Energy Training Foundation.

Registration with CMVPSA is conditional on the successful completion of the prescribed course and examination on the "Fundamentals of energy metering, data handling, legislation and policies in the South African content and relevancy".

Registration with CMVPSA is subject to evaluation of practical M&V experience.

Registered M&V professionals are regulated through the CMVPSA to ensure credible service provision and

the protection of all stakeholders in M&V projects and initiatives.

Conclusion

To apply the benefits of energy efficiency tax incentives within organisations effectively, the core competence lies with the effective use of M&V and understanding the requirements of the regulation.

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