

Power of solar tax breaks

By Joon Chong & Chetan Vanmali

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The demand for solar power installations in South Africa is likely to heat up considerably this year after new incentives were announced in the February 2023 Budget.



Image source: Trinh Tr?n from [Pexels](#)

Responding with glacial speed to years of escalating load shedding, National Treasury has provided new incentives for installing solar PV systems to help expand the country's available power generation.

These incentives offer a new tax break for individuals installing rooftop solar on their homes and extend the existing tax break for businesses. Those wishing to take advantage of the tax breaks should move quickly, as they are only available for a limited period.

The necessary empowering legislation will be included in the annual tax amendments, but it is not necessary for those wishing to apply for the rebate to wait until the legislation is passed.

Individuals

Individuals will be eligible for a tax rebate of 25% of the cost of any new and unused solar PV panels that are installed at a private residence and have a certificate of electrical compliance issued between 1 March 2023 and 29 February 2024. The rebate only applies to solar PV panels, not other forms of power generation like inverters or generators, and it is capped at R15,000 per individual.

These panels may be a new installation, or an extension of an existing system. Only panels with a minimum size of 275W per panel qualify and the system must be connected to the residence's mains distribution. To claim the incentive, individuals must present a VAT invoice and proof of payment to Sars, as well as the certificate of compliance. A recent draft Third Party Returns of Information notice issued by Sars for comment required persons issuing these certificates to submit third party returns to Sars with, among other things, the tax numbers of the recipients of these certificates.

The rebate is available to the person who pays for the system, so it is not confined to property owners. However, body corporates do not qualify.

The rebate will only be claimable on submission of the ITR12 annual returns for individuals. There is thus a significant time lag between the time expenses are incurred, and when the refund will be received by the individual. As with the home office deductions, we also anticipate stringent verifications and audits by Sars before these rebates are refunded to individuals.



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Companies

Under Section 12B of the Income Tax Act, there was already an incentive for businesses to install solar PV panels. They were entitled to claim a tax rebate equivalent to 100% of the cost in one year for an installation of up to 1MW, and over three years at 50%/30%/20% for installations above 1MW. Sole proprietors and commission earners using a portion of their homes for business purposes could only claim the portion of the installation used for trade.

The latest proposals allow for a 125% tax rebate over one year for any renewable energy project, with no cap on the generation capacity. This will be available only for installations coming into use for the first time between 1 March 2023 and 28 February 2025 – in other words, the incentive is available for two years, as opposed to the one year for domestic installations.

A solar PV system investment costing R1m would qualify for a section 12B deduction of R1,25m. At the current corporate income tax rate of 27%, the investment could reduce income tax liability by $R1,25m \times 27\% = R337,500$. Unlike solar installations for individuals, the section 12B costs which businesses can claim should not be limited to the costs of the solar PV panels only.

Binding private rulings (BPR) are not binding generally, but they provide very useful guidance on Sars practice. There are two BPRs on section 12B: BPR 311 (11 October 2018) and BPR 172 (25 June 2014).

These rulings indicate that section 12B deductions can be claimed for:

- The costs of all PV panels and their constituent parts, including concrete foundations and supporting steel structures;
- DC combiner, DC combiner boxes and feeder lines;

- AC inverters and all equipment, including batteries, used for generation of electricity;
- Racking, cables and wiring for the solar PV system (but not distribution boxes not forming part of the system);
- Solar PV site installation planning costs;
- Solar PV panel delivery costs;
- Solar PV system installation safety officer costs; and
- Solar PV system installation costs.

Changes to the Bounce Back Loan Guarantee Scheme are also proposed to incentivise renewable energy for SMEs. Government will guarantee solar-related loans to SMEs on a 20% first-loss basis.

The above solar incentives are most welcomed and will assist with managing the adverse economic effects of load shedding. We look forward to the draft tax bills on these proposals which should be circulated by National Treasury around July 2023.

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