

Accelerated Capital Allowance for Renewable Energy Projects

Tax Bulletin

The draft Taxation Laws Amendment Bill was published by National Treasury on 8 July 2016 (“the TLAB”). One of the proposals under the TLAB is to widen the scope of the Income Tax Act regarding allowable capital allowances for supporting infrastructure used in producing renewable energy. National Treasury has recognised that large scale renewable energy projects are not satisfactorily catered for under the existing accelerated depreciation provisions and that this influences the feasibility of many large scale renewable energy projects.

The deduction will apply where any amount is incurred in respect of the construction of any **road** or the erecting of any **fence** for purposes of generating electricity which exceeds **5 megawatts**. The proposed amendment takes into account that all renewable energy projects approved under the auspices of the Renewable Energy Independent Power Producers Procurement Programme of the Department of Energy currently exceed 5 megawatts. The electricity must be generated from **wind** power, **solar** energy, **hydropower** (to produce electricity of not more than 30 megawatts) or **biomass**.

In addition, any costs incurred by the taxpayer in making any improvements (other than repairs) to roads or fences (including foundations or supporting structures designed for such a fence) will fall within the allowance.

Where any supporting infrastructure capital expenditure **exceeds** the income in any year of assessment then that expenditure will be ring fenced to the specific trade of the production of renewable energy. In other words, where the expenditure exceeds the taxpayer’s taxable income from its renewable energy operations it is prohibited from deducting the excess against any other income it may have. However, this excess may be rolled-over as an allowable capital expenditure during the next succeeding year of assessment against income specific to the trade of the production of renewable energy.

If, which in practise happens more often than not, the capital expenditure on supporting infrastructure is incurred **before the taxpayer begins its trade** then specific provision has been made for taxpayers to claim such pre trade expenditure as a capital allowance which can then be deducted against future income derived from renewable energy projects.

If passed by Parliament the amendments are to come into effect from 1 April 2016.

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