



# MetSolar

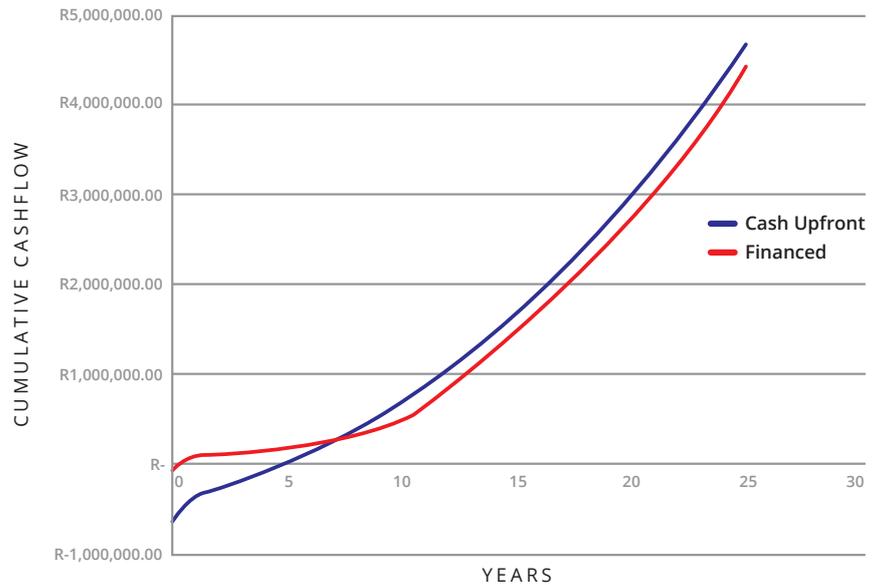
## Solar Power

As from 1 January 2016, Section 12b of the Income Tax Act (South Africa) was amended from a three-year (50% - 30% - 20%) accelerated depreciation allowance on renewable energy to an even quicker depreciation allowance of ONE year (100%).

This accelerated depreciation allowance came about from a proposal in the 2015 draft Taxation Laws Amendment Bill that the definition of solar energy be amended to distinguish between photo-voltaic solar energy of more than 1 megawatt, photo-voltaic solar energy of less than 1 megawatt and concentrated solar energy.

# TAX INCENTIVES

Cumulative Cashflow



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## What does this mean for your company?

The amended Section 12b provision now provides for an accelerated capital allowance of 100% in the first year, in respect of photo-voltaic solar energy of less than 1 megawatt.

The reason for the change is to accelerate and incentivise the development of smaller photo-voltaic solar energy projects, as it has a low impact on water and environmental consumption. This is also intended to help address the energy shortages facing South Africa in a more environmentally friendly way.

Section 12B of the Income Tax Act No. 58 of 1962, as amended (the 'Act'), provides for a capital allowance for movable assets used in the production of renewable energy. More specifically, it allows for a deduction equal to 100% basis in respect of any plant or machinery brought into use in a year of assessment for the first time and used in a process of manufacture or any other process which is of a similar nature. It is important to note that the allowance is only available if the asset is brought into use for the first time by the taxpayer. In other words, the allowance is not limited to new or unused assets. The wording merely prevents the taxpayer from claiming the section 12B allowance twice on the same asset.

Currently, company tax in South-Africa is 28%. With this incentive, you can deduct the value of your new solar power system as a depreciation expense from your companies' profits. This means that your companies income tax liability will be decreased by the same value as the value of the installed solar system. This reduction can also be carried over to the next financial year as a deferred tax asset. In effect it is the same as getting a 28% discount on the price of your solar system!

With this incentive, it makes the financial model of a commercial roof-top, grid-tied, solar power system look very attractive. Above is an example of a client in the City of Joburg municipality. If the system is financed, they will be cash-flow positive from year 2. If the system is bought with cash-upfront, the system will pay for itself in under 5 years. The effect of the accelerated depreciation incentive can be seen clearly in year one.



## Contact MetSolar

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