

# South Africa Renewable Energy Sector:

Tax considerations



April 2026

The South African renewable energy sector is undergoing rapid transformation. With the IPPPP targeting 20,340 MW by 2030, grid constraints, market restructuring, and rising energy demand from industrialisation and data centres are reshaping the landscape. Against this backdrop, maintaining strategic alignment with tax policy is critical. Below we highlight the key tax opportunities and risks relevant to IPPs and investors.

## 1 Capital allowances – maximising the benefit

### Section 12B – 3 year write off

Assets used to generate renewable energy (solar, wind, hydropower  $\leq 30\text{MW}$ , biomass) qualify for accelerated capital allowances over three years (50:30:20). This generally means renewable electricity producers will pay little to no income tax in the first few years of operation.

#### Energy storage & conversion:

Batteries and inverters integrated into a generation system likely qualify under section 12B. However, standalone storage used only for load shedding mitigation does not qualify.



#### Accounting for foreign gains and losses:

Foreign exchange losses and gains are deferred until the asset they relate to has been brought into use. Maintaining an accurate schedule of funding and which aspect of the plant they relate to is therefore crucial where the asset is funded by foreign instruments.



#### Interest costs, insurance and other:

Costs that form part of the electricity generating plant are deductible once the plant has been brought into use. Interest, insurance are deductible when incurred if all other conditions are met. Other: Pre-trade costs, i.e. costs incurred engagement the IPP office costs, incurred in relation to environmental assessment, community engagements where applicable.



**Qualifying cost:** Only direct acquisition, installation and erection costs qualify. Transactions between connected persons must be at market value, otherwise the cost is limited to the arm's length amount.



**Repairs vs improvements:** Replacement of batteries or inverters is usually a repair (immediately deductible). An improvement (e.g., upgrading capacity) follows the underlying asset's write off pattern.



**Excluded sources:** Geothermal and tidal energy do not qualify for 12B but may fall under section 12C (40/20/20/20 over four years).



**Pre-trade expenses:** Pre trade expenditure

## Section 12U – Infrastructure deduction

Roads, fences and foundations for renewable projects >5MW are deductible in full in the year the cost is incurred—a powerful cash flow benefit.

## Research & development (section 11D)

Provides a 150% deduction for operating expenditure on approved scientific or technological R&D. Capital assets used for R&D qualify for section 12C allowances (40% in year 1, 20% for 3 subsequent years of assessment).

## 2 Assets funded by foreign related parties: Interest

Section 23M limits interest deductions where the lender is a non resident not fully subject to tax in South Africa (i.e., where the effective tax rate on the interest is less than 15%). Because many IPPs are financed by foreign debt, this provision can restrict deductions and increase taxable income.

Interest charged by the related party or associated entity should be at market value. Where interest charged is not at market value- the excess interest may be denied deduction and deemed to be a distribution that is subject to tax.

Together, these rules reduce the tax efficiency of debt heavy structures. CFOs must take into account these potential limitations to avoid unexpected disallowances.



### 3 Cross border structuring – withholding taxes

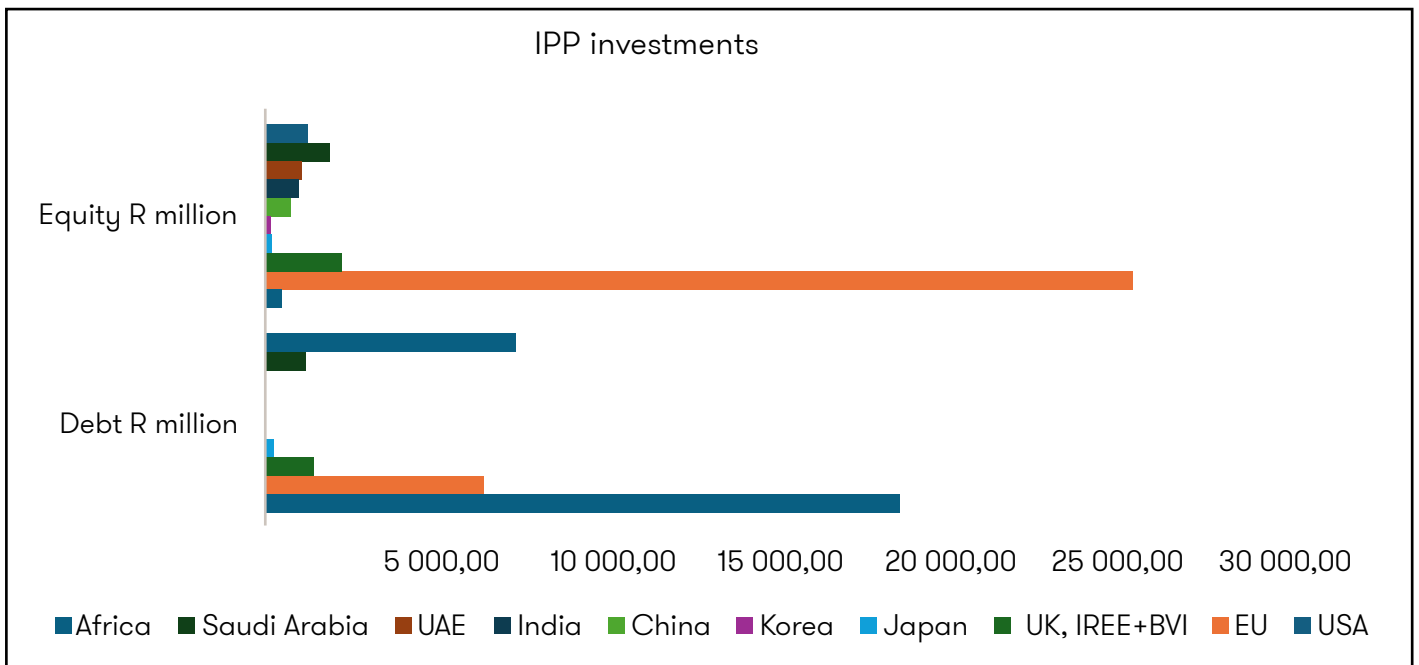
#### Withholding taxes

Dividends:  
**20%**

Interest:  
**15%**

Royalties:  
**15%**

Rates may be reduced under applicable double taxation agreements (DTAs). For IPPs, these taxes affect the cost of capital and are a key consideration when using foreign debt, equity, or technology licensing. Majority of the debt funding for IPPS comes from African and American investors. The average reduced rate from withholding tax on interest is 9% amongst based on current Double Tax Agreements between RSA and 23 countries in the African Continent while the withholding tax on interest with America is reduced to 0. The table below shows the split of funding by debt and equity by region.



#### Debt bias & limitations

Interest is generally deductible, creating a tax shield that favours debt over equity. However, recent rules (see section 2) increasingly limit this advantage. Careful structuring is required to ensure interest deductions are not deferred or disallowed.

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## 4 Transfer pricing – documentation & certainty

South Africa follows OECD principles. For cross border related party transactions, the arm's length principle applies under section 31 of the Income Tax Act.

### Advance Pricing Agreements (APAs)

APAs, introduced in South Africa in 2023, allow taxpayers and SARS to agree in advance on an appropriate transfer pricing methodology for cross border transactions.

Why this matters for IPPs: Renewable energy projects involve complex, high value cross border arrangements - intercompany financing, equipment procurement, technology licences, and construction services. An APA provides upfront certainty, reduces the risk of costly SARS adjustments and double taxation, and delivers predictable tax outcomes over the life of a long term infrastructure project. For IPPs with significant cross border group support, an APA can be a valuable risk management tool.

## 5 Value Added Tax (VAT) complexities

Transfer of business as a going concern (TOGC)

Zero rating VAT under section 11(1)(e) is often used when transferring a project from a construction SPV to the operating entity. However, the requirements are strict:



Crucially, a solar plant that is still under construction and not yet generating revenue does not qualify for zero rating. Transferring it prematurely can result in significant unrecoverable VAT.

### VAT registration for development SPVs

Where development costs are incurred in an SPV that has not yet signed a binding contract to supply electricity, SARS may decline VAT registration—leading to irrecoverable input VAT. To mitigate this, ensure there is sufficient evidence (e.g., a signed agreement) that taxable supplies will commence within 12 months.

### Zero rated exports

Where electricity is exported, strict documentary requirements apply (e.g., export documentation under the Customs and Excise Act, proof of payment, zero rated tax invoice). Documentation must be retained within 90 days of the supply date.

## 6 Employment tax & Permanent Establishment (PE) risk

### Employees' tax (PAYE, UIF, SDL)

When engaging foreign EPC contractors or seconding staff from related foreign companies, the IPP must correctly classify workers (employee vs independent contractor) and withhold the appropriate taxes. Misclassification can lead to penalties and interest.

### Permanent establishment

#### Construction PE:

A foreign contractor with a construction or installation site lasting more than 12 months may create a taxable presence in South Africa.

#### Dependent agent PE:

Seconded staff who habitually negotiate or conclude contracts on behalf of the foreign enterprise can also trigger PE

The 2025 OECD commentary update clarified that remote work and part time presence are assessed on a fact specific basis. For IPPs, this means careful role definition and time tracking are essential to manage PE exposure.

## 7 Carbon tax – a rising financial imperative

South Africa's carbon tax increased sharply in 2026 to R308 per tonne of CO<sub>2</sub>e (from R236 in 2025). Phase 2 of the framework reduces tax free allowances and tightens compliance.

For energy intensive clients (mining, steel, cement, chemicals), this is no longer a marginal cost. A company emitting 100,000 tonnes now faces a R30.8 million annual tax liability.

**Strategic implication:** Each tonne of CO<sub>2</sub>e avoided through renewable adoption directly reduces tax exposure. Renewables also provide stable, predictable energy costs—an effective hedge against both carbon tax escalation and fossil fuel price volatility.

### A strategic imperative for IPPs

Building on this evolving landscape, ESG is becoming central to how IPPs operate and compete in South Africa. It is no longer a compliance exercise, but a key driver of funding, bid success, and long-term value, with increasing expectations from both investors and government on measurable impact and governance.

However, many IPPs still face challenges, including fragmented data, manual processes, and limited integration of ESG into core decision-making. The added complexity of aligning local requirements such as BBBEE with global standards like IFRS S1 and S2 further strains internal capacity and reporting accuracy.

In response, leading IPPs are adopting more integrated, digital approaches to centralise data, strengthen governance, and enable audit-ready reporting. Those that embed ESG effectively will be better positioned to secure funding and compete in South Africa's evolving energy market.

## How we can help

We offer an integrated approach that looks at your entire business needs, local and global regulatory requirements, transactions advisory, tax advisory, operational support, ESG and Green Financing advisory.

We offer specific services tailored to the sector like:

#### M&A & deal support:

Tax due diligence, structuring advice, SPA negotiation support, and post-acquisition integration.

#### Project development:

Tax-efficient project structuring, incentive optimization and assistance with funding arrangements.

#### Operational support:

Transfer pricing advisory, VAT advisory, and tax compliance for SPVs and holding companies.

#### ESG & green financing:

Assistance with verifying green credentials for tax and financing purposes.

For a deeper discussion on any of these topics, please contact us.

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