

# South Africans can now get tax breaks for investing in renewable energy

South Africa's first private equity fund which allows green energy investors to qualify for Sars-approved tax deductions has been launched.



Source: Supplied. Jeff Miller, founder of Twelve B Green Energy Fund.

Section 12B of the Income Tax Act No. 58 of 1962 allows for a tax deduction for certain qualifying assets used for electricity generation from renewable sources.

A similar tax incentive, Section 12J, was launched in 2014 and it became the fastest growing alternative asset class in South Africa, with more than R12bn of capital raised across 200+ funds. The Section 12J tax incentive reached its sunset clause in June 2021.

"Green energy has become a necessity due to SA's unreliable electricity supply and the private sector needs to step in to urgently improve the situation. In addition to the longer-term benefits of sustainable energy generation, the Twelve B Green Energy Fund is an attractive initiative.

"South African individuals, trusts, companies and pension funds can write off 100% of their investment against their taxable income in the year the assets produce electricity. Effectively, this could provide green energy investors with up to 100% tax relief in that year," says Jeff Miller, founder of Twelve B Green Energy Fund.

Miller is pioneering the Section 12B initiative, drawing on his experience as pioneer of Section 12J venture capital companies (VCCs) which offered attractive investment propositions and tax deductions.

## Qualifying investments

The Twelve B Green Energy Fund has a mandate to invest in solar panels, inverters and batteries in residential complexes, and commercial and industrial installations.

Twelve B's portfolio of assets is spread over several solar projects which are at different locations and have different end users. Each project is governed by a long-term power purchase agreement (PPA), which governs for the amount of energy generated at an agreed price over the term of the PPA.

All projects are vetted by an experienced investment committee before they are approved.



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The fund is regulated by the FSCA. It is managed and administered by Grovest, the pioneers of Section 12J, which brought the first Section 12J fund to the market in 2014. Today, Grovest is the largest administrator of Section 12J funds, with over R3.5bn in assets under administration.

“The Twelve B Green Energy Fund is targeting an IRR to investors of 14% to 15% net of fees and taxes and has a moderate risk profile. The ability to write off the cost of the investment against taxable income provides downside protection and enhances overall returns for investors,” says Miller.

## Other benefits of Twelve B

The Twelve B Green Energy Fund is a tax-efficient partnership structure. Investors receive bi-annual distributions from the profits of the partnership.

While the term of the fund is 10 years, there is no minimum prescribed period to hold the asset to benefit from the Section 12B allowance.

The minimum investment amount is R100,000 and there is no maximum cap on investments into the fund.

Twelve B is a Shariah compliant investment.

## How does the Section 12B tax deduction work?

**A:** Investor invests R100,000 in March 2023.

The full amount is invested into the solar kit that starts generating energy in May 2023.

The investor can deduct the full R100,000 from his or her taxable income for the year ended February 2024.

**B:** Investor invests R100,000 in March 2023.

Only R70,000 is invested into the solar kit that starts generating energy in the year ended February 2024.

The investor can deduct R70,000 from his or her taxable income for the year ended February 2024. The balance of R30,000 can be deducted from taxable income in the following tax year when the balance of the solar kit comes into operation.

“This is a significant milestone. We are proud to launch an industry-first with so many positives - an attractive tax-structured fund, with solid returns and a strong ESG focus, which also allows us to play our part in solving South Africa’s dire energy crisis,” says Miller.

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