

INCUBATE | IMPLEMENT | AMPLIFY

ENVIRONMENTAL TAX INCENTIVES: OECMS AND THREATENED SPECIES SOUTH AFRICA

POSITIVE TAX INCENTIVES FOR ENVIRONMENTAL OUTCOMES AND BEHAVIOURAL CHANGE

Under iteration | Last updated 15 November 2023

DOUBLE THE IMPACT

Section 37C(1) of South Africa's Income Tax Act is an environmental tax incentive that allows for a deduction of qualifying conservation and maintenance expenses from the taxable income of eligible taxpayers, effectively reducing tax payable and releasing additional finance for conservation efforts. Not only does this tax incentive provide for a reduction in tax paid, but a Candidate Other Effective Area-based Conservation Measure (OECM) is created. The creation of Candidate OECMs and use of the tax incentive will contribute to South Africa's targets committed to under the Global Biodiversity Framework (GBF) Target 3 (i.e. 30x30 area-based conservation target), and Target 18, and species protection goals under Sustainable Development Goal 15 - Life on Land.



This finance solution is expected to amount to approximately USD 80 000 per annum in tax deductions, in perpetuity. The finance is directly attributable to conservation management activities for threatened species.

HOW IT WORKS

The tax incentive is enabled by a unique conservation agreement that is signed between the Minister of the Environment and taxpayers called a Biodiversity Management Agreement (BMA). BMAs are governed by national legislation and provide a contractual mechanism to ensure that biodiversity is safeguarded through specific management practices for threatened species. These management practices are contained in published Biodiversity Management Plans (BMPs). BMAs are binding for a minimum of five years but can be signed for longer durations if elected. Taxpayers who sign a BMA are contracted to conduct prescribed conservation and maintenance actions in respect of the threatened species they are managing on their land. These actions may include security costs, ranger salaries, fodder, veterinary expenses and the like. In return, these taxpayers, who do not conduct commercial operations on the land subject to the BMA, may be eligible to deduct expenses incurred in conducting the prescribed actions, which will consequently result in a reduction in tax payable. The BMA forms the basis of a Candidate OECM in South Africa.

WHAT YOU NEED TO KNOW

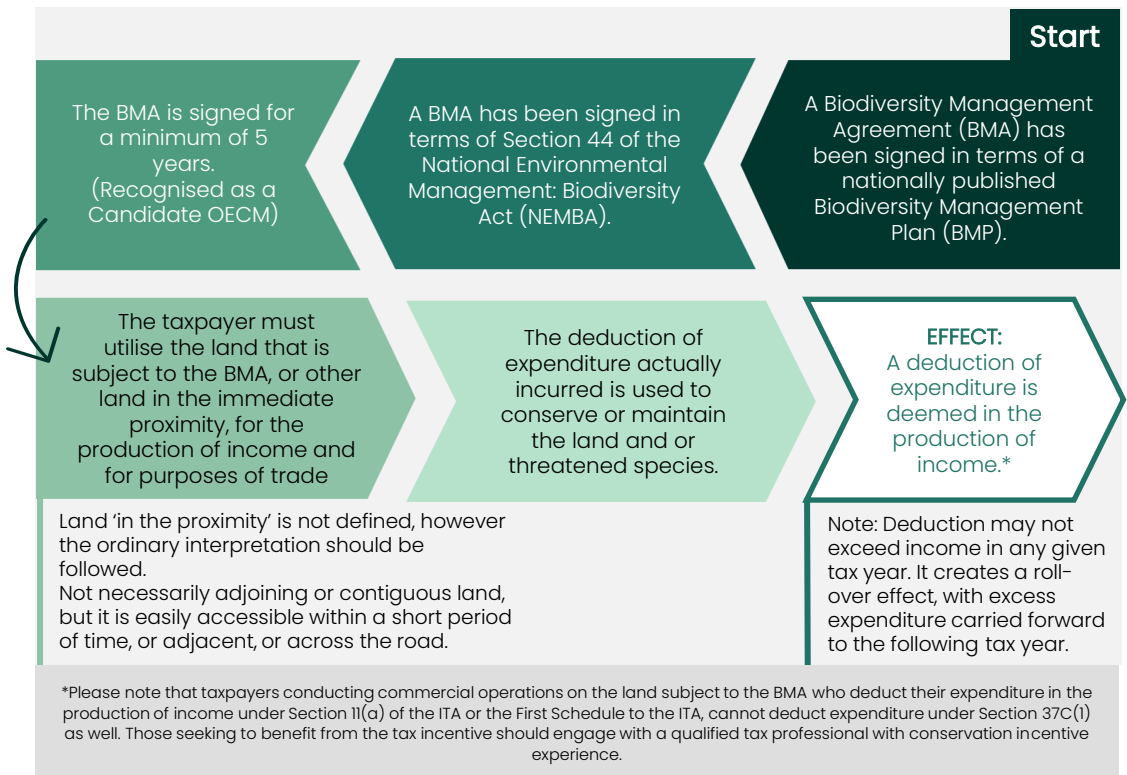
Who may access the deduction: If you are an eligible taxpayer involved in the conservation and maintenance of threatened species (for example rhino, lion, cycads, vultures, and others) or ecosystems for which a BMP has been published, and you meet the requirements of Section 37C(1) of the ITA, you may be eligible to access the tax deduction. For BMP info please see further below.

What you need to do: Taxpayers will need to sign a BMA in terms of the BMP (or BMPs) relevant to your context for a period of at least five years.

What may be deducted: Expenditure incurred in the conservation and maintenance of threatened species and ecosystems and noted in signed BMAs may then be deducted in annual tax returns. Examples of conservation activities whose costs may be deducted include, but are not limited to, alien-clearing, ranger salaries, security, veterinary expenses, or member levies contributing to the conservation and maintenance activities of management associations of areas.

TAX INCENTIVE FLOW DIAGRAM

Requirements of Section 37C(1) of the Income Tax Act (ITA), require that the following aspects are met to access the tax incentive as demonstrated in the flow diagram.



BIODIVERSITY MANAGEMENT PLANS

What they are: BMPs aim to provide for the long-term survival of a species in the wild and to provide a platform for an implementing organisation or responsible entity or individual as appointed by the Minister to monitor and report on the progress regarding the implementation of the BMP. Any draft BMP must be submitted to the Minister for approval of public comments or the implementation thereof in terms of NEMBA.

Who develops the BMPs: Any person, organisation or organ of state desiring to contribute to biodiversity management may submit to the Minister for his or her approval a draft management plan for an ecosystem or an indigenous species listed in section 56 of NEMBA, or for a migratory species in term of an international agreement binding on the Republic. Persons and organisations may include species experts, organisations dedicated to the conservation of species such as the Lion Management Forum (LIMF), and the like.

BMPs published: To date, 12 BMPs have been promulgated and published for implementation across the country, covering multiple species. These are listed in the table below:

Species	Dominant Areas
Animals Bontebok (<i>Damaliscus pygargus</i> subsp. <i>pygargus</i>) Lion, African (<i>Panthera leo</i>) Rhino, Black (<i>Diceros bicornis</i>) Rhino, White (<i>Ceratotherium simum</i>) Zebra, Cape Mountain (<i>Equus zebra zebra</i>)	Western Cape (Fynbos and Renosterveld) National Eastern Cape, Limpopo, Mpumalanga Northern Cape, Kwa-Zulu Natal National Eastern Cape and Western Cape
Birds Penguin, African (<i>Spheniscus demersus</i>) Vulture, Bearded (<i>Gypaetus barbatus</i>)	Coastal, Western Cape and Eastern Cape Kwa-Zulu Natal and Eastern Cape
Frogs and reptiles Frog, Pickersgill's Reed (<i>Hyperolius pickersgilli</i>)	Kwa-Zulu Natal
Plants Cycad, Albany (<i>Encephalartos latifrons</i>) Cycads, other (<i>Encephalartos spp</i>) Geranium, African (<i>Pelargonium sidoides</i>)	Eastern Cape, Subtropical Thicket National Eastern Cape and Free State
Marine species Sharks and Rays	National oceans and coasts

BMPs released for public participation or under development: A number of BMPs have been released for public participation or are under development. For species, these include, for example, African Wild Dog, all species of Crane, Western Leopard Toad, Orange-Vaal Largemouth Yellowfish, Cape Vulture, African Grass Owl, Geometric Tortoise, Barrydale Redfin Fish and Southern Ground Hornbill. Additionally, there are BMPs in development for threatened ecosystems at various stages of advancement.

LINKING BMPs TO BMAs and OEMs

BMAs are drafted based on the BMP or BMPs the implementer intends to implement. Once drafted and signed, BMAs represent a contractual agreement between the Minister of the Environment and the implementer (taxpayer) for a minimum period of five years. BMAs refer to the BMP or BMPs it relates to. Specific items are listed in the Annexures to BMAs and sets out the conservation and management actions prescribed by the relevant BMP or BMPs for which a BMA is signed. These conservation and management actions are then monitored and reported on an annual basis.

Why is this important:

BMPs provide the detailed conservation management actions based on national scientific best practice and contractually bind taxpayers to these actions through the BMA and its Annexure(s). Notably, Annexures to BMAs are drafted to create a link between the prescribed actions and expenditure potentially incurred in the conducting of such actions, allowing for the determination of the deduction from qualifying taxable income under section 37C(1).

WHERE IT ALL STARTED

The Coalition undertakes a unique 3-stage Finance Solution Approach[®] to incubate, implement and amplify finance solutions to achieve impact at scale over a 3–5-year period.



The incubation and implementation of a new tax incentive for biodiversity: The OEM and threatened species tax incentive was incubated by the Sustainable Finance Coalition in 2020 with a collective group of experts as a viable finance solution. The solution was implemented through a dedicated pilot project by co-founder and implementing partner to the Coalition, Wilderness Foundation Africa (WFA) through funding from Rhino Recovery Fund from 2021 to 2022. The Coalition's Finance Solution Approach was used to unlock this incentive and the pilot project actualised much needed sustainable finance for the conservation and maintenance of important species such as rhino and lion in South Africa. The pilot project enabled the drafting of the very first BMAs by DFFE in terms of published BMPs guiding the conservation and maintenance of rhino and lion.

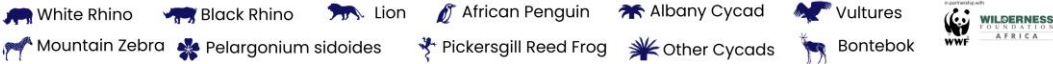
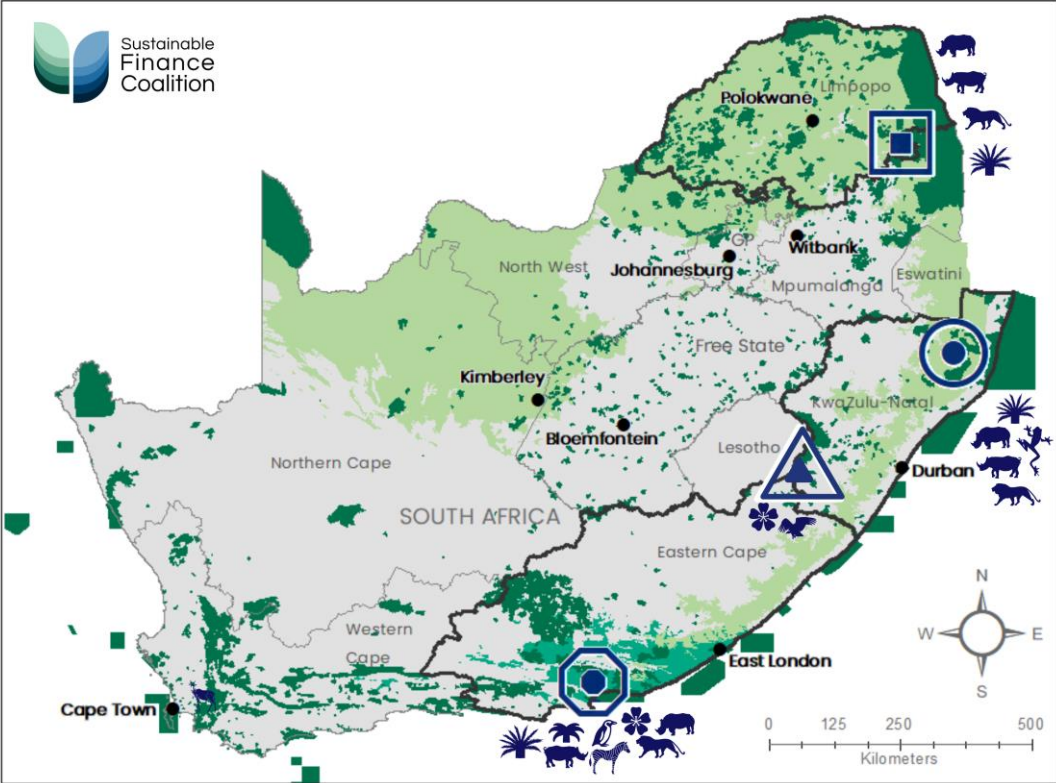
Amplifying a new finance solution to impact at scale: The OEM and Threatened Species tax incentive is now being taken to scale (commenced July 2023 and ongoing) by the Coalition through its amplification stage, building on the momentum and progress of the incubation and implementation stages. Reaching impact at scale for this novel tax incentive is being undertaken together with the DFFE, the South African Revenue Service (SARS), the South African National Biodiversity Institute (SANBI), species and ecosystem communities of practice and relevant stakeholders in country, to enhance the scope of the tax incentive and ensure its application nationally. Ultimately, the Coalition's impact stage will scale this benefit to a broad range of qualifying taxpayers safeguarding rhino, lion, vultures, cycads, and many other threatened faunal and floral species and ecosystems. This will ensure a greater contribution to the financial sustainability of the conservation of threatened species, ecosystems and OEMs in South Africa and the people who are committed to securing such species and ecosystems.

REACHING SCALE THROUGH ENGAGEMENT

The Coalition will be supporting DFFE to take the OECM and Threatened Species Tax Incentive to scale in 2024 through four key engagement nodes with private and communal landowners with support from collaborators and collective action.

The Phase 1 nodes are highlighted in the map of South Africa and its protected areas. The nodes have been chosen based on the density of BMP species and established partner relationships in these areas to reach scale effectively and efficiently. The nodes include:

1. Greater Kruger, Limpopo and Mpumalanga
2. Northern Kwa-Zulu Natal
3. Transboundary Grasslands, Eastern Cape, Kwa-Zulu Natal on the border of Lesotho
4. Addo, Albany and Sundays Corridors, Eastern Cape



Legend

● Major Towns/Cities	Other Biomes	Coalition Phase 1 BMA/BMP engagement nodes:	Greater Kruger (4 BMP species)	Addo-Albany-Sundays (8 BMP species)
Provincial Nodes	Albany Thicket		Northern KwaZulu Natal (5 BMP species)	Grasslands (2 BMP species)
Other Provinces	Savanna			
Protected Areas (SAPAD 2022)				

PROJECT PARTNERS

The incubation, implementation and amplification of the OECM and Threatened Species tax incentive is a joint effort between the Sustainable Finance Coalition and DFFE, implemented by Wilderness Foundation Africa. The incentive has been made possible through engagement with SARS and National Treasury, and with funding from the Rhino Recovery Fund.

Cross-sectoral collaboration and expert support was provided by a Community of Practice of government and NGO representatives, private and communal landowners, and thematic communities of practice involved in the conservation and maintenance of threatened species and ecosystems.

COLLABORATORS



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Rhino
Recovery
Fund



**forestry, fisheries
& the environment**

Department:
Forestry, Fisheries and the Environment
REPUBLIC OF SOUTH AFRICA



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SARS

South African Revenue Service

COLLECTIVE ACTION

SANBI

Biodiversity for Life

South African National Biodiversity Institute



**South African
NATIONAL PARKS**

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SOUTH AFRICA
Giving Conservation Wings



**BOTANICAL SOCIETY
OF SOUTH AFRICA**



KRUGER TO CANYONS
BIOSPHERE REGION



**CONSERVATION
OUTCOMES**



SA Jagters- en Wildbewaringsvereniging
SA Hunters and Game Conservation Association





WANT TO FIND OUT MORE?

More information: Please visit our website for up-to-date documentation related to the OECM and Threatened Species Tax Incentive, such as a Solution Sheet on Environmental Tax Incentives more generally and other finance solution related information.

Get in touch: Please contact Ellané van Wyk at info@sustainablefinancecoalition.org should you require additional information or assistance in accessing the tax incentive.

Confidentiality: It should be noted that all tax and personal information of taxpayers is treated as strictly confidential by the Coalition.

Please note: This document is intended to provide information about the tax incentive only and cannot be construed as tax advice and may not be used as such. Tax advice should be sought from registered tax professionals, familiar with conservation-related incentives.

THE SUSTAINABLE FINANCE COALITION

Who we are: Founded in 2019, the Sustainable Finance Coalition finds, designs and mobilises tailored finance solutions for nature. We are a driving force for the incubation and implementation of finance solutions at their point of impact ensuring effective and enduring natureescapes across Africa.

What we do: Mobilising finance is achieved by the Coalition's 3-stage Finance Solution Approach®, which allows for the development and design of new finance solutions in a strategic and dynamic manner, whilst fostering the incubation of innovation. We incubate, implement and amplify sustainable finance solutions for nature at scale together with a vast Finance for Nature Ecosystem.



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- sustainablefinancecoalition.org
- wildernessfoundation.co.za
- wwf.org.za

The Coalition is supported in its efforts by a voluntary advisory Council of thought leaders from 18 sectors. Our interventions are supported by our Core Partners, Collaborators and Specialist and Associate Contributors from across Africa offering a multi-disciplinary team of expertise and experience. The Coalition is chaired by Candice Stevens and supported by a Coalition Team from the Coalition's founding organisations, Wilderness Foundation Africa and WWF-SA.

Disclaimer: In the interests of advancing the development and implementation of innovative finance solutions in conservation and sustainability, we encourage you to talk about our work. Please ensure that you reference the Coalition appropriately in all communications relating to our work and provide this link: <https://www.linkedin.com/company/the-sustainable-finance-coalition> and www.sustainablefinancecoalition.org. Please note that the Coalition's Finance Solution Approach is copyrighted. The information contained in this communication is intended solely for use by the recipient and others authorized to receive it. If you are not the recipient, you are hereby notified that any disclosure, copying, distribution or taking action in relation of the contents of this information is strictly prohibited and may be unlawful.