

BINDING PRIVATE RULING: BPR 172

DATE: 25 June 2014

ACT : INCOME TAX ACT NO. 58 OF 1962 (the Act)
SECTION : SECTION 12B
SUBJECT : PLANT USED IN THE PRODUCTION OF RENEWABLE ENERGY

1. Summary

This ruling deals with the deduction allowed in respect of the cost of machinery, plant, implements, utensils or articles owned and used in the generation of electricity from solar energy.

2. Relevant tax laws

This is a binding private ruling issued in accordance with section 78(1) and published in accordance with section 87(2) of the Tax Administration Act No. 28 of 2011.

In this ruling references to sections are to sections of the Act applicable as at 10 June 2014 and unless the context indicates otherwise, any word or expression in this ruling bears the meaning ascribed to it in the Act.

This is a ruling on the interpretation and application of the provisions of section 12B(1)(h), read with section 12B(2).

3. Parties to the proposed transaction

The Applicant: A private company incorporated in and a resident of South Africa

4. Description of the proposed transaction

The Applicant proposes to construct grid-tied solar photovoltaic systems (PV Systems) to be used by the Applicant at many of its business locations within South Africa to generate electricity from solar energy.

The electricity to be produced by the PV Systems will feed directly into the power supply systems of the respective facilities without being stored in batteries.

In some instances the PV Systems will be installed on leased land.

The process of generating electricity from solar energy will be as follows:

- Sunlight will be absorbed by the silicone-based semi-conductors of a PV Panel, generating direct current (DC) electrical energy, which will be conveyed by DC feeder lines to a DC Combiner.
- The DC Combiner electrically combines the multiple strings of solar panels. On the output side of the DC Combiner combined sets of DC feeder lines run to an alternating current inverter (AC Inverter).

- The AC Inverter will convert the DC electrical energy to AC electricity on which electrically powered equipment will operate.
- The AC inverted current will travel from the AC Inverter into the facility's main service panel, from which a further connection will be established for use by equipment.

The PV System will be affixed or mounted at the various locations, as follows:

- Each PV System will be affixed to a specially designed and constructed concrete foundation having regard to the requirements of each location.
- In accordance with industry standards, a PV System has a useful life of 25 years, which includes the concrete foundation and supporting steel structure.
- The PV Panels are bolted to concrete foundations and can be removed by using appropriate equipment. After removal, the PV Panels could either be scrapped or transported to another location for re-use.

5. Conditions and assumptions

This ruling is not subject to any additional conditions and assumptions.

6. Ruling

The ruling made in connection with the proposed transaction is as follows:

- The PV Panels situated at the various leased and owned locations, consisting of all their constituent parts, including the concrete foundations and supporting steel structures, will constitute "plant" used in the "generation of electricity" for purposes of section 12B(1)(h), the cost of which is deductible in accordance with the rates and periods contemplated in section 12B(2).
- The DC Combiner and feeder lines situated at the various leased and owned locations will constitute "plant" used in the "generation of electricity" for purposes of section 12B(1)(h), the cost of which is deductible in accordance with the rates and periods contemplated in section 12B(2).
- The AC Inverters, including all equipment situated therein, situated at the various leased and owned locations will constitute "plant" used in the "generation of electricity" for purposes of section 12B(1)(h), the cost of which is deductible in accordance with the rates and periods contemplated in section 12B(2).

7. Period for which this ruling is valid

This binding private ruling is valid for a period of 5 years from 10 June 2014.

Issued by: