



m&e case study

Developing Financial Incentives: Reducing rates and taxes for those who protect biodiversity on private land

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One of the key objectives of C.A.P.E is to support the development of sound policies and laws which strengthen institutional structures. Private landowners play an important role in the conservation of the Cape Floristic Region. These landowners often incur significant additional costs in managing their land for conservation. Landowners who set aside land for conservation may also incur opportunity costs in terms of lost income. A project run through the C.A.P.E. partnership therefore worked with Treasury in the development of financial incentives for conservation on private land. It also engaged with municipalities to encourage the removal of perverse incentives, and to promote the development of rates rebates for those who conserve biodiversity.

CALLING FOR A GREEN BUDGET

In 2006 the finance minister Trevor Manuel announced that the next budget would be 'green'. Treasury therefore approached the Department of Environmental Affairs and Tourism to work out what this would entail. This created a unique opportunity to influence the tax legislation positively to encourage conservation. The first phase was a broad overview of the kind of incentives which could be developed.

The development of tax incentives for those who conserve biodiversity on private land was selected for development as a formal tax amendment. The Botanical Society of South Africa (Botsoc) was contracted by DEAT to undertake this work as Mark Botha had been active in this field. This led to the formation of the Biodiversity and Fiscal Reform project within Botsoc. The C.A.P.E. partnership provided crucial additional support for this initiative and its broader work on fiscal incentives.

The C.A.P.E. partnership has supported the development of fiscal incentives for conservation of biodiversity on private land. Their involvement includes:

- **Developing national tax rebates on management costs and land value.**
- **Supporting municipalities in developing rates rebates.**
- **Providing training programs on stewardship and the application of fiscal incentives.**

DEVELOPING TAX LEGISLATION

Treasury drove the process of developing new legislation which would provide tax rebates for those who undertake conservation on private land. They provided lawyers for drafting the new Act, and tax experts to work out the rebates.

In order to draft and implement the new legislation three components needed to be brought together: Amendments to existing tax regulations formed the basis of the new legislation. These were supported by legislation which allowed for formalized conservation of biodiversity on private land. The implementation also required a formal stewardship system through which management agreements could be signed with landowners. All this legislation has now been passed and is available as an incentive for landowners who undertake contractual conservation.

The rebates include a Section 18A tax deduction which allows management costs to be deducted from income. These management costs must be specified in an approved management plan which forms part of a formal stewardship agreement. They may include costs such as alien clearing and fire management. Farmers get similar deductions for farming costs, so this is primarily an incentive for landowners who do not farm.

In addition to rebates for conservation activities, the value of the land under certain statutory protection may also be deducted against income over a 10 year period, in recognition of the



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Working in collaboration with motivated authorities can result in significant changes in legislation

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opportunity costs which are forgone as a consequence of not developing the land.

These rebates, which were passed as the Revenue Laws Amendment Act 60 of 2008, will provide a significant incentive for those who have an income against which to make the deductions. The first year of implementation will be the 2009/2010 tax year.

REDUCING RATES

In the past, land outside urban municipal areas was not subject to rates. In 2004 a new municipal rates act allowed municipalities to rate rural properties. Currently proclaimed protected areas are exempt. Additional support needs to be provided for non-statutory conservation areas, particularly those used for ecotourism and game farming, as they are excluded from the substantial rebates provided for farmers. Currently, farmers can receive significant rebates, while undeveloped land often attracts high rates. This situation has created a perverse incentive to convert natural vegetation to farmland.

Each municipality has the jurisdiction to develop its own rates policies, and to set the level of rates through valuation of property. This provides the opportunity for individual municipalities to create incentives to conserve biodiversity, or ecosystem services. These may include fire mitigation by the clearing of alien plants, or the mitigation of floods through the maintenance of wetland function.

Certain metropolises (City of Cape Town and Nelson Mandela Bay) have agreed to reduce rates on land with important biodiversity, provided the landowners contract, through stewardship agreements, with the metropole. Under these agreements they will restrict land-use, and actively manage the land for conservation. Stewardship programmes are very labour-intensive to maintain. Biodiversity servitudes which are signed into a title deed, and which restrict land use, are an alternative tool which can be used by less well resourced municipalities to reduce the value of land under conservation and therefore its rateable value.

PAYING FOR ECOSYSTEM SERVICES

Tax rebates are primarily an incentive for those who have an income, while rates rebates are an incentive for whoever owns the land. Other fiscal incentives need to be developed for those who have a marginal income, or who live on land under communal ownership. In these circumstances direct payment for ecosystem services may provide an important incentive for conservation and could also help alleviate poverty. Payment schemes for production of water by maintaining grasslands, or for carbon sequestration by maintaining forests, are both already well supported. These approaches will, however, only protect biodiversity if the natural vegetation is maintained. If the natural vegetation is removed in order to plant grasslands or forests, there will be a net loss of biodiversity. A good opportunity exists to bundle payments for water or carbon sequestration together with biodiversity and social goals, thereby achieving triple dividends.

GOING FORWARD

In summary, the call for a Green Budget has resulted in significant changes to tax legislation, providing tax rebates to incentivize landowners to conserve biodiversity. Local municipalities have the option of creating further incentives through the reduction of property rates. There is a need for high level national guidelines to encourage municipalities to remove perverse incentives for conversion to agriculture on marginal land, and instead provide incentives to conserve locally important biodiversity and to support the provision of ecosystem services.

Training workshops for people involved in stewardship programmes across the country are being co-financed by C.A.P.E. These equip them to use the conservation rebates as an incentive for signing stewardship agreements with private landowners. The support provided by the C.A.P.E programme for the development of national fiscal incentives for conservation on private land has had a significant national impact.