Mining royalties being examined says Zuma

By Linda Ensor

15 Feb 2013

Finance Minister Pravin Gordhan will, later this year, commission a study into the appropriateness of current tax policies, including the mining royalties regime , President Jacob Zuma announced on Thursday (14 February) in his state of the nation address.

Image: GCIS

His comments will add to uncertainty over the regulatory regime for the mining sector which has been rocked by shaft closures, threatened job cuts and declining profits. Analysts have warned that any move to hike mining taxes would, together with higher electricity costs and heightened labour unrest, add to the unattractiveness of SA's mining sector for foreign investors.

The Chamber of Mines warned that the embattled sector would have to close marginal shafts and shed tens of thousands of jobs if higher taxes are imposed.

Zuma's announcement is in line with the decision by the African National Congress at its national conference in Mangaung in December that government needed to extract more revenue from the mining industry. A *resource-rent*; tax, or higher royalties, were among the proposals made as an alternative to nationalisation which was finally rejected.

A study commissioned by the party had recommended a mineral resource rent tax of 50% on profits above 15% of "normal returns" and a reduction of the royalty tax to a base 1%.

Zuma told MPs the tax review would be to "make sure that we have an appropriate revenue base to support public spending. Part of this study, will evaluate the current mining royalties regime, with regard to its ability to suitably serve our people.

"Ensuring that the public services we provide our people today can continue to be provided to our people tomorrow,

requires that we have suitable tax policies to generate sufficient revenue to pay for these services," he said.

Mining taxes

Zuma said that government had managed to bring about certainty in the mining sector.

"The nationalisation debate was laid to rest in December at the ruling party's national conference," he said.

Earlier this year Gordhan said at the World Economic Forum in Davos, Switzerland that there were no immediate plans for mining taxes.

"There is no question of any taxes at this time. We will keep the matter under review and when we think it's appropriate we'll see how the regime needs to change," Gordhan said.

Mining companies paid R25.8bn in corporate tax in 2011 - nearly a fifth of SA's corporate tax - and R5.5bn in royalties. A further R9bn reached the fiscus from income taxes from mineworkers.

Nomura International director of emerging markets Peter Attard Montalto said Zuma's announcement hinted that a "change in spending was about to occur". The task of the proposed tax commission, he suggested, was "to assess how the state can garner the resources to boost spending though it seems a greater tax burden may well be pushed out until after the election next year.

"Such an increase in spending would risk deficit financing and hence reinforce the deficit and debt risks. It is also all but confirmed that given a mining tax will be part of the study of this commission, a policy on that front should indeed be formed this year," Montalto said.

"The proposed changes to the mining tax regime would add to the uncertainty in the industry which is already faced with additional regulatory reforms and amendments to the Mineral and Petroleum Resources Development Act," he added.