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Tax incentives could restore mining's shine

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SA's mining sector needs to receive support to become a sunrise, rather than a sunset industry.

If we leave it too late, the sector's contribution to GDP will continue to dwindle and new business opportunities will fade away.

Harnessing tax incentives to encourage more greenfield development stands out as a potential solution to kickstart growth, investment and jobs.

The stark reality is that a country that does not explore for new minerals runs the risk of being marginalised as a mining jurisdiction and, according to the Minerals Council of SA, SA's share of global exploration budgets has decreased to about 1%.

The Minerals Council prepared a powerful, comprehensive proposal on how incentives through flow-through shares could be harnessed to breathe life into the industry, without eroding the tax base, and I co-presented this to the National Treasury late last year. It can work, the time is right.

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The research shows how an incentive tailored to SA's unique circumstances could create much-needed jobs and then also feed back into the tax loop in other ways, such as employees' tax, VAT and income tax imposed on service providers to the exploration firms — so the major concern about erosion of the tax base is mitigated.

Socioeconomic benefits extend to development of entire communities around the operation, with new housing and infrastructure, for example. Anecdotal evidence suggests that for each mine worker employed, 10 people are directly dependent on mining activity. At a time when SA is desperate for investment, it must not be forgotten that mining is also a significant driver of export earnings, bringing in R421.7bn in 2019.

Canada is a good example of how the correct policy choices can stimulate mining growth. It has been highly successful in developing these specialist junior exploration companies largely by using a flow-through share tax incentive model to attract equity investors into the sector. From 2000 to 2018, Canada attracted on average $2bn a year in exploration expenditure, while SA only attracted $194m annually.

However, the proposal for SA needs to be different as in Canada it works for Canadian tax residents, whereas in SA the idea is to attract essentially foreign shareholder investment. The proposal therefore includes uniquely SA solutions, such as the exploration firm renouncing a tax benefit of 28% on the expense — which is the same as the corporate income tax rate — in favour of a shareholder who can set it off as a credit against any liability; or can sell that benefit to anyone else who can reap the benefit.

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There is no need to re-invent the wheel, as SA already has legislative precedent for this type of offset, where firms have been allowed to convert assessed losses into a credit they could sell to someone else.

In my view this is now the right opportunity to push forward these proposals as, in the long run, it will be quite beneficial for SA. For SA to reach a necessary target of attracting 3%-5% of global exploration dollars, it needs to revise its tax incentive system with respect to exploration, as well as modernise its licensing system to ensure further investment into the mining sector. Time will tell.

IN NEED OF INVESTMENT

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