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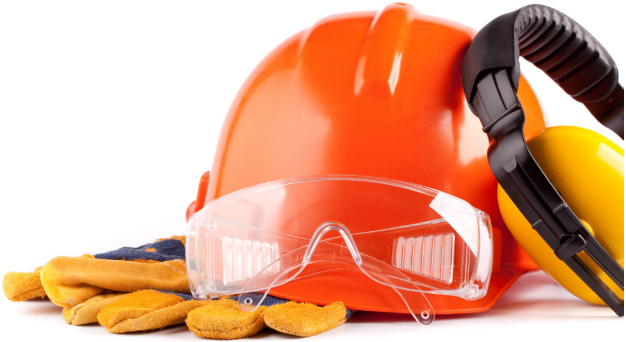
Simplifying Mining Tax.



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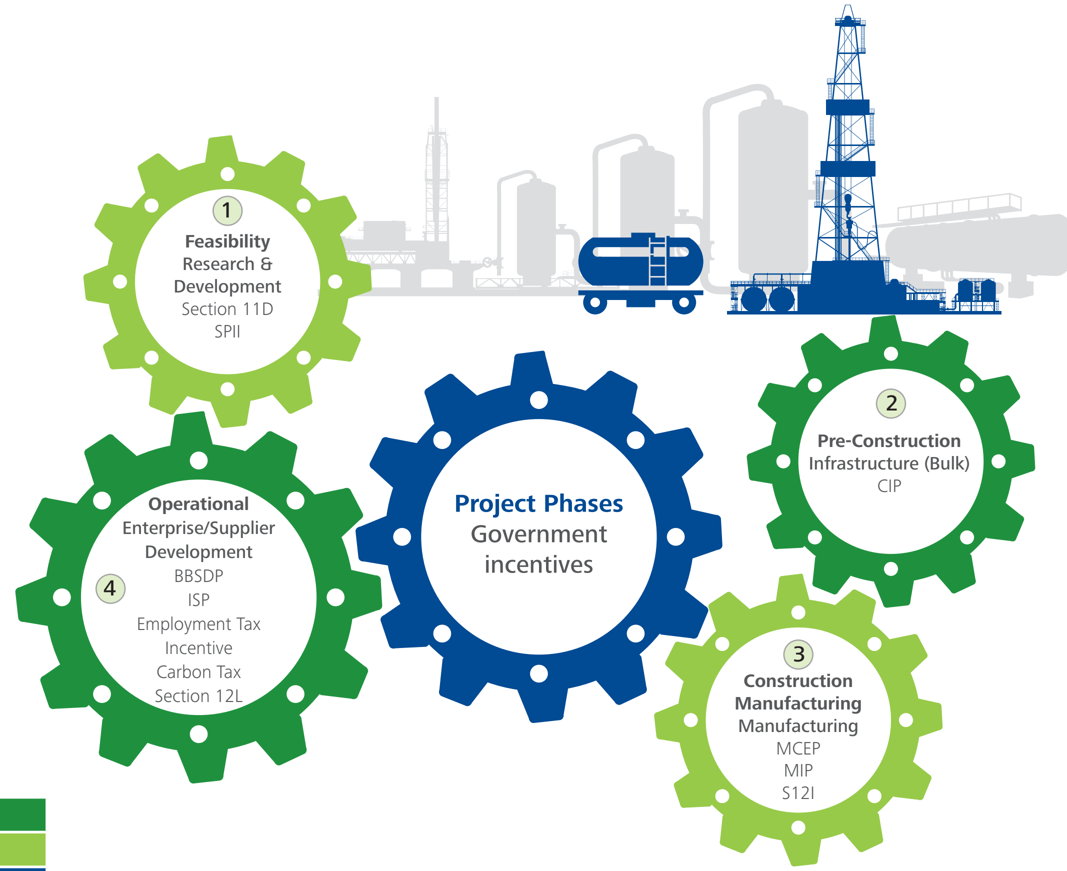
Government Grants and Incentives Service



Incubation Support Programme (ISP)

Overview	Benefit
• ISP is a support measure to encourage private-sector partnerships with government to support incubators in order to develop and nurture SMMEs.	• Cost-sharing grant of 50:50 for large businesses (maximum of R10 million per year over a three-year period.

Employment Tax Incentive

Overview	Benefit
• Employers may deduct the employment tax incentive from the employees' tax due at the end of each month for employees earning less than R6 001 per month.	• R1 000 deduction per employee per month in the first year of employment, and this is reduced to R500 in the subsequent years

Black Business Supplier Development Programme (BBSDP)

Overview	Benefit
• BBSDP is a cost-sharing grant offered to small black-owned enterprises to assist them in improving their competitiveness and sustainability.	• The grant is limited to R1 million

Carbon Tax

Overview	Benefit
• Proposed to be implemented in January 2015 • At a rate of R120 per tonne of carbon dioxide equivalent (CO2e) on direct stationary emissions	• A minimum tax-free threshold of 60% is being allowed for the first five years, while the price will increase at 10% per annum over the same period. • The introduction of carbon tax will result in the price of electricity increasing by 4.8c per kWh.

Section 12L – Energy Efficiency Tax Incentive

Overview	Benefit
• Effective from 1 November 2013 • Effectively allows for a tax deduction of 45c per kWh equivalent of energy efficiency savings	• The savings are deduced using the current financial year's energy efficiency and comparing that to the previous year's energy efficiency, referred to as the baseline.

S11D Research & Development

Overview	Benefit
• Section 11D of the Income Tax Act offers a supercharged tax deduction of 150% on R&D. • Additional benefit of 14% after tax	• 150% supercharged tax deduction

Corporate Tax

Overview	Benefit
• Substantial increase in the amounts payable to SARS from 1 March 2014 due to change in legislation. The change has the effect of taxing beneficiation of the mineral in SA, which was not the intention of the legislation.	• For example: A company that pays around R1 million per annum could end up paying R40 million per annum. This is a substantial increase and could affect the cashflow of the entity if planning is not done properly.

Other government incentives

- Special Economic Zones
- Industrial Development Zones
- Technology and Human Resources for Industry Programme
- Technology Innovation Agency
- Technology Transfer Fund

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Support Programme of Industrial Innovation (SPII)

Overview	Benefit
• SPII Matching Scheme – a non-repayable grant of between 50% and 75%, limited to a maximum of R5 million per project • SPII Partnership Scheme – a conditionally repayable grant of 50%, at minimum grant value of R10 million per project	• SPII Product Development Scheme – a non-repayable grant of between 50% and 85%, limited to a maximum of R2 million per project

Manufacturing Competitiveness Enhancement Programme (MCEP)

Overview	Benefit
• Cash incentive with an objective to promote enterprise competitiveness and job retention	• Achieved through 7 key components of the programme 1) Production Incentive - **Capital Investment:** Capped at R50 million Green Technology and Resource Efficiency **Improvement:** Capped at R50 million Enterprise Level Competitiveness Improvement - **Feasibility studies:** Capped at R7.5 million Cluster Competitiveness Improvement: Capped at R50 million 2) Industrial Financing Loan Facilities Post and Pre-dispatch Working Capital Facility

S12I Tax Incentive

Overview	Benefit
• Section 12I of the Income Tax Act provides an allowance for industrial policy projects.	• Extent of benefit will depend on qualifying status obtained 1) Preferred status projects: - 55% not located in an IDZ - 100% located in an IDZ - Normal Status Project - 35% not located in an IDZ - 75% located in an IDZ 2) Additional allowance to a company of R36 000 per employee

Critical Infrastructure Programme (CIP)

Overview	Benefit
• A non-refundable cash grant for infrastructure costs	• Grant is between 10% and 30% limited to R30 million per project

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Corporate Tax

We understand the complexity that is involved in operating a mine. Clients require a "one-stop shop" for tax matters. We pride ourselves on being mining industry experts and specialists.

Our services include:
- Consulting
- Compliance
- Mining Royalty Calculations
- Mergers and Acquisitions
- Indirect Tax Advice
- International Tax Advice
- Tax Strategy
- Tax Technology and Systems Integration
- Government Growth Initiatives

Tax challenge	Issue	Solution
Mining Royalty	Substantial increase in the amounts payable to SARS from 1 March 2014 due to change in legislation Example: In one of our clients, the increase was from R1 million to R40 million (3 900% increase) this potentially has huge implications on business sustainablity for mid-tier mining companies.	Through our deep understanding of the legislation, we are best positioned to identify how you could reduce the amount payable.
Diesel Rebates	Contract mining and implications on claiming the rebate Rehabilitation activities – Can we claim the rebate?	Drafting the contracts with the contract miner to enable the mining company to claim the rebate Application for rulings with SARS thereby providing certainty
Mining vs Non mining	Contractor Mining – Who conducts the mining operations?	Structuring the contracts to ensure maximum tax benefits
Mining vs Manufacturing	Beneficiation – At which point does mining end and manufacturing begin?	Analyse current business operations to distinguish between mining and manufacturing. Identify incentives that can be claimed for the manufacturing process.
Tailings	Is this a mining operation or not? Is mining royalty payable on this?	Analyse the operation to determine whether it is a mining operation and whether royalty is payable based on the introduction of the MPRDA.
Rehabiliation	Rehabiliation Trusts vs Guarantees Compliance with Section 37A of the Tax Act	Advise on the most efficient option based on an analysis of your cashflow.
Corporate Social Investment	Causal Link between BEE and CSI expenditure to ensure deduction of the expenses	Deep-dive into CSI policies and spend to ensure maximum benefit.
Mobility	Offshore contractors being deemed Personal Service Providers (PSPs) Employees' tax on fringe benefits, specifically housing	Analysis of individual contracts to assess the risk of PSPs A payroll review

Value-added tax and the mining industry

1. Foreign investment in SA mining

South Africa is currently experiencing a large amount of foreign investment with regard to mining, exploration and prospecting. Often the commercial structures of the companies set up for these purposes do not reflect adequate value-added tax (VAT) planning resulting in VAT inefficiencies, cash flow problems and the levying of penalties and interest.

2. Diesel rebates

The diesel rebate system provides for a refund on fuel and road accident fund levies paid on the diesel by certain qualifying industries, mining being one. To qualify for these refunds, mines must be aware of the following concepts with regard to diesel rebates:
- Whether the diesel purchased qualifies as "eligible purchases"
- Wet versus dry contracts with suppliers
- Rehabilitation versus landscaping activities
- The use of contract mining

3. Accounting processes and volumes of transactions

The mining industry experiences enormous volumes of transactions due to the size of the undertaking. Since VAT is a transaction-based tax, the reliability of the system capability is imperative to maintain confidence in the company's VAT figures. In some cases, the accounting function is decentralised and the processing of transactions is done at various locations around the country. Adequate processes and controls are essential to ensure that the VAT liability is correctly accounted for.

4. Swapping of commodities

Mining companies sometimes borrow commodities from each other in order to honour their contractual obligations to customers. In these cases, a certain quantity of a commodity will be lent to another company which will return the same quantity (and quality) at a later stage. These transactions generally constitute barter transactions, and VAT should therefore be accounted for on the supply of the coal between the parties.

5. Rehabilitation of the area

Often, mining companies set up rehabilitation trusts. The purpose of doing this is to hold funds in order to fulfil its legal obligations to carry out rehabilitation and to prevent and control pollution in terms of the relevant laws of South Africa. The creation of such a trust often raises the question of whether the trust is carrying on an enterprise for VAT purposes.

6. Agency

It is often the case, due to company structuring, that the holding company procures goods and services on behalf of its subsidiaries. In terms of the agency rules contained in the VAT Act, the VAT may be claimed by the subsidiaries notwithstanding that the invoice is made out in the name of the holding company. To remain VAT compliant where the agency: principal relationship is adopted, various requirements must be met.

7. Inter-company transactions and loan accounts

Contrary to 6 above, where a similar group structure exists but the holding company chooses to procure goods and services as principal and then supply them to its subsidiaries on credit (i.e. creation of loan accounts), a supply for VAT purposes between the holding company and the subsidiary has taken place without actual payment from the recipient being received. In this instance, the holding company must issue a tax invoice for the supply.

It is important in the above scenario that the supply be paid for within 12 months of the supply taking place. In other words, the loan accounts should be settled periodically to avoid the input tax being denied in the subsidiary. VAT planning is important in this regard to ensure that VAT leakage or inefficiencies are not incurred.

8. Hostels (food and accommodation)

Due to logistics, many mines operate hostels for the purpose of providing accommodation and food to their employees. Often, a portion of these hostels is used to provide accommodation to external contractors, which further complicates the VAT treatment thereof.

The supply of accommodation is subject to various exemptions and partial exemptions with regard to VAT, and it is therefore important to determine the correct treatment thereof. Each circumstance poses different difficulties and anomalies to overcome and must be considered on a case-by-case basis.

9. Fringe benefits

Certain fringe benefits are deemed supplies for VAT purposes and are often an area that is overlooked. Furthermore, not all fringe benefits are taxable for VAT purposes, and it is therefore important to consider each fringe benefit accruing to employees.

10. Use of the correct VAT number

Again, due to company structures, there are often more than one VAT registration number, which puts the group at risk of using the incorrect VAT number with regard to the receipt of goods or services. Input tax will be denied where the incorrect VAT number or name is reflected on the invoice.
In addition, supplies between different divisions or branches within the same legal entity (e.g. company), who are vendors, also attract VAT.

11. Partnerships and joint ventures

Mining companies often enter into partnerships or joint ventures. In these cases, it is important to consider the VAT treatment of transactions by the partnership or joint venture as well as transactions between the partnership or joint venture and its members. As an unincorporated body of persons, a partnership or joint venture must be registered as a separate person, for VAT purposes.

Designed and produced by Creative Services at Deloitte, Johannesburg. (809138/den)

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