

https://dspace.org/

Comparative analysis of mineral policies and taxation systems of Botswana and South Africa

Makatane, Pule Phillip

2021
https://hdl.handle.net/10539/33408

Downloaded from a DSpace repository. https://dspace.org/

ABSTRACT

Mineral taxation instruments continue to be a hot topic of debate for most resource rich countries including South Africa and Botswana. The local populations are of the viewpoint that not enough revenue is generated from mining companies for economic growth and development whilst mining companies' primary objectives are to enhance shareholder value through generation of profits. The study focuses on three main parameters of mineral taxation instruments, namely mineral resource rents, mineral income tax and mineral royalties within both Botswana and South Africa. Botswana's and South Africa's mineral income tax, resource rents and mineral royalties are implemented differently but with the same overarching objective of attracting investments and maximising revenue returns. Further, while the mineral policies of the two countries are similar in terms of the objectives, the pathways or implementation modalities are different, contributing to the different results that have been realised. Botswana and South Africa therefore must strike a delicate balance between their efforts to attract investments and maximise returns from mineral taxation systems. Botswana and South Africa adopt varying mineral taxation systems as they seek to address their mineral policy objectives.

A historic trend analysis of taxation regime data on royalty rates, corporate income tax rates as well as their associated mineral resource rent rates was conducted as directed by the availability of data. In addition, a desk-top review of the mineral taxation policies of Botswana and South Africa, and statutory laws that may facilitate or hinder the implementation of the respective countries' mineral taxation policies was conducted. South Africa adopts sliding scale formulas for the gold tax and mineral royalties whilst Botswana adopts a sliding scale formula only on the mining income tax. Both Botswana and South Africa apply differential corporate income tax to selected minerals, where in this instance Botswana applies differential taxation for diamond mining operations given the strategic nature of the commodity to the country whilst South Africa's 'gold tax' has been introduced to facilitate continued operations for marginal gold mining operations. South Africa implements a mineral income tax at a fixed income rate of 28% save for gold mining operations whilst Botswana implements mineral income tax on a sliding scale or a variable income tax rate.

Each country aligns its mineral policies to the needs of its citizenry and therefore country comparison is always going to present challenges of misalignment of country objectives. The quantitative analysis outcome however revealed the effectiveness of each country's mineral taxation system, therefore enabling comparison between Botswana and South Africa. The mineral royalty taxes are lower in South Africa with a minimum of 0.5% for both refined and unrefined minerals. The mineral royalty regime for Botswana does not have the option of refined royalty rates which are subsidies meant to encourage beneficiation down the mine value chain. Botswana's royalty rates are fixed percentages set at 10% for diamonds, 5% for precious metals and 3% for base metals.

The corporate income tax is lower in Botswana with a minimum rate of 22% depending on profitability as it is applied on a sliding scale formula. In periods of "windfalls "and high profitability, Botswana's income tax goes up to a maximum of 55% whilst mineral income tax for South Africa is fixed at 28%. South Africa implements resource rents on mineral royalties and the gold tax. The gold tax formula is (Y = 45-225/X). The maximum tax rate derived from the gold tax formula is 42.75%. Botswana uses an income tax formula: (tax rate = 70 -1500/X) as a form of resource rent for the Botswana mineral taxation system. The formula is based on profitability rates of mining operations as denoted by the letter X on the formula, yielding maximum tax rate of 55 at 100% profitability rates and a minimum tax rate of 22%, whilst profitability rates below 21.4% is not liable to pay income. Botswana and South Africa have both seen economic growth and development as a consequence of revenue generated from mineral development activities through their various mineral taxation instruments albeit at different degrees. Economic growth has not equally translated into socio-economic development as evidenced by the relatively high gini index in Botswana attesting to prevalent inequalities. For South Africa, the mining charter attempts to address the inequities within the mining industry by specifically targeting historically disadvantaged groups.