TAXATION OF MINING OPERATIONS

This article looks at the changes made in mining taxation legislation by the Mines and Mineral Development (Amendment Act) of 2016 and the Income Tax (Amendment) Act of 2016, which are relevant for the ZICA Integrated Taxation (L3) examinations in 2017.

We start by discussing the changes made by the Mines and Minerals Development (Amendment) Act 2016, to the mineral royalty taxation regime and then later discuss changes made to the company income tax rates for mining companies in the Income Tax (Amendment) Act 2016.

MINERAL ROYALTY

The Mines and Minerals Development (Amendment) Act, revised the rates of mineral royalty as follows, according to the type of mineral extracted or sold under a mining licence:

Copper

In the case of copper the rate of mineral royalty is:

(a) four percent of the norm value, when the norm price of copper is less than four thousand five hundred United States dollars per tonne;

(b) five percent of the norm value, when the norm price of copper is four thousand five hundred United States dollars per tonne or greater, but less than, six thousand United States dollars per tonne; and

(c) six percent of the norm value, when the norm price of copper is six thousand United States dollars per tonne, or greater.

Other minerals

The rates of mineral royalty are as follows for other minerals:

(a) five percent of the norm value of the base metals produced or recoverable under the licence, except when the base metal is copper;

(b) five percent of the gross value of the energy and industrial minerals produced or recoverable under the licence;

(c) six percent of the gross value of the gemstones produced or recoverable under the licence; and

(d) six percent of the norm value of precious metals produced or recoverable under the licence.

Norm value means

(a) The monthly average London Metal Exchange cash price per tonne, multiplied by the quantity of the metal or recoverable metal sold;

(b) The monthly average Metal Bulletin cash price per tonne, multiplied by the quantity of the metal sold or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange; or

(c) The monthly average cash price per tonne, at any other exchange market approved by the Commissioner-General, multiplied by the quantity of the metal sold, or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange, or in the Metal Bulletin.

Norm price means, the monthly average

(a) London Metal Exchange cash price per tonne of the metal or recoverable metal sold;

(b) Metal Bulletin cash price per tonne of metal sold, or recoverable metal sold, to the extent that the metal price is not quoted on the London Metal Exchange; or

(c) Cash price per tonne, at any other exchange market approved by the Commissioner-General of the metal sold or recoverable metal sold to the extent that the metal price is not quoted on the London Metal Exchange or Metal Bulletin.

Gross value means the realised price for a sale, free on board, at the point of export from Zambia or point of delivery within Zambia.

The rates of mineral royalty on copper and other minerals are summarised in the tables below:
(These mineral royalty rates are given in the taxation table, in the examination paper)

Mineral Royalty on Copper

Range of Norm Price	**Mineral Royalty Rate**
Less than US$4,500	4% of norm value
From US$4,500 to less than US$6,000	5% of norm value
From US$6,000 and above	6% of norm value

Mineral Royalty on other minerals

Type of mineral	**Mineral Royalty Rate**
Base Metals (Other than Copper)	5% of norm value
Energy and Industrial Minerals	5% of gross value
Gemstones	6% of gross value
Precious Metals	6% of norm value

Example 1

ABC plc is a mining company engaged in the mining of copper in Zambia. The company extracted and sold the following quantities of copper each month, in the first quarter of 2017.

Month	**Quantity (tonnes)**
January 2017	15,000
February 2017	20,000
March 2017	25,000

The norm price of copper was US$4,000 per tonne in January 2017, US$4,600 in February 2017 and US$6,500 in March 2017. The relevant exchange rates were as follows:

Month	**ZMW Per US$**
January 2017	K9.95
February 2017	K.9.90
March 2017	K9.80

Required:

Compute the amount of mineral royalty paid by ABC plc for each of the following months:

(a) January 2017

(b) February 2017

(c) March 2017

Solution:

(a) Mineral Royalty for January 2017:

The norm price of US$4,000 per tonne in January 2017, was less than US$4,500 and therefore, the relevant rate of mineral royalty is 4% of norm value.

Norm value =US$4,000per tonne × 15,000 tonnes
= US$60 million.

Mineral royalty = ($60,000,000 × 4%) × K9.95

= K23.88 million

(b) Mineral Royalty for February 2017:

The norm price of US$4,600 per tonne in February 2017, was between US$4,500 and US$6,000, therefore, the relevant rate of mineral royalty was 5% of norm value.

Norm value =US$4,600per tonne × 20,000 tonnes
= US$92 million

Mineral royalty is = ($92,000,000 × 5%) × K9.90

= K45.54 million

(c) Mineral Royalty for March 2017:

The norm price of US$6,500 per tonne in March 2017, was above US$6,000 and therefore, the relevant rate of mineral royalty is 6% of norm value.

Norm value =US$6,500per tonne × 25,000 tonnes

= US$162.5 million

Mineral royalty is = ($162,500,000 × 6%) × K9.80

= K95.55 million

Example 2

XYZ Ltd is a mining company engaged in the mining of limestone and other industrial minerals in Zambia. The company's gross sales from industrial minerals in the month of March 2017, was K10,500,000. The value of the sales was the gross value for the purposes of mineral royalty.

Required:

Compute the amount of mineral royalty paid by XYZ Ltd, in the Month of March 2017.

Solution:

Since XYZ is engaged in the mining of industrial minerals, the relevant rate of mineral royalty will be 5% of gross value of the industrial minerals sold. We have been told in the question, that, the gross sales for the month of March 2017, represent the gross value for the purposes of mineral royalty. The amount of mineral royalty paid by XYZ Ltd, will therefore be computed as follows:

Mineral royalty = K10,500,000 x 5%

= K525,000

COMPANY INCOME TAX FOR MINING COMPANIES

The Income Tax (Amendment) Act 2016, revised the company income tax rates for entities engaged in mining operations as follows:

Company Income Tax rate:

On income from mineral processing	30%
On income from mining operations	30%

(These tax rates are provided in the taxation table in the examination paper.)

The changes to the company income tax rates mean that variable profit tax no longer apply in determining the company income tax payable on income from mining operations. Income from mining operations is now taxable at a flat rate of 30%.

The normal rules which are applied to compute the taxable business profits for other business are also applied in computing the taxable mining income for companies engaged in mining operations.

For mining companies however, the following specific rules will continue applying when computing the taxable mining income:

(1) Capital allowances on implements plant and machinery used in mining are still available at the rate of 25% on cost and are deducted when computing the taxable mining income.

Similarly, capital allowances on capital expenditure on community development activities, in mine townships continue being available at the rate 25% on a straight-line basis.

Other capital expenditure incurred on implements, plant and machinery used generally, qualifies for capital allowances at the normal rates of wear and tear applicable to other businesses.

Indexation of capital allowances is still available on implements, plant and machinery where accounts of a mining company are prepared in United States dollars.

The exchange rate to be used for translating books of accounts held in United States Dollars by an entity engaged in mining operations shall be the average Bank of Zambia mid-rate for the accounting period.

(2) Thin capitalisation rules are still applicable when a mining company is financed by excessive debt finance. A mining company is said to be thinly capitalised when its debt to equity ratio exceeds the ratio of 3:1.

If a mining company is thinly capitalised, then interest on the amount of debt in excess of the Debt/ Equity ratio of 3: 1 is not deductible for taxation purposes. This means that interest on debt incurred by a mining company is only allowable in full, if the mining company's Debt: Equity ratio is not over 3:1.

The legislation on thin capitalisation is anti-avoidance tax legislation aimed at preventing mining companies from reducing their tax liabilities through excessive interest payments.

(3) Loss relief

Relief for mining losses incurred by a person, in a charge year, from a mining operation, is still only available and deducted from fifty percent of the income of the person from the mining operation.

Where a loss exceeds fifty percent of the income from a mining operation for a charge year, the excess shall, as far as possible, be deducted from fifty percent of that person's income from the mining operation in the following charge year. Such a loss can be carried forward for a maximum period of ten years, unlike the five-year carry forward period for losses that apply to other businesses.

Additionally, indexation of mining losses is still available where the accounts of a mining company are prepared in US dollars.

Example 3

Zwanzi Mining Limited is a Zambian resident mining company, engaged in the extraction and sale of copper. The company made a profit before taxation of K3,920,000 for the year ended 31 December, 2017. The gross sales revenue of the company for the year was K19, 500,000. Mineral royalty was paid at the appropriate rates, on the relevant due dates during the year and has been properly accounted for.

The profit before taxation was arrived at after crediting a dividend received from a Zambian company which is listed on the Lusaka Stock Exchange, of K90,000(gross) and also after charging the following expenses:

	K
Depreciation of non-current assets (fixed assets)	1,350,000
Gifts of Zwanzi calendars, costing K90 per calendar	125,000
Irrecoverable trade debts, written off	850,000
Other operating expenses	5,400,000

Other operating expenses include expenditure of K1,200,000, incurred on constructing boreholes for the local community, in the mine township. The remaining balance comprises general operating expenses which are allowable for tax purposes.

Additional information:

(1) The company purchased new mining equipment at a cost of K6,200,000, in February 2017, which was immediately brought into use.

(2) Capital allowances on other assets used wholly and exclusively for business purposes have been determined to be K850,000 for the tax year 2017.

(3) The provisional income tax paid during the tax year 2017 was K939,000.

Required:

Calculate the company income tax payable on the mining profits for the tax year 2017.

Solution

We start by computing the taxable profit for year ended 31 December 2017 as shown below:

ZWANZI MINING LIMITED
COMPUTATION OF TAXABLE PROFIT FOR THE TAX YEAR 2017

	K	K
Profit before taxation as per accounts		3,920,000
Add:		
Depreciation	1,350,000	
Construction of boreholes	1,200,000	
		2,550,000
Less:		6,470,000
Dividend received	90,000	
Capital allowances (W)	2,700,000	
		(2,790,000)
Taxable mining income		3,680,000

COMPUTATION OF COMPANY INCOME TAX PAYABLE

	K
Company income tax (K3,680,000 x 30%)	1,104,000
Less Provisional Income Tax Paid	(939,000)
Company Income Tax payable	165,000

WORKINGS

COMPUTATION OF CAPITAL ALLOWANCES

	K
Boreholes	
Wear and tear allowance (K1,200,000 x 25%)	300,000
Mining equipment	
Wear and tear allowance (K6,200,000 x 25%)	1,550,000
Other capital allowances	850,000
Total	2,700,000

Disclaimer: The Article is solely intended for use by students.

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