7. THE CAPITAL ALLOWANCE.

Section 14(1)(*d*) of the Income Tax Act, 1968, amends the definition of 'capital expenditure' in section 36 (11) of the Income Tax Act, 1962, to the effect that the special additional allowance on capital expenditure (known as the 'capital allowance'), to which certain mines are entitled, does not accrue in respect of any year of assessment during which the mine concerned is classified as an assisted gold mine. This capital allowance will also not be taken into account in the determination of the assistance payable in terms of the Assistance Act.

8. ASSISTANCE RECEIVED IN TERMS OF THE GOLD MINES ASSISTANCE ACT, 1968, EXEMPT FROM INCOME TAX.

A new paragraph (*y*) has been added to section 10 of the Income Tax Act, 1962, by section 8(1)(*e*) of the Income Tax Act, 1968, in terms of which the amount paid to an assisted gold mine under the Assistance Act, is exempt from income tax.

9. PAYMENT OF ASSISTANCE IN TERMS OF THE GOLD MINES ASSISTANCE ACT.

9.1 The assessment of the amount of the assistance payable in terms of the Assistance Act will be made by the Secretary for Inland Revenue and any company claiming to be entitled to such assistance must submit an application with its income tax return for the year in question. For purposes of making the assessment the Secretary for Inland Revenue will be entitled to use the company's income tax returns and any other information available to him under the Income Tax Act.

9.2 The Secretary for Inland Revenue will inform the Secretary for Mines of his determination of the amount of the assistance payable in each case and payment of the amount due will then be effected by the latter.

An assisted gold mine may apply to the Secretary for Mines for advance payments to be made during the course of a year on account of any assistance which is likely to be due in respect of that year. These advance payments will be set off against the assistance payable as finally determined by the Secretary for Inland Revenue. In the event of an overpayment, the amount overpaid must be refunded by the company to the Mines Department.

Any payment of assistance is, of course, subject to the Government Mining Engineer certifying that he is satisfied that, in respect of the period or year of assessment in question, the terms upon which the mine was classified as an assisted gold mine have been complied with.

Author's reply to discussion

D. G. Krige: The stimulating contributions from Messrs Cooke, Curtis, Martus, Johnston, Van Wyk, Van Rensburg and Wroth are appreciated by the author and provide clear evidence of the importance not only of the principle of assistance to gold mines, but also of its *scope* and *form*.

In general all the arguments, raised by Messrs Cooke, Martus and Johnston in favour of extending the *scope* of the new assistance scheme can be accepted as sound.

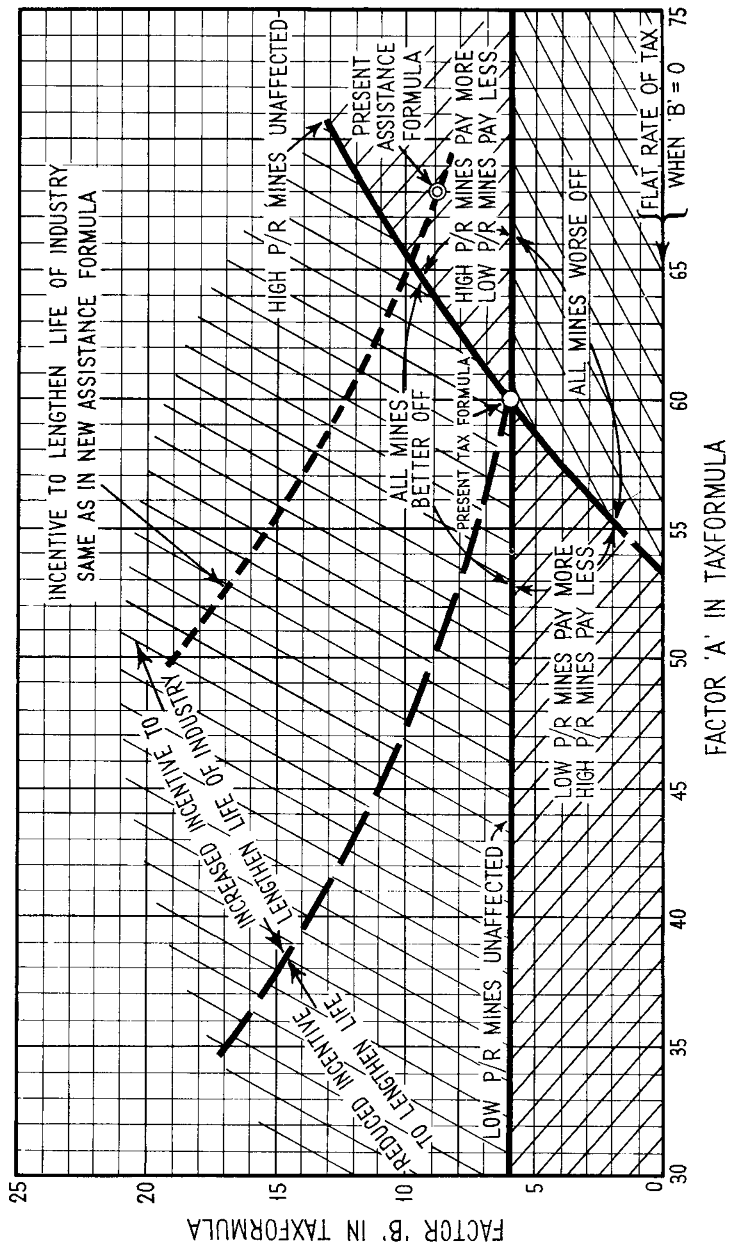
It is obvious that cases exist and/or will arise of unborn mines, of undeveloped low grade sections of existing mines and of mines with remaining lives in excess of the present eight-year limit, which can or will warrant State assistance as much as or even more so than mines falling directly within the scope of the new scheme. It is however not clear how the scope of this scheme can readily be extended to cover all these deserving cases, and whether assistance for such mines should not rather be sought under a separate but parallel scheme or individually. Any such case for extended assistance should, however, in my opinion, be linked directly with the likelihood of a rise in the price of gold in the foreseeable future. If, based on this assumption, it can be shown that gold which would otherwise have been irretrievably lost will be produced economically or that the same total quantity of gold will be produced to better advantage, the case for *such* mine(s) will be as strong as for *those* under the new assistance formula. The relevant suggestions made deserve further consideration.

Regarding the *form* and application of the new scheme, the incorporation of a factor to provide an incentive to lower costs per unit area mined, as suggested by Curtis, presents problems of establishing acceptable standards and of an appropriate type of formula; it would in any case also imply that assisted mines would be penalised heavily for any *increase* in unit costs unless a further factor in the scheme automatically distinguishes between cost increases within and those outside the control of the mine. Although the present formula passes on to the mine only 32 per cent of any cost-decreases, the reverse also holds in so far as the State will carry 68 per cent of all increases in costs due to inflation or any other cause.

Mr Johnston's example of the limited extent of the formula's effectiveness where a mine has a very large accumulation of submarginal ore in the category between the normal and 'subsidised' pay limits, illustrates the need for the mines and the State to apply the scheme with discretion. It is contended that the State cannot logically expect a mine under such conditions to maintain strictly the ratio of ore tonnages drawn from ore reserve and N.I.R. sources respectively as applicable before the pay limit was lowered.

It was to be expected that a discussion of the *form* of the assistance formula would also lead to an analysis of the form of the present and possible future tax formulae. The comments and suggestions by Messrs Cooke and Johnston in this regard deserve the attention of the Commission at present investigating our taxation system. The effects of variations in the 'A' and 'B' factors of the tax formula are demonstrated more clearly on Fig. 1 which is a revised version of Fig. 1 of the original paper.

Although a discussion of the *principle* of assistance to gold mines was avoided in the paper, the arguments raised in favour and against it by Messrs Cooke, Curtis and Van Wyk and by Mr Van Rensburg, respectively, call for some further comment. All contributors agree that the gold mining industry plays and will continue to play a decisive role in our economy at least for some time to come, and nobody can dispute the important backward linkage effects on secondary industry, gold's contribution to the Balance of Payments and its strategic international role as stressed particularly by Dr van Wyk. Differences of opinion arise only on the question of *timing*, i.e. as to when other sectors will be able to take over gold's role and whether this takeover will be effected with least disruption by extending the lives of the gold mines or as an extreme alternative by maximizing current gold production, shortening the mine lives and thus placing human and material resources at the disposal of other 'replacement' sectors at an earlier stage.



SHOWING EFFECTS OF VARIATIONS IN 'A' & 'B' FACTORS OF THE TAXFORMULA

EXISTING TAX FORMULA .... ○ ..... $Y = 60 - \frac{360}{X}$; A = 60, B = 6

EXISTING ASSISTANCE FORMULA ...... ◎ ..... $Y = 68 - \frac{601}{X}$; A = 68, B = 8·838

P/R .... PROFIT TO REVENUE RATIO

Fig. 1

If the possibility of an increase in the price of gold is disregarded, the choice between the two courses mentioned will depend on the relative weights attached to aspects such as the future Balance of Payments, strategic economic considerations, disruption in specific subsectors of industry in general and in local communities as gold production fades, and the cost (possibly uneconomic) of assistance to gold mines in a period of further inflation and strained resources. Accepting Dr van Wyk's long-term forecast of our Balance of Payments position, and the country's present international situation, the risk of unsuccessfully erring on the side of *forcing* the transition from an economy relying mainly on gold to one dependent mainly on sectors with uncertain export markets, is in my opinion, too great. This risk has to be weighed against the cost (possibly economic if *all* factors are taken into account) of extending the life of the gold mining industry.

Conceding that without a gold price increase, opinions on the advisability of assistance to gold mines can differ, there appears, however, to be no logical argument against such assistance if it is accepted that there is a reasonable chance of an increase in the price of gold in the foreseeable future. Allowing for the fact that without assistance mines could close down before such an increase occurs, and that much, if not all, of the remaining gold in such mines would then be lost irretrievably even with a subsequent increase in price, it can be shown to the satisfaction of all economic principles that continued operation under the new assistance formula until the increase occurs will be to the advantage not only of the *mines* concerned but also of the State. In fact there could then be a substantial overall *positive* contribution to the G.D.P.

Mr van Rensburg's case for mining under inflationary conditions rather to the higher pay limit which would prevail later in the mine's life also collapses completely when account is taken of a possible higher gold price, even if considerably delayed; in fact under this assumption the best policy by far is to conserve the mine's gold resources at this stage, i.e. to *undermine* as is required under the new assistance scheme.

Under the present state of international monetary affairs, it would be most unwise to disregard the possibility of a substantial increase in the price of gold in the not too distant future, and for this reason above all I consider the assistance to gold mines at this stage fully justified.

Since the preparation of the paper, the Gold Mines Assistance Act, 1968 has been passed, as well as the necessary parallel amendments to the Income Tax Act. The following details, differing to some extent from the author's original interpretation of the white paper, are worth recording:

(i) Revenue in the assistance formula covers *all* mining revenue, but is confined in the 25 per cent maximum assistance limit to revenue from gold, uranium and other minerals, i.e. it excludes sundry mining revenue.

(ii) Assisted mines paying taxation will not be liable for the 5 per cent surcharge applicable to other gold mines but will pay the loan levy.

(iii) Capital recoupments will be offset against current capital expenditure; if any; if there is an excess of recoupments over such expenditure, the excess will not be regarded as income for the assistance formula but will be offset against any assessed loss brought forward, or be taxed as an excess recoupment.

(iv) State loans under the old loan scheme, which was terminated on 31st March 1968, have been frozen with no further interest accruing.

Further pertinent points not adequately stressed in the paper are:

(*a*) Mines with large assessed losses or large unredeemed balances of capital expenditure do *not* lose these; these do not enter any assistance assessments but remain available for use when the mines again earn taxable incomes in excess of the 'free' margin of 8.838 per cent of Revenue.

(*b*) Provided the assistance level does not exceed the 25 per cent of revenue limit, the State will effectively bear 68 per cent of any additional expenditure; i.e. of working cost inflation, capital expenditure, etc. However, the State will now effectively gain 62 per cent of any improvement in mining revenue due to better grades, a higher gold price etc., and the company will only retain 38 per cent.

(*c*) The scheme has a very severe built-in discouragement against operating at a loss in excess of that corresponding to the maximum assistance level of 25 per cent of revenue. For every R1 of loss in excess of this level, the mine will effectively lose R1.25 in net cash. Conversely, a mine with a loss in excess of the critical level will gain in net cash R1.25 for every R1 of improvement in revenue until the critical level is reached.

In further clarification of some of these points and of the detailed bases of taxation and assistance assessments, the comprehensive contribution by Mr Wroth will be appreciated by all concerned and will form a most useful reference.

NOTICE

NEW COUNCIL AIMS AT MAINTAINING HIGH ENGINEERING STANDARD IN SOUTH AFRICA

The general standard of engineering in South Africa will, it is believed, reach new heights after the establishment of the S.A. Council for Professional Engineers (SACPE) in February, 1969.

The Council is being created to establish standards for professional engineers in this country and ensure that the quality of engineering is maintained at a high level.

In terms of the Act of Parliament under which the new Council will operate, all consulting engineers will have to be registered if they wish to remain in private practice. While engineers who are not in private practice cannot be compelled to register, it will be in their interests to do so, according to a statement issued by Mr M. R. Gericke, chairman of a Shadow Council which is at present preparing for registration and drafting the requirements for registration.

Registration is seen as an important move towards maintaining the quality of engineering in South Africa. Engineers will be encouraged to strive for professional status by gaining the necessary qualifications and the varied range of experience required by the Council before registration. All work done by registered professional engineers will have to conform to certain minimum standards.

A spokesman for the Council has urged all engineers to ensure that they apply for registration when the Act comes into force in February. The Council is also anxious to gain the co-operation of employers in ensuring that the holders of professional engineering posts will be registered.

Full information regarding registration will be sent to engineers throughout South Africa early this year, and announcements will appear in the press.