

## ZAMBIA 2015 REVISED MINING TAX REGIME PMRC ANALYSIS

### PRESS STATEMENT

#### FOR IMMEDIATE RELEASE

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On October 10<sup>th</sup> 2014, during the annual budget presentation to parliament, Government announced proposed changes to the mining tax regime. This proposed change was from the two-tier system; which entailed the collection of both Corporate Income Tax (CIT) on operations and mineral royalties, to a one-tier system with greater emphasis on mineral royalties. These proposed changes were to be effected in the 2015 Fiscal year. The changes were aimed at:

1. Simplifying the mining tax regime and avoiding conflict in the interpretation of tax legislation, which has characterized the sector.
2. Accounting for the differences in operating costs between underground mining and open-pit thus taxing each differently under the new tax regime.
3. Increasing the level of tax revenue with expected excess revenue of K 1.7 Billion as a result of the new tax regime.

On April 20<sup>th</sup> 2015, after consultations between Government and relevant stakeholders in the first and second quarters of 2015, the Government revised the proposed tax regime (Reverting to the two-tier system) to take into account concerns raised and to ensure that a viable business environment in the mining sector was maintained.

PMRC's Analysis revealed the following:

1. The revised tax regime pegs mineral royalty for both Opencast and Underground mining at 9% of the value of the metal produced/recoverable under the license. Furthermore mineral royalty taxes are not linked to the profits made by a mine, thus they are paid irrespective of the financial status of the mine. The previously proposed tax regime would have discouraged further investment in opencast mining, as this would be more expensive than underground mining. Therefore the reduction and equalization of the mineral royalty tax encourages investment in both mining practices and ensures that mining remains economically viable even in times of low copper prices.

2. The revised tax regime reintroduces the Corporate Income Tax (CIT) on mining operations. The motivation for the removal of CIT on operations in the previous regime was that only two (2) mines were paying CIT on operations, as the rest were not yet in tax paying positions. However the period of deducting capital spending and past losses is coming to an end for most mines and they will soon be in tax paying positions. Thus the Nation stands to benefit from revenue collection from CIT on operations.
3. Furthermore A 2014 study by the ICMM revealed that four mines namely; KCM, Lumwana, Kansanshi and Mopani would pay a total of US 6.19 Billion from 2015 to 2018 and this amount would include CIT, Royalties, PAYE and other fees as well as import taxes in the two tier taxation system. An independent international mining consultant, Olle Ostensson, also projects that the two-tier system would only yield more tax revenue in that same period. Thus the reintroduction of CIT will offset the potential loss in revenue as a result of a reduction in mineral royalties in the long run.

#### RECOMMENDATION

1. PMRC urges the Government to ensure prudent financial management of public resources so as to cushion the fiscal deficit due to the revised tax regime. Therefore Government must prioritize already budgeted for activities and tighten expenditure to offset the short-term loss in revenue.
2. PMRC urges the Government to continue on its path to reform the tax regime so that the mining sector in Zambia remains stable and predictable thereby encouraging further inflow of Foreign Direct Investment (FDI). This is especially important because according to the World Bank's Foreign Direct Investment Survey, a stable social and economic environment is ranked 2nd in the determinants of FDI location while national taxes are ranked 11<sup>th</sup>.
3. PMRC urges Government to strengthen tax enforcement mechanisms so as to maximize the revenue collection of the reintroduced CIT on mining operations. This is especially important because of conflicts and inconsistencies in the reporting of CIT on mining operations in the recent past that have affected revenue collection.



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