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GOVERNMENT NEEDS TO EXERCISE CAUTION WITH REDESIGNING MINING FISCAL POLICY

The new dawn Government has signalled a move to support the increase in copper production, from 800,000 tonnes to over 3 million tonnes in 10 years. This coupled with high copper prices will bring in more dollars through taxes and export earnings, create more jobs and business opportunities, etc.

In as much as this is progressive, the Government must seriously contemplate increasing the percentage benefits take from the mining sector at our current levels of production. This can be attained with a robust manufacturing base coupled with a sturdy local content framework. We need to avert a situation where we have an accelerated depletion of reserves but a stagnant take in the sector. One way of increasing the benefits take is through value addition supported by downstream manufacturing activities. This initiative should not only be confined to the copper mining sector but must be extended to other sectors including gemstones, manganese, and gold. The new dawn Government must be commended for making some policy pronouncements that are critical in unlocking the investment potential of Zambia's mining sector. These include:

- (i) The reintroduction of the deductibility of mineral royalty for computing Corporate Income Tax (CIT).
- (ii) Increase of the loss carry forward period from 5 to 10 years.
- (iii) Extension of Property Transfer Tax on transfers of mineral processing and other mine-related licenses at the applicable rate of 10 percent.

The deductibility of mineral royalty results in a projected revenue loss of K3.2 billion. This is a substantive amount which part of it could have been saved by limiting the deductibility

of mineral royalty to 50 percent of the payable amount. The saved funds could have been channelled to other progressive areas such as the dismantling of domestic arrears through payment of VAT refunds to mining companies. In addition to the above policy pronouncement, a 5 percent excise duty on coal was introduced as a revenue-raising measure.

Generally, the introduced fiscal measures are progressive in so far as economic growth and job creation are concerned. However, the Government should not be hoodwinked in further redesigning the taxation regime to favour mining companies at the expense of our domestic revenue mobilisation objective.

At present, mining houses are advancing an agenda to further change the mining fiscal regime including the operating mechanics of the sliding scale mineral royalty citing that this will bring in more investment. It must be stressed that mineral royalty is not the only financial instrument that makes up the mining fiscal regime. Other instruments such as withholding tax, VAT, import and export duty are equally important. Hence, one wonders why mining companies are obsessed with further fine-tuning the mineral royalty fiscal instrument. In answering this question, it is very clear and obvious that ad valorem mineral royalty unlike profit-based fiscal instruments is less susceptible to tax planning schemes by mining investors and hence easy to administer by Zambia Revenue Authority (ZRA). Hence, mine owners tend to naturally dislike this fiscal instrument. Additionally, it must be mentioned that taxation is not the only factor that investors look at when making mining-related investments other factors at play include, mineralisation of orebodies, a stable political environment, consistent fiscal policy, fiscal incentives etc.

Therefore, the Centre for Trade Policy and Development (CTPD) would like to advise the Government to exercise caution in the redesigning process of mining fiscal policy. It should diverge from a situation where it implements a taxation regime that is lopsided in favour of mining houses in the name of growing the sector and at the expense of the citizenry garnering maximum benefit from their God-given resources.

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Editor's Note

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The mandate of CTPD is to influence pro-poor trade and investment reforms at national, regional and multilateral levels as well as facilitate the participation of various stakeholders including member organizations in ensuring that trade is used as a tool for poverty eradication.

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