



TANZANIA CHAMBER OF MINERALS AND ENERGY

PRESS STATEMENT

THE MINING INDUSTRY AND TAXES

The Press Statement that the Tanzania Chamber of Minerals and Energy released yesterday contained a few typos for which we humbly apologize. Today, we run the Press Statement again, but with all the typos corrected.

Tanzania Chamber of Minerals and Energy (TCME) notes with concern the false allegations that Mining Companies have not been paying taxes in Tanzania. The Chamber represents member companies in the formal mining sector, from junior explorers to large-scale producers as well as medium scale miners. The Chamber and its members support a well-regulated local industry and place great emphasis on compliance with all relevant local and international laws and rules, including tax codes governing its members.

Mining companies in Tanzania are highly regulated and remain to be significant contributors to the economy of the country in many ways, among them being through tax payments and employment creation. Between 2009 and 2015, the Tanzania Minerals Audit Agency, an arm of the Ministry of Energy and Minerals, reported that these companies collectively paid over USD390 Million (TZS 870 Billion) in Royalties, and USD 305 Million (TZS680 Billion) in Corporation Taxes, along with other significant taxes.

In 2015 alone, the five major gold mines and one diamond mine paid a total of USD65.5 Million (TZS 146 Billion) in royalties to Tanzania's coffers, and over USD 170 Million (TZS380 Billion) in other taxes. These amounts are expected to have increased in 2016.

Concerns have been raised about Mining Companies incorrectly benefitting by getting VAT refunds. This is simply not true. As Mining Companies export all that they produce, they, like any other exporting industry, are categorized as zero rated under the VAT Laws and are therefore eligible to get refund of input VAT incurred on their purchases. It should however, be noted that Mining companies still pay VAT on specific categories not allowable to be claimed under the VAT law. For example, mining companies have continued to pay VAT on catering services, on purchase of spares parts or repairs and maintenance services for light vehicles categorized as passenger vehicles under the VAT Act, 2014 which form large part of the Mining companies fleet. It should be noted that the VAT regime under which mining companies are operating is the same as for any other exporting company in other sectors.

In addition, the formal mining sectors employs 7,355 people directly and more than 3,000 people indirectly, in support industries. Given that each of these people in formal jobs supports roughly 11 people, the industry

provides a direct livelihood to an estimated 114,000 people. The taxes paid provide funding for among other things, construction of crucial infrastructure required for the development of the country.

The Chamber will endeavor to deepen its engagement with various Institutions, authorities, the media and the public to improve awareness of its compliance with laws and regulations, whilst also highlighting the valuable contribution that the mining industry makes to Tanzania's economy through investment, taxes, direct and indirect employment, foreign exchange revenue and local procurement, amongst others. It is crucial to Tanzania's development that this important industry is well understood by all stakeholders, whilst also being supported so that it can grow and increase its contribution to Tanzania's economic development. If well managed and accommodated the potential exists for more local and foreign investment in this sector.

In order to optimize the potential of mining industry in Tanzania, the Chamber also supports the improvement of economic linkages between mining and other sectors of the economy, and will engage on this issue with the relevant stakeholders. The Chamber is committed to continue advising the Government on these and other issues that will pave the way for this country to realize the maximum potential of its mining industry.

It is also important to note that despite having legally binding agreements (MDA's) with the Government for which the mining companies can draw various concessions in form of tax reliefs, Mining Companies have agreed to comply with a number of regulations imposed by the 2010 Mining Code, although most of them contravenes provisions of the MDA's. These includes; companies no longer capping local service levies at US\$200,000 per annum, but rather paying 0.3% of turnover, as well as increasing the royalty that is paid from 3% of net back value to 4% of gross value. Several other fiscal stabilization provisions have also been removed from these agreements over time and through various contracts review committees which were formed by the Government.

About Tanzania's Mining Sector

Mining in Tanzania dates back to the colonial era when Arab and local traders mined and traded the country's natural resources including Gold, Copper, Silver, Iron and Salt. The first commercial Gold mining was undertaken in the area surrounding Lake Victoria under the German colonial administration in the 1890's. During the 1920s and 1930s a number of British and South African owned mining operations were developed including the Williamson Diamond Mine at Mwadui.

Following independence in 1961 the mining sector was increasingly brought under the direct control of the state and public institutions such as National Development Corporation (NDC) and STAMICO. New policies and legislation enacted in the 1990s brought in private investors who introduced large-scale Gold mining operations the first one of which was commissioned in November 1998. Currently the country boasts five large-scale Gold mines and 1 large-scale Diamond mine. There are also several medium-scale Gold mines, a medium scale Diamond mine and a vibrant exploration sector populated by companies searching for ore bodies that can be responsibly developed to benefit all stakeholders.

Large-scale mines, be for gold extraction or any other mineral, are complex operations which require huge capital investment to establish. It therefore takes many years before the investors can recoup their investment and start generating taxable profits (This does not mean the mines are loss making). This is a worldwide phenomenon in the mining industry and Tanzania is no exception. The point in time from which Corporation Tax starts to be paid may deviate from the feasibility study forecast due to declines or increases in sale prices or cost of inputs. During the period of recouping the amount invested, the Mines do continue to

contribute to the Government coffers and economy of the country in which they operate by paying indirect taxes like import duties, excise duties, skills development levies, service levies, withholding taxes and royalties, as well as PAYE and social security contributions, which although levied on the employees (and partly the employer – for social security), would not accrue if the employees were not working for the mines. Furthermore, it also has to be noted that the ability to recover initial investment cost before paying corporate tax is not unique to mining industry alone as it is applicable to all business investments the only difference being longer time for the mines to recoup its capital due to huge upfront investment.

The Chamber is committed to co-operation and open dialogues with the Government on these and other issues that will pave the way for Tanzania and its people to realize the maximum potential of the mining industry.

Issued by
The Chairman
Tanzania Chamber of Minerals and Energy