
By Alinani Simbule,
simbulealinani@gmail.com
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Blitzscaling SMEs


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# Deductibility of Mineral Royalty Tax introduced in 2022 Budget

- **The minister of finance in his budget presentation has introduced deductibility of mineral royalty tax for Corporate Income Tax calculations. In line with international tax practices.**
- **Non-deductibility of mineral royalty tax meant that mines paid mineral royalty on top line (revenue) and then also charged on profit since the MRT expense is not allowed as a deduction. Most felt that this was double taxation and this disincentivized investment.**
- **Ideally, the tax regime would capture rents through profit taxes, which takes account of costs. But mining costs are notoriously hard for the tax authorities to verify and are widely suspected of being inflated specifically to avoid taxation.**
- **Until now the non deductibility of MRT has been one of the crucial barriers standing in the way of Zambia's acquisition of investment capital.**
- **According to the Chamber of Mines in Zambia, two game-changing investments hang in the balance. Kansanshi Copper Mines has been awaiting a better fiscal environment in order to begin a $1 billion expansion project which includes a new smelter, and Lubambe Copper Mine intends to expand its operations in Chililabombwe in a move that would add increase copper production by 150,000 tonnes per annum for the next 45 years. An estimated initial US$2.5billion in expansions already committed to.**
- **This is further expected to make the mines competitive.**

## MRT changes in 10 years

- **Zambia has changed its mineral tax regime 10 times in 16 years.**
- **Mineral royalties** are (in principle) payments made to the government to compensate for the right to extract a non-renewable natural resource such as copper. Mineral royalty was considered to have key administrative advantages relative to other taxes. **It is assumed that the tax base is easier to implement and administer with very little avoidance pressures as it is simply based on a percentage of the value of the output (ad valorem).** It was expected that mineral royalty would mean more revenue stability and less volatility compared to taxes on profit.
- Profit tax is seen as progressive as it targets profits, however challenges with the implementation of CIT was that most of the mining companies declared losses or marginal profits, hence very little was recovered.
- **Development Agreements negotiated with individual mines (DAs) –** Agreed at privatisation, these agreements allowed companies to carry forward losses for 15-20 years to allow a stability period. A loss carry-forward refers to an accounting technique that applies the current year's net operating loss (NOL) to future years' net operating income to reduce tax liability. This results in lower taxable income in positive income years, reducing the amount the company owes the government in taxes.
- Mineral royalty was set at 0.6 per cent of gross sales value, less the cost of transporting, insuring, and processing/refining the products; company income tax (CIT) was set at 25 per cent of gross profits, less depreciation, price participation payments to ZCCM-IH, capital expenditure incurred during the year (100 per cent depreciation), and accumulated losses carried forward
- **2008 Tax regime -** Corporate income tax was increased from 25 to 30 per cent, mining royalty increased from 0.6 to 3 per cent of gross sales value, and a windfall tax was to be triggered at different price levels for different base metals. In addition, the depreciation allowance was reduced from 100 to 25 per cent; the loss carry-forward was reduced to a maximum of ten years; hedging operations were to be taxed separately, (Manley 2017).
- **2009 tax regime**- Following criticism from the mining companies, the tax regime was again changed in 2009. The windfall tax was withdrawn and the 100 per cent capital allowance was restored, but the royalty was increased to 6 per cent in the 2012 budget
- **2012 tax regime** - Following the change of government in 2011, the first budget of the new government introduced further tax reforms in 2012, increasing the mineral royalty tax from 3 to 6 per cent, effective April 2012, and hedging and operating income were again to be treated separately for income tax purposes.
- In 2013, the government decreased the rate of capital allowances from 100 per cent per annum to 25 per cent per annum, reduced the export duty on copper from 15 per cent to 10 per cent, and set the tax on hedging income at 35 per cent (KPMG 2013).
- **The 2014 – 2015 tax regime -** In the October 2014 Budget Speech, the Patriotic Front minister of finance announced that mineral royalties on the norm value of base metals produced would increase from 6 to 20 per cent for open-cast mining, and to 8 per cent for underground mining. Ad valorem royalty rates for copper vary between countries, generally ranging between 0 and 8 per cent. **From 1 January 2015, the corporate tax rate in Zambia was reduced to 0 per cent and the revenue-based mineral royalty rate was increased from 6 to 20 per cent for open-pit mines. On August 14, 2015, the Zambian government passed into law further changes to the taxation and royalty regime that became effective from 1 July 2015. These changes included the reinstatement of corporate tax to 30 per cent with variable profits tax of up to 15 per cent, while the mineral royalty was set at 9 per cent for all mines.**
- **2016 tax regime -** In 2016, the government implemented additional changes to the corporate tax and mining royalty regime which became effective on 1 June 2016 and included the repeal of the variable profits tax of up to 15 per cent applicable to profits from mining. Corporate tax on profits from mining was retained at 30 per cent. Mining royalty rates were reduced from 9 per cent to a sliding scale of 4 to 6 per cent (the commodity prices on the London Metal Exchange (LME)): 4 per cent when the LME price is below US$4,500 per ton, 5 per cent when it is between US$4,500 and US$6,000, and 6 per cent when it is above US$6,000 (Liebenthal and Cheelo). The 10 per cent export duty was suspended on ores and concentrates for which there are no processing facilities in Zambia (e.g., nickel).
- **2019 tax regime -** Mineral Royalty Tax: On the norm value when the norm price of copper is less than USD* 4,500 per tonne 5.5%; between $ 4,500 - $6,000 at 6.5%; between $ 6,000 - $7,500 at 7.5%; between $ 7,500 - $9,000 8.5% and above USD 9,000 per tonne – 10% . Corporate Income Tax at 30%.
- With deductibility of MRT for Corporate Tax Income calculations been restored and increased the period for disallowed interest deduction carry forward to 10 years from 5 years. It is hoped that this will help the industry attain the 2030 copper production target according to the minister of finance of 3 million tonnes. The 7NDP cautiously projected Zambia's copper output, with a target of 1 million tons by the end of the plan period (2021) while our current production is 800,000 tonnes.
- **What is a conducive mining tax regime for Zambia? i) one that is very, very stable ii) a middle ground between government's and industries' need to maximise revenue iii) incentivises exploration expenditure iv) allows taking full advantage of the commodity supercycle v) fair and predictable vi) attracts investments**
- However, to achieve this there must be **transparency, trust, confidence and sincerity** between government and the mining industry.

- Full paper: https://www.iob.co.za/blitzscaling-smes/

*Sources*:


- **Blitzscaling SMEs** : *A Bottom-Up approach to Scaling Private Enterprise, Mining and the urgent need for diversification*, link https://www.iob.co.za/blitzscaling-smes/
- *Robert Liebenthal and Caesar Cheelo: The Boom–Bust Cycle of Global Copper Prices, Structural Change, and Industrial Development in Zambia;*
- *Manley 2017*
- *Marriot Nyangu; The Rise and Fall of Mining Tax Regime in Zambia. Southern Africa Research Watch SARW (2020).*
- *Chamber of Mines Zambia – September 2021 Newsletter*