
Zambia Chamber of Mines welcome reluctance to re introduce windfall tax

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The Zambia's Chamber of Mines has welcomed government's reluctance to re introduce the windfall tax in the mining and copper industry.

The chamber of mines, a grouping of local and foreign mining companies operating in Zambia Africa's largest copper producer, said that the decision was correct and commendable as it will avert chocking the much needed investment in the industry.

Mr Fred Bantubonse GM of Chamber said that the recent pronouncements by government, particularly the VP of the country, Mr George Kunda that the government had no intentions of bringing back the tax was correct and commendable. He argued that the windfall tax was not in the best interest of either government or mine companies.

Mr Bantubonse said that Zambia needs taxes that guarantee benefits for both Government and investors and not ones that choked the much needed investment. The introduction of the windfall taxes in 2008 proved problematic, as mining houses were expected to pay way beyond the 47% effective tax rate as stipulated.

He said that mining companies did some calculations and discovered they would be paying over 80 per cent and this was confirmed by an independent study by Price Waterhouse Coopers. No investors would realistically want to pay such rates however big their investment in the mines.

Mr Bantubonse said that despite having the tax withdrawn soon after being put into effect, there still remained the variable tax which was introduced at the same time. So in a way, we still have windfall tax in effect because the variable tax is still in place. There was a fear that taxing mines based on the profits they made could scare away investment. For any tax to be acceptable, it must allow investment to grow and business to be sustained. Only then could companies pay taxes, provide jobs and ensure that it was a win-win situation for both country and investors.

In recent months economic players have taken to task the government over its scrapping of the windfall tax, as revenue from the mines which they said was going to contribute to the provision of goods and services to the social sector. Government had under the budget estimated to earn USD 415 million annually in windfall tax after amending the Mining and Minerals Act of 2008. It later reversed the decision following an outcry from mining companies. And the country's wage bill has risen by 500% compared to the times the mining industry was state run and controlled under the Zambia Consolidated Copper Mines conglomerate as the new owners were now paying higher Pay As You Earn tax, which has contributed USD 4 billion to the economy and helped reduce poverty through job and wealth creation.

Mr Bantubonse said that mining companies have been paying Value Added Tax, thus greatly improving government's revenue and that the significance of the mining industry should not only be seen from the amount of corporate tax paid to the government. He urged stakeholders to appreciate the total contributions that mining companies make to the country's economy.

According to Mr Bantubonse, the benefits of privatizing the mines include the immediate stoppage of government subsidy to Zambia Consolidated Copper Mines Investment Holdings as the major shareholder who had to support the operations when the company was making losses and paying of property rates to local municipalities, which the new investors started paying at much higher rate.

He said that production infrastructure had been dilapidated resulting in low production citing the year 2000 when copper production was only 257,000 tonnes. Infrastructure has been rehabilitated and new facilities opened up resulting in copper production of over 600,000 tones in 2009, among other benefits. Copper sales stood at 656,000 tones in 2009 while in 2008 sales were at 515,000 tonnes and 459,000 tonnes in 2007. Increased foreign direct investment will result in increased mining activities, which will ultimately result into higher metal production and increased employment in the country.

(Filed by Mr Kapembwa Sinkamba SteelGuru Correspondent Zambia)

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