Project-by-Project Reporting in Tanzania

Transfer Pricing Seminar: Fairness in Taxing Multinationals and Extractives,
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OUTLINE

• Context – Tanzanian extractive sector
• Why P-P Reporting is important
• P-P Reporting in Tanzania
• Challenges
• Conclusion
Tanzania’s Extractive Industry

- Tanzania is one of Africa’s most mineral-rich countries.
- Currently dominated by solid mineral and natural gas.
  - The continent’s fourth producer of gold and sole producer of Tanzanite-colored gemstone in the world, though not the lead exporter.
  - Approximately 50% of export earning
  - 3.5% of GDP
  - 4% of Total government revenues
Contribution by sector

- Mining: 78%
- Oil and Gas: 22%

Source: TEITI 2013
Source: TEITI 2013
One of the most hotly debated aspects of the mineral sector in Tanzania is the level of taxation of MNCs.
1. Why Project-by-Project Reporting

- Extractive activities are highly site/location specific, in terms of development, related risk and financial returns vary greatly.

- Calculation of MNC incomes for taxation purposes in extractive industry can be done through:
  1. Aggregation of all company operations
  2. Disaggregation (Ring fencing) mine by mine or site by site.

- This information is critically crucial for:
  1. Sub national transfers where a share of resource revenues is remitted back to local authorities where resource development takes place
  2. Protect against *offsetting costs* between *unprofitable projects* against *profits* generating projects, which *reduces* or *delays* government tax revenue.
Project by Project Reporting

**Aggregated (Project 1+2)**
- Gross Revenues: $250
- Total Costs: $200
- Net Revenues: $50
- Tax (@ 30%) = $15

**Project 1 (Profitable)**
- Gross Revenues: $200
- Total Costs: $100
- Net Revenues: $100
- Tax (@ 30%) = $30

**Project 2 (Non Profitable)**
- Gross Revenues: $50
- Total Costs: $100
- Net Revenues: -$50
- Tax (@ 30%) = $0
2. Project by Project Reporting in Tanzania

• Prior to 2010, mining companies were allowed to redeem all their OPEX and CAPEX on all projects without considering each project as an independent profit center.

For example:

In 2006, Tulawaka Gold Mine (then) owned by Pangea Mineral Limited made a profit of $28.2 million but the company never paid tax in that respective year because the company aggregated expenses incurred at Tulawaka Gold Mine with Buzwagi Gold Mine which was under construction. (URT 2008)
Ring Fencing

• The Presidential Mining Sector Review Committee’s recommended adoption of ring fencing of mines for tax purposes.

• In 2011, new rules on ring fencing has been introduced.
  – Renegotiation between Revenue Authority and Mining Companies particularly ABG.

• Tanzania Extractive Industries Transparency Initiative (TEITI) Reporting - Disaggregated by company, by project and by payment category.
# SAMPLE TEITI TEMPLATE

<table>
<thead>
<tr>
<th>1-BAFEX TANZANIA LTD.</th>
<th>USD</th>
<th>Templates originally lodged</th>
<th>Adjustments</th>
<th>Final Amounts</th>
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</thead>
<tbody>
<tr>
<td>Taxes, fees and other charges paid from companies to government</td>
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<tr>
<td>Payments to TRA</td>
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<td>Corporation Tax</td>
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<td>Alternative Minimum Tax</td>
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<td>Withholding taxes</td>
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<td>Capital Gains Tax</td>
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<td>Pay As You Earn (PAYE)</td>
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<td>Skills and Development Levy (SDL)</td>
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<tr>
<td>Value Added Tax paid to Large Tax payers department/Domestic Revenue Department</td>
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<tr>
<td>Stamp Duty</td>
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<td>Fuel Levy</td>
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<td>Import duty</td>
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<td>Excise duty</td>
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<td>Value Added Tax on Imports paid to Customs Department</td>
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<td>Terminal Benefits Payments</td>
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<td>National Social Security Fund (NSSF) contribution</td>
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<td>Parastatal Pension Fund (PPF) contribution</td>
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<td>Paid to local and regulatory Authorities</td>
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<td>Payments to the MEM</td>
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<td>Royalties</td>
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<td>Annual rents and license fees</td>
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<td>Profit per production sharing agreements</td>
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<td>Protected gas/additional gas revenues</td>
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<td>Payments to TPDC</td>
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<td>Protected Gas Revenue</td>
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<td>Additional Gas Revenue</td>
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<td>Profit per Production Sharing Agreement</td>
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<td>VAT on Gas Revenue</td>
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<td>Annual rents and license fees</td>
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<td>Payments to the Ministry of Finance</td>
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<td>Dividends on Government shares</td>
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<td>Grand total</td>
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Source: TEITI
3. Challenges

• Defining tax entity- parent company v. project?

• Capacity to audit project costs

• Community awareness on the payments & capacity to interpret the data related to payments
4. Conclusion

– Due to locality specific nature of extractive resources, project by project reporting in extractive industry becomes very crucial

• Help citizens and communities follow the money that accrues from resource extraction in their localities including environmental and social protection funds

• Fair and timely collection of government tax revenue collection
AHSANTE KWA KUNISILIZA!
THANKS FOR YOUR ATENTION

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