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Research Report 1

Mining Sector Taxation In Tanzania

Tonedeus K. Muganyizi

August 2012

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ICTD Research Report 1
First published by the Institute of Development Studies in August 2012

ISBN: 978-1-78118-086-0

A catalogue record for this publication is available from the British Library.

Available from:
Communications Unit,
Institute of Development Studies,
Brighton BN1 9RE, UK
Tel: +44 (0) 1273 915637 Fax: +44 (0) 1273 621202
E-mail: bookshop@ids.ac.uk
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Mining Sector Taxation in Tanzania

Tonedeus K. Muganyizi, Tanzania Revenue Authority

Summary

Tanzania introduced its first mining policy in 1996, aiming to transform the nascent industry into a robust private-led sector. The Mining Policy of 1996 and the Mining Act of 1997 laid out a 25-30-year vision that would see the sector's contribution to GDP grow from 1.5 per cent in 1996 to 10 per cent in 2025. While Tanzania has indeed seen a boom in investment in the sector, with six large gold mines being commissioned since the early 1990s, the government has failed to reap the benefits due to generous tax incentives provided under earlier mining acts. A new mining policy introduced in 2009 revised some of those incentives, however, many of the most lucrative mines are still working on contracts agreed before the revisions, which the government feels obliged to honour. This paper will trace the history of the various mining tax frameworks, look in detail at some of the factors affecting them and conclude with some suggestions as to the next steps forward.

Keywords: Taxation in developing countries; mining; Tanzania; tax incentives

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Acronyms

ASAGBC	Alex Stewart (Assayers) Government Business Corporation
EITI	Extractive Industries Transparency Initiative
FOB	Free On Board
GAP	Gold Audit Programme
GN	Government Notice
ITA	Income Tax Act
GoT	Government of Tanzania
LTD	Large Taxpayer Department of the TRA
MDAs	Mining Development Agreements
MEM	Ministry of Energy and Minerals
NGOs	Non-Governmental Organisations
NDC	National Development Corporation
STAMICO	State Mining Corporation
TGI	Tanzania Gemstone Industries Company
TMAA	Tanzania Minerals Audit Agency
TRA	Tanzania Revenue Authority

1. Mining in Tanzania

1.1. History

Mining in Tanzania started well before Tanzania's independence in 1967 but suffered from a lack of direct investment. After the Arusha Declaration[1], most mining companies were nationalised, and in 1972 the government formed the Tanzania Gemstone Industries Company (TGI), which was given monopoly powers to produce, purchase and export gemstones. The State Mining Corporation (STAMICO) was formed in 1973 as an oversight body, including of new exploration and the operation of nationalised mines. Mining operations during that period were governed under the 1965 Mineral Trading Ordinance and Gold Ordinance. Despite these key frameworks, the performance of the mining sector during the 1970s to early 80s remained poor. Gold exports, for example, dropped from 500kg in 1969 to 20kg in 1971 (Phillips et al 2001). Under the 1979 Mining Act, mining and exploration operations were the remit of the state under the National Development Corporation (NDC) and STAMICO. Large-scale mining was very limited.

Starting in the mid-1980s, Tanzania began to open up, replacing its command closed economy with a market-driven one. A number of economic reforms happened between 1984 and the late-1990s, under structural adjustment, economic recovery and poverty reduction programmes. All programmes were based around economic liberalisation, price stabilisation and investment promotion, restricting the state to providing a conducive environment for private sector-led growth. Liberalisation of the mining sector did not come until the late 1990s, with the Minerals Policy of 1997.

The Mining Act 1998 provided the legal framework for mineral exploration, exploitation and marketing, replacing the 1979 act which had failed to attract large-scale investment. The new act recognised the role of small as well as large-scale mining, and gave Tanzanians exclusive rights within the small-scale mining sector, such as rights of claim holder, broker and dealer. The act gave the state ownership of minerals with the capacity to grant the rights to explore, develop and produce minerals. The next 10 years saw a huge growth in mineral exploration and mining activities, including the commissioning of six large-scale gold mines:

[1] The Arusha Declaration is a government blueprint proclaiming Tanzania a socialist state, and calling for the major means of production to be placed under state control.

Bulyanhulu Gold Mine, Geita Gold Mine, North Mara Gold Mine, Golden Pride Mine, Tulawaka Gold Mine and Buzwagi Gold (See Table 1).

Table 1: Major Mining Activities in Tanzania

Company/Project	Ownership	Resource (Mt)	Grade (g/tons)	Reserves(Tones)	Monthly output (Tones)	Commissioning Date	Estimated Mine Life
Golden Pride Mine	Resolute (Australia)	28.5	2.6	14.9	2,600,000 ore processing/4400 kg gold	1998	2012
Bulyanhulu Gold Mine	Barrick Gold Tanzania (Canada)	28.2	14.5	23.9	1,095,000 ore processing/15,1 000kg gold	2001	2035
Geita Gold Mine	AngloGold Ashanti	169.8	3.3	70.6	6,000,000 ore processing /24,000kg gold	2000	2017
North Mara Gold Mine	Barrick Gold Tanzania	48.8	3.3	34.1	2,8000,000 ore processing/10,0 00kg gold	2002	2020
Tulawaka	Barrick Gold Tanzania/Northern Mining Explorations	1.9	11.3	1.4	125,000 oz	2005	2012
Buzwagi Gold Mine	Barrick Gold Tanzania	27.9	2.3			2007	2023

Source: http://www.mem.go.tz/minerals

Gold remains the primary mineral in Tanzania. In 2009 and 2010, the mining sector contributed 2.5 per cent and 2.4 per cent to GDP respectively. Of those earnings, gold accounted for 93 per cent in 2010. Other minerals and gemstones include nickel, cobalt, copper, tin, tanzanite, ruby, green garnet, green tourmaline, sapphire, emerald, coal, kaolin, diatomite, gypsum, pozollana, limestone and meerschaum.

1.2. The Regulatory Framework

Mining in Tanzania is currently governed by the Mining Policy 2009 and the Mining Act 2010.

a The Mining Policies of 1997 and 2009

The first minerals policy in 1997 was created with the intent of recognising the opportunity and importance of mining to economic development in Tanzania. It envisaged the private sector taking the lead on exploration and development, and giving rise to improvements in small-scale mining, the enhancement of social and economic infrastructure and an increase in government revenue.

It identified fiscal policy as an important instrument for providing incentives to investors and in 1998, the Mining Act, approved by Parliament, translated the policy into actionable operations. Guided by ideology emphasising the active role of fiscal policy as an instrument of economic growth, the act was very generous. Gold mining projects were exempt from corporate income tax, something that was not repealed until 2010. Mining investors benefited from 100 per cent capital expensing and a 15 per cent threshold on unredeemed qualifying capital expenditure, meaning that even at a 15 per cent rate of return, they still did not pay corporate taxes.

Valued Added Tax (VAT) was characterised by multiple zero ratings. A destination VAT principle meant that minerals were basically zero-rated as they were produced mainly for export. VAT on capital goods was initially deferred but later exempted. Most supplies of goods and services to mining investors also benefited from tax relief, essentially another form of zero-rating. While the policy assigned the government the role of collecting taxes, duties, royalties, fees and rental payments from the mining sector, the desire to provide a competitive tax policy meant collection was marginal and unpredictable. Thus, under the 1997 policy, the contribution of taxes was not proportional to the profits made by mining companies during the period.

A new mining policy was approved by Parliament in 2009 to rectify this anomaly. The new policy identified opportunities for revised taxation and royalties. A new act came into force in November 2010 and paved the way for mainstreaming taxation of mineral production to align it with the Income Tax Act 2004 and other laws. In addition, the basis for charging royalties was reviewed from net-back-value to gross sales receipts. Copper, gold, silver and platinum group minerals' royalty rate increased from 3 per cent to 4 per cent, while other minerals, including gemstones and diamonds, retained the 5 per cent rate. In the interest of public accountability and good governance, terms provided for in old contracts are still honoured.

There are other differences between the two policies. While under the 1997 policy, the mines minister was empowered to enter into a development agreement with any company, under the 2009policy , the company must have invested capital of more than US$100 million. Similarly, under the 2010 act, the government can obtain free equity in any mine, while no equity participation was provided for in the 1998 act.

b Licensing

Licensing of mining and exploration activities is the prerogative of the Ministry of Energy and Minerals. The Minerals Policy 2009 recognises artisan and small-scale mining operations operating alongside large-scale operations. The 2010 act establishes state ownership of minerals and allows the government to grant rights to explore, develop and produce minerals. There are a number of licences, including a prospecting, retention, special mining, mining, gemstone mining, primary prospecting and primary mining. Primary mining licence is granted to Tanzanian citizens or company/partnerships exclusively owned by citizens.

1.3. Players and Issues in Revenue Administration in the Mining Sector

a Ministry of Energy and Minerals

The Ministry of Energy and Minerals is responsible for collecting mining tax revenues, royalties, issuing licences and collecting permit fees, annual rental fees and other charges. The key role of the ministry, however, is not revenue administration, but rather 'to stimulate and guide private mining investment by administering, regulating and facilitating the growth of the sector through a well-organised and efficient institutional framework' (Mining Policy 2009). Under the mining policy the role of the ministry is regulation, promotion, facilitation and provision of services especially to the artisanal and small-scale mining operators.

b The Tanzania Minerals Audit Agency (TMAA)

In 2007, the government formed the Gold Audit Programme within the Mining Department of the Ministry of Energy and Minerals, which was to audit and inspect the production and transportation of gold to ensure the state received royalties and taxes from those activities. The GAP replaced Alex Stewart (Assayers) Government Business Corporation (ASAGBC) as the auditor of the big gold mines. The Mineral Policy 2009 stipulated the need for an auditing institution that could cover the mining of all minerals at large, medium and small scale mines. The policy was responding to weaknesses identified in the GAP by a 2008 review. These included limited expertise in personnel, limited scope of work as it only covered gold, inadequate funding, lack of autonomy and weak degree of harmonisation and coordination with other sectors such as, forest, water, environment and financial institutions

In November, 2009, the government established the Tanzania Minerals Audit Agency (TMAA), a semi-autonomous institution entrusted with conducting 'financial and environmental audits as well as auditing the quality and quantity of minerals produced and exported by miners in order to maximize benefits to the Government from the mining industry for sustainable development of the Country' (TMAA, 2011). The TMAA visits major mines every year. It checks records, including main accounting summary records and underlying documentation and invoicing. After the visit, it drafts a report containing its conclusions both for royalties and other tax purposes (including income taxes); identifying total amounts affecting each tax liability. Final audit reports by the TMAA are copied to the Minister of Energy and Minerals, the Minister of Finance and Economic Affairs and the Commissioner General of the Tanzania Revenue Authority. The TMAA and TRA have mutually complementary skills. However, they do not work together on audits. The TMAA reports copied to the TRA commissioner are used as part of the TRA's audit.

However, from the mine owners' point of view, duplicate visits by the TRA and TMAA only add to the amount of paperwork they need to do. The TMAA and TRA do meet quarterly to discuss mutual concerns and all indicators point to improved mode of cooperation. Some interventions towards addressing this problem have been initiated, including the signing of a Memorandum of Understanding between the TRA and TMAA and exploring the possibility of implementing joint audits.

c Tanzania Revenue Authority (TRA)

The Tanzania Revenue Authority is a key player in revenue administration in the mining sector. It administers all taxes applicable to the sector. These include taxes on income (including corporate income tax, employment taxes and withholding taxes) and tax on consumption, mainly VAT and customs duties. Internally, the TRA is organised functionally, with some degree of segmentation between taxpayers. Taxes on the mining sector are handled by the Large Taxpayers Department. Although the taxpayers administered by this department are generally selected based on their turnover, the mining sector is brought under the Large Taxpayers department on sector-specific criteria.

d Tanzania Extractive Industries Transparency Initiative (TEITI)

The government is committed to ensuring transparency and accountability in the extractive industry and in 2008 announced its intention to join the Extractive Industries Transparency Initiative. It was granted temporary candidacy in February 2009 and has been working to meet the standards necessary to become a full member[2].

Tanzania released its first report on Reconciliation of Payments Made by the Extractive Companies to the government in February 2011. Also that year, the government prepared the EITI Validation Report which was forwarded to the EITI International Board in Oslo for consideration of full candidacy.

e Mining Development Agreements (MDAs)

There are a large number of companies and individuals involved in the mining sector in Tanzania, yet most do not have mining development agreements (MDAs) with the government. Since 1994, Tanzania has signed MDAs with six major gold mine operators. The first was in 1994 with Barrick Gold (Canada) at Bulyanhulu Gold Mine in Kahama, another in 1997 with Resolute Tanzania Limited (Australia) in Nzega; two contracts were signed in 1999 with Anglo-Gold-Ashanti at Geita and Barrick Gold at the North Mara mine in Tarime and the last contract was signed in 2007 with Pangea Minerals (South Africa) Limited in Kahama. In the 1990s, when the bulk of the contracts were signed, gold prices appeared to be on the decline. In 1980, gold traded at $615 per ounce, but plummeted to $362 in 1991 and $271 in 2001. Contract negotiations for mining activities reached during the 1990s therefore reflected this pessimistic slide in returns and offered too much in terms of fiscal concessions.

- *Fiscal Stabilisation*

A key feature of the MDAs, included in both the mining acts of 1998 and 2010, is that they guarantee the investor a stable fiscal regime. The stabilisation clause says the fiscal terms of the agreement will not be affected by any changes to the country's fiscal system, unless they improve on those provided in the agreement at the time of signing. A major weakness of the clause, however, is that it has conferred unaccountable power to the minister of minerals to sign agreements without consulting any other government authority.[3] Investors do not have to

[2] According to Southern Africa Resource Watch 2009 , no African country has been confirmed EITI compliant yet, although a number have joined as candidate countries

[3] Except for registration of the MDAs which in itself is a formality

put up any extra cost to be offered the fiscal guarantee. Nor is there any time limit to the stabilisation clause.

This has had an adverse impact on Tanzania's fiscal revenue. At the time the majority of the MDAs were signed, all indicators suggested the price of gold would remain at around $300-$350 or fall. The reality, however, has been completely the reverse. Gold prices rose from $279 per ounce in 2000 to $1,225 per ounce in 2010. Even the most complicated economic model could not have predicted that trajectory given the trend manifested in the 1990s. Profit-based taxes have adjusted and captured some revenue from the increased profitability of the sector, but the concessions granted on non-profit based taxes are still enjoyed by companies despite the gloomy predictions becoming quite promising.

f Mining Sector Reviews

Supported by the conducive geological environment, the reforms the government implemented in the latter half of the 1990s to facilitate private-sector participation in the mining sector have had a positive impact. The mining sector has experienced a boom, driven by the commission of large-scale gold mines at Nzega, Geita, Bulyanhulu, North Mara, Buhemba and Tulawaka. Between 1987 and 1997, small-scale and artisan mines were the major producers, but since then, large-scale mines have set the pace in minerals production. However, even as the mining sector saw high real growth rates, significant attraction of foreign direct investment and generally sound economic performance, concerns were raised about its contribution to society. It was said that the laws, policies and institutional set-up in the sector has not led to an equitable share for the government or people of Tanzania. In order to address these concerns, the government undertook three key reviews aimed at improving the contribution of the mineral sector to the economy and institutional capacity to oversee the sector.

The first review was carried out in 2004 by the Mining Policy Review Committee. The committee, which was formed by the Prime Minister Frederick Sumaye, was tasked with undertaking an in-depth review of the mineral policy and regulatory framework. Its report, commonly known as the Kipokola Report, observed that the organisational structure of the Minerals Division was inadequate to cope with a fast-growing sector. The Kipokola Report recommended that Tanzania learn from Ghana and Botswana[4] in managing its minerals

[4] The Kipokola report observed that in Botswana, the Mineral Economic Unit under the Ministry of Minerals, Energy and Water Resources safeguards national interests through close monitoring of mining investments and operations, and for each draft mining contract, sets up a multi-disciplinary technical team to review it. In Ghana, under the Internal Revenue Authority, a special Petroleum and Mineral Unit keeps track of the costs of the big mines.

resources. It called for, among other things, the need for continued monitoring of incentives to the mining sector and the need for honouring contracts so far in place. In addition, it encouraged the government discuss with mining companies the need to revisit old contracts for the benefit of both parties. It suggested a revision of the excessive tax incentives such as the 15 per cent allowance on unredeemed qualifying capital expenditure[5], the tax exemptions on fuel and custom duties.

A second review in 2006 of mining development agreements and tax structure, known as the Masha report, also suggested a review of tax incentives and negotiations with mining companies.

In 2008, another comprehensive review was undertaken through a Presidential Mining Review Committee to Advise the Government on Oversight of the Mining Sector which was appointed in November 2007. The report, commonly known as the Bomani Report, was released in 2008. The report, among other things, studied the mining contracts and other documents related to big mines, analysed the taxation system used in the mining sector and reviewed the government's oversight system in large mining activities. The report found that the oversight system in place was inadequate, the tax incentives overgenerous and the government's take from the sector inadequate. In addition, the report recommended a review of the 1997 Mining Policy and the 1998 Mining Act. In addition, it considered that the main obstacle to developing the sector was structural and therefore suggested that the government take an equity share in large-scale mining companies.

The overriding finding in all three reviews was that Tanzania had not benefited as much as it should have from the exploitation of its natural resources. Lack of capacity to manage the oversight was given as a major stumbling block. It was emphasised that there was an urgent need to build capacity within the government, if it was to ensure sustainable development of the sector, consolidate gains from growth and have an effective oversight function. Based on the recommendations, a new mining act and a new policy were brought in 2010.

[5] With the exception of one mine, companies whose MDAs included this incentive have agreed to renounce it as of 2007

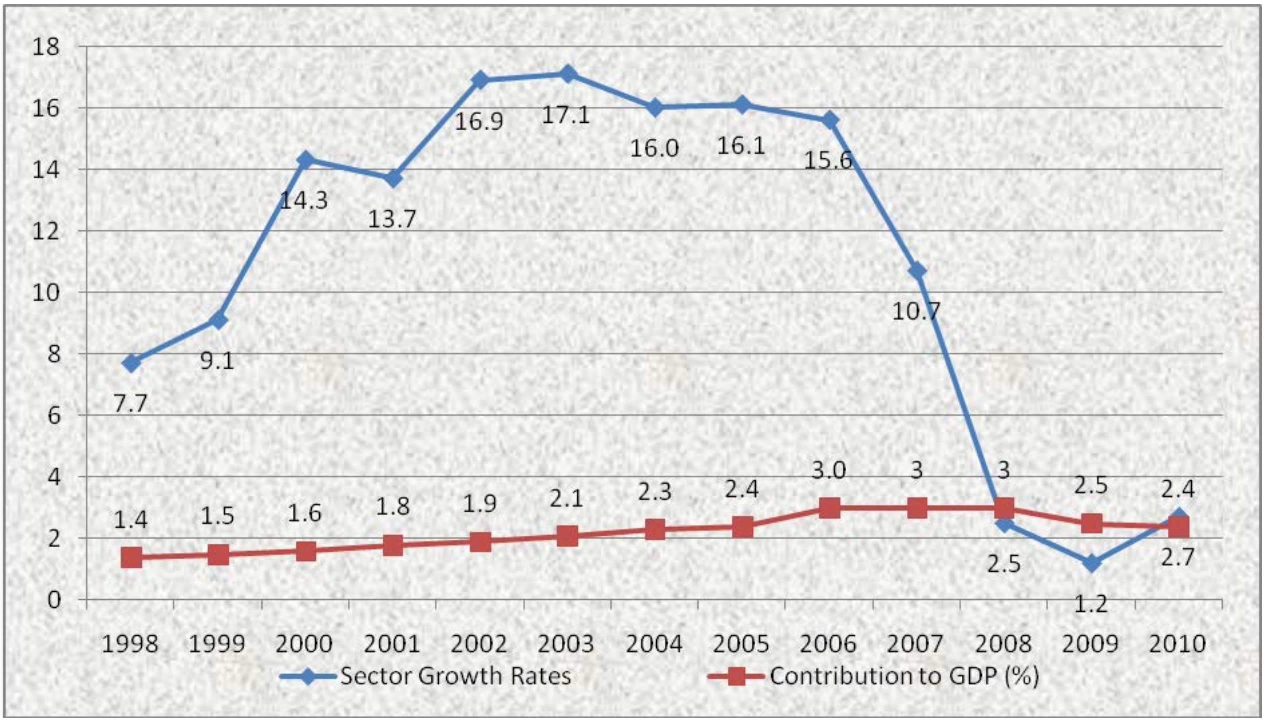
2. Mining Sector Performance

Tanzania is rich in mineral resources with high economic potential. Economic minerals produced in the country include gold, diamond, coal, copper, silver, dimension stones, tanzanite and other varieties of gemstones. There are both small scale, artisanal operators, such as those using manual and rudimentary techniques and large-scale mechanised mining. The government benefits through the creation of employment, royalties and taxes paid by the mining operators.

2.1. Sector Growth and Contribution to GDP

The contribution of the mining sector to Gross Domestic Product (GDP) increased steadily from 1.4 per cent in 1998 to 3 per cent in 2008, but declined to 2.5 per cent and 2.4 per cent respectively between 2009 and 2010. In terms of growth, the mining sector has recorded two-digit growth rates for most of the period, but saw a significant decline between 2008 and 2010, mainly due to the world economic crises. For 2008, 2009 and 2010, growth was 2.5 per cent, 1.2 per cent and 2.7 per cent respectively (Figure 1). Operationally, the gold sector has continued to outperform, though revenue accrued to the government has been below expectations, particularly given the significant increase in gold production.

Figure 1: Mining Sector Growth and Contribution to GDP



Source: Economic Survey, 2010

2.2. Production of Minerals

The formulation of the Mineral Policy in 1997 and the Mining Act of 1998 boosted investment in the mining sector, resulting in the opening of six major gold mines, as previously mentioned: Other large mining companies include Petra Diamonds Ltd (UK) and Tanzanite One. The production of all minerals, except diamonds, has increased over the years, underscoring the increasing importance of investment in the mining sector. The production of gold increased from 15,060kg in 2000 to 39,448kg in 2010 (See Table 2).

Table 2: Production of Minerals

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gold (Kg)	15,060	30,088	43,320	48,018	48,176	52,236	39,750	40,193	36,434
Diamond (Carats	354,388	254,271	239,761	236,761	303,920	219,639	272,204	282,786	237,676
Gemstones (Kg)	150,800	96,866	195,842	1.53m	1.61m	1.94m	2.5m	1.3m	1.9m
Salt (Tonnes)	70,000	65,000	71,200	58,978	57,062	135,410	34,798	35,224	25,897
Phosphate (Tonnes)	5,100	4,000	1,182	3,738	6,570	7,096	2,881	8,261	28,684
Limestone (Tonnes)	1,500	2,269	2,857	1,206	1,391	2,780	1,608	1,322	1,282,000
Silver (Kg)		6,681	7,669	7,986	13,216	12,891	14,906	12,381	10,388

Source: Economic Survey, 2010

2.3. Mineral Exports

The value of mineral exports increased from $22.5 million in 2000 to $1.5billion in 2010, mainly attributed to the export of gold which contributes about 93 per cent of total minerals export (Table 3). The share of mineral exports to exports of non-traditional goods rose from 24.4 per cent in 1999 to 56.7 per cent in 2006 and slightly declined to 49.1 per cent in 2010, gold alone contributing an average of 43.1 per cent. Likewise, the share of mineral exports to total exports of goods increased from 12.2 per cent in 1999 to 41.8 per cent in 2010. The increased share is explained by increased investments in the sector.

Table 3: The Value of Mineral Exports 1999 – 2010 (US$m)

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gold	34.8	112.7	254.1	341.1	502.8	629.9	655.1	786.4	788.2	1,108.3	1,229.5	1,516.6
Diamond	20.1	42.2	27.1	22.0	28.6	31.6	24.3	22.2	26.0	20.3	15.5	10.1
Other minerals	18.4	23.3	21.1	20.7	20.7	24.8	31.4	28.3	34.4	58.1	26.4	33.5
Total	73.3	178.2	302.2	383.8	552.2	686.2	710.7	836.8	848.7	1,186.7	1,271.4	1,560.1

Source: Ministry of Energy and Minerals

Figure 2: Gold Mineral Export Quantity vs Value (2001 - 2010)

Source: Ministry of Energy and Minerals

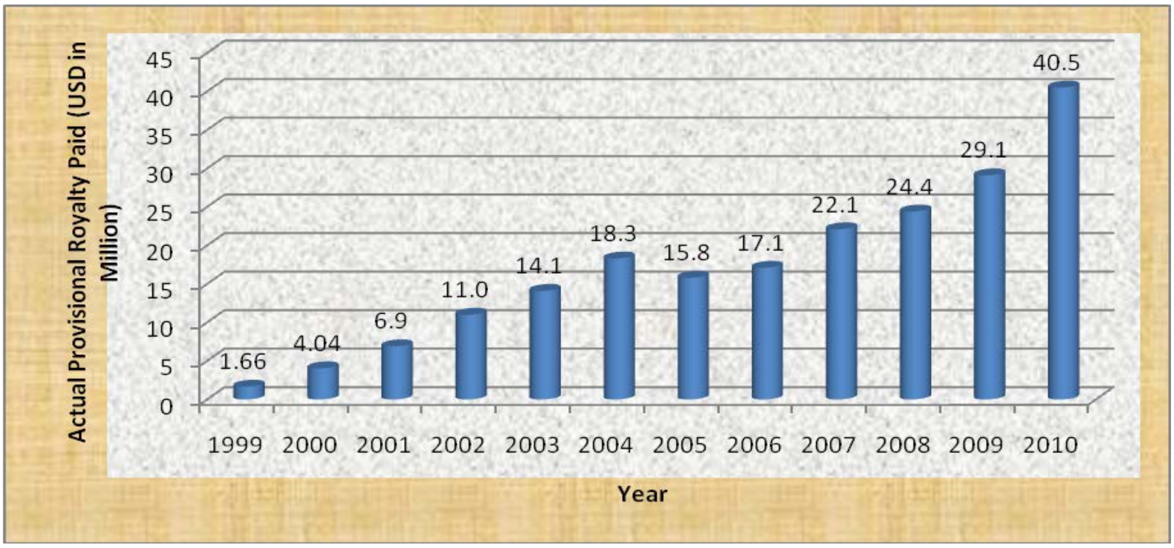
2.4. Mining Revenue

The current fiscal regime applicable to the mining sector in Tanzania is set out in the Mining Act 2010, the Income Tax Act of 2004 and indirect taxation laws. The basic income components from mining activities include; royalties, licence fees, income taxes (e.g. PAYE, corporate tax, Special Skilled Levy, withholding taxes) and VAT. Taxes are administered by the Tanzania Revenue Authority while other fees, such as royalties and licence fees, are administered through the Ministry of Energy and Minerals and local government authorities.

a Royalty Payments

Royalties are paid by the mining operator or prospector on minerals exploited. Royalties manifest in a wide variety of forms, yet they are commonly based on the quantity and value of minerals produced and sometimes based on profitability. Figure 3 shows actual provisional royalties paid by the major gold mines to the government from 2001 to 2010. Actual royalties have increased from $1.6 million in 2001 to $40.5 million in 2010, mainly due to the increase of mineral prices.

Figure 3: Provisional Royalties Paid by Major Gold Mines (2001 - 2010)

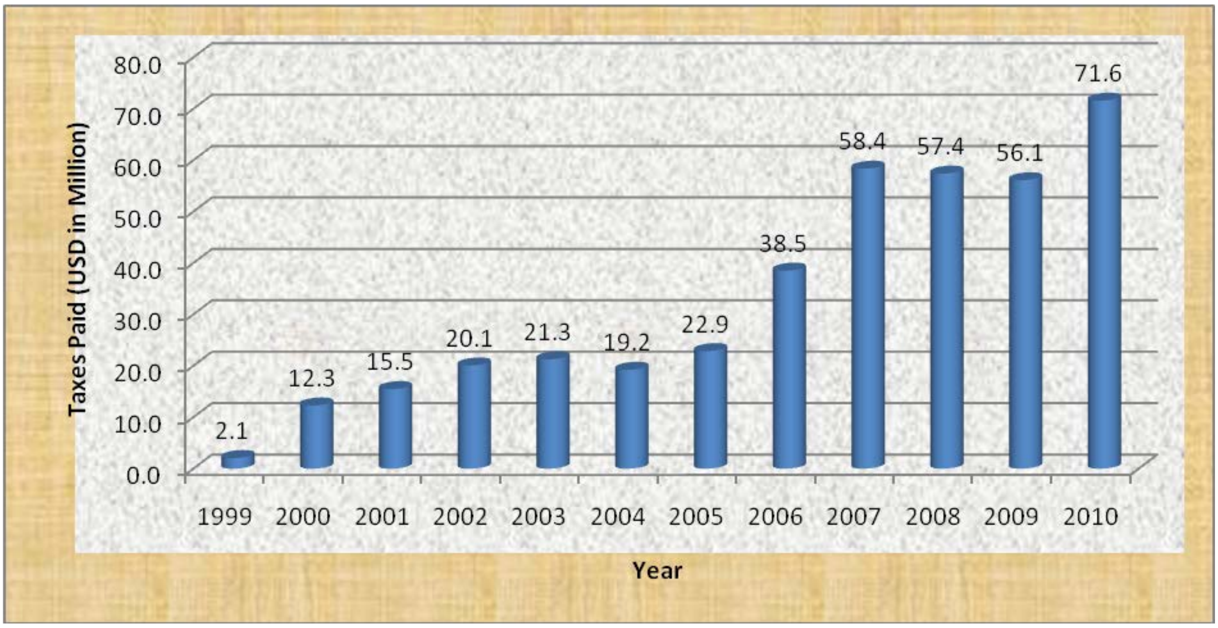


Source: Ministry of Energy and Minerals

b Tax Revenue Performance

Taxes on mining companies are governed by the Section 145 of the Income Tax Act (2004). Mining tax revenue contributes an average of 2.2 per cent of total tax revenue collected by the TRA. Despite the small share, tax revenue from the sector has increased from $2.1 million in 1999 to $71.6 million in 2010 (Figure 4). The increase is attributed to the growth in mineral production resulting from an expansion of investments in the sector as well as the increase in global prices for minerals, especially gold.

Figure 4: Taxes Paid by Large Scale Mining Companies (1999-2010)



Source: Tanzania Revenue Authority (TRA) and Ministry of Energy and Minerals (MEM)

- *Taxes on Income*

Income taxes collected from the mining sector include Corporate Income Tax (CIT), Pay As You Earn (PAYE), Skills Development Levy, Withholding Taxes and Rental Taxes.

Table 4: Taxes Paid by Large Scale Mining Companies from 2005 to 2010 ($m)

Year	2005	2006	2007	2008	2009	2010
Corporate Tax	3.9	1.6	1.9	1.6	2.0	15.3
Value Added Tax	1.6	0.7	5.7	1.7	3.2	3.4
Employment Taxes	14.6	29.9	45.7	49.5	45.2	45.6
Withholding Tax	2.9	6.2	4.9	4.5	5.4	7.1
Other	0.0	0.2	0.2	0.1	0.3	0.2
Total	**22.9**	**38.5**	**58.4**	**57.4**	**56.1**	**71.6**

Note: Excludes non-tax revenue, such as royalties, licencing fees, mining lease

Source: Tanzania Revenue Authority

Exemptions are just one explanation for the poor revenue performance of the mining sector. While the Tanzania Investment Centre is the largest single beneficiary of tax exemptions, accounting for 39 per cent of total exemptions, mining exemptions account for about 7.5 per cent.

Major indirect taxes in mining include import duties, VAT and taxes on fuel. Mining companies remain exempt from import duties throughout their first year of production, and face a capped 5 per cent rate thereafter. All capital goods remain exempted in any case.

The mining sector's main contribution to tax revenue is employment taxes, accounting for, on average, over 75 per cent of the sector's tax payments. The implication is that the mining sector has not actually started paying taxes yet, making royalties of greater importance. The VAT status of large mining companies is that they remain net-VAT refund claimers. Corporation tax has yet to be paid, but this could prove a lucrative revenue stream in the near future.

c Effective Tax Rates

The tax rates in the mining sector are well below the overall tax burden in the country (Table 5). While on average, overall taxes have generally risen, the mining sector’s effective tax rates have been relatively stable. The income tax regime applicable to the mining sector has ensured that material corporate tax is not paid despite the growth the sector has experienced. At around 8.2 per cent average effective tax rate, the sector mainly contributes to employment taxes. It is quite clear that the sector has not contributed as economic theory would predict to the revenue generation in the country.

Table 5: Effective Tax Rates in the Mining Sector 2005-2010 (million Shillings)

Year	2005	2006	2007	2008	2009	2010
Mining GDP	457,431	576,363	742,932	839,513	941,094	1,072,847
Total Mining Tax	25,831	48,298	72,611	68,715	73,277	99,932
Effective Tax Rate	5.6	8.4	9.8	8.2	7.8	9.3
Tax Revenue/GDP Ratio	11.2	12.4	14.0	15.0	14.9	15.3

Source: Tanzania Revenue Authority

3. Mining Tax Regime

This section traces how mineral tax regimes have evolved over time in Tanzania, specifically tracking the legislative changes that have affected mining taxation and in turn, how these have affected the relative tax burden and tax structure in the country. While the legal and regulatory framework for mining activities can be traced back to the colonial period, significant reform of taxation had to wait until 1997, when the first mining policy was promulgated. The ushering in of the Minerals Policy 1997 had necessitated amendments in taxation laws to produce a mining taxation regime, distinct and different from the main tax regime applicable to other sectors. The Finance Act 1997, the Financial Laws (miscellaneous amendments) Act 1997 and other Government Notices and Orders provided the instruments for enforcing a distinct regime applicable to the mining sector.

The new tax structure was aligned with the government's attempts to entice local and foreign investors in to the mining sector, and bring in capital, technology and expertise that the sector was missing. The Mining Act of 1998 provided more incentives to foreign investors than its 1979 predecessor. However, later public concern that it had gone too far led to a new policy in 2009 and a new legal framework, the Mineral Act 2010. The new policy sought to address the challenges facing the sector; low integration with other sectors of the economy, low comparable contribution to GDP, slow development of small-scale mining, poor capacity of the government to administer the sector and environmental degradation.

3.1. The New Tax Regime

The key legal frameworks affecting the mineral sector are the Mining Policy of 2009, the Mining Act 2010, the Income Tax Act, Cap 322, the VAT Act, Cap 148, the Customs (Management and Tariff) Act, Cap. 403.

a Income Tax

The Income Tax Act, Cap 322 (2004) replaced the previous 1973 act and repealed all the preferential treatment granted to the mining sector with respect to withholding taxes at new mines. For the old mines, however, all benefits granted under the earlier act have been honoured.

b Corporate Income Tax (CIT)

The CIT rate for the mining sector is 30 per cent, the same as all other sectors. Companies offering 30 per cent or more equity to the public are taxed at 25 per cent, provided they list on the Dar es Salaam Stock Exchange. This again is applicable to other sectors as well. Mining companies, however, have different terms of deductibility of expenses when calculating their taxable income.

The first area of difference is depreciation of assets. All other sectors have their assets pooled and depreciated as summarised in Annex 1. While mining sector assets could easily fit into the same categories, they have not been adapted to this structure. Instead, all mining assets are immediately expensed at 100 per cent capital expensing, accompanied by a 15 per cent uplift on unredeemed qualifying capital expenditure[6]. The Corporate Income Tax rate applicable to the mining sector has only remained a 'book rate' with little practical usage on the ground. New contracts, however, are not subject to this scheme. However, as the minister responsible for minerals is still empowered to sign MDAs with fiscal stabilisation clauses, there is still the potential for mining companies to enjoy this scheme.

c Withholding Taxes

There are four key withholding taxes applicable to a mining company operating in Tanzania; a withholding tax on interest, withholding tax on dividend, withholding tax on technical services and withholding tax on management fees. Withholding tax on technical services is a final withholding for non-residents. Until 2004 it was set at 3 per cent for all technical service providers, irrespective of their residence status. Following the enactment of the 2004 income tax act, applicable rates for withholding tax on technical services were revised to 5 per cent for residents and 15 per cent for non-residents. The 2004 rates are still in force to date.

The applicable withholding tax on management fees, like technical services, was revised to 5 per cent for residents and 15 per cent for non-residents in 2004. This replaced a 3 per cent rate across the board for fees not exceeding 2 per cent of operating costs, and 20 per cent for fees above 2 per cent.

[6] Qualifying capital expenditure means development expenditure. The provision gives advantage to the companies in that in addition to 100 per cent capital expensing, the company adds further 15% as allowable expense on its development expenditure not recovered by return to investments.

In the 2004 income tax act, withholding tax on interest is 10 per cent for both residents and non-residents regardless of the source of the loan. Under the preceding regime, the withholding tax on interest was set at zero for foreign currency loans from third parties and 15 per cent if the loan was from an affiliate. Until 1997, dividends used to attract a 20 per cent withholding tax, and under the new regime this has been decreased to 10 per cent.

d Unredeemed Capital Expenditure Allowance

The 1973 income tax act contained a provision that allowed companies to avoid corporate tax if their rate of return on development expenditure was less than 15 per cent. However, after public criticism that the allowance was excessive, the government repealed this for companies entering into Mining Development Agreements after July 1, 2001, but agreed to honour the allowance for all contracts signed before this date. Responding to public pressure, however, most contract holders have relinquished the concessions and their respective contracts have been revised to remove the 15 per cent rate from 2007 onwards.

e Thin Capitalisation[7]

While the Income Tax Act 1973 allowed for unlimited debt finance deductibility, the 2004 act introduced some thin capitalisation. To limit interest stripping, it **set a limit to what a company could deduct and restricted the provision to companies that were exempt; such as retirement funds, charitable organisations or non-residents.**
Companies would be able to deduct (a) all interest derived by the entity during the year of income which would be included in calculating the entity's total income for that year; plus (b) 70 per cent of the entity's total income for the year without including any interest or deducting any interest.

In order to strengthen this scheme, the government introduced in the 2010 Finance Act a debt-to-equity ratio of 70 to 30 and limited the deduction of interest expense to that ratio. This is consistent with the practice in other countries. Any interest expense allowed under this scheme can be carried forward indefinitely. However, for interest to qualify for a deduction the company must demonstrate that the loan has not been given by a connected company, although a concrete definition of this is lacking. Under a specific rule, interest rates

[7] Thin capitalization means excessive financing of investments through debt instead of share capital. The advantage is that unlike dividends which are a return to share capital, interest is expensed against profits thus reducing tax liability. Where borrowing is made among related companies debt financing provides an avenue for transfer pricing, reducing further taxability of the company.

and other expenses under a related-party loan should not exceed those which the parent company would incur if borrowing the same incremental amount against its group balance sheet. To ensure more complete information about borrowing, financing plans should be made part of the mining plan approval.

f Ring Fencing

Mining companies had strict ring fencing around their operations under the Income Tax Act 1973. A company was not allowed to offset losses from mining operations against other business income, and vice versa. In addition, mining losses from one company could not be offset against the income of a related mining company. Unlike other businesses where losses could be carried forward for a five-year period, the 1973 act allowed mining companies to carry them forward for an unlimited time. The ring fencing clause was carried over into the 2004 Income Tax Act. In 2010, however, the government review that to treat as separate mining operations carried out by the same person or company in different locations. This essentially shortens the gestation period for payment of corporation tax by mining companies that have more than one mine by separating the costs of the mines with regards to determination of tax liabilities.

g Taxation of Gains on the Transfer of Interest

Both the Income Tax Act, 1973 and Income Tax Act, 2004 lack mechanisms for capturing the gains made when mining projects in Tanzania are sold offshore. Under the 2004 act, section 9, gains made on an investment are included in taxable income and section 36 sets out how the gain is calculated. Gains made on the transfer of shares in Tanzanian companies would be captured accordingly, but not gains on transfers of shares of non-Tanzanian companies. This is because there is no 'look-through' rule to capture transactions further up the corporate chain, as is the case in South Africa and Australia.

Even with the adoption of such rules, however, enforcing them could be challenging. Existing withholding tax provisions only apply to payments by Tanzanian resident companies. It may be difficult for the tax administration to find out about share transactions that occur in other countries other than where a holding company discloses them publicly. One approach would be to include in the Mining Act, or MDA , or any other enforcing act a requirement that any change in material interest has to be reported to the Tanzanian authorities.

h Employment Taxes

There are two types of employment taxes applicable to mining companies, the Skills Development Levy and Pay as You Earn (PAYE). The Skills Development Levy is chargeable at 6 per cent of the total wage bill. PAYE is essentially not a mining tax, but a tax on the income of employees in mining companies. Tanzania has a 4-band progressive PAYE structure with minimum rate set at 14 per cent, and maximum rate of 30 per cent. The Corporation Income Tax rate and the maximum PAYE rate have been harmonised.

i Value Added Tax (VAT)

The VAT system in Tanzania, like in most countries, is a credit invoice consumption tax implemented on a destination principle. The VAT regime in Tanzania is a single rate regime, set at 20 per cent initially, but was reduced to 18 per cent in July, 2009. Being a less developed country, Tanzania exports virtually all the minerals that are mined. Since exports are VAT zero-rated under the VAT regime, mining firms are net-refund claimers of almost all VAT paid in the process of mining operations. Given the very large and frequent investment needs of the mining companies, effective tax administration has necessitated the creation of a special unit to handle mining companies so as to avoid delays associated with VAT refunds.

The VAT system for the mining sector has been relatively stable, but complex, since its introduction in 1998. The guiding principle has been that exports of minerals are zero-rated, while imports by or supply to a registered licensed exploration, prospecting, mineral assaying, drilling or mining company are eligible for VAT relief. Supply of capital goods is also VAT relieved. Overtime, however, the government has made some changes to limit supplies and set conditions for the qualification of the concessions. Initially, all imports or supplies to licensed mining companies, and services for use in exploration, prospecting, drilling or mining activities were eligible. With effect from 2010, this has now been limited to exploration or prospecting activities only. The limitation is based on the fact that mining projects are expected to export most of their output, and since exports are zero-rated, the mining companies are entitled to claim VAT refunds on investment goods or on inputs.

As is the case with most reforms, companies with a Mining Development Agreement signed before July 1, 2009 will still enjoy the same VAT relief as before the reforms.

Mining companies, however, are not happy with the reforms saying that the refund system is inefficient and tying up investment capital. However, the introduction of the risk-based approach for handling refunds in 2004/05 so as to speed up the process of VAT refunds without jeopardising revenue flows to the government has enhanced capacity in TRA handling of refunds. Given the existing capacity within TRA at the moment to administer a risk-based refund system, the argument for the need of keeping VAT relief so as to free up capital is no longer justified.

j Customs Duty

The 1998 fiscal regime provides an exemption from import duties for mining companies and their sub-contractors for goods related to mining. The exemption commences during pre-production and expires on the first anniversary of production. After that period, the companies and their sub-contractors are subject to import duties at the capped rate of 5 per cent. While import duty exemptions are common in fiscal regimes for the mining sector internationally, the regime is mainly applicable in countries with non-zero import duties on capital goods. That was the case in Tanzania in 1998 before the reforms. Currently, the general tariff schedule now under the EAC-CET provides for zero per cent duty rate on capital goods and raw materials for all importers. The import duty exemption clause in the fiscal regime for the mining sector is therefore redundant.

k Excise Duty

Until 2009, the excise duty policy for the mining sector had been very stable. At the time most MDAs were signed, in late 1990s through early 2000s, most mines were in remote areas, with poor transport connections and no, or an unreliable, supply of electricity. The companies therefore envisaged a huge consumption of fuel to generate their own energy. Thus, the government exempted mining companies from excise duty on imported or domestically off-bond purchased oil for mining purposes. The exemptions were in force until July 2009 when they were revoked. Mining companies have protested this reform, saying that it was a breach of their agreement. Some companies threatened court proceedings. In order to honour its contractual obligations, the government reinstated excise duty exemptions in July 2010 with retrospective effects.

The exemption is granted only if the fuel is imported by the mining company or their agent, but not otherwise. Mining companies are refunded upon presentation of sufficient evidence to satisfy the commissioner on how the fuel was consumed. With effect from September

2011, the TRA has set up an escrow account to deal with the large amounts of money claimed by the companies in fuel payments.

Due to the volume of fuel involved, the TRA has at times not had enough funds to refund in time the full amount claimed by the mining companies. The escrow account system requires mining companies to estimate petroleum consumption for a given year. On the basis of the estimate, mining companies are required to deposit money equal to projected taxes for the consumption of fuel in a given month. The company is then allowed to import/purchase fuel free of taxes to the tune of the amount deposited. If monthly consumption is larger than the amount of tax deposited, the mining company is obliged to increase the deposit.

l Fuel Levy

A fuel levy is charged under The Road and Fuel Act, Cap 220. Gold mining companies with MDAs are exempt from paying a fuel levy which exceeds US$ 200,000 per annum in their first year of production. The MDAs the government entered into, however, provided for an exemption for the length of the contract or the life of the mine, depending on which expired first. Therefore the government needed to issue a new government notice in 2005 to extend the validity of the exemptions to cover the period specified in the MDAs.

In July 2009, the partial fuel levy exemption granted to the mining companies was abolished. The changes were to affect mining companies entering into Mining Development Agreements from 1 July, 2009. It was further proposed that the government initiate contract negotiations to remove the specific provision in MDAs signed earlier. Essentially this was in agreement with the recommendations contained in the 2009 Presidential Mining Review Committee. The committee had recommended that the existing legislations be reviewed to enable the government to acquire pre-set, minimum revenue from mining companies. Alongside the excise duty, however, this revocation was reversed in July 2010, under the spirit of good governance and public accountability.

m Royalties

Under the Mining Act 1998, royalties were based on the 'net-back value' of minerals produced. A 'net-back value' is the market value of minerals at the point of export less processing and transportation costs. For domestic consumption, it is the value at the point of domestic delivery minus the cost of transportation to the point of delivery (including insurance and handling charges) and minus processing costs. Royalties were charged at 5 per cent for diamonds and 3 per cent for gold and other minerals, including rough gemstones. Royalties were assessed on a provisional basis at the time of export by calculating 90 per cent of 3 per cent of the spot value of contained metals with the final royalty assessed after the metal is sold. The 90 per cent is an arbitrary amount agreed with the mining companies, and is intended to reflect smelting and refining losses and transport and other costs deductible for the royalty base and to ensure the provisional royalty is most likely an underpayment.

The Mining Act 2010, while retaining the provisional assessment arrangement of mineral royalties, included two key reforms. Section 87, subsection 6, defines the base of the mineral royalty as 'the market value of minerals at the point of refining or sale, or, in the case of consumption within Tanzania, at the point of delivery within Tanzania'. This is interpreted as the value of the final metal produced from exported minerals valued at the time of final sale, but without the deductions currently allowed for export, or for transportation from the mine to the port. The advantage of the gross value method is that it simplifies royalty calculations and eliminates avenues for the application of transfer pricing used to overstate costs deductible for royalties.

The applicable rates of mineral royalties have been revised to 5 per cent for uranium, gemstones and diamonds, 4 per cent in the case of metallic minerals such as copper, gold, silver and platinum, and 3 per cent for other minerals. General assessment of the applicable royalty rates is that they are reasonable and comparable with other countries (Krelove et al, 2011). Currently, the government is negotiating with those mining companies with immutable MDAs to switch to the new royalty regime.

For the effective administration of royalties the ministry set up the TMAA which is responsible for the monitoring and auditing quality and quantity of minerals produced and exported by large, medium and small scale miners and to determine revenue generated. In addition, the TMAA audits capital investment and operating expenditure of the large and medium scale mines for the purpose of gathering taxable information and providing the same to the TRA and other relevant authorities.

n Government Equity Participation

One of the key recommendations of all three reviews was that the government should hold equity in mining operations. The Bomani Report of 2008 noted that most shareholders thought that without equity, the government could not effectively supervise and control production of national resources. Nor could it assess precisely the income and production from the mines as well as related operating cost structure. It was thus recommended that the government own a percentage of shares and enhance full control of income, production, sales, operating costs and orientation of the mining sector. The Kipokola Report of 2004 had similar recommendations.

This recommendation was included in the Mining Act 2010. Section 10, subsection 1 and 2 provides for the possibility of the government holding a stake in mining activities depending on the type of minerals and the level of investment.

There are, however, a number of criticisms. Krelove et al (2011) concluded this was an inadequate way to achieve the objective. The information the government would obtain through equity participation could also be obtained through the oversight function of the government. While equity is also a means of capturing a higher share of revenue, the government was advised to look at alternatives such as resource rent tax; special mining tax, windfall tax or progressive royalties.

3.2. Summary Tax Regime for Mining

The key reforms undertaken in the mining tax regime since the advances of large-scale mining operations can be summarized in three phases. The first starts in 1998, when the Mining Act and the Value Added Tax Act came into force. The landmark reform during the second phase, starting 2004, was the introduction of the new Income Tax Act and finally the third phase, starting 2010, is defined by the enactment of the new Mining Act, 2010. Table 6 is compares the fiscal regimes during the three eras.

Table 6: Mining sector tax regimes in 1998, 2004, 2010

Tax	1998	2004	2010
Laws in Force	Mining Act, 1998 Income Tax Act, 1973 VAT Act, 1998 Customs Tariff Act, 1976 Excise Duty Road and Fuel Act, Cap 220 Stamp Duty Act, Cap 189	Mining Act, 1998 Income tax Act, 2004 VAT Act, 1998 Customs Tariff Act, 1976 Excise Duty Road and Fuel Act, Cap 220 Stamp Duty Act, Cap189	Mining Act, 2010 Income Tax Act, Cap. 332 VAT Act, Cap. 148. Customs (Management and Tariff) Act, Cap. 403 Road and Fuel Tolls Act, Cap. 220 Excise (Management and Tariff) Act, Cap. 147 Stamp Duty Act, Cap 189

Tax	1998	2004	2010
Corporation Income Tax	30.00%	30.00%	30% or 25% for companies registered under DSM Stock Exchange
Depreciation Allowances	100% capital expensing on exploration and development expenditure	100% capital expensing on exploration and development expenditure	100% capital expensing on exploration and development expenditure
Loss Carried Forward	Indefinite	Indefinite	Indefinite
Withholding Taxes on Technical Services	3% final tax for resident and non-resident	5% for resident contractors and 15% for non-resident contractors	5% for resident contractors and 15% for non-resident contractors
Withholding Taxes on Management Fees	3% for fees up to 2% of operating costs, 20% on fees above 2% of operating costs	5% for residents and 15% for non-residents	5% for resident and 15% for non-residents
Withholding Tax on Interest	Nil on foreign currency loan from third party; 15% from affiliates	10%	10%
Withholding Tax on Dividend	10%	10%	10%
Thin capitalization rule	No limit on debt financing	Interest limited to 70% of tax base before interest deductions, excess interest is carried forward indefinitely	Interest deduction limited to 70 to 30 debt-equity ratio
Ring Fencing	By Company	By Company	By Mine
Additional Capital Allowance	15% allowance on unredeemed capital expenditure for MDAs signed before 2001	None, but old contracts honoured	Same
Royalties	5% for diamonds and 3% for all other minerals (on a net back value)	5% for diamonds and 3% for all other minerals (on a net back value)	5% for diamonds, gemstones and uranium; 4% for gold and other metals (on gross sales value)

Tax	1998	2004	2010
Value Added Tax	VAT relief for imports and domestic purchases	VAT relief for imports and domestic purchases	VAT relief on imports and domestic purchases for exploration and prospecting expenditures only. Relief on drilling or mining expenditure is honoured for MDAs signed before July 1, 2009
Import Duties	Exempt to the end of the first year of commercial production, and capped at 5% thereafter	Same	Same
Excise Duty on Fuel	Exempted	Exempted	Exempted
Fuel Levy	Capped at $200,000 annually	Capped at $200,000 annually	Capped at $200,000 for companies with MDA's
Stamp Duty	1.2%	1.2%	1.2%

Source: IMF (2011), Tax Laws

4. Recommendations

4.1. Possible Policy Intervention Areas

The reforms undertaken in mining taxation have resulted in a sound fiscal regime. The Income Tax Act has mainstreamed the taxation in the mining sector and the VAT Act has reduced multiple concessions granted to mining and drilling operations. The Minerals Policy 2009 and the Mining Act 2010 have also placed emphasis on the need to have a fiscal system that generates adequate revenue for the government.

However, the bulk of Tanzania's minerals are being mined under long-term, binding agreements signed before the tax reform.

As such, the mile stones achieved, in terms of mining policy, legal reviews, tax law reviews and others, have had limited impact in the industry. In the spirit of good governance and public accountability, the government remains obliged to honour these contracts and relies of the good will of the mining companies. .

The future of fiscal revenue therefore lies in continued negotiations between the government and mining companies to amend existing contracts. There has been some success in negotiating the 15 per cent threshhold for unredeemed capital expenditure. Most companies have given up the right following a first round of negotiations. Future areas for possible intervention include:

- Modifying existing MDAs to ensure that the government gets its fair share from mining operations by mainstreaming the VAT scheme applicable to mining companies; renegotiating excise and fuel levy exemptions and mainstreaming royalty and withholding taxes system;

- Capturing additional resources for the government by considering resource rent, progressive royalties or special mining taxes.

- Abolish the 100 per cent capital expensing system in favour of pooled assets expensing as noted in the Income Tax Act 2004.

- Review the Income Tax Act to enable taxation of gains made on off shore indirect transfers of interest from mineral assets.

- Develop capacity for management of the sector, including the building of specialized revenue forecasting models.

- Repealing of Section 145 of the ITA 2004 which allows a transitional arrangement for taxing the mining sector.

Annex 1: Asset Depreciation Scheme under the ITA 2004

Class	Depreciable Assets	Applicable Rates (%)
1	Computers and data handling equipment together with peripheral devices; automobiles, buses and minibuses with a seating capacity of less than 30 passengers, goods vehicles with a load capacity of less than 7 tones; construction and earth-moving equipment.	37.5 Diminishing value
2	Buses with a seating capacity of 30 or more passengers, heavy general purpose or specialized trucks, trailers and trailer-mounted containers; railroad cars, locomotives, and equipment; vessels, barges, tugs, and similar water transportation equipment; aircraft; other self-propelling vehicles; plant and machinery used in agriculture manufacturing or mining operations; specialized public utility plant, equipment, and machinery irrigation installations and equipment.	25 diminishing value
3	Office furniture, fixtures and equipment; any asset not included in another Class.	12.5 diminishing value
4	Natural resource exploration and production rights and assets referred to in subparagraph (3) in respect of natural resource prospecting, exploration and development expenditure.	20 straight line
5	Buildings, structures and similar works of a permanent nature used in agriculture, livestock farming or fishing farming.	20 straight line
6	Buildings, structures and similar works of permanent nature other than those mentioned in Class 5.	5 straight line
7	Intangible assets other than those in class 4.	1 divided by the useful life of the asset in the pool and rounded down to the nearest half year
8	Plant and machinery (including windmills, electric generators and distribution equipment) used in agriculture.	100

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