Ghana: Government justifies new mining tax

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A tax policy advisor of the Ministry of Finance, Dr Edward Larbi-Siaw, has explained that the economic and social benefits provided by the mining sector did not match government's expectations, hence its decision to review the industry's taxes.

He said the lack of transparency, coupled with the need for incentives to reform the extractive industry's value chain, had contributed to this state of affairs while environmental degradation resulting from operations of the industry remained a cost to the country.

Although the Government of Ghana receives 10 per cent free carry equity in the mining operations, the return depends on dividend distribution.

This he said brought in very little resources since companies had not declared much of their dividends despite the huge increases in gold prices in recent years.

He was speaking at the 3rd Mining for Development forum organized by the Ghana Chamber of Mines in Accra.

In 2010, the government undertook a rigorous fiscal regime change in the mining sector which saw the royalty rate increased from a sliding 3-6 per cent to a fixed 5 per cent rate.

Also, corporate tax rate was increased from 25 to 35 per cent and a uniform regime for capital allowance of 20 per cent for capital allowance of 20 per cent for five years for all mining while a bill to introduce the windfall profit tax on all mining companies at a rate of 10 percent is currently in parliament.

Meanwhile, industry players have hit back sharply at the proposed introduction of the windfall profit tax as the industry remains the largest contributor to government taxes.

But according to Dr Larbi-Siaw, the review was prompted by the difficulty in calculating profit rates and to determine where on the sliding scale, mining companies should be "and in fact almost all were at the bottom end despite the high gold prices."

He explained that the issue with mining was about fair and transparent sharing of benefits and windfall gains from the exploitation of the country's precious and irreplaceable natural resources.

"During the recent global financial crises, prices of gold, cocoa and oil reached their peak levels ever. Yet the country did not benefit at all from the price hikes, particularly from gold," he said.

The government, he said had therefore, taken a bold step to critically review the fiscal regimes and mining agreements, with the view of ensuring that the country benefited adequately and fairly from the gains in the mining sector.

The Chief Executive Officer of the Ghana Chamber of Mines, Dr Toni Aubynn in his address said the sector remained the number one tax payer and highest contributor to Ghana Revenue Authority's (GRA) Domestic Collections.

"The sector contributed about GH₵1.46 billion to GRA, representing 27.04 per cent of GRA's Total Direct Taxes in 2012. We also paid GH₵893.77 million, in corporate tax to the GRA, representing 36. 98 per cent of the total company tax collected in 2012," he said.

The sector, he also explained voluntarily contributed about GH₵26 million to its host communities and the general public.

Again, mining companies returned about US$3.2 billion, representing 73 per cent of their mineral revenue through the Bank of Ghana and the Commercial Banks in 2012 against statutory requirement of a minimum of 25 per cent.

The mining industry continues as the leading attractor of Foreign Direct Investments (FDI) while the total merchandise export earnings by the traditional minerals represented about 42 per cent of gross merchandise exports.

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