

# Total Tax Contribution

A study of the economic contribution mining companies make to public finances





## Foreword

We are pleased to present PricewaterhouseCoopers' second Total Tax Contribution (TTC) Study of the global Mining Industry, which aims to bring greater transparency to the full contribution that mining companies make to public finances. This study is larger than our original study and includes 22 mining companies operating in 20 different jurisdictions. The results analyse their total payments to government, focusing on their most significant operations in the various locations. We received a positive response to our first study for the global Mining Industry, validating our perception that there is keen interest in better understanding the complete tax and other payments that mining companies make to government.

The TTC approach goes beyond income taxes to collect data on all taxes and other payments to government, to more properly calculate the entire tax burden of an enterprise. The mining industry, perhaps more than most other industries, remits large amounts of non-income taxes to various levels of government in the form of employment taxes, royalties, VAT/sales/use taxes, infrastructure funding and other levies. The income tax portion of a company's financial results is highlighted in its financial statements, but other taxes and payments are not segregated in its results, thus diminishing what it appears to pay to government. This incomplete representation of the total levies on any company, but especially those of a mining company, reduces its perceived impact on the public good.

The study uses data provided by mining companies on all the different taxes and other amounts they paid into public finances in their 2008 year. The study therefore covers a somewhat turbulent period, with the financial crises unwinding and the start of the global economic recession. The impact of the downturn on the sector is reflected in the results, with the Total Tax Rate (the tax cost as measured in relation to profitability) increasing since the first study was conducted. This is because while corporate income tax will fall with lower profitability, other taxes and levies do not – and become relatively more expensive.

There is pressure on both government and business to increase transparency in the extractive industries, with a call for companies to 'publish what they pay', and for governments to 'publish what they receive', and how they use these revenues. We hope this study's results will provide new information about the economic footprint of mining companies and how they contribute to the public finances and the communities where they operate. Some mining companies are including TTC data in their corporate reporting and we hope more may do so. We anticipate that users of the study results may include investors, government and civil society organisations, as well as mining companies themselves.

We welcome feedback and comments on the study.



Steve Ralbovsky  
Global Mining Tax Leader  
PricewaterhouseCoopers (US)



Susan Symons  
Total Tax Contribution Leader  
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# 1 Executive summary

The taxes and other contributions to government that mining companies pay are an important element in the creation of prosperity and stability of the countries in which they operate. However, the full extent of this contribution is not always recognised.

PricewaterhouseCoopers<sup>1</sup> (PwC) has carried out a study of the taxes and other contributions paid by a number of mining companies in their accounting period to 31 December 2008 (or equivalent period). This is the second study and follows an earlier study looking at the year to 31 December 2007.

The purpose of the study is to provide greater transparency about the overall contribution of mining companies to the public finances of the countries in which they operate.

The study was carried out using the PwC Total Tax Contribution (TTC) Framework. TTC provides a standardised methodology for companies to measure and communicate all the taxes and contributions that they pay. It is straightforward in concept, not tax technical, and therefore relatively easy for stakeholders to understand.

The study was carried out using data provided by 22 mining companies. PwC has collated and anonymised this data to provide the study results. PwC has not verified, validated or audited the data, and therefore cannot give any undertaking as to the accuracy of the study results.

The companies taking part in the study provided data for mining operations of different sizes and stages of development in different countries around the world. The results show an average for a company in a country of operation. They provide a good picture of how taxes and other contributions impact on these companies, but cannot necessarily be considered as representative of the industry as a whole.

The study results show that mining companies make a large economic contribution in the countries where they operate. The companies taking part reported total figures for turnover of US\$62.9bn, wages and salaries paid to employees of US\$6.0bn and a total contribution to government of US\$10.1bn.

These companies pay many other taxes and contributions in addition to corporate income tax. On average, corporate income tax is only 40% of all the taxes and contributions they bear. For every \$1 of corporate income tax, they pay another \$1.50 in other taxes and contributions borne plus \$0.52 in taxes collected.

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<sup>1</sup> "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL). Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm.



These companies make a large contribution to public finances in relation to the size of their operations. On average, they paid an amount equivalent to 15.3% of their turnover to government, comprising 10.8% in amounts borne and 4.5% in amounts collected.

At 10.8%, the amounts borne are at a lower percentage of turnover than in the first study (12.5%). This is because profitability and taxes linked to profits have fallen. Taxes and contributions borne by mining companies are a higher percentage than the average shown in our cross-industry TTC studies.

Mining companies are large employers. On average, for companies in the study, employment taxes were \$15,349 per employee. This is an indication of the direct benefit to public finances of each job created or maintained by these companies. This average has increased from \$14,875 in the first study.

The tax cost as measured in relation to profitability (the Total Tax Rate) has increased since the first study was conducted (39.3% compared to 32.2%). This is because while taxes on profits may fall in a downturn, other taxes and contributions (which are not linked to profits) do not fall to the same degree and thus become relatively more expensive.

The 22 companies that took part in the study provided data on their operations in 20 countries. This report also provides an analysis for three regional and economic groupings of countries – Africa, Latin America and OECD countries.

In all regions, the average employment taxes per employee is high in comparison to income per capita, suggesting that these companies employ skilled, well-paid workers.



*“The taxes we pay as a company and those we collect on behalf of Government represent an important contribution to the creation of wealth and stability of the countries in which we operate. We fully endorse the principle of transparency and this applies equally in the area of taxation as in all business dealings. We seek to effectively communicate with stakeholders the level of taxes that we both bear and collect and this is where the concept of Total Tax Contribution plays an important role firstly in helping us to understand and then explain to stakeholders the overall tax burden on our operations.”*

Keith Tucker  
Executive Vice President Taxation  
Anglo American plc

The results of the regional analysis show taxes and contributions borne as a higher percentage of turnover in Latin America, reflecting higher profits and corporate income tax payments in this region for companies providing data. The average Total Tax Rate (TTR) is also highest in Latin America.

Employment taxes are higher in the OECD countries, both as an average percentage of turnover and as an element of the TTR.

So far as we are aware, this is the only study to collect data on the taxes and other amounts paid to government by mining companies. For most of the companies taking part in the study, this was also the first time they had collected this data. Companies taking part each receive their own TTC report.

All companies are coming under increased public scrutiny regarding the taxes they pay, and mining companies are at the forefront in this debate. The Publish What You Pay coalition of civil society organisations is campaigning for greater revenue transparency in the oil, gas and mining industries and is calling on companies to disclose payments to government and other information on a country-by-country basis.

Our work on tax transparency shows that some mining companies are leading the way in corporate reporting for tax. For the past two years, FTSE100 mining companies have won the PwC sponsored Building Public Trust Awards for Tax Reporting – Anglo American plc in 2009, and Kazakhmys in 2008. Both of these companies use the TTC approach to show their tax and other payments to government by country, split between borne and collected.

PwC suggests that all mining companies consider if there could be business benefits from being more transparent in communicating their tax affairs to their stakeholders. We also suggest that the Total Tax Contribution Framework provides a good basis for mining companies to report on all the different taxes and other amounts that they pay.

We hope that these study results will provide new data about the economic footprint of mining companies through paying taxes and other contributions. We anticipate that users of the study will include investors, governments and civil society organisations, as well as mining companies themselves.

*“A record number of our members took part in the 2009 Total Tax Contribution survey with PwC. Boards and Executives of large UK companies are keenly interested in the contribution they make to the communities and the countries where they operate and TTC provides a much richer picture of the contribution our companies are making to the public finances and to employment. And of course our companies are very interested in the dialogue between business and government and the degree to which government policy encourages investment and employment. TTC data is important as it enriches the dialogue between government and business.”*

Ashley Almanza, Chairman of The Hundred Group of Finance Directors

## 2 Purpose and outline of the study

The taxes and other contributions to government that Mining companies pay are an important element in the creation of prosperity and stability of the countries in which they operate. However, the full extent of this contribution is not always recognised, since often only corporate income tax is reported separately in their financial statements. Mining companies pay taxes throughout the life cycle of a mining project, and pay many other taxes in addition to corporate income tax, including employment taxes, property taxes and indirect taxes. In addition, mining companies often make significant further contributions to government finances through sector-specific taxes, royalties and levies, and contributions to local infrastructure such as roads, schools and housing.

PwC has carried out a study of the taxes and contributions paid by a number of mining companies in their accounting period to 31 December 2008 (or equivalent period). This is the second study and follows an earlier study looking at the year to 31 December 2007. The purpose of the study is to provide greater transparency about the overall contribution of mining companies to the public finances of the countries in which they operate.

The study has been carried out using the PwC Total Tax Contribution (TTC) Framework. TTC provides a standardised methodology for companies to measure and communicate all the taxes and contributions that they pay. It is straightforward in concept, not tax technical and therefore relatively easy for stakeholders, many of whom have limited knowledge of tax complexities, to understand. By focusing on payments, it provides a measure of what companies contribute to the public finances, and the creation of prosperity and stability for the communities in which they operate.

The TTC Framework makes a distinction between taxes borne and taxes collected. Taxes borne are the company's own cost and will impact their results; for example, property taxes will form part of property costs. Taxes collected are those that the company administers on behalf of government and collects from others; for example, employee income taxes deducted through the payroll. Taxes collected will have an administrative cost for the company and will also have an impact on the company's business; for example, employment taxes impact on the cost of labour.

The TTC Framework also extends to royalties and other payments and contributions to government, such as fees and other levies and contributions to local infrastructure. These are also an important part of the company's economic footprint and are particularly relevant to the mining sector.



Mining companies extract natural resources and as a result are naturally the subject of intense scrutiny from government, civil society organisations and other stakeholders with regards to what they put back in return into these economies. There is a desire for greater transparency over what mining companies pay and over how governments use the revenues they receive. TTC provides data, for mining companies and their stakeholders, about the 'economic footprint' of these companies through paying taxes and other contributions. We hope that the study results will provide new data for readers including:

- mining companies as they focus on their own total taxes and consider where to make future investments;
- investors as they consider investments in the industry;
- governments as they evaluate existing taxes and look at tax policy; and
- communities and civil society organisations as they measure the contribution of mining companies to the local economy.



### 3 Understanding the study results

The study was carried out using data provided by 22 mining companies. PwC has collated and anonymised the data provided by the companies taking part to produce the study results. PwC has not verified, validated or audited the data, and cannot therefore give any undertaking as to the accuracy of the study results.

Participating companies were asked to provide data on their taxes and other contributions paid to government in their year to 31 December 2008 or equivalent period<sup>2</sup>. The results are therefore a one-year snapshot for these companies for this year, and cannot be considered to be necessarily representative of the industry as a whole, or of the position over the life cycle of a mining project (which will be many years). They do, however, provide a picture of the impact of taxes and other contributions to government on these companies, and how they contribute to public finances.

The companies were asked to provide data on a country-by-country basis, for their main countries of operation. The data provided by each participating company for each country has been treated as a separate 'data set'. Between them, the 22 companies provided 53 data sets covering mining operations in 20 different countries across the developed and the developing world, including Canada, Chile, Ghana, South Africa, Indonesia and the US. Participants were not asked to cover all their countries of operation.

The study results show the picture for a mining company in a country around the world, taking an average across all the data sets<sup>3</sup>. In addition, we have been able to show an average for certain regional geographic or economic country groupings.

Data was provided in the currency of choice, and where necessary, has been translated to US dollars at an average rate for the period covered by the study.

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2 The data requested included:

- (i) details of turnover, profits and employment;
- (ii) the largest taxes borne (corporate income tax, mining taxes, employer social security, property taxes) and taxes collected (payroll taxes, VAT, withholding taxes);
- (iii) rents, royalties and user fees; and
- (iv) any other contributions to government, whether voluntary or mandatory.

3 All data sets have been given an equal weighting in calculating the average.

This is the second global TTC study carried out for the mining sector. It follows a first study using the same approach and data for the year to 31 December 2007<sup>4</sup>. 14 mining companies participated in the first study and, taking the two studies together, 28 mining companies have taken part in total.

This second study covers a turbulent period, which saw the unwinding of the financial crisis (Lehman Brothers collapsed in September 2008) and the start of a global economic recession. Some mineral and metal prices fell heavily<sup>5</sup>.

Eight mining companies took part in both the first and second studies and a comparison of their results between the two years has been used to give further insight into these study results.

PwC has also carried out TTC studies in a number of countries, including Australia, Canada, South Africa and the US. In these countries, studies have been carried out with cross-industry groups of companies using the TTC methodology. We have also used the results from these cross-industry studies to give further insight into the mining study results.

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4 See *Total Tax Contribution Global study for the mining sector*, published March 2009 on our dedicated microsite at:  
[www.pwc.co.uk/ttc](http://www.pwc.co.uk/ttc) or [www.pwc.co.uk/pdf/total\\_tax\\_contribution\\_mining\\_sector.pdf](http://www.pwc.co.uk/pdf/total_tax_contribution_mining_sector.pdf)

5 The price per metric tonne of copper fell from \$6,641 at 31 December 2007 to \$3,042 at 31 December 2008.

## 4 Total contribution of the mining sector

Mining companies make a large economic contribution in the countries where they have mining operations. The companies participating in the study reported total figures for turnover of US\$62.9bn, wages and salaries paid to employees of US\$6.0bn, and a total contribution to government of US\$10.1bn. Figure 1 shows the total contribution to government, analysed into taxes and contributions borne, and taxes collected.

**Figure 1: Total contribution to government**

	\$
Taxes borne	6,742,206,937
Mining specific taxes, royalties, etc	696,885,743
Other contributions	426,267,809
	<b>7,865,360,489</b>
Less grants and subsidies received	(107,246,978)
<b>Taxes and contributions borne</b>	<b>7,758,113,511</b>
Taxes collected	2,329,908,181
<b>Total contribution to government</b>	<b>10,088,021,692</b>

Table shows all the payments and contributions to government reported by participants.

The average total contribution to government by a company in a country reported in the study was US\$190 million, comprising an amount of US\$146 million borne and US\$44 million collected. This is a smaller amount than the average in the first study, reflecting the higher number of companies with smaller operations in the sample. 46% of participants in the second study reported turnover of less than \$0.5bn, compared to 15% in the first study.

Figure 2 is taken from Anglo American plc 2008 Report to Society and shows how taxes are paid across the various phases of a mining project. Typically, higher amounts will be paid when mining operations are mature and in full production than at the earlier investment stages of the project. Corporate income tax is only likely to be paid when the mine is in full production and losses and capital expenditure from the exploration and development phases have been offset for tax. Other taxes, however, are paid across the life cycle and increase as the project matures. These include employer and employee taxes and social contributions, which grow with the number of employees; and royalties and indirect taxes linked to the level of production.

**Figure 2: Taxes generated over the life of a mine**

Taxes generated over the life of a mine		
Phase	Profitability	Taxes
Exploration	Losses	Employee taxes, indirect taxes, and taxes paid by suppliers
Development	Losses and capital expenditure	
Early production	Losses recouped	...plus royalties
Full production	Net profit	...plus taxes on profit
Closedown	Losses	As for exploration and development

Source: Anglo American plc – Report to Society 2008, page 21

The size and phase of the mining operations included in the study varies. The turnover size in a country ranges from zero to US\$10.2bn and employee numbers from 27 to 66,049 people. The maximum amount reported as paid to government by a mining company in a single country was US\$1.4bn and the minimum US\$564 thousand. These size ranges reflect not only the scale of operation in a country but also operations at different stages in the life cycle of a mining project.



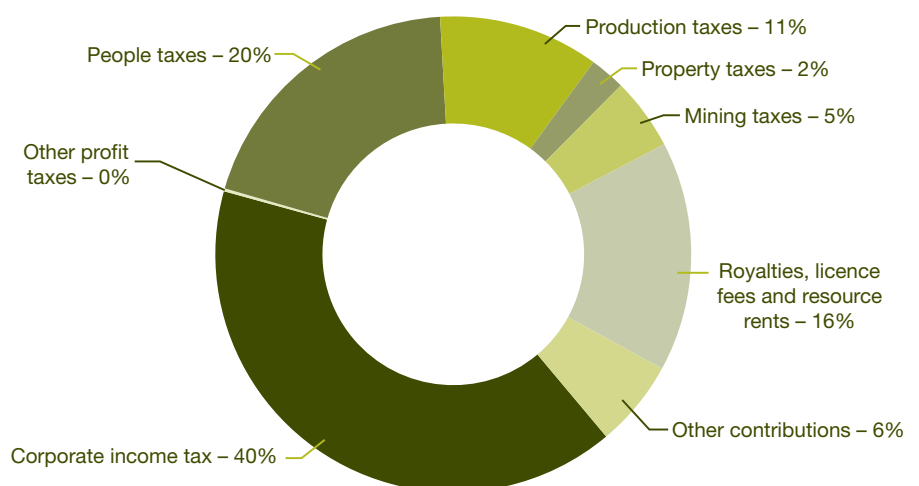
## 5 Taxes and other contributions borne by mining companies

Mining companies pay many other taxes and contributions in addition to corporate income tax<sup>6</sup>. Figure 3 shows that in this study, corporate income tax is only 40% of all the taxes and contributions that mining companies bear. Taxes and contributions borne are the amounts that are a cost to mining companies when paid and that affect their results (although the ultimate incidence may be passed on to shareholders, employees or customers). For every \$1 of corporate income tax paid by the mining companies in the study, there is another \$1.50 paid in other taxes and contributions borne.

Figure 3 shows the taxes and contributions borne as a percentage of the totals paid. At 40% in this study, corporate income tax is a lower percentage of the total than in the first study (48%). This reflects the impact of the economic downturn on the mining sector. Profits generally fell in the year to 31 December 2008, compared to the previous year, and tax payments linked to profits (corporate income tax and mining taxes) also fell. Looking at the companies taking part in both studies, profit before tax fell by an average of 20% between the two years, corporate income tax by 22% and mining taxes by 23%.

**Figure 3: Taxes and contributions borne**

Corporate income tax is just 40% of the taxes and contributions borne by mining companies. Mining specific taxes, royalties and other contributions make up 27% of the total.



Pie chart shows the average taxes and contributions borne as a percentage of the total for a participant in a country across all the countries covered in the study.

<sup>6</sup> See Appendix 1 for an illustrative list of the taxes and contributions typically paid by mining companies.

In addition to corporate income tax, mining companies bear many other taxes. These may be categorised as follows:

- other taxes on **profit** (in addition to corporate income tax);
- **people** taxes (taxes on employment levied on the employer, such as payroll taxes or employer social security payments);
- taxes or levies borne on purchases or supplies (**production** taxes, such as customs and excise duties); and
- **property** taxes, (such as local taxes on the ownership and use of real property or stamp duties and other transaction taxes).

Together, these represent a further 33% of the average total in Figure 3.

The taxes in the categories above may also be paid by companies in other industry sectors. However, the remaining category, which represents 27% of the average total, is specific to the mining sector and effectively represents payment for extracting natural resources.

- **taxes, royalties, fees and rents** for the extraction of minerals and metals and **other contributions** by mining companies.

Governments in different countries choose to levy these amounts in different ways; in some cases as an additional tax on profits (mining tax); in other cases as a turnover based royalty, or a licence fee. Mining companies in the study also reported numerous other contributions to government finances in different countries, both mandatory and voluntary, including providing or contributing to the cost of public infrastructure (roads, schools and housing etc).

The TTC Framework measures cash paid into public finances and the study results therefore reflect any tax incentives or tax holidays given. Governments will often offer tax breaks or incentives to attract new business investment, create jobs and increase gross domestic product. Where these are available, they will result in lower payments of corporate income tax or other taxes, and are therefore reflected in the study results.

In some cases, governments may provide cash grants or subsidies, and companies participating in the study were also asked to provide data on any such payments received from government. These amounts have been deducted from taxes and contributions borne in calculating the study results. The amounts reported are small in relation to the taxes and contributions borne – (2.0%) on average.

## 6 Taxes collected by mining companies

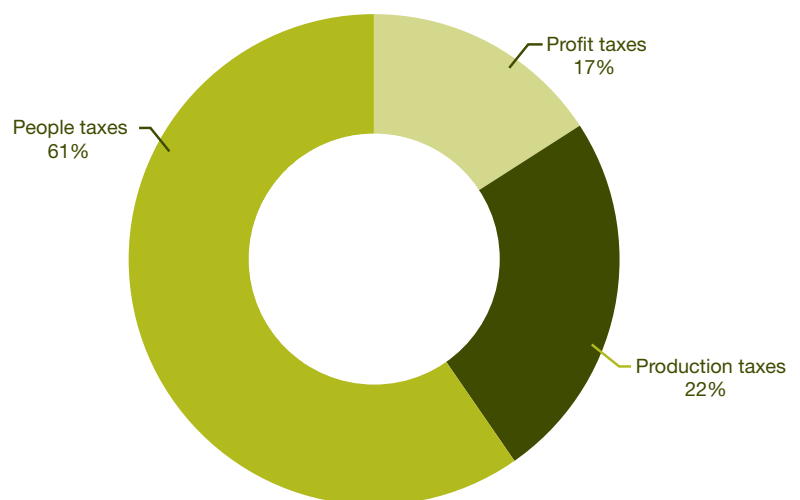
Figure 4 shows the profile of taxes collected on average for mining companies participating in the study. These are taxes where the company is the unpaid tax collector on behalf of government and which represent an administrative burden. For every \$1 of corporate income tax paid by mining companies, there is another \$0.52 on average of total taxes collected.

People taxes are the largest element of taxes collected on average, reflecting the role of mining companies as large employers. These are the employee taxes and social contributions deducted from wages and salaries through the payroll.

Production taxes are levied on the production or sale of goods or services which, for mining companies in most countries, is value added tax (VAT). The TTC Framework includes only the net VAT (output tax less offset input tax), which is collected and paid to governments. Mining companies generally export much of their production and, in common with other exporters in any industry, are not required to charge VAT on their export sales; instead, there is a reverse charge in the importing country. Since there is no output tax against which to offset VAT, mining companies will suffer a VAT cost on their VATable purchases. They should be able to claim a refund of this cost, but in practice, this can be a very difficult area. Refunds may be received after a considerable period, if at all.

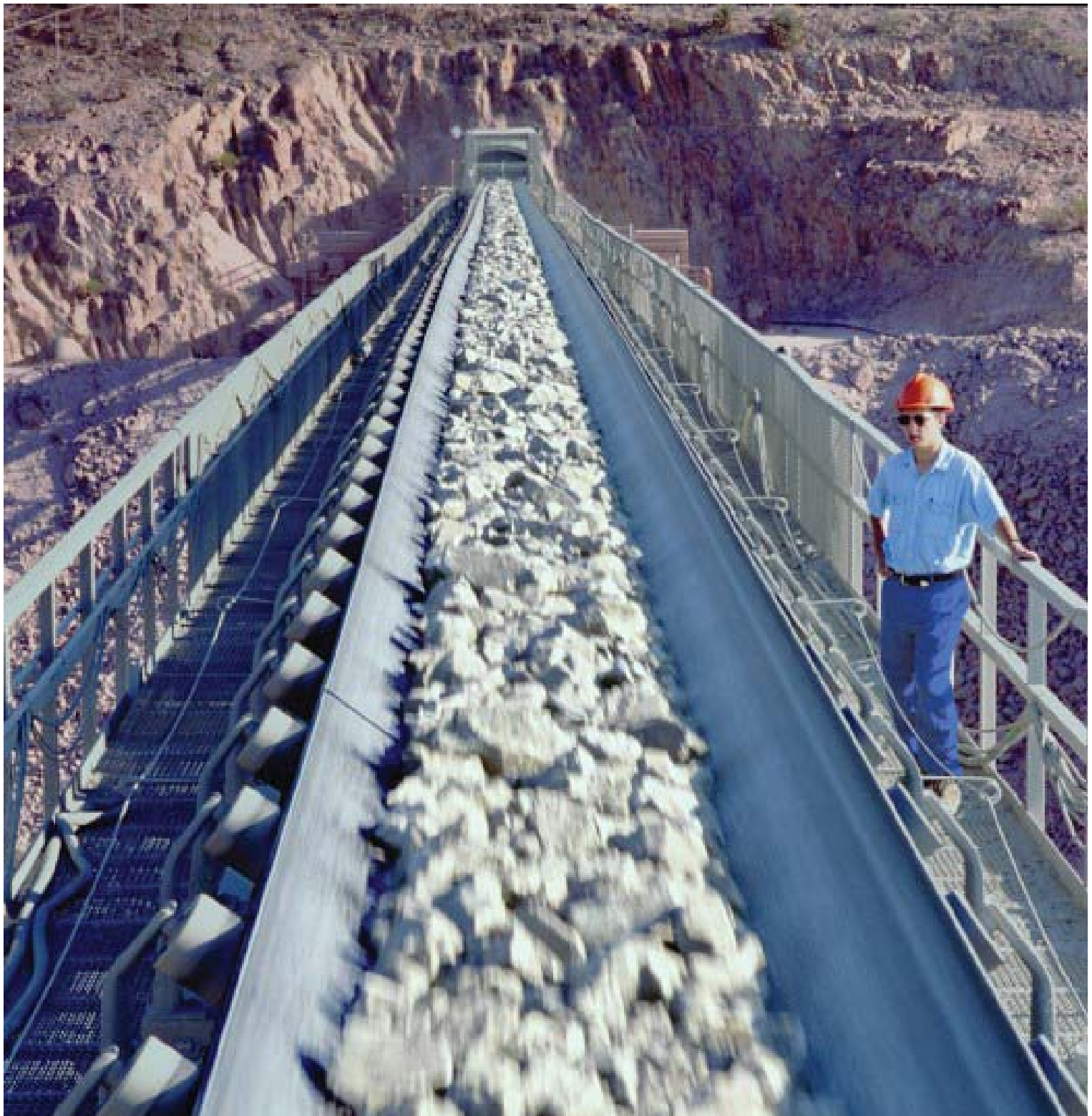
**Figure 4: Taxes collected**

Mining companies also administer taxes on behalf of government.



Pie chart shows the average taxes collected as a percentage of the total for a participant in a country across all the countries covered in the study.

The other element of taxes collected is categorised under taxes on profit. This includes all taxes withheld or deducted at source from various types of payment (apart from wages and salaries) such as dividends, royalties, fees or other charges. These are often required when payments are made across national boundaries and sometimes within the country.



## 7 Employment taxes

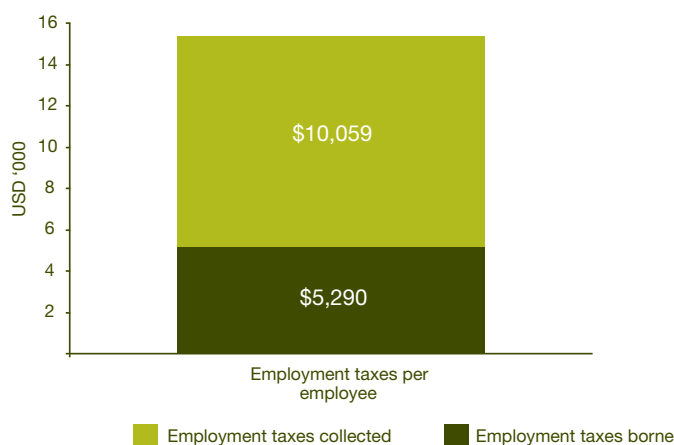
Mining companies are large employers and make an important contribution in employment taxes. The companies participating in the study reported a total of 302,880 employees in the countries for which they provided data, and a total of US\$1.7bn in employment taxes borne and collected<sup>7</sup>.

On average, for each one of their employees, these mining companies paid an amount of US\$15,349 to government in employment taxes alone, split between \$5,290 taxes borne and \$10,059 taxes collected – see Figure 5. This is an increased figure than found in the first study (\$14,875). The figure represents an average for all countries covered in the study and will vary by country, reflecting the size of the economy and income per capita, as well as the tax regime. The results range from \$1,226 to \$97,316.

Employment taxes per employee are an indication of the direct benefit brought to the public finances for each job created or maintained by these companies. In a recession, maintaining employment levels is a key economic and social aim. For companies taking part in both studies, employee numbers were flat between 2007 and 2008 (minus 0.3% on average), but average wages and employment taxes per employee grew (wages by 12% and employment taxes by 16%). However, looking forward, it is likely that employee numbers and employment taxes will be impacted in the following period as the recession takes hold.

**Figure 5. Employment taxes per employee**

On average, for every one of their 302,880 employees, mining companies paid \$15,349 in employment taxes.



Employment taxes borne and collected per employee is an indicator of the direct benefit to the public finances of each job created or maintained. Chart shows the average result for a participant in a country across all the countries covered in the study.

<sup>7</sup> Employment taxes borne include employers' social contributions and any taxes on employment that are charged on the employer, such as payroll taxes. Employment taxes collected are employees' income tax and social security deducted from wages and salaries through the payroll.



## 8 The impact of tax on the mining sector

In addition to reporting the amounts of taxes and contributions borne and collected by mining companies, we have calculated results for certain indicators to put the figures into context and to show the impact of taxes and contributions on the sector. Figure 6 sets out the indicators that we have used and what they measure.

**Figure 6: Total Tax Contribution indicators**

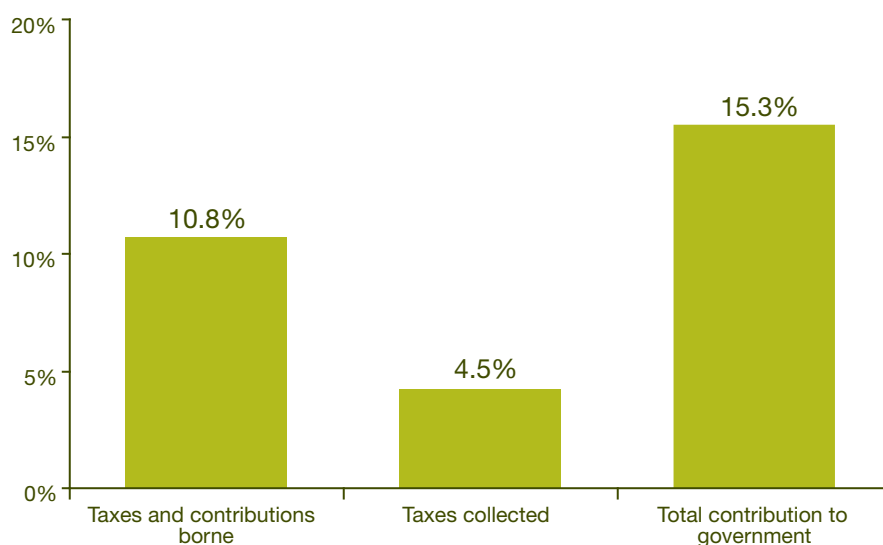
Total contribution to government expressed as a percentage of turnover.	Indicates the size of the contribution in the context of the size of the operations.
Total Tax Rate (all taxes and contributions borne as a percentage of profit before all taxes and contributions borne).	Measures the burden of all taxes and contributions borne in relation to profitability.
Employment taxes borne and collected per employee.	Indicates the direct benefit to public finances for each job created or maintained.

**Total contribution to government as a percentage of turnover** is an indicator of the size of the total contribution in relation to the size of the business. We consider this to be a useful indicator for the mining industry, since it is linked to turnover and therefore relevant for a longer period over the life cycle of a mining project than a measure linked to profit (see Figure 2).

Mining companies make a large contribution to public finances in relation to the size of their operations. On average, as shown in Figure 7, the companies in the study paid an amount equivalent to 15.3% of their turnover to government, comprising 10.8% in taxes and contributions borne and 4.5% in taxes collected. The results in the study range from 6.4% to 39.9%.

### Figure 7: Total contribution to government as a percentage of turnover

On average mining companies contribute an amount equivalent to 15.3% of their turnover to government.



Total contribution expressed as a percentage of turnover is an indicator of the size of the contribution in the context of the size of the business as measured by turnover. Chart shows the average results for a participant in a country across all countries covered in the study.

At 10.8% in the 2009 study, taxes and contributions borne are equivalent to a lower percentage of turnover than in the 2008 study (12.5%). This reduction is due to a fall in taxes linked to profits – turnover increased 4% on average between the two years for companies taking part in both studies, but taxes on profits fell (see section 5).

It is notable that taxes and contributions borne are a higher percentage of turnover on average for mining companies than for a broad cross-section of companies in our cross-industry studies. Figure 8 shows a comparison of the results with our TTC studies in four countries which have an important mining industry. These are cross-industry studies with participants from a range of industry sectors. At 10.8%, taxes and contributions borne are a higher percentage of turnover on average for mining companies around the world than the cross-sector results in Australia (7.7%), Canada (4.4%), South Africa (7.2%) and the US (5.5%)<sup>8</sup>.

<sup>8</sup> See *What is your company's Total Tax Contribution? 2008 survey results* PricewaterhouseCoopers survey in Australia, published March 2009  
*Total Tax Contribution Canada's Tax Regime: complexity and competitiveness in difficult times – PricewaterhouseCoopers survey for the Canadian Council of CEOs*, published May 2009  
*Total Tax Contribution How much do large South African companies really pay?\** PricewaterhouseCoopers survey in South Africa, published October 2008  
*Total Tax Contribution – How much do large U.S. companies pay in taxes?\** PricewaterhouseCoopers survey in the US, published February 2009

The publications listed above can be found on our dedicated micro site [www.pwc.co.uk/ttc](http://www.pwc.co.uk/ttc)

Taxes collected to turnover is a lower percentage reflecting that:

- mining companies are major exporters, as explained in section 5, and are therefore not required to account for VAT; and
- some companies in other industry sectors have an additional tax collection role, for example, oil producers collect fuel excise duty.

**Figure 8: Total contribution to government as a percentage of turnover – international comparison**

On average, mining companies pay a higher percentage to government in taxes and contributions borne than a broad cross-section of companies as shown in our cross industry studies.

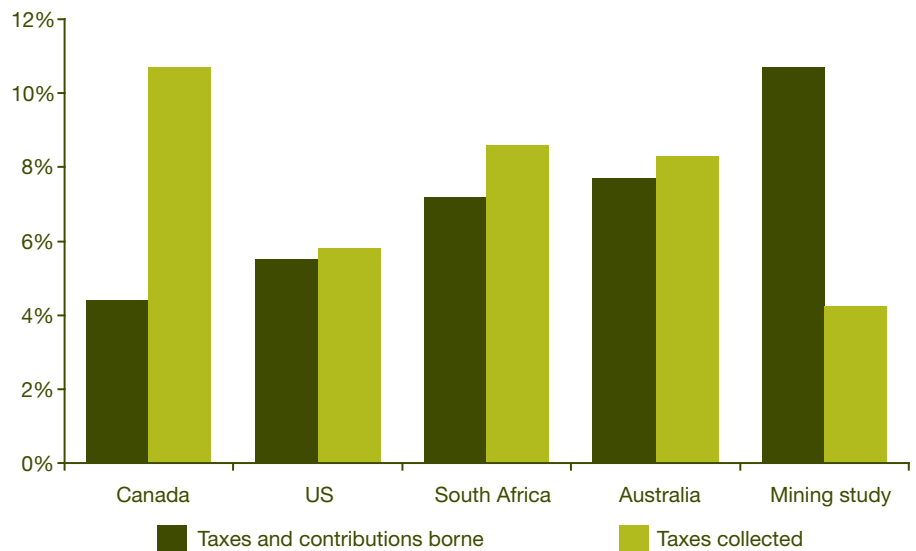


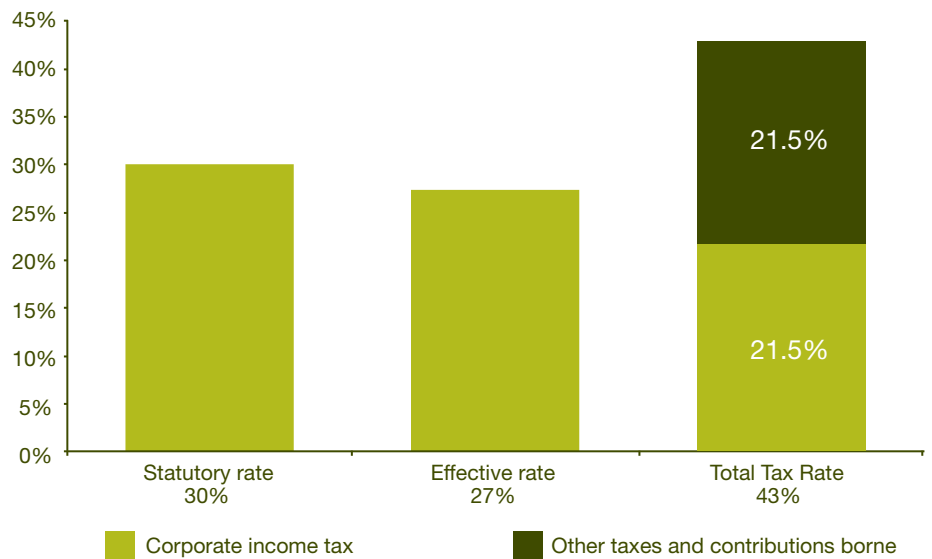
Chart shows the average result from the mining study and compares this with the average result in cross-industry studies in Australia, Canada, South Africa and the US.

The **Total Tax Rate (TTR)** is a measure of the burden of all taxes and contributions borne on a particular business. In the calculation, the numerator is the total taxes and contributions borne and the denominator is the profit before all these taxes and contributions. Taxes and contributions which are deductible in computing profit before tax (as reported in financial statements) are added back to get a profit before all taxes and contributions borne. Figure 9 provides a simple hypothetical example calculation and shows how this relates to other measures of the tax burden on companies:

- the **statutory rate of corporate income tax** is the headline rate of tax levied by government on profits;
- the **effective rate of corporate income tax** is the actual rate of corporate income tax paid taking into account adjustments required by tax law; for example, to disallow certain expenses or to give tax allowances for capital expenditure or research and developments costs; and
- the TTR is the actual rate paid taking all the different taxes suffered in relation to profit before all those taxes.

**Figure 9: Total Tax Rate – example calculation**

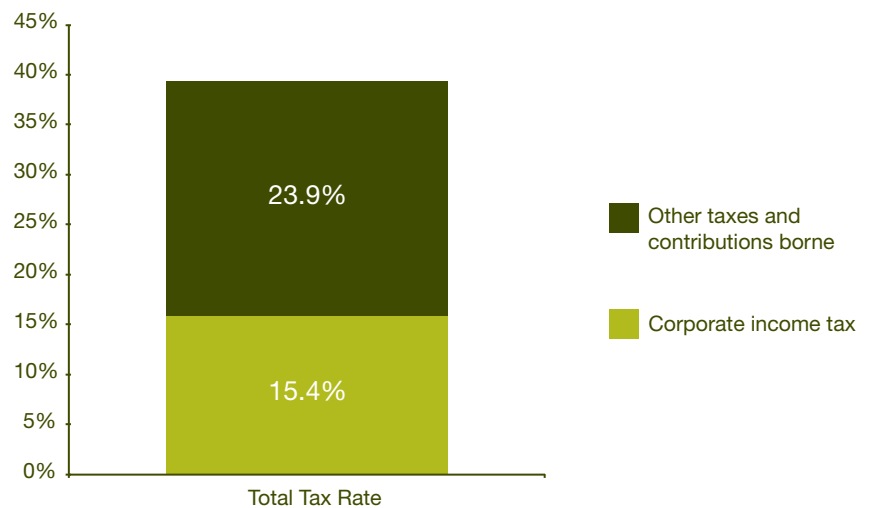
	\$
<b>Profit before taxes and contributions borne</b>	<b>140</b>
Other taxes and contributions borne	30
<b>Profit before tax (reported in financial statements)</b>	<b>110</b>
Adjustments required by tax law (for example, allowances on capital expenditure)	10
<b>Taxable profit</b>	<b>100</b>
Corporate income tax at statutory rate (say 30%)	30
Profit after tax	70
Statutory rate of corporate income tax	30%
Effective rate of corporate income tax (30/110)	27%
Total Tax Rate (60/140)	43%



The Total Tax Rate is a more volatile indicator for the mining sector, since profitability will vary considerably across the life cycle of a mining project. A TTR calculation cannot be made where there is a loss (rather than a profit) before taxes and contributions borne. We were not able to make a calculation for this reason, in a fifth (21%) of data sets. Where we were able to make the calculation, and as shown in Figure 10, the average TTR in the study was 39.3%. The results range from 5.6% to 140.8%<sup>9</sup>.

### Figure 10: Total Tax Rate

The average Total Tax Rate for companies in the study is 39.3%.



Total Tax Rate is an indicator of the cost of taxes and contributions borne in relation to profits. Chart shows the average result for a participant in a country across all the countries covered in the study.

As profits decline in an economic downturn, TTRs increase. The average TTR has increased since the first study (32.2%). This is because while taxes on profits will fall with lower profitability, other taxes and contributions (which are not linked to profits) may not fall, or fall to the same degree, and thus become relatively more expensive. For companies taking part in both studies, the average TTR increased by 4% between 2007 and 2008. The same effect is seen in our annual TTC study with FTSE 100 companies in the UK. Profits also fell for these companies between 2007 and 2008, due to the financial crisis and economic downturn, while average TTRs increased<sup>10</sup>.

<sup>9</sup> It should also be noted that the data provided by participants for profit before tax may involve a degree of estimation or allocation. This is because there is often no requirement to consolidate profit at a country level, either for financial reporting or for tax purposes. In addition, there is usually a mismatch between corporate income tax paid in the year and profits of the year.

<sup>10</sup> See *Total Tax Contribution – PricewaterhouseCoopers (UK) 2009 survey for the Hundred Group of Finance Directors*, published March 2009 on [www.pwc.co.uk/ttc](http://www.pwc.co.uk/ttc)



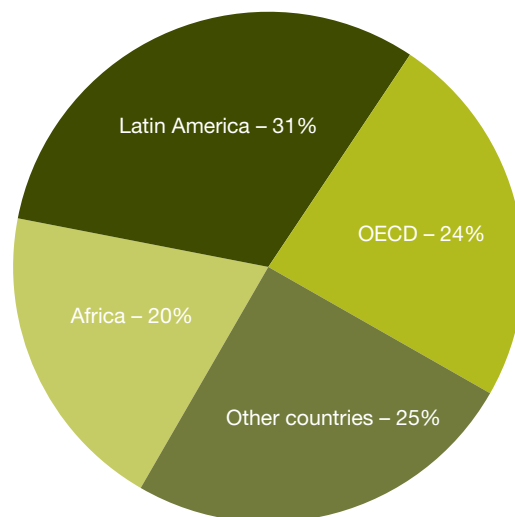
## 9 Regional analysis

Mining companies participating in the study provided data on mining operations in 20 countries around the world<sup>11</sup>. So far, the results have shown an average picture across all these countries. However, sufficient data was provided to enable us to group some of the countries into regional or economic groupings and provide a separate analysis for these. They are Africa, Latin America and high income OECD countries<sup>12</sup>. In looking at the regional analysis, it is important to note that the amount of data provided varies by region, or by country within a region. The results show an average picture for 2008 for the companies providing data and may not necessarily be representative of the region, the industry as a whole, or the picture over time.

Figure 11 is an analysis of the total contribution to government reported in the study split into regional groupings. Of the total amounts, 20% was paid to governments in Africa, 31% in Latin America, 24% in high income OECD countries and 25% in other countries. As above, the amount of data provided by region varies. More data was provided for Latin America than for the other regions<sup>13</sup>.

**Figure 11: Total contribution – by region**

Chart shows the total contribution to government reported in the study split by region.



<sup>11</sup> The countries are Argentina, Australia, Brazil, Canada, Chile, China, Democratic Republic of Congo, Finland, Ghana, Guatemala, Indonesia, Kazakhstan, Mexico, Papua New Guinea, Peru, Russia, South Africa, Tanzania, Turkey and the US.

<sup>12</sup> Groupings per World Bank – Doing Business 2010.

<sup>13</sup> 17 data sets for Latin America, 14 for Africa and 14 for OECD countries.

Figure 12 shows an analysis of taxes and contributions borne, compared by region. It is important to note that this is a comparison of the percentage split of taxes and contributions borne, and not absolute amounts. It is interesting to note the differences between the percentages of the total attributable to corporate income tax and to people (employment) taxes between the OECD countries and the other two regions.

**Figure 12: Taxes and contributions borne – by region**

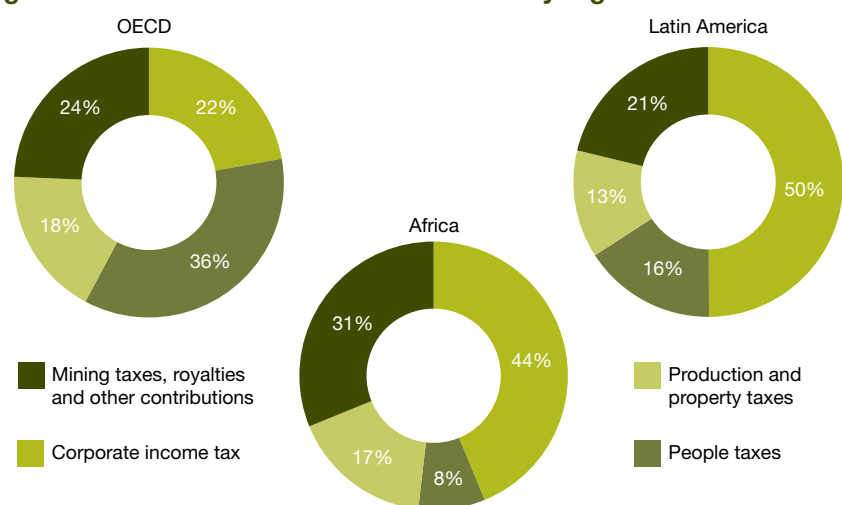


Chart shows the average position for a participant in a country by region.

At 22%, corporate income tax is a lower percentage of the total in the OECD countries than in the other two regions. This reflects lower profitability and therefore corporate income tax payments. Nearly half the data sets were in loss in OECD countries, compared to around a sixth in the other two regions.

At 36% of the total borne, employer taxes and social contributions (people taxes) are a higher percentage in the OECD, reflecting higher employment costs. People taxes borne are equivalent on average to 2.4% of turnover in the OECD countries, compared to 0.7% in Latin America and 0.5% in Africa.

Figure 13 compares the average employment taxes per employee across the three regional groupings. However, since this result does compare absolute amounts, it is important to put the figures into the context of the size of the economies and income per capita in the countries. Average employment taxes per employee in the African countries are US\$5,539, compared to income per capita of US\$1,770, and in Latin America are US\$9,385 compared to income per capita of US\$6,766. The figures in the OECD countries are average employment taxes of US\$40,475 and income per capita of US\$41,971. The results suggest that in all the regions, these companies employ skilled, well-paid workers<sup>14</sup>.

<sup>14</sup> In addition to employees, data was requested on contractors who are often used in the industry. Participants reported total payments of \$1.3bn to a total of 53,596 contractors. The average payment was \$22,572 in Africa, \$30,046 in Latin America and \$108,300 in the OECD countries. No data is available on taxes paid by contractors; however these are part of the taxes indirectly generated by the activities of mining companies.

**Figure 13: Employment taxes per employee – by region**

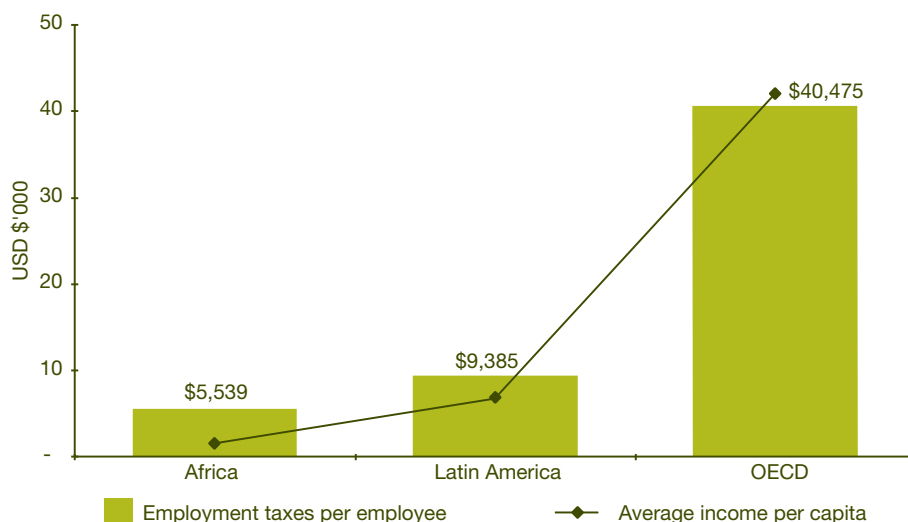
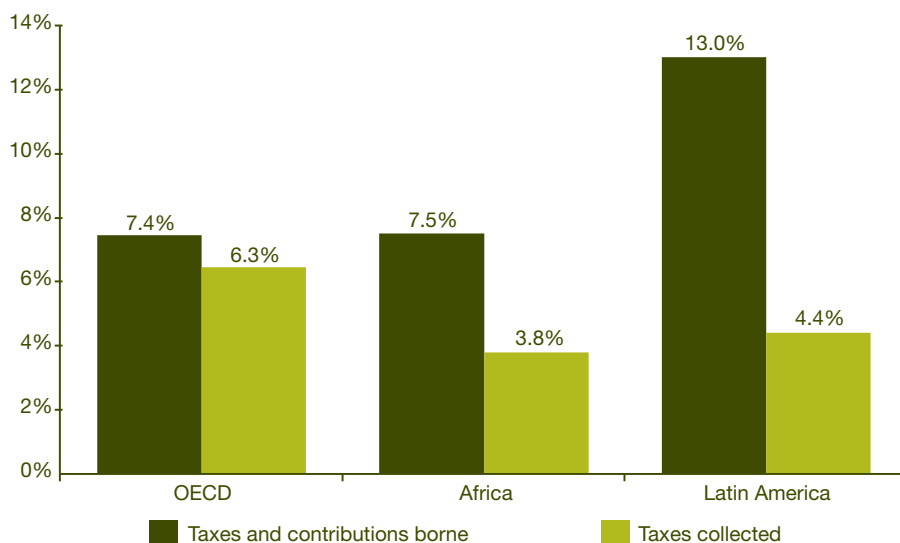


Chart shows the average result for a participant in a country by region. Source for income per capita: World Bank Development indicators (Doing Business 2010)

Figure 14 compares the average total contribution to government as a percentage of turnover, by region. At 13%, taxes and contributions borne are equivalent to a higher percentage of turnover on average in Latin America, due to a higher percentage for corporate income tax. The data sets for Latin America are more profitable and pay more corporate income tax on average, perhaps reflecting more operations at a mature stage of production.

**Figure 14: Total contribution to government as a percentage of turnover – by region**

Chart shows the average result for a participant in a country by region.



At 6.3%, taxes collected are equivalent to a higher percentage of turnover on average in the OECD countries, due to a higher percentage for people taxes collected (income tax and employees' social contributions deducted through the payroll).

Figure 15 compares the average TTR by region. The average result is highest in Latin America at 39.5%, due to a higher percentage for corporate income tax. The average percentage attributable to other taxes and contributions borne is highest in OECD countries, due to higher people taxes borne (employer taxes and social contributions).

**Figure 15: Total Tax Rate – by region**

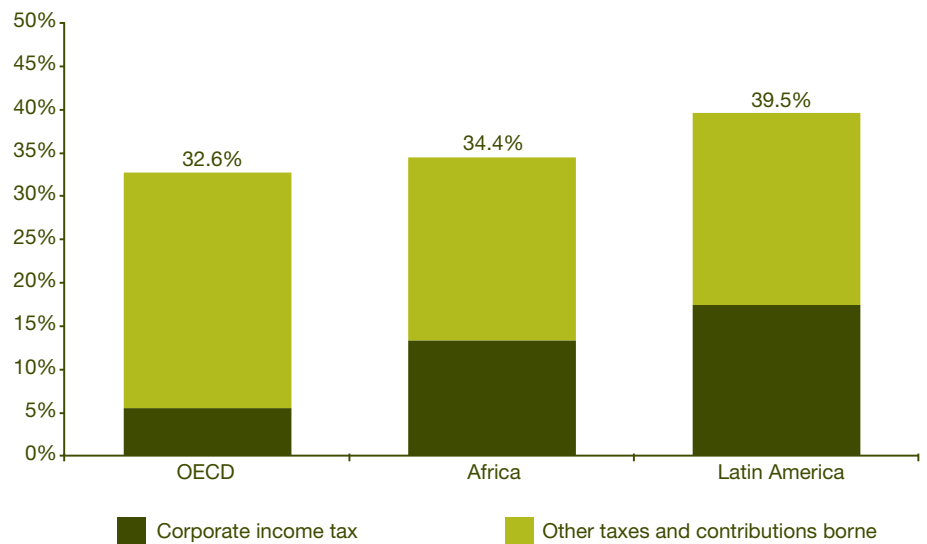


Chart shows the average result for a participant in a country by region.

## 10 Tax transparency

So far as we are aware, this is the only study to collect data on the taxes and other amounts paid to government by mining companies. For most of the companies taking part in the study, this was also the first time that they had collected this data. In return for taking part, each company received a report that illustrates their contribution to government, country-by-country and overall. In PwC's view, every mining company should have this information on a regular basis for all its operating markets. It is essential management information and is also helpful in informing communication and engagement with government and other key stakeholders. Companies which participate in our TTC studies around the world tell us that they use their own data in these ways.

All companies are coming under increased public scrutiny regarding the taxes they pay, and mining companies are at the forefront of this issue. Mining companies extract natural resources, usually in remote locations and often in the developing world. There is, therefore, strong interest in what they pay for these resources, through taxation and other fees and levies, and how they impact on the communities where they operate. There is also concern that the governments in these countries should use the revenues received to further social and economic development to improve the lives of citizens.

Initiatives to increase transparency include the global campaign by Publish What You Pay (PWYP) for revenue transparency in the oil, gas and mining industries. The PWYP coalition of civil society organisations calls on extractive industry companies to disclose payments to governments and other information (including reserves, production volumes, production revenues and costs) on a country-by-country basis<sup>15</sup>. Their proposals have been included in the International Accounting Standards Board discussion paper on extractive industries of April 2010, with a request for comment by 30 July 2010<sup>16</sup>. The PWYP proposals are intended to complement the Extractive Industries Transparency Initiative (EITI) which encourages governments of resource-rich countries to "Publish What You Earn". A large number of companies, industry associations, investors, civil society organisations and intergovernmental organisations (such as The World Bank and the IMF) support the EITI<sup>17</sup>. For example, AngloGold Ashanti discloses all payments to and assistance received from government, country-by-country, in its Sustainability Review, in support of its commitments under the EITI, whether or not the country concerned is a member of the EITI<sup>18</sup>.

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15 See <http://www.publishwhatyoupay.org/>

16 International Accounting Standards Board Discussion Paper DP/2010/1, Extractive Activities, April 2010.

17 See <http://www.eitransparency.org/>

18 See AngloGold Ashanti Sustainability Review 2009, pages 53-56.

Our work on tax transparency shows that some mining companies are leading the way in corporate reporting for their tax affairs. For each of the past two years, UK-based FTSE 100 mining companies have won the PwC sponsored Building Public Trust Awards for Tax Reporting – Anglo American plc in 2009, and Kazakhmys in 2008<sup>19</sup>. Both of these companies use the TTC approach to show payments to government by country, split between borne and collected.

In making the award to Anglo American plc in 2009, the independent panel of judges said that they liked, “the open and transparent discussion of tax, including tax strategy, tax payments and relationships with tax authorities; and also the clear links made by Anglo American between tax and their corporate responsibility commitments, and to their wider economic contribution”.

Figure 16 is an extract from the Anglo American plc Report to Society 2008. Figure 17 is an extract from the Kazakhmys plc Annual Report and accounts for the same year.

PwC suggests that all mining companies consider if there could be business benefits from being more transparent in communicating their tax affairs to their stakeholders. We also suggest that the TTC Framework provides a good basis for mining companies to report the different taxes and other amounts that they pay.

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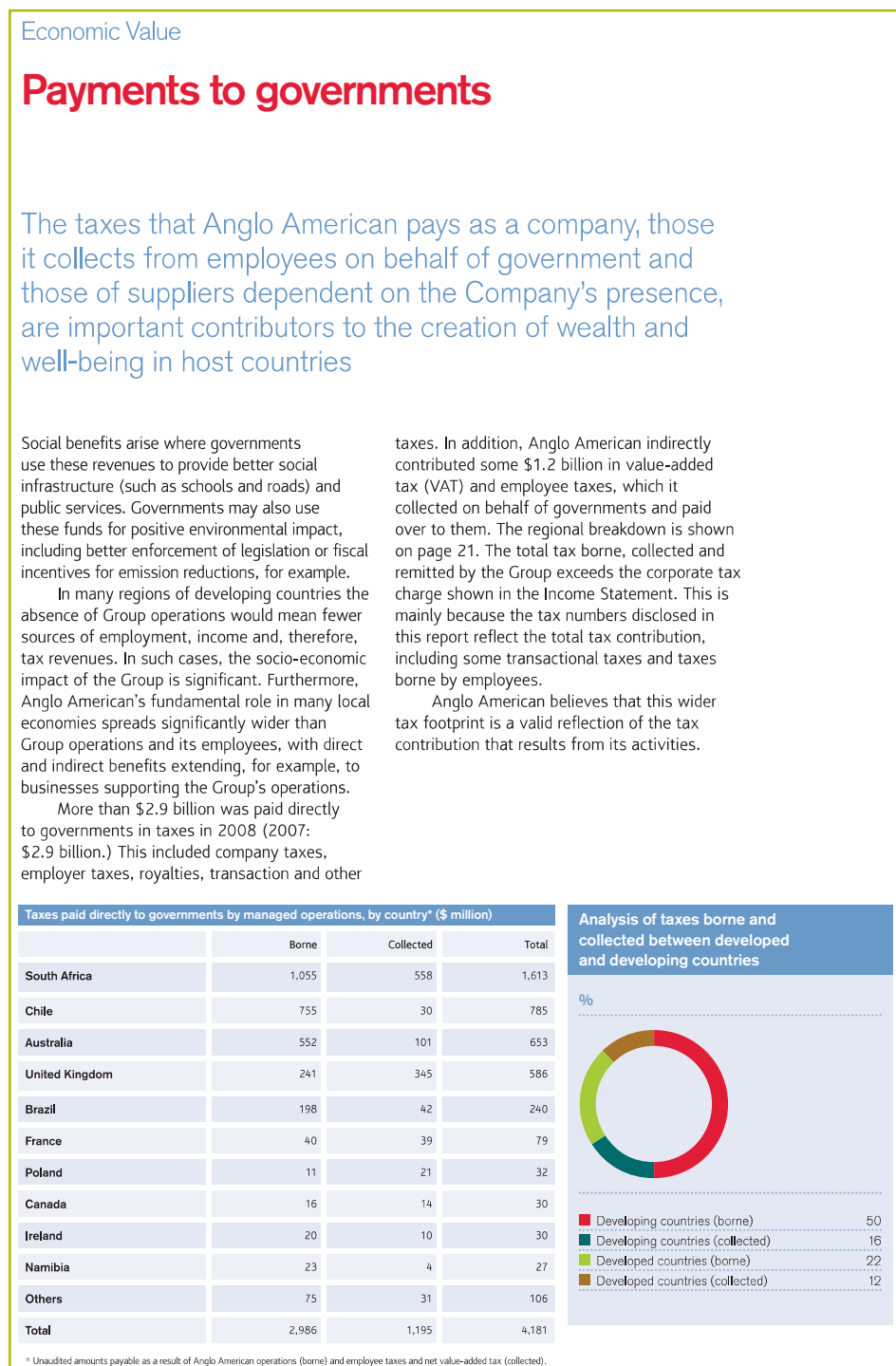
<sup>19</sup> The PricewaterhouseCoopers (UK) Building Public Trust Awards celebrate the commitment of the UK's largest corporations and public sector bodies to build public trust through their communication of the key building blocks of sustainable performance. The largest UK-based companies (FTSE 100 and 250) are eligible for one or more of the awards listed. The awards are judged by an independent panel who review a shortlist put forward by PwC. In 2009, awards were made in the following categories:

- FTSE 100 for ‘Excellence in reporting’
- FTSE 250 for ‘Excellence in reporting’
- Public Sector for ‘Excellence in reporting’
- Lifetime Achievement Recognition for ‘Building trust and confidence in the corporate and public sectors’
- Reporting of Executive Remuneration
- Tax Reporting in the FTSE 100 & 250
- Sustainability Reporting in the FTSE 100 & 250
- Sustainability Reporting in the Public Sector

See also Appendix 2, our suggested framework for communicating tax to stakeholders (the PwC Tax Transparency Framework) which is used to short list companies for the judging panel.



**Figure 16: Anglo American plc – reporting**



Source: Anglo American plc – Report to Society 2008, pages 21 & 22

**Figure 17: Kazakhmys plc – reporting**

**Total tax contribution**

During 2008, the Group paid \$861 million (2007: \$1,108 million) in taxes across the countries in which it has a presence. Company taxes, such as corporate income taxes, excess profits tax, royalties and employer taxes, comprised \$802 million (2007: \$1,059 million) of this total. In addition, the Group indirectly contributed \$59 million (2007: \$49 million) in employee taxes and withholding taxes primarily on dividends, which the Group collected on behalf of government authorities and paid over to them.

**Taxes paid directly to governments by category and region**

\$ million	Central Asia <sup>1</sup>	UK	Germany	2008 total	2007 total
<b>Taxes paid</b>					
Corporate income taxes (including excess profits tax)	561	41	19	621	850
Payroll taxes (employer's obligations)	47	1	9	57	54
Customs and stamp duties	39	10	–	49	36
Taxes on properties	25	–	1	26	18
Royalties and environmental payments	46	–	–	46	100
Miscellaneous taxes	3	–	–	3	1
	721	52	29	802	1,059
<b>Taxes collected and remitted</b>					
Withholding taxes on dividends, interest and services	4	–	–	4	3
Payroll taxes (employee's obligations)	34	4	17	55	46
	38	4	17	59	49
<b>Total</b>	759	56	46	861	1,108

<sup>1</sup> Includes Kazakhstan, Kyrgyzstan and Tajikistan.

Source: Kazakhmys Plc, Annual Report 2008, p44,45

## Appendix 1

### Taxes and contributions borne and collected by Mining companies: illustrative list

#### Taxes and contributions borne

Taxes on profits	Corporate income tax Other profit taxes
People taxes	Employer social contributions Payroll taxes and other taxes on the employer
Taxes on production	Customs duties and taxes on international transactions Irrecoverable VAT and other taxes borne on the production or sale of goods and services
Property taxes	Taxes on the ownership and use of real and intangible property Stamp duties and other transfer taxes
Mining taxes	Taxes on the extraction of minerals and metals
User fees	Royalties, licence fees and resource rents for the extraction of minerals and metals
Other contributions	Contributions to infrastructure Other contributions

#### Taxes collected

Taxes on profits	Taxes withheld at source from royalties, fees or other payments
People taxes	Employee social contributions Employee income tax deducted through payroll
Taxes on production	Net value added tax (VAT) (output less input tax) Other taxes levied on the production and sale of goods and services

## Appendix 2

### Suggested framework for communicating tax to stakeholders

The PricewaterhouseCoopers (UK) Tax Transparency Framework was developed in discussions with different groups of stakeholders. It covers three aspects of corporate tax affairs and provides a Framework for companies to consider the benefits and risks of greater tax transparency and how to best communicate their tax affairs.

#### 1. Tax strategy and risk management

- Discussion of objectives and strategy in relation to tax
- Policies in key areas which are relevant for the business (eg, tax planning, transfer pricing)
- Governance and oversight for tax
- Discussion of material tax risks

#### 2. Tax numbers and performance

- Clear explanation to why the tax charge is not simply accounting profit at the statutory rate
- Reconciliation of cash tax payments to the tax charge
- Forward looking measures for tax, (forecast accounting and cash rates)

#### 3. Total Tax Contribution and the wider impact of taxes

- How tax impacts the wider business strategy and results of the company
- How the business adds value to shareholders and other stakeholders, with reference to tax
- Communication of the economic contribution of all taxes paid
- Discussion of advocacy and lobbying activity on tax

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