

Mining Tax Measure Analysis

Prepared for:
Mineral Resources Branch
Department of Economic Development
Government of Yukon
Whitehorse, Yukon

Prepared by:
Paul Kishchuk, MA
Vector Research
Whitehorse, Yukon

October 5, 2000

Mining Tax Measure Analysis

1.0 Introduction

The mining industry has historically been the Yukon's major private sector generator of economic activity. While recent declines in world metal prices have contributed to significant reductions in Yukon mining output, it is well accepted within the industry that the Yukon has exceptional mineral potential. The also impressive mineral potential of other Canadian jurisdictions means, however, that the Yukon must remain competitive with regard to other key factors in mining exploration and development decisions including business and mining tax rates and measures. Staying competitive with other jurisdictions requires access to current information on tax rate and measure changes taking place elsewhere in Canada. Accordingly, the purpose of this project is to identify and comment on recent tax rate and measure changes in other jurisdictions which have relevance to the Yukon mining industry.

2.0 Methodology

As changes to tax rates and measures directly impact provincial and territorial revenue streams, such changes are typically announced at the same time as a province or territory's annual budget is tabled for legislative review. Accordingly, the identification of recent business and mining tax rate and measure changes was based on a review of the most recent set of budget documents in each jurisdiction. As changes are not necessarily always announced only at budget time, the press release archives of all jurisdictions were also searched for more recent references to business and mining tax rate and measure changes. Changes announced in the 2000 federal budget were not include in the scope of the analysis.

The Finance Canada website has a links page to the complete set of 2000 provincial/territorial budgets (except for Nunavut) which can be found at:
<http://www.fin.gc.ca/links/budgetse.html>

3.0 Findings

3.1 Tax-on-income

The main theme of 2000 provincial budget season was undoubtedly the transition in the personal income tax field from the current tax-on-tax approach to one of tax-on-income. All provinces (except for Quebec which administers its own income tax system) announced that they will be moving to a tax-on-income approach no later than the 2001 tax year. None of Canada's territories have indicated whether they are switching to the tax-on-income system. The tax-on-income approach will give provinces more autonomy in designing and implementing their own tax policies.

As tax-on-income is a personal income tax concept, it is not directly relevant to the mining industry since most mining tax measures are targeted at corporations and not individuals. The largest impact of the tax-on-income announcements on mining appears to have been a diversion of tax policy interest and resources at the provincial level away from industry or sector specific measures, including those related to mining. There were a few exceptions to this trend which are discussed in sections 3.3 and 3.4 below.

Mining Tax Measure Analysis

3.2 Small business corporate income tax rate

A sub-theme of the 2000 round of provincial budgets was the race to cut the corporate income tax rate for small businesses. Whereas in 1999 the Yukon was ranked among the jurisdictions with the second lowest small business rate, by the end of 2000 the Yukon will have lost ground to two more jurisdictions. Announcements to date show that by April 2001, at least one additional jurisdiction (Alberta) will have a lower small business rate than Yukon. The attached series of four Small Business Corporate Income Tax Rate charts presents the evolution of the ongoing changes to the small business rate. It is worth noting that even with the rate cuts in other jurisdictions, Yukon's rate of 6.0% will remain reasonably competitive being only 1.5% higher than the lowest rate of 4.5% in New Brunswick.

With all of the above being said, the reductions in provincial small business rates will have little impact on the relative competitiveness of each jurisdiction's mining tax regime for a couple of reasons. The first reason is that mining operations do not often fit the target profile of the small business rate measure, namely Canadian Controlled Private Corporations with small incomes (less than \$200,000). Equity financing via the stock market is the funding instrument of choice for mining exploration and development ventures since it best matches risk with potential rate of return. The requirement that a corporation become public before listing shares means that many junior and even more senior mining operations active in Canada probably would not qualify for the small business rate since they are not private corporations.

A second reason why reductions in provincial small business rates will have little impact on relative competitiveness between jurisdictions has to do with the "low frontend load" nature of Canada's overall mining tax system. Canada's general approach to mining taxation is to allow for a relatively long initial tax free period in the life of a mining operation which is offset in the later years life by a relatively high rate of tax. The initial tax free period is accomplished through a variety of measures including the Canadian exploration expense (CEE), Canadian development expense (CDE), accelerated depreciation on capital equipment and the resource allowance. Given that a mining operation will only pay tax in the later years of its life, and perhaps not at all if operations cease prematurely, the rate of corporate tax is likely a factor of low weight in mining investment decisions.

That the rate of corporate tax is of less relevance than other factors in exploration and development decisions should be remembered if what may be the beginning of a trend in the reduction of the general corporate income tax rate spreads across the country. While several jurisdictions announced reductions in small business rates during the 2000 budget round, only one (Ontario) modified its general rate, reducing it to from 15.5% to 14.5% with a further reduction to 14.0% planned in 2001. Alberta echoed Ontario's move just three weeks ago with an announcement (in response to the Report and Recommendations of the Alberta Business Tax Review) that it intends to lower its general corporate rate to 13.5% in April 2001. Yukon's general corporate rate is currently 15.0%.

Mining Tax Measure Analysis

3.3 Other tax measures

The only jurisdiction which saw fit to bring in any mining-specific tax measures in 2000, Ontario, announced that it was bringing in four:

3.3.1 Ontario mining tax

- Prior to May 2, 2000 Ontario levied a mining tax of 20% on mining profits over \$500,000 earned from mining operations in Ontario.
- Effective May 2, 2000 the mining tax rate was reduced to 18%.
- Further reductions in the mining tax rate equal to 2% per year for the next four years (with a resulting rate of 10% in 2004) were also announced.

3.3.2 Support to remote Ontario mines

- The three-year mining tax holiday will be extended to ten years for new mines opened in remote Ontario locations after January 1, 2000.
- The profits from such mines will be taxed at a special 5% rate.

3.3.3 Ontario focused flow-through share program

- According to the budget announcement, this measure was to have been developed after consultations with interested stakeholders during the summer of 2000.
- A bonus flow-through deduction of 30 percent of “eligible Ontario expenses” to be applied on top of the existing 100% federal flow-through deduction.
- The bonus deduction would be limited to eligible exploration expenses incurred at the “grass-roots level”.

3.3.4 Tax rate on mining income

- Effective May 2, 2000 the rate of tax on mining income was reduced to 12.5% from 13.5%.
- Effective January 1, 2001 the tax rate on mining income is scheduled to be further reduced to 12.0%.

3.4 Non-tax measures

Announcements on the non-tax measure front have been even more spotty than on the tax measure side of things. Only two jurisdictions included non-tax mining-related measures in their budgets: Newfoundland and Québec.

3.4.1 Newfoundland

- The three year, \$6 million Mineral Exploration Program announced in 1999 will be extended for another two years making it a five year initiative.
- Funding for the program in years two through five will be increased by \$250,000 each year.

3.4.2 Québec

- The budget contained an announcement that \$5 million will be used to support junior exploration companies.
- Another \$5 million will serve to add a component to the mining exploration assistance program targeting the Abitibi-Témiscamingue region.