Royalties

Royalties are payments to the owner of mineral resources. While these payments are not the only way that the mining industry provides economic benefits to the Yukon, they are an important part of ensuring that the public – as the owner of Yukon's mineral resources – sees meaningful financial benefits from mineral production in the territory. As such, we are looking at different approaches for determining royalties and considering which would be the best fit for the Yukon.

The basic approaches we are considering are focused on the way royalties are determined:

- based on a mine's profits;
- based on the value of a mine's production; or
- based on considering both the value of a mine's production and a mine's profits.

Under a typical profit-based approach, when a mine is not profitable, a royalty would not be paid, but when a mine is very profitable, more of that profit is paid back to the mineral owners as a royalty. A value of production approach ensures that the mineral owners are paid for all minerals removed from the ground, but because royalty rates are typically set lower than in profit-based approaches, the royalties may be lower when a mine is very profitable. A system that considers both the value of a mine's production and a mine's profits would be administratively burdensome to implement, but may achieve the benefits of both systems.

We are also considering changes to the royalty rates.

Interests

Royalty systems in the Yukon should:

- create meaningful financial benefits for the Yukon;
- be transparent, easy to administer and enforceable; and
- ensure the Yukon remains a competitive mining jurisdiction.

Potential approaches

Royalties for quartz mines

We're considering different approaches for how to best determine royalties for quartz mining.

One approach is to continue to determine royalties based on the profits of a mine. That means royalties would only be paid if the mine was profitable that year. Profitability is determined by the value of production offset by eligible costs and deductions. Common costs and deductions include transportation, operating and maintenance costs, depreciation of infrastructure and equipment, costs for exploration and development and costs associated with community and economic development initiatives.

The current profits-based royalty could be modified to reconsider the allowable deductions. For example, the new regime could eliminate the deduction of costs associated with community development, or it could allow for that deduction but only if the community and affected Indigenous governments supported the community development in question.

Another approach is to have royalties determined by the value of a mine's production, defined as the proceeds from the sale of minerals from the mine. With this approach, royalties are paid whenever minerals are produced, regardless of whether or not the mine is profitable that year. Should a mine stockpile minerals, these would also be accounted for. A mine operator would not be able to request deductions under this option.

A third approach is to have a royalty regime that considers both profits and production. One way this could be done is by establishing a minimum royalty that would ensure royalties are paid whenever a mine is in production.

Royalties for placer mines

We're also considering how to best determine royalties for placer mining. The current approach is to charge a royalty tax on gold that is exported from the territory. The current tax rates are very low (see background section below).

One approach we are considering is to determine royalties based on the value of a mine's production, defined as the proceeds from the sale of gold from the mine. Should a mine stockpile gold, this would also be accounted for.

Another approach is to determine royalties based also on the value of a mine's production, but with a reduced rate for some production. The reduced rate could apply to a set number of ounces of gold, or a certain value of production.

A third approach is to determine royalties based on the profits of a mine. This means that a mine would only pay royalties if it was profitable, determined by the value of production offset by a suite of eligible costs and deductions.

Alternatively, a royalty regime could consider both profits and production. One way this could be done is by establishing a minimum royalty that would ensure royalties are paid whenever there is production at a mine.

Background

Quartz mining royalties

The current approach for quartz royalties in Yukon is based on profit. Under this system, royalty rates increase with profits up to a maximum of 12% for profits over $35 million, and there is no royalty paid on the first $10,000 of annual profit. Profits are determined by the value of a mine's production, based on receipts from the sale of minerals, minus allowable costs and deductions.

Allowable deductions include expenses for off-site and post-production expenses (transportation, storage and handling), operating and maintenance costs, exploration and development costs, community infrastructure and economic development, and an allowance for maintaining assets.

This system is built to account for the large expense of developing a mine, and a royalty may not be owing within the first few years that a mine is producing.

Progressive royalty rates

Like income taxes, quartz royalty rates are progressive, so the rate increases as profits increase:

- $10,000 or less: 0%
- More than $10,000 but not exceeding $1 million: 3%
- More than $1 million but not exceeding $5 million: 5%
- More than $5 million but not exceeding $10 million: 6%
- More than $10 million but not exceeding $15 million: 7%
- More than $15 million but not exceeding $20 million: 8%
- More than $20 million but not exceeding $25 million: 9%
- More than $25 million but not exceeding $30 million: 10%
- More than $30 million but not exceeding $35 million: 11%
- More than $35 million: 12%

Placer mining royalties

For placer mining, the current royalty is actually an export tax. Royalties are paid only on the amount of gold that leaves the territory. The rate applied to gold exported from the territory is 2.5% of a fixed price of $15/ounce, amounting to $0.375/ounce of gold. This price was set a long time ago and is not reflective of today's price of gold, which is around $2,300 CDN/oz. Approximately $25,000/year in royalties is collected from Yukon placer operations.

Questions

7.1 Do you have any thoughts or concerns about the approaches we're considering for royalties for **quartz** mining, or additional things that you think we should consider?

7.2 Do you have any thoughts or concerns about the approaches we're considering for royalties for **placer** mining, or additional things that you think we should consider?