

GENERAL STATEMENT

The terms of reference given to the fiscal sub-committee, were to examine the various Federal, "Territorial" and mining royalty tax regimes as they applied to corporations with mineral production North of 60 and/or persons and make recommendations to the main committee on March 14 & 15 as to proposed changes designed to stimulate mining North of 60°. During the course of preliminary discussions members of the committee unanimously decided that the review of the fiscal regimes were to be made with the object of seeking changes in accordance with present fiscal policies and avoid radical ideas. After a few meetings it became readily apparent that because of the inter-relationships of not only the various fiscal regimes being examined but also the inter-relationship of the various elements within each fiscal regime, final recommendations could not be made to the main committee until after the effects of the proposed changes on the mining company models established by EMR and MAC, could be studied. In addition, the MAC feels that decisions and recommendations made by this committee will influence future relationships of the mining industry and government with respect to federal/provincial taxation. As the modelling has not been completed, this report can be considered only as interim. The sub-committee will make every effort to complete the study after the proposed April meeting in Yellowknife but before the main committee reports to the Minister.

The Committee

The Committee consists of:

- Bill Beard - Energy, Mines and Resources
- Bob Keyes - Department of Finance
- *Ulli Rath - Mining Association of Canada
- Bill Irvine - DIAND
- Marcel St. Pierre - DIAND
- Harry Woodward - DIAND
- *Jack Patterson - DIAND

*Co-Chairman

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In addition to the above the following have attended several of the meetings:

David Scrim - Energy, Mines and Resources
Dereck Williams - Department of Finance
Ragu Raghunathan - DIAND

Meetings, each from three to four hours long, have been held on January 26 & 31; February 2, 14, 16 & 21 and March 1, 1979.

PREAMBLE

The review of the committee fell naturally into three main divisions.

- 1) Mine Corporation Income Tax (Federal and Provincial "Territorial")
- 2) Mining Tax/Royalty
- 3) Personal Income Tax

Corporate income tax at 46% is the same in both territories, however, commencing January 1, 1978 the Northwest Territories assumed responsibility for the 10 points of corporate tax allocated to the provinces with the authority to increase or decrease the rate. The federal government when calculating future N.W.T. operating grants will not pick up any increased deficit caused by the unilateral reduction in the "Territorial" tax rate. The Yukon Territory will probably assume this taxation responsibility within the next few years.

Personal income tax, at 43% is the same in both Territories, just behind the 38.5% of Alberta, and less than that of the rest of the provinces which range from 44.0% to 58.0%. In 1976 the average income per taxpayer for the Y.T. at \$11,454 and the N.W.T. at \$11,170, on a national scale, came first and fourth respectively.

Mining revenues in the two territories are currently taxed for royalty purposes at the same rate, however, differences in allowable deductions when arriving

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at the value subject to royalty can result in slightly different levels of taxation. The main differences are the N.W.T. 8 percent processing allowance, not allowed in the Yukon and the Yukon deduction of corporate tax, not allowed in the N.W.T.

Operating grants for 1978/79 fiscal year on a per capita basis to the N.W.T. and Yukon at \$3,241 and \$1,273 respectively are much greater than provincial equalization payments which ranged from zero to a maximum of \$623 per capita for Prince Edward Island.

Estimated 1979-80 North of 60 revenues arising from income tax or mining royalties which normally accrue to the Provinces are as follows:

	<u>Million \$</u>	
	<u>N.W.T.</u>	<u>Yukon</u>
Corporation "Territorial" Income Tax	5	2
Mining Royalty	1.1	1.5
Personal Income Tax	<u>16</u>	<u>11</u>
	22.1	14.5

CORPORATE INCOME TAX

Although the Government of the Northwest Territories controls 10 points of the federal corporate taxes, which it is free to increase or decrease like the provinces, the net effect on the taxpayer, as shown below, is the same in both Territories.

Yukon - Basic 46% less resource allowance (25% x 46% or 11.5%) = 34.5% Net Tax
 N.W.T. - Basic 36% less resource allowance (25% x 36% or 9%) = 27%
 Plus 10% less (25% x 10% or 2.5%) resource allowance = 34.5% Net Tax

Discussion was carried out within the following areas as they relate to Corporate Tax.

- 1) Inventory Allowance
- 2) CCA Major Mining and Processing Assets
- 3) CCA Ongoing Mining and Processing Assets
- 4) Resource Allowance
- 5) Debt Interest
- 6) Exploration
- 7) Preproduction Development & Property Acquisition
- 8) Depletion
- 9) Loss Carried Forward
- 10) Investment Tax Credit

and was decided that the following propositions warrant a more detailed examination including a study using the FTR and MAC mine models, both individually and in combination.

- 1) Increase the investment tax credit in the Territories from its present value of 10% to 20% for the first \$250 million of investment.
- 2) Eliminate the present provision of a 5-year limitation on the carry forward of the investment tax credit on qualifying northern expenditures.
- 3) Provide an increase in the earned depletion earning rate from \$1 for every \$3 spent to \$2 for \$3 for expenditures on all qualifying assets related to development of a new mine and related social assets in the Yukon and Northwest Territories.
- 4) Increase the 25% limitation on the annual claiming rate for earned depletion to 50% on Class 28 assets against income earned in the Yukon and Northwest Territories.

- 5) Increase the write-off for qualifying scientific research from 150% to 200% for expenditures made in the Yukon and Northwest Territories.

The main points, listed below, expressed by Jurgen Lau, a mining lawyer from Vancouver, to the Advisory Committee in Whitehorse regarding fiscal incentives for prospectors and junior companies have not as yet been examined in detail.

- 1) Allow individual taxpayers and non-principal business corporations to be permitted to deduct 150% of the North of 60° exploration and development expenses and accrue it, from the income derived from other sources.
- 2) Allow prospectors and individual grub-stakers to be subject to capital gains tax treatment for the proceeds from the sale of mineral properties resulting from the prospecting regardless of whether the sale is for cash or shares. At present the definition of "prospector" is too narrow; it should be broadened to include prospectors, or geologists and engineers, who transfer properties to companies and promote these companies.
- 3) Allow individual taxpayers who incur development expenses in consideration for shares in a company to be subject to capital gains treatment on the sale of those shares. At present such a sale is subject to full income tax. The Act should also be broadened to allow the company that does the actual work to function as the agent for the taxpayer, and thereby avoid certain artificial transactions, now carried out by corporations taking advantage of this section.
- 4) Allow major companies to write-off against their mining income 200% of all cash payments, except payments out of production, made to prospectors or

junior mining companies for mineral properties. Major companies might then be more generous in reimbursing and consequently financing prospectors and junior companies.

MINING ROYALTY

The sub-committee agreed that the overall fiscal regime in Canada's North should be in accord with the principles outlined in the November 1978 Federal-Provincial Taxation Review. The recommendations for government action, accepted by the committee in arriving at desirable resource taxation objectives are as follows.

- 1) Stability and Certainty in the Tax System
- 2) The Cyclical Nature of Mining Industry be Recognized
- 3) An Acceptable Level of Tax in order to Achieve Adequate Level of Capital Investment, Growth and Development
- 4) An Acceptable Federal/Provincial Division of Revenue
- 5) Encouragement of Further Processing in Canada
- 6) Consistency of the Tax System with National Priorities

With respect to the above recommendations for government action the following comments were noted by the committee.

- i) The royalty system for North of 60 has changed very little, the rates not at all, since the passage in 1924 of the Yukon Quartz Mining Act. As an Act of Parliament is required to retroactively put into effect any changes to mining leases currently in good standing, not only is it difficult to effect any current desired changes but perhaps even more difficult to make major amendments in the future.
- ii) The cyclical nature of the mining industry was recognized by all and some sort of averaging technique is required such as:
 - a) a three year moving averaging of values subject to royalty
 - b) carry forward of unused processing allowance.

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- iii) The committee agreed that a "minimal level of taxation" until the original capital invested is recovered is equitable, however, that level is yet to be established.
- iv) Although the committee recognizes that for the medium and long term the non-renewable resources North of 60 will remain with the Crown, the future possibility of additional allocations of revenues arising from mines in the Territories, dictates an acceptable Federal/"Provincial" division.
- v) The committee agreed to encourage further processing. There was general agreement that a 15% processing allowance would ~~remove~~ from royalty calculations any profits made by the concentrator.
- vi) The sub-committee agreed that an appropriate level of taxation for North of 60 (Federal, "Provincial" and royalty) applied on a project basis should be competitive with provincial jurisdictions.

Both flat and escalating rates of taxation were discussed. In addition, a two tier tax system was suggested consisting of:

- 1) guaranteed annual income based on production
- 2) tax based on profits

with 1) being a deductible item for the calculation of 2). The royalty scheme, currently proposed in Bill C-20, could provide a source of income, 1) above, suitable for land claim settlements which could not readily be altered.

The sub-committee agreed that a special tax regime for uranium be examined.

This appears to be in accord with the existence of special tax regimes for oil

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and gas, tar sands and coal. It was further decided that provisions be included whereby royalties could be waived if in the national (Territorial?) interests.

PERSONAL TAX

The sub-committee has not as yet examined possible areas with the personal tax sector which could be modified in order to make working North of 60 more financially attractive.