

Mining

Mining is always and everywhere a special case from a tax perspective.

- Mineral resources considered the “property of the people”, held in trust by the state
- Sensitivity about “exploitation” big mining concerns
- Need for FDI to develop mineral resources
- Vulnerability to international commodity prices
- Volatility of prices
- Huge capital investment & high risks
- Tension between encouraging investment and maximizing revenues

Common Provisions of Mining Tax Regimes

- Liberal capital allowances, accelerated depreciation and generous loss carry-forward provisions;
- Different corporate income tax rates than for other sectors;
- Royalties on mineral extraction (which may be based on gross revenues, profits, or fixed fees per unit);
- Ring-fencing (which limits mining companies' ability to use losses from one mine to offset profits from another);
- Special formulas that may eliminate or reduce taxes when operating profits fall below a certain threshold;
- Windfall profits taxes that impose a surtax when mineral prices or profits exceed a certain level;
- Resource rent taxes, which apply when a mining company's rate of return exceeds a certain level, usually as a function of higher commodity prices.

What the METR Analysis Shows

- Big variations among countries, commodities and companies, even within the same country
 - METR can range from 0 to more than 60%
 - Royalties explain much of the variation
 - Also, special tax formulas (e.g., South African gold formula)
 - Specially negotiated incentives
- It's hard to draw clear conclusions, since METRs are highly sensitive to prices and exchange rates; average METRs can show huge volatility from one year to the next.

Special conditions lead to special treatment

- Most mining companies (especially large ones) negotiate individual tax agreements
- Large variation among companies in effective tax burden
- Tax rates and policies often set in extreme conditions (very high or very low prices)

Conclusions/Recommendations

- Avoid setting policies based on extreme conditions of high or low mineral prices or exchange rates.
- Strive for consistency in treatment of different investors and avoid specially negotiated tax rates and incentives packages;
- Reduce disparity of treatment between mining and other sectors.
- Abolish ring fencing, which appears to have no more justification in mining than in manufacturing or service industries, where it is never applied.
- Pay attention to the effects of tax policy on mining industry competitiveness with respect to neighboring countries and other countries worldwide. with which there may be competition to attract mining investment.
- Tax giveaways cannot compensate for all other competitive disadvantages.