Ontario Mining Taxation and Resource Revenue Sharing

November 30, 2020

Ontario Mining Tax

- The tax applies to ***taxable profits*** in excess of $500,000 at a rate of 10 percent per year — except for remote mines, which are taxed at a rate of 5 percent per year

- A complex formula is used to calculate taxable profits as only profits derived from ***mining*** — not from processing — are subject to the tax

Calculating Profits

- For the purposes of calculating taxable profits, deductible expenses include:
  - Mining costs
  - Operating and maintenance expenses of “social assets,” that is, facilities to attract and retain employees
  - Administrative costs
  - Scientific research conducted in Canada
  - Charitable donations relating to mining
  - Exploration and development expenses
  - Transportation expenses
  - Processing expenses
  - A “processing allowance” of no less than 15% and no more than 65% of total profits

Exploration and Development Expenses

- Exploration and development expenses — the costs of finding and developing new mines — are 100 percent deductible at the discretion of the mine operator

- This means that mine operators can claim the full amount in one year or ***carry them forward indefinitely*** to minimize their taxes in profitable years

Exemptions for New Mines, Major Expansions and Remote Mines

- Profits up to $10 million from new mines and “major expansions” are exempt for first 36 months (3 years) of commercial operations

- “Remote mines”: Tax exempt period extended to 120 months (10 years), after which subject to a tax rate of 5 percent

Challenges

- Economic Policy
  - Ontario’s low marginal effective tax rate for mining distorts investment towards otherwise “inefficient” mining projects (Chen & Mintz, 2013)
- Tax Fairness
  - Ontario’s mining tax system fails to deliver a “fair” return for the use of the public’s non-renewable resources
- Transparency
  - Mining tax data is confidential, and it’s virtually impossible for public to know how tax charges are calculated

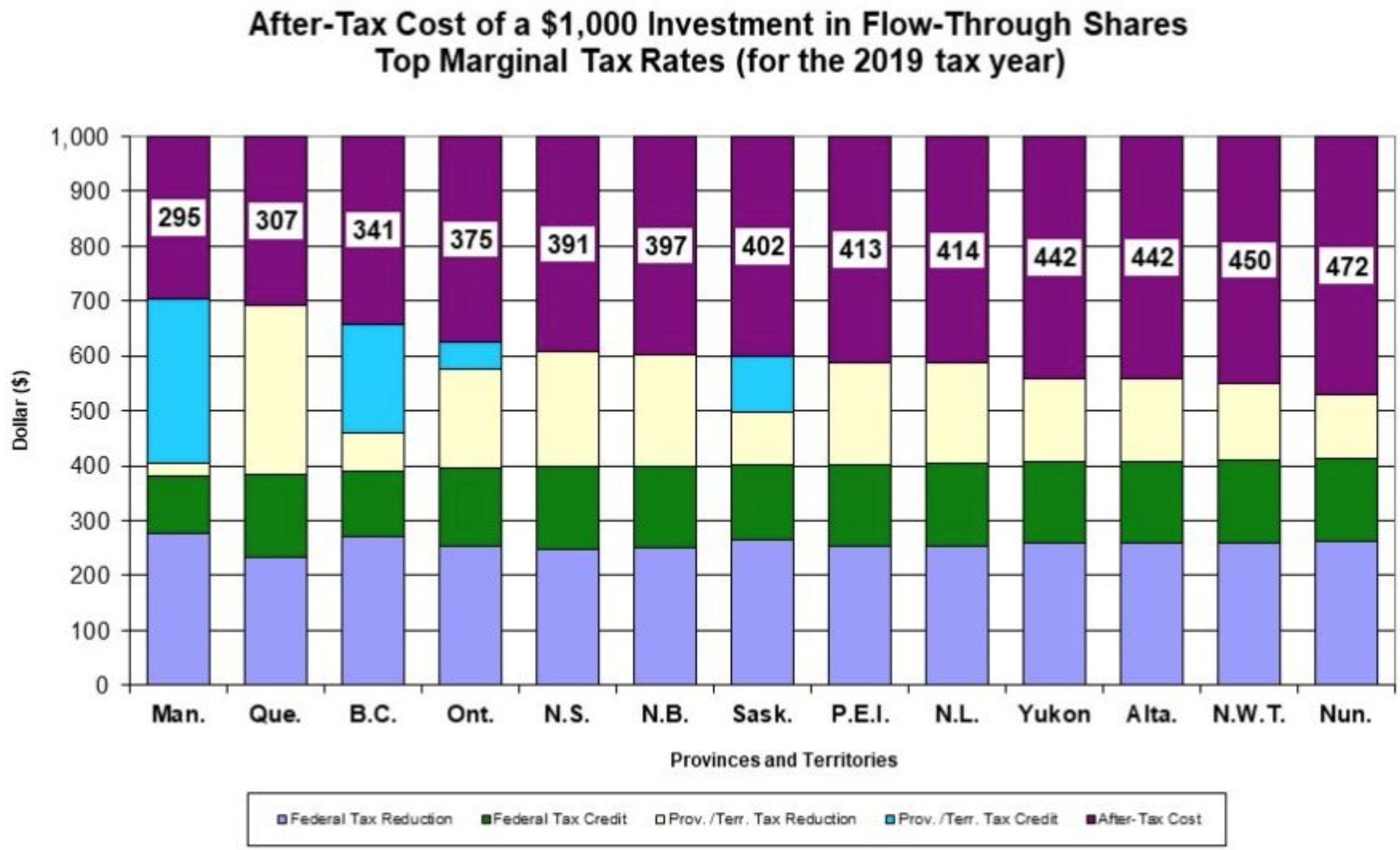
Gold Mining Company Tax Payments, 2019

Company	Ontario-based Gold Revenues ($)	Reported Tax Payments to Ontario (as % of revenues)
Kirkland Lake Gold	$1.3 billion	$26.25 million (1.99%)
Newmont Mining	$580.8 million	$1.11 million (0.19%)
Alamos Gold	$456.3 million	--
New Gold	$270.6 million	$4.01 million (1.5%)
Barrick Gold	$297.3 million	--
Pan American Silver	$202.2 million	--
Wesdome Gold Mines	C$164.0 million	C$3.68 million (2.2%)
McEwen Mining	$50.1 million	--
Harte Gold	C$49.8 million	--

Flow-Through Shares & Mineral Exploration Tax Credit

- Flow-through shares allow mining companies to pass on (“flow through”) their deductible exploration and development expenses to investors for tax purposes. Shareholders who purchase flow-through shares can deduct the expenses as if incurred directly

- The Mineral Exploration Tax Credit (METC) gives investors an additional 15% tax credit on top of the 100% deduction for the amount invested. The Fall Economic Statement 2018 extended the METC until March 31, 2024


After-Tax Cost of a $1,000 Investment in Flow-Through Shares
Top Marginal Tax Rates (for the 2019 tax year)
1,000
900
800
700
600
500
400
300
200
100
0
Dollar ($)
295
307
341
375
391
397
402
413
414
442
442
450
472
Man.
Que.
B.C.
Ont.
N.S.
N.B.
Sask.
P.E.I.
N.L.
Yukon
Alta.
N.W.T.
Nun.
Provinces and Territories
Federal Tax Reduction
Federal Tax Credit
Prov. /Terr. Tax Reduction
Prov. /Terr. Tax Credit
After-Tax Cost

Resource Revenue Sharing

- In theory, it’s simple:
  - First Nations with resource revenue sharing agreements receive a portion of 40% of the annual mining tax and royalties from operational mines
  - 45% from future mines in areas covered by the agreements

- Revenues must be used for:
  - Economic development, eduction, health, community development and cultural development

Resource Revenue Sharing

- In practice, not so much. A quote from MNDM:

"... specific mining tax and royalty data for each mine in the province is not available on a per company or per mine basis and is not being used to calculate the Mining Funds in the resource revenue sharing agreements.

Ontario has negotiated agreements that use a formula that assigns a *notional allocation* to each active mine…"