Taxation Polices Key to Mining in the Far North

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Two studies released in 2013 on the Canadian mining industry show how critical mining is to the future of Canada's Far North, and the important role of taxation policies in encouraging this industry's valuable economic activity while ensuring that the region's residents enjoy their fair share of the resulting benefits.

In early 2013, the Canadian Chamber of Commerce released its comprehensive review of Canada's mining industry, in a report entitled *Mining Capital: How Canada Transformed Its Resources Endowment Into a Global Competitive Advantage*.[1] This report (the CCC Report) describes how Canada has created a competitive advantage in this key sector of the economy by using various policy levers to go beyond the mere extraction of minerals and create a *knowledge*-based industry that allows Canada to be a world leader in the exploration, development and processing of natural resources.

Around the same time, The Centre for the North, a research initiative of the Conference Board of Canada, issued *The Future of Mining in Canada's North*.[2] The major conclusion of this document (the CFTN Report) is that mining is the key driver of future economic development in Canada's Far North but that a number of important regulatory challenges will need to be met in order for the vast potential of this opportunity to be realized.

Taxation issues feature prominently in both reports. Mining exploration is an expensive, high-risk undertaking, particularly in remote environments such as Canada's Far North. Even if a viable discovery is made, the challenges of successfully bringing an operating mine into production and transporting extracted materials to market are daunting and costly. Mining companies are subject to income tax at the federal and provincial/territorial level and to provincial/territorial mining taxes as well. Unless these levies are designed to fairly reflect the costs and risks of mining exploration and development, they risk discouraging investment.

The CFTN Report identifies the corporate fiscal environment as one of five key business factors related to mining development in Canada's Far North. In particular, this document identifies the importance of specific tax incentives such as flow-through shares in allowing mining exploration companies to raise capital needed to fund the search for new mineral resources.[3] In comparing the overall tax burden on base metal mining in different provinces and territories of Canada relative to each other and to other countries, the conclusion reached is that Canada is quite competitive internationally, particularly at lower levels of mine profitability.

This last point is especially important, since it especially discouraging for mining companies to be paying taxes when the underlying operations are not profitable. The CFTN Report encourages Canadian federal/provincial/territorial governments to maintain their international tax-competitive position.

The CCC Report also identifies the importance of flow-through shares in financing mining exploration, noting that the mining expenditures created by flow-through shares far exceed the federal government's cost of this tax measure. However, this document also notes with concern government tax measures taken in 2012, such as the discontinuance of the exploration and development investment tax credit[4] (the 2013 federal budget further reduced the tax recognition of various mining expenditures: see: "Mining Sector Tax Measures in 2013 Federal Budget", *Canadian Mining Magazine* (Summer 2013)).

The CCC Report recommends the introduction of an exploration tax credit specifically for remote regions such as the Arctic where exploration costs are prohibitive, which would certainly be welcome for mining companies looking to recover some of the costs involved in this high-risk activity. Among the other tax recommendations made in the CCC Report are the following:

- Reviewing the extent to which costs of aboriginal consultation and environmental regulatory compliance should be included within deductible "Canadian exploration expenses";
- Reducing the administrative burden of complying with multiple differing tax jurisdictions by exploring options for streamlining and harmonizing taxes across provinces and territories;
- Reversing the action taken in the 2012 federal budget to exclude capital expenditures from the scope of expenditures eligible for the scientific research and developmental tax credit; and
- Making the mineral exploration tax credit permanent (currently it is renewed on a year-by-year basis). M

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References

1. Available at www.chamber.ca.
2. Available at www.conferenceboard.ca.
3. Flow-through shares allow investors to deduct for tax purposes the qualifying expenses incurred by a mining exploration company: see http://miningtaxcanada.com/flow-through-shares.
4. See "2012 Federal Budget to Reduce Mining ITCs", Fall 2012 BLG's Team North Newsletter at www.blg.com.