

Further Extension of the Mineral Exploration Tax Credit to End of 2005

(Excerpt from Budget 2004 – Budget Plan, Annex 9 Tax Measures: Supplementary Information)

In October 2000 the Government introduced a temporary tax credit for mineral exploration to moderate the impact of the global downturn in exploration activity on mining communities across Canada. The credit provides individuals with an additional tax incentive related to the purchase of certain flow-through share investments. Flow-through shares facilitate the financing of exploration by allowing companies to transfer unused income tax deductions to investors. The credit is equal to 15 per cent of specified gross roots mineral exploration expenses incurred in Canada by a corporation and renounced to an individual under a flow-through share agreement.

The 2003 budget announced an extension to the scheduled expiry date of the credit by one year to December 31, 2004. It also removed a restriction that had made the flow-through share look-back rule unavailable for the final year of the credit. As a result of the 2003 budget measure, funds raised from an individual under a flow-through share agreement in 2004 can be expended by a corporation up to the end of 2005 and be eligible for the credit as a deemed expense of the individual in 2004.

Although market conditions for mineral exploration have improved since the credit was introduced, Budget 2004 proposes to establish in legislation an expiry date for the credit of December 31, 2005 in order to provide companies with ample time to plan their transition from the credit. Under the look-back rule, this will allow eligible expenses to be incurred up until the end of 2006.

Mineral exploration activity will continue to benefit from the availability of flow-through share financing and the new corporate mineral exploration tax credit, which was introduced as part of the income tax changes for the resource sector announced in Budget 2003.

Mineral exploration activity, including that facilitated by the credit, is subject to applicable federal and provincial environmental regulations. Any new mining project arising from that exploration would also be subject to regulation including, in most cases, project-specific environmental assessment.