BRITISH COLUMBIA

MINISTRY OF EMPLOYMENT AND INVESTMENT

INFORMATION LETTER MTA1

RESOURCE REVENUE BRANCH
MINERAL TAXATION SECTION

SUBJECT: MINING PROGRAM-94/95 BUDGET-MINERAL TAX AMENDMENT ACT

The 1994/95 British Columbia budget introduced a major program to help revitalize the province's mining industry, including prospecting, new mine developments and operating mines. This program included changes to the tax on mineral production to improve competitiveness and attract new investment and create jobs.

Bill 16, introduced with the Budget, amended the *Mineral Tax Act*. It contained three specific measures to assist the industry: lower rates of tax for coal mines; greater flexibility in the deduction of exploration expenditures; and an additional capital cost allowance for new mines and mine expansions.

REDUCED TAX RATES FOR COAL MINES

The rates of tax for coal mines in British Columbia were reduced to the rates that apply to all other mines. The British Columbia Mineral Tax has two parts. Part one is a tax on operating cash flow, or "Net Current Proceeds", of a mine. The tax rates for this part of the tax were 7.5% for coal mines and 2% for all other mines. Bill 16 reduced this rate for coal mines to 2%.

The second part of the Mineral Tax is a tax at a higher rate on the cumulative income of a mine after deducting all expenditures related to the mine and an allowance for a reasonable return on the operator's unrecovered investment in the mine. The rates of tax that applied to the second part of the Mineral Tax were 17.5% for coal mines and 13% for all other mines. Bill 16 reduced this rate to 13% for coal mines.

FLEXIBILITY IN DEDUCTING EXPLORATION COSTS

Bill 16 changed the *Mineral Tax Act* to allow mine operators to accumulate exploration expenditures in an exploration account that is not for any particular mine. They can be added to an operator's exploration account in the year in which they are incurred and allocated to one or more of the operator's mines whenever the operator chooses. Any unallocated balance in an operator’s exploration account earns investment allowance. Operators are required to report their exploration account balances to the Commissioner of Mineral Tax no later than six months after their fiscal year-end.

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Operators of mines are allowed to add expenditures on exploration for minerals in British Columbia to the cumulative expenditures of a mine. An operator who has more than one mine may allocate them to whatever mine the operator chooses. Formerly, this allocation had to be done in the fiscal year in which the exploration expenditures were incurred and was irrevocable. It was possible for any potential tax benefit of exploration expenditures to be lost if they were allocated to a mine that developed operational problems.

For purposes of the second part of the Mineral Tax, the tax base, which the Act calls "Net Revenue", is calculated by adding all expenditures related to the mine to a cumulative expenditure account and deducting all revenue from that account. Net Revenue arises when cumulative revenue exceeds cumulative expenditures and the annual allowances for a return on the operator's unrecovered investment.

ADDITIONAL CAPITAL COST ALLOWANCE

To encourage new mine development in the province, the budget introduced a five-year incentive program. This gives an additional allowance of one-third of the capital costs of new mines and expansions of existing mines that begin production in reasonable commercial quantities after December 31, 1994 and before January 1, 2000. This means 133.3% of qualifying capital expenditures can be added to the cumulative expenditure account of the mine.

Qualifying expenditures are those described in sections 2(1)(c)(i) and 2(1)(d) of the Costs and Expenditures Regulation. These include:

1. costs of capital assets, including lease or rental payments, which were acquired for the purpose of production or distribution of mineral products from the mine, and

2. costs incurred before a mine comes into commercial production for the purpose of bringing it into commercial production, including clearing, removing overburden, stripping, sinking a shaft, and constructing an adit or other underground entry.

The following situations qualify for the additional allowance:

1. a mine that is located on a property from which minerals had not previously been produced,

2. a mine that was before December 31, 1994 a closed or abandoned mine within the meaning of the *Mines Act*,

3. a mine that had ceased operations and had laid off substantially all of its operating work force before December 31, 1994,

4. a mine that was expanded to the extent that the greatest designed capacity, measured in tonnes of input of ore, of the mill that processed the ore from the mine was not less than 25% greater than it was in the fiscal year immediately preceding the expansion.

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In the cases of reopenings or expansion, only costs related to the reopening or expansion will qualify.

Current forms and copies of Bill 16, "Mineral Tax Amendment Act, 1994" are available from the ministry's Resource Revenue Branch. Information on the 1994/95 budget's other mining programs are available from the Communications Branch (250)952-0606.

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