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REVISIONS IN MINING TAXATION PROPOSALS

The Minister of Finance, Mr. E.J. Benson, recently outlined for the consideration of provincial governments three major revisions to proposals contained in the Government's White Paper on taxation involving the taxing of the Canada mining industry. The proposed changes were explained in a letter to provincial finance ministers and treasurers as a basis for discussions at their regular quarterly meeting in Ottawa on September 17.

Two revisions would broaden tax incentives for development and processing. The third would recognize the potential combined impact of corporation taxes and provincial mining taxes under the White Paper system. It would make additional "tax room" available to provincial governments and give them flexibility to increase their own revenues or to reduce or selectively alter the total weight of taxes on mining profits.

The expenditures "earnings" depletion (qualifying for deduction from taxable profits) would be widened to include: costs of certain ore-processing facilities; and certain expenditures connected with major expansions of a mine.

The third change would increase the federal abatement for provincial corporate taxes on taxable production profits from a mine to 25 percentage points from 10 percentage points and reduce the net rate of federal tax to 25 per cent from 40 per cent. This would introduce flexibility for the provinces in adjusting their own rates of corporate tax, mining taxes, or both, to meet conditions in the industry generally or in particular sectors.

RATIONALE OF MINING TAXES

For many years, special rules have been applied in determining the income derived from mining.

The White Paper on tax reform proposed to revise these rules substantially "to ensure that really profitable projects pay a fair share of the national revenues, as other industries do, and that the inducements offered are efficient". It emphasizes, however, that special rules are still needed for the mineral industry. It recognizes that exploration for and development of mines and oil and gas involve more than the usual industrial risks and that the scale of these risks is quite uncertain in most cases.

Under present tax laws, mining companies enjoy three main concessions: a three-year tax exemption for new mines; automatic depletion allowance of 33 1/3 per cent of production profits; immediate deduction of exploration and development costs.

The White Paper would replace the three-year tax exemption for new mines with a special rule permitting capital costs of fixed assets purchased for the development and operation of a new mine to be charged off against income from that mine as quickly as desired.

This change would take effect in 1974 at the expiration of the period for which the Government in 1967 gave assurances that the three-year exemption would continue.

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