

MINING, TAXATION AND THE FREE LUNCH

The City of Whitehorse has recently asked the Yukon Government to extend the mining claim staking moratorium that covers roughly three quarters of the area within the municipal boundary for another five years.

Why a moratorium and not a ban?

Well, it is the fiscal fantasy of almost any Canadian municipality to have an operating mine within its boundaries. The reason is tax revenue.

Should a mine set up shop within City limits, the municipality could be the recipient of a fiscal windfall from property taxes, development charges and municipal licenses.

As an aside, the Yukon Conservation Society would not necessarily be opposed to a mine operating within Whitehorse, or any other Yukon community for that matter.

An environmental argument can easily be made for this. Better to have all that habitat destruction within an area that is already subject to urban rural sprawl rather than in a pristine area. Mining has a long history within the current municipal boundaries of Whitehorse, as the Kopper King and Whitehorse Copper mines can attest.

But let's get back to taxes. Mining should be a source of revenue for any jurisdiction that permits it. The mining industry permanently removes non-renewable resources from the territory; the territory should be compensated for this.

One way to look at it: if the mining industry is going to be removing public resources for their private gain, they must compensate the public for the costs associated with this. This can be done through what is known as the royalty system. However, mining royalties in the Yukon (and their ludicrously low levels) are another topic that has YCS pulling out its hair – more on this later.

But another reason why the mining industry should be a source of revenue is that the resource extraction companies are dependent on many public goods and services. This includes a workforce educated at local schools, roads paid for by the rest of us, hydro-lines built with tax-dollars, and so on. The mining industry benefits from these human and infrastructure resources so they should pay into them.

This revenue can be in the form of: royalties; corporate taxes; consumption taxes that the mining company will pay on purchases; or even in the form of municipal property taxes.

Note that the emphasis is on 'can' because in a lot of jurisdictions governments that have the power to impose taxes and fees on mining companies and their operations either don't, or ensure they are very low.

It would appear that governments do this in order to attract mining operations to their jurisdictions. The issue that then comes up is: what is the benefit, apart from jobs, to the jurisdiction that does this?

This might be an appropriate question to ask of the jurisdiction in which we all live. The Government of Yukon recently announced it will reduce the general corporate tax rate from 15 per cent to 12 per cent. A certain mining company with a project in development in the Yukon even issued a press release praising this.

For perspective, it is worth considering what percentage of its annual revenue of about \$1.2 billion the Yukon Government receives from corporate taxation. It's about one percent. In comparison it receives over 70 percent from the Federal Government. So one can see why it's easy to lower territorial corporate taxes. As long as the incredibly generous Federal gravy train keeps rolling there is no incentive to increase the amount that territorial corporate taxes bring in.

Apart from corporate taxes, another way for governments to raise revenue is to levy a charge on the natural resource being extracted.

This is known as a royalty, and in the Yukon that means mining companies pay a royalty for the minerals they remove from the ground. Minerals in the ground belong to the Yukon (or a First Nation with Category A settlement land). As they are not renewable a fee has to be paid to the owners of the resource by the company that removes them.

To the Yukon's shame, royalties are ridiculously low. Placer mining royalties are thirty-seven and a half cents per ounce of gold (currently worth about twelve hundred dollars an ounce). Hard-rock royalties are a little better, but not by much.

Hard-rock mining companies can usually deduct so many up-front costs involved with establishing a mining operation that the first couple of years will usually see little to zero royalties being paid. Exhibit A in this regard is the Wolverine Mine. It ran for three years and didn't pay a single cent in royalties.

So, that brings us to taxation if a jurisdiction wants to raise revenue from resource extraction.

The Yukon's new twelve percent general corporate tax rate brings us into line with most other provinces and territories. Nunavut is also 12%, and Northwest Territories is 11.5%. British Columbia is 11%.

One can almost understand the logic of why the Yukon Government lowered the corporate tax rate: it has to stay 'competitive' with other jurisdictions.

What it all boils down to is a race to the bottom when it comes to tax rates in order to attract resource extraction companies. The end result is that Territorial and Provincial governments are giving away our non-renewable resources with almost nothing in return.

Note that this article does not look at the additional cost mining operations can impose on the taxpayer. For example, public funds spent on mine site cleanups, and the use of flow-through share initiatives to reduce tax payments to the public purse from investors in mining exploration operations.

Also not being discussed is the fact that some mining companies, not overly burdened by taxes and royalties, feel able to contribute directly to political parties. This is out of the goodness of their corporate hearts, no doubt, but nonetheless illustrates that they have adequate extra revenue to splash around.

It is time for resource extraction companies to contribute to the public coffers as well. It's time to ask resource extraction companies to pay their fair share. Through reasonable taxes and royalties, governments can fund the services and infrastructure we all, including the mining companies, rely on.

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