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CLIENT UPDATE

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2013 Federal Budget: Essentials for the Mining Industry

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The federal budget, released on March 21, 2013, contains tax measures specifically affecting the mining industry. In particular, Budget 2013 proposes to phase out both preferential deductions for pre-production mine development and the accelerated capital cost allowance for new mines and eligible mine expansions. On the positive side for the mining sector, the Mineral Exploration Tax Credit ("METC") for individuals investing in flow-through shares has been extended for another year – this is a critical tax incentive for the junior mining companies who are facing difficult market conditions to raise capital.

(1) Phase-out of Preferential Deductions for Pre-Production Mine Development

Budget 2013 proposes that pre-production mine development expenses be transitioned from Canadian exploration expense (CEE) into Canadian development expense (CDE). Currently, pre-production mine development expenses are treated as CEE deductible at a rate of 100 percent in the year incurred or carried forward indefinitely for use in future years. In contrast, CDE is deductible at a rate of 30 percent per year on a declining-balance basis.

> *The transition from CEE to CDE treatment will be phased in, with pre-production mine development expenses being allocated proportionally to CEE and CDE according to the following schedule based on the calendar year in which the expense is incurred:*

Year	2013	2014	2015	2016	2017	After 2017
CEE proportion	100%	100%	80%	60%	30%	---
CDE proportion	---	---	20%	40%	70%	100%

What are the transitional rules for the phase-out?

This measure will generally apply to expenses incurred on or after budget day. However, *the existing CEE treatment for pre-production mine development expenses…will also apply for expenses incurred before 2017 either:*

- *under a written agreement entered into by the taxpayer before budget day; or*
- *as part of the development of a new mine where qualifying*
  - *construction was started by, or on behalf of, the taxpayer before budget day, or*
  - engineering and design work for the construction, as evidenced in writing, was started by, or on behalf of, the taxpayer before budget day.

(2) Phasing-Out of Accelerated Capital Cost Allowance for Mining

Most machinery, equipment and structures used to produce income from a mining project are eligible for a capital cost allowance ("CCA") rate of 25 percent on a declining-balance basis.

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In addition, an accelerated CCA has been provided for certain assets acquired for use in new mines or eligible mine expansions. This accelerated CCA takes the form of an additional allowance that supplements the regular CCA deduction, which effectively defers taxation until the cost of eligible assets has been recovered by the taxpayer from the mining project. Budget 2013 proposes to phase-out this additional accelerated CCA. The phase-out will begin in 2017, when only a portion of the additional accelerated CCA may be claimed, and will be completed by 2021.

A taxpayer will be allowed to claim a percentage of the amount of the additional accelerated CCA otherwise permitted under the existing rules according to the following schedule:

Year	2013-2016	2017	2018	2019	2020	After 2020
Percentage	100%	90%	80%	60%	30%	---

What are the transitional rules for the phase-out?

The new rules will generally apply to expenses incurred on or after budget day. However, the accelerated CCA will be maintained for eligible assets acquired before 2018 for a new mine or a mine expansion either:

- *under a written agreement entered into by the taxpayer before budget day; or*
- *as part of the development of a new mine or as part of a mine expansion where qualifying*
    - *construction was started by, or on behalf of, the taxpayer before budget day, or*
    - *engineering and design work for the construction, as evidenced in writing, was started by, or on behalf of, the taxpayer before budget day.*

(3) Extension of the METC for Flow-Through Share Investors

The METC is an additional benefit available to individuals who invest in flow-through shares equal to 15 percent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors. Budget 2013 proposes to extend eligibility for the METC for an additional year, which will cover flow-through share agreements entered into on or before March 31, 2014. Under the existing "look-back" rule, funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the following calendar year so with "look-back," this extension of METC can support eligible exploration until the end of 2015.

*The above includes excerpts from *Jobs Growth and Long-Prosperity: Economic Action Plan 2013*

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