

# MINING TAX POLICY RESPONSES TO COVID-19:

## Key points for policy makers

### Assessing the Need for Mining Tax Policy Relief

**Aim for efficiency:** obtain the best results with limited resources.

#### Sector-Wide vs. Company-Specific Measures?

Context should dictate whether tax policy measures should be granted to the whole mining sector or only to the most affected companies. Factors to consider:

- Whether mining is uniformly affected by the crisis, or just some commodities or companies.
- Some companies may make more profit during the crisis and should be excluded.
- Consider limiting any relief to companies which employ a significant workforce.
- Existing mines are a priority for tax relief, not new and uncertain investments.
- Any tax relief should go to the locally incorporated and licensed company, not a foreign entity or parent company in another jurisdiction.

#### Which Mine Requires Government Support?

Governments should screen companies and provide specific tax relief only to those that can reliably demonstrate that they are in severe financial distress and may have to lay off their workforce and close their operations. Factors to consider:

- The mine's project cash flows are negative and could be for more than a year.
- The price of the commodities produced drop sharply.
- The mine lacks the funds to pay its tax obligations by the due date.

- The mine is closed for quarantine.
- The mine is at risk of having to lay off many workers and close operations due to temporary economic factors.
- The mine cannot meet its debt obligations and is at risk of default.
- The mine's parent company lacks the financial strength to step in and support the mine to meet its debt obligations in the event of financial difficulty.
- The mine or its parent company paying dividends in 2020 disqualifies it for relief.

#### Conditions for Government Support

If governments provide important financial relief to their mining sector, it should come with certain conditions attached. Mines receiving support should:

- Retain all workers, or an agreed percentage of workers, at regular salaries.
- Withhold bonuses and salary increases for company executives and potentially defer payment.
- Cancel dividends to shareholders except those connected to the government's equity stake.
- Abandon all artificial tax avoidance arrangements (e.g., treaty shopping, BEPS, tax havens).
- Adopt modern, transparent, and fair transfer pricing practices.
- Adopt transparent pricing for all mineral sales, based on international benchmark prices.



## Short Term Mining Tax Relief Options

Once governments decide to provide financial relief to their mining sector, and under what specific conditions, there are short term mining tax relief options to consider:

**Defer payroll taxes** – For mines in financial distress, a temporary deferral, or even exemption of payroll taxes may be an option, while taking care to ensure that employees are exempted from any resulting future liabilities should they arise.

**Value-added tax relief** – Speed up the payment of VAT refunds. If this is not possible, exempt or zero-rate goods and services typically supplied to the extractive industries; or allow companies to offset VAT credits against other tax liabilities.

**Import duty relief** – Exempt all supplies required to fight the spread of the COVID-19, protect and treat employees and their families. Short-term exemptions may also be necessary for specific items that cannot be sourced locally, that are critical to keeping mines operational (e.g. fuel, reagents).

**Immediate deduction or tax credit for health-related expenditure** – Allow companies to immediately deduct capital costs incurred in protecting the health of workers, affected mining communities, and

host countries, or even offset them against royalty or tax payments.

### Deferral or waiver of mineral royalties –

Royalty waivers should only be used as a last resort, for mining projects whose short to medium term viability is at risk from temporarily lower commodity prices. In return, countries could increase the level of government equity in the mine, or consider the royalty amount as a government loan to be paid later in cash or in kind.

All of the measures above should:

- Be clearly defined.
- Have clear eligibility criteria and procedures for application.
- Have time limits, including options for review.
- End and be removed post-recovery from COVID-19.

### Specific Measures to Avoid

**Income tax holidays** – This form of relief is only relevant if a mining company is profitable, and in a tax paying position, in which case it should not be requesting tax relief under the current circumstances.

**Withholding tax relief** – Withholding taxes are easy for developing country governments to collect, which is especially critical at a time when human and financial resources are even more stretched than normal.

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