

April 29, 2014

Hon. Laurel Broten

Nova Scotia Tax and Regulatory Review: Charting a Path for Growth

Department of Finance and Treasury Board

Sent via email: taxreview@gov.ns.ca

Dear Ms. Broten:

I am writing on behalf of Nova Scotia's mining and quarrying industry to provide input to the "Nova Scotia Tax and Regulatory Review" for your consideration; specifically how the Government of Nova Scotia can support job creation and economic growth in our industry through the tax system.

Background

While we are a large and important industry in this province – we employ 5500 people and generate \$420 million per year in economic activity – we also face significant challenges:

- The Ivany Commission said traditional industries like mining and quarrying "will provide the essential foundations for Nova Scotia's rural economy."¹ At the same time, Ivany also highlighted the challenges our industry faces, including the need for government to "provide a modern and responsive legislative framework to support and promote sustainable mineral resource management."
- According to 2013 research commissioned by the Department of Natural Resources (DNR), Nova Scotia's mining and quarrying industry lost approximately 800 jobs in the past five years, and its economic output shrank by \$80 million per year.²
- According to PricewaterhouseCoopers, we are the highest cost jurisdiction in Canada in terms of royalty/tax payments to the provincial government.³
 - Nova Scotia's corporate income tax rate applicable to mining is 16%, tied for highest in the country with PEI.
 - Nova Scotia's general tax and mining tax combined rate is 31%, which is again the highest in the country, tied only with PEI, which does not have a mining industry of any significance.
- According to a global survey of mining executives, Nova Scotia is seen as the least attractive province for mining companies to invest in, and government policies are a major reason.⁴ 2013 was the fifth year in a row that Nova Scotia ranked last in Canada.

¹ <http://onens.ca/>

² http://novascotia.ca/natr/meb/data/pubs/13ofr03/ofr_me_2013-003.pdf

³ www.pwc.com/ca/canminingtax, see exhibit 6, page 21 of the 2013 edition

⁴ <https://www.fraserinstitute.org/research-news/display.aspx?id=20902>

Following are key tax and fee issues that the government should address to help us grow and create more jobs for Nova Scotians, particularly in rural areas.

Fuel Tax Rebate

The government should follow through on its commitment to extend the off-highway fuel tax rebate to the mining and quarrying industry. Doing so would help the industry grow and create jobs for Nova Scotians, particularly in the rural areas that are in such desperate need of help, and send a signal to the global mining industry that Nova Scotia is open for business.

As you know, the provincial fuel tax is supposed to help pay for public roads and highways by charging the vehicle owners who use them. The government gives other resource industries a tax rebate for fuel used in vehicles that do not go on public roads, such as fishing boats, farm tractors and forestry harvesters. Nova Scotia gives the rebate to fishing, farming and forestry, but does not give it to mining and quarrying even though most of our vehicles also do not use public roads and highways.

The government should treat all resource industries the same. Forestry, fishing and farming get the fuel tax rebate. The mining and quarrying industry should get it too.

Both in opposition and since forming the government, the Nova Scotia Liberal Party has committed to extending the rebate to the industry and we look forward to the government following through on this important promise.

Recommendation: Extend the fuel tax rebate to the mining and quarrying industry.

Staking Fee Hike

As per our April 11, 2013 letter to Natural Resources Minister Churchill (appended for ease of reference), the provincial government increased claim staking fees by 75% in August 2013.

These huge fee increases are discouraging exploration and are particularly hard on individual prospectors who simply cannot afford them. Many prospectors intend to abandon claims because the fee hike, applied to significant numbers of claims, can increase fees by thousands of dollars. In other words, prospectors are giving up their claims and walking away from potential future mines because they simply cannot afford to keep them. The Ivany Commission said mining is an essential part of Nova Scotia's economic future but the government is choking off the future of our industry with these fees.

To illustrate the impact of the fee hikes:

- A prospector with 50 claims now has to pay \$9500 in fees over ten years instead of \$5,424 prior to the fee hikes, an increase of \$4076.

- A prospector with 300 claims now has to pay \$57,000 in claim renewal fees over ten years instead of \$32,547 prior to the fee hikes, an increase of \$24,453.

These claims fees are in addition to various other fees and work requirements imposed by DNR.

Because prospectors are at the beginning of the long and difficult mining cycle, their claims usually generate no revenue during this ten-year period and the vast majority never result in an actual mine being developed. They therefore cannot afford such a dramatic increase in costs.

The fee hike also puts Nova Scotia fees dramatically out of step with other Atlantic provinces. The new fees are, on average, 53% higher than New Brunswick's and 621% higher than Newfoundland and Labrador's.

Industry Survey

According to a recent survey of Mining Association of Nova Scotia and Nova Scotia Prospectors Association members, 79% of prospectors and explorationists expect to drop at least some of their claims within one year of the fee hike, before annual renewal fees are due. 54% of survey respondents plan to drop over half their claims.

The survey also found that 87% believe the fee hike will harm their business and 88% believe the fee hike will harm the province's mining industry.

Harm of Fee Hike disproportional to Revenue Generated

It is also important to note that the incremental revenue the fee hike will generate for the government (i.e. \$75,000-\$85,000) is virtually insignificant in context of the government's \$9.9 billion budget. The harm being caused to the industry by the fee increase is completely disproportional to the small amount of revenue being generated for the government. The fee increase is particularly short-sighted given the millions of dollars in taxes and royalties that a single mine can generate.

In other words, the government can afford to give up the fee hike money. Prospectors cannot.

Additional background on this issue is in our April 11 letter.

Recommendation: Reduce claim staking fees to what they were prior to the August 2013 increase.

Mineral Resources Act

As part of the Department of Natural Resources' current review of the Mineral Resources Act (MRA), MANS submitted a comprehensive, 9000-word document that highlights over two dozen ways in which the government can improve the policy environment for our industry, a number

of which related to taxes, royalties and fees.⁵ The staking fee issue discussed above is discussed in our submission, as are the issues below which we flag for your consideration.

While these issues may ultimately be addressed by DNR through the MRA review, we respectfully request that you also consider them as part of the Nova Scotia Tax and Regulatory Review because they are important suggestions for how the government can reduce the overall cost of operating in Nova Scotia.

Regrouping Claims

The cost of regrouping contiguous claims in Nova Scotia can be very expensive, an issue that was exacerbated by the recent 75% hike in staking fees. The cost of regrouping claims is tied to the oldest of the claims being regrouped – the highest renewal fees, in other words – so regrouping contiguous claims can cost thousands of dollars depending on how long the claims have been held. Renewal fees are then added on top of the regrouping fees, giving claims holders a double whammy that makes regrouping claims unnecessarily expensive and, in many cases, simply not worth doing.

By comparison, New Brunswick allows claims to be regrouped for a simple administrative fee of \$20.

We propose that the cost of regrouping claims should be the same as New Brunswick's. Regrouping claims is a simple administrative matter, especially with NovaRoc⁶ in place, and the fee should reflect this.

Recommendation: Make the cost of regrouping claims a simple \$20 administrative fee.

Assessment Work Credits

The current list of allowed assessment work credits in section 38 of the MRA's regulations should be expanded to encourage prospecting and exploration at effectively no cost to the government.

Specifically, we recommend that the following be credited at 100%:

- Community consultations;
- Consultations with First nations;
- Landowner negotiations and compensation;
- Costs associated with preparation of environmental impact studies relating to exploration;
- Costs associated with the building of access roads; and

⁵ MRA review submission available at <http://tmans.ca/key-documents>

⁶ NovaRoc is a new online mineral registration system launched by DNR in 2013.

- Costs associated with remediation resulting from excavation registrations, drilling and metallurgical studies reported under section 50.

Recommendation: Expand the list of allowed assessment work credits and credit them at 100%.

Royalties

We understand that DNR is reviewing royalties as part of its broader review of the Mineral Resources Act.

Given that Nova Scotia is the highest-cost jurisdiction in Canada in terms of tax/royalty payments to the provincial government, the fundamental goal of the review of the royalty regime should be to lower royalties and thereby encourage prospecting and exploration, investment and the opening of new mines – in other words, to help the industry grow and create jobs. We again refer you to the PricewaterhouseCoopers report referenced above. It is important that the government keep in mind the overall tax and royalty burden on the industry as it reviews royalties, and how Nova Scotia's high tax and royalty regime is hurting the industry.

Recommendation: Lower royalties to make Nova Scotia more competitive with other jurisdictions and help encourage job creation.

Additional Measures

Other provinces support their mining industries through a variety of tax measures that the Government of Nova Scotia should consider, including:

- Royalty holidays for new mines and allowing companies to recover full capital costs before paying taxes;
- Establish a provincial flow-through share tax credit similar to Quebec's; and
- Lower corporate taxes.

Recommendation: Consider giving the industry the sorts of incentives that other provinces give their mining industries to support job creation.

Conclusion

While our industry has had some difficult years recently, our members are increasingly confident that they can reverse recent job losses and create increased opportunity for Nova



Scotians.⁷ As the Ivany Commission said, traditional industries like mining and quarrying "will provide the essential foundations for Nova Scotia's rural economy."

However, we need the government to help us by giving us a more supportive policy environment in which to do so, including reducing the cost of operating here.

The bottom line is that Nova Scotia is an expensive jurisdiction in which to operate and all government-imposed costs, including royalties, taxes, fees and the lack of a fuel tax rebate, need to be looked at holistically to make Nova Scotia a more attractive jurisdiction for investment and job creation. We believe that you are uniquely positioned to do this and hope that you will support the recommendations above.

Thank you for your kind consideration.

Yours truly,

Sean Kirby, Executive Director
Mining Association of Nova Scotia

Cc: Hon. Zach Churchill, Minister of Natural Resources
Hon. Diana Whalen, Minister of Finance and Treasury Board

⁷"Optimism rising on mining – survey," <http://thechronicleherald.ca/business/1186063-optimism-rising-on-mining-survey>