House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** PearTree Financial Services Ltd.

or

( ) **an individual** **Name:** _____

Topic: Forestry and mining

*Recommendation 1: Please provide a short summary of your recommendation.

The government should make the Mineral Exploration Tax Credit a permanent feature of the income tax system rather than review it each year as part of each federal budget cycle. METC is fundamental driver of exploration activities in the junior resource sector and is integral to Flow Through Donation Financing. FTDF combines flow through shares and charitable donation tax credits providing benefits to the charitable and junior resource sectors fulfilling government key objectives. Permanent METC would provide certainty to both sectors that the initiative remains in place and accessible.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$100 million -$499.9 million

1 year

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Finance Canada estimates the annual cost of the METC at $100 million. Making the METC a permanent feature of Canada's income tax system would not represent a new cost, as provisions have been made in the government's finances from year to year to reflect the annual extension of the tax credit. A 1994 report from Finance Canada reports that the spin-off effect of resource tax credits is such that one dollar of tax expenditure results in $2.6 of new (incremental) taxable exploration spending, illustrating that costs are offset by the taxable activities that are undertaken.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

METC is integral to Flow Through Donation Financing, it is a proven additional source of flow through early-stage mining risk capital for junior resource exploration companies giving Canadian companies a competitive advantage; it contributes to economic growth in remote and First Nations communities creating jobs and economic spin-off. It is a powerful philanthropic tool increasing major gifts or accelerating multi-year pledges. This offsets government's need for support to charities, allowing funding to be redirected to other priorities. Both aspects result in taxable inclusions.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

As noted in the 2013 budget METC incents high-risk junior mineral exploration investment providing $800 million annually in new financing for grassroots exploration. NRCAN reports that for each dollar of tax expenditure $2.6 of new (incremental) exploration spending is created. All exploration expenditures are taxable made up mainly of direct labour incurred in remote north communities. Entrenchment of METC results in planning certainty resulting in greater resource investment linked directly to more jobs, increased likelihood of future discoveries and labour intensive mining activities.

Topic: Forestry and mining

Recommendation 2: Please provide a short summary of your recommendation.

NRCAN or Finance should evaluate flow-through share tax cost and tax recovery to determine whether this tax incentive regime (including the Mineral Exploration Tax Credit “METC”) results in more or less total tax collected by the federal authority. As part of the analysis and based on information readily available from CRA, also determine the tax cost and tax recovery associated with the donation of flow-through shares, a format which provides investment capital to both the early stage resource sector and to the charity sector.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount Minimal

1 year

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

A comprehensive evaluation of the effects of flow through share financing on the junior mining and charitable sector should be funded from within the existing internal evaluations budget that is assigned to Natural Resources Canada.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

FTSF has been recognized as an incentive to drive investment in high risk exploration activities made up largely of labour job creation. Confirmation of the tax consequences will assist Finance in implementing policies which expand economic activities at what may be determined to be of little or no cost to the fiscal authority. The recent donation of FTS format fulfills two policies: investment in resource exploration and funding charity. Appreciation of the collective tax costs and recoveries associated with these incentives will assist in formulating policies that meet policy objectives.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

A comprehensive evaluation of flow through share financing from 2007 forward will illustrate the full range of benefits and economic spinoff provided by this initiative, including jobs in the junior mining and charitable sectors. As noted above, a 1994 report by Finance Canada determined that for $1 dollar of tax expenditure, $2.6 of new (incremental) exploration spending resulted. And in 2007, NRCAN examined Canada's experience with respect to FTS financing for junior mining companies and concluded that the multiplier for the period 2000 to 2007 appeared to be of similar magnitude.

Topic: Please select from the pull-down menu

Recommendation 3: Please provide a short summary of your recommendation.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

Please select from the drop down menu

Please select from the drop down menu

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Please use this page if you wish to provide more explanation about your recommendation(s).

The value of flow-through share financing has long been recognized as an incentive driving northern investment in high-risk exploration activities resulting in direct job creation. An integral element in this tax incentive is the Mineral Exploration Tax Credit (METC). These tax incentives are an expense to the fiscal authority. For example, the 2013 federal budget estimated the net tax cost of METC to be $100 million annually. However, in order for the tax incentives including the METC to be deductible in the hands of the investors, the mining companies receiving the funds have to use the capital on a short list of expenditures, made up largely of labour, lodging, food and fuel. As a result, the tax cost in favour of the investor is fully offset by taxable events incurred by the mining company. The added benefit is that the funds are provided by urban investors funding activities in northern communities. In 1994 a Finance Canada study determined that a dollar of flow-through tax expenditure resulted in $2.6 of new incremental exploration spending. Since the $2.6 is otherwise taxable, the net cost to the fiscal authority for the flow-through regime including the METC is likely nil or better. NRCAN updated and validated this estimate in 2007 for the period 2000 to 2007. Beginning in 2006 Canadian financial intermediaries began promoting a format under which those otherwise donating to charity would first invest in flow-through shares which were then immediately donated to charities of the donors' choice – typically hospitals and universities. The key element in this format is that the intermediaries arrange for liquidity for the charities so that the shares are immediately monetized. The charities issue a donation receipt for what is actually received in cash from the share purchaser. As a result of the flow-through deductions and the donation receipt from giving away the shares, the after tax cost of charitable giving is materially reduced. This format now known as Flow-through Donation Financing (FTDF) has a number of economic benefits. For the resource sector it materially expands the availability of capital to fund exploration; for the charity sector it expands donations. These benefits are demonstrable from CRA filings over the past seven years. Both the flow-through incentive and donation tax receipt are costs to the fiscal authority. However, both are offset by taxes recouped due to the taxable nature of the use of funds spent by both the exploration companies and charities. In recommending an evaluation of the tax costs and recoveries associated with the flow-through regime including the added element of the donation of these shares, we believe that government may likely demonstrate material economic and net tax benefits. In doing so it can formulate policy which entrenches METC as a net tax addition to the fiscal authority; and to adopt policies which expand economic activity at little or no cost to the fiscal authority.

*Please note that at least one recommendation must be provided