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POLICY RESOLUTION TEMPLATE

RESOLUTION TITLE: Increasing Mine Stimulus Through the Ontario Flow-Through Share Tax

SUBMITTED BY: Timmins Chamber of Commerce

ISSUE

Mining is fundamental to northern Ontario's economic and social health. The industry provides jobs that anchor Northern Ontario communities. Maintaining the health of the mining industry requires mineral exploration. Lack of exploration for new and expanded resources limits or eliminates future mine development.

BACKGROUND

Programs that encourage mineral exploration are paramount to the economic wellbeing of our province and mining communities. The mining industry has played an essential role in the economic growth and sustainability of many communities. Ontario is one of the largest mining regions globally, producing more than 25 different minerals and metals and directly employs 480 people, creates more than 1,100 indirect jobs in the supply and service sector and about 700 induced jobs in the retail industry for a total of 2,280 jobs.¹ This industry provides some of the highest weekly earnings in the economy, and exports of minerals and mineral-based products contribute close to \$12 billion a year to the provincial gross domestic product.²

The Ontario Focused Flow-Through Share (OFFTS) Tax Credit is intended to stimulate mineral exploration in Ontario and improve capital for small mining exploration companies. Currently, the OFFTS for shareholders is 5 percent, which is the lowest in Canada.³ In comparison, the British Columbia Mining Flow-Through Share Tax Credit is 20 percent, the Saskatchewan Mineral Exploration Tax Credit is 10 percent, and the Manitoba Mineral Exploration Tax Credit is 30 percent.⁴ On average, 68 percent of the funds for exploration in Canada on the Toronto Stock Exchange were raised through flow-through share financing. Currently, public offerings on Canadian exchanges are deteriorating. There was a 23 percent decline in 2018 and a 10 percent decline in 2017.⁵ Public offerings have presently hit a decade low, while the proportion of private transactions reached a high in 2018.

Flow-through share agreements help raise equity by enabling mining corporations to issue shares with particular tax benefits favouring their subscribers at a premium. In a flow-through share agreement, the issuing corporation agrees to incur certain expenses eligible for tax breaks, such as those mentioned above, in an amount equal to the consideration received and to renounce to those same eligible expenses in favour of their subscribers. This renunciation is most alluring to investors since it allows eligible expenses to be deemed, for income tax purposes, the investor's expenses, not those of the mining corporation. As a result, investors pay a higher price for flow-through shares than would have been otherwise willing to pay for ordinary, non-flow-through common shares. Depending on the general market and the miner's prestige, flow-through share offerings can be priced at a considerable premium to the corporation's ordinary non-flow-through common share price.⁶

¹ Dungan, Peter and Murphy, Steve. Ontario Mining: A partner in Prosperity Building, The Economic Impacts of a 'Representative Mine' in Ontario. Institute for Policy Analysis, University of Toronto, 2007.
<https://www.oma.on.ca/en/ontariomining/resources/RepMineFinalReportDec07.pdf>

² Economic Contribution <https://www.oma.on.ca/en/ontariomining/EconomicContribution.asp>

³ Flow-through Shares <https://www.miningtaxcanada.com/flow-through-shares/>

⁴ Ibid.

⁵ Lortie, Pierre. Entrepreneurial Finance and Economic Growth: A Canadian Overview. C. D. Howe Institute, Commentary No. 536, 2019.

⁶ <https://www.northernminer.com/regulatory-issues/commentary-deciding-whether-or-not-to-use-flow-through-shares-in-quebec/1003768265/>

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But let's focus on Quebec and the principal tax incentive schemes available to mineral exploration activities in the province, as well as the costs and intricacies associated with flow-through share financing by operating mining corporations. To help mining corporations jumpstart their often risky operations, the federal and Quebec governments have set out tax incentives for mineral exploration and mine development. However, we will limit our comments to those available with respect to Canadian exploration expenses (CEE) incurred by mining corporations.

Similarly, the extension of the spending timelines for the British Columbia Mine Flow-Through Shares tax credit aligns with the proposed temporary federal timelines extension to incur expenses for flow-through shares.⁷ Flow-through shares provide an attractive mechanism for mining companies to raise funds for their projects.⁸

Quebec and British Columbia have successfully created jobs in the mining sector by providing tax incentives that work, are successful, and verifiable.⁹ In Quebec's case, fully refundable tax credits of 38.75 percent are provided, and British Columbia provides a fully refundable credit of 30 percent. Otherwise stated, if a mining exploration company spends \$1 million in exploration, these governments will reimburse the company \$387,500 and \$300,000, respectively.¹⁰ The refund must be reinvested in exploration activities, creating additional jobs, as exploration activities are primarily labour expenses. As an alternative, Quebec and British Columbia mining exploration companies can issue flow-through shares under the Income Tax Act, in which case individual investors access both federal and provincial tax credits. In Quebec's case, the net investor incentive is about 38.75 percent, and in British Columbia, it is 20 percent and is considering an increase to this credit.

However, at this juncture, we are not recommending incentives that are fully refundable even though Natural Resources Canada (NRCan) has proven that there are three dollars of taxable activity in the North for every dollar of tax expenditure.¹¹

Increasing the Ontario Flow-Through Tax Credit from 5 percent to 25 percent would allow for additional credit to the flow-through regime in which private individuals fund exploration activities. It is recommended that a pilot project on flow-through financings be undertaken. If tracked, this government can be assured that exploration tax credits are a net tax gain to the Treasury while creating jobs in the North while using this data to determine whether additional credits are warranted to further accelerate mining exploration and development.

Ontario communities are consistently competing against other global jurisdictions for mineral exploration investment, and in the global marketplace, it is imperative to have an edge.¹² With mineral reserves reaching an all-time low, it is critical for the survival of many communities that an abundance of exploration activity takes place now to be able to find and mine viable deposits.¹³ It is vital to keep the momentum going while

⁷ <https://www2.gov.bc.ca/gov/content/taxes/income-taxes/personal/credits/mining-flow-through>

⁸ The Use of Flow-through Shares in the Canadian Mining Sector Amidst Covid-19 [www.airdberlis.com - https://www.airdberlis.com/insights/publications/publication/the-use-of-flow-through-shares-in-the-canadian-mining-sector-amidst-covid-19](https://www.airdberlis.com/insights/publications/publication/the-use-of-flow-through-shares-in-the-canadian-mining-sector-amidst-covid-19)

⁹ Raymond Chabot Grant Thornton. Taxation in Québec: Favourable Measures to Foster Investment, 2019. <https://www.investquebec.com/documents/qc/publications/TaxationInQuebec.pdf>

¹⁰ Ibid.

¹¹ Handbook of Public Economics, vol. I, edited by A.J. Auerbach and M. Feldstein, 1985. Elsevier Science Publishers B. V. (North-Holland)

¹² The Canadian Minerals and Metals Plan: Proposed Government Actions to Address Canada's Declining Mineral Industry Competitiveness A brief to the 76th Energy and Mines Ministers' Conference Cranbrook, British Columbia, July 2019

¹³ Burkhardt, Rike, Rosenbluth, Peter, Boan, Julee. Mining in Ontario: A Deeper Look, 2017. <https://ontarionature.org/wp-content/uploads/2017/10/mining-in-ontario-web.pdf>

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investors are supporting this cyclical industry. On average, it takes eight to fifteen years of work to bring a new mine into production; therefore, we need to encourage as much exploration as possible during this upswing. We need a continuum in the mining industry to further bring economic prosperity to communities that rely on this means for developmental sustenance. What Ontario, especially Northern Ontario, needs now is an increase to the Flow-Through Tax Credit.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. To further accelerate mining exploration and development, immediately increase the Ontario Flow-Through Tax Credit from 5 percent to 25 percent.