OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

# Legislative Costing Note

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| Publication date: | 2020-12-16 |
| Short title: | Supporting Jobs and Safe Operations of Junior Mining Companies |
| Description: | This policy extends the period that junior mining exploration companies and other issuers of flow through shares (FTS) have to spend the capital raised through the use of FTS agreements by an additional 12 months. This policy applies to FTS agreements that were entered into to fund Canadian exploration expenditures (CEE) using the general rule after March 2018 and before the end of 2020 or, in the case of the look-back rule, in 2019 and 2020. The policy provides an additional 12 months for firms to incur eligible CEE before losing the tax benefits tied to the FTS or having to pay fines associated with failing to incur expenses within the time frame specified by the agreement. |

Data sources:

| Variable | Source |
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| Prescribed Rates of Interest for the Calculation of the Part XII.6 Tax | Canadian Revenue Agency (CRA) |
| Mineral Exploration Tax Credit (METC) Claims | Canadian Revenue Agency (CRA) |
| Renouncements under the General Rule and the Look-back Rule | Statistics Canada |
| Effective Corporate Income Tax (CIT) Rate | Statistics Canada |
| Effective Personal Income Tax (PIT) Rate | SPSD/M 28.0[1] |
| Mining Exploration and Deposit Appraisal Expenditure | Natural Resources Canada |

[1] This analysis is based on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO

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| Estimation and projection method: | Historic data on the METC and the amounts renounced using the general and look-back rules were used to estimate the share of CEE that had been financed by individuals. The cost to the government stems only from funds raised and renounced using the look-back rule. This type of funding is renounced before the expenditure occurs and so would not have accounted for the impact of COVID. This is not the case under the general rule, where spending can adjust before the renouncement occurs.<br><br>In the absence of the policy, CIT, PIT and METC tax benefits would be clawed-back. In addition, interest and fines would be collected if the spending in the following years differed from what was renounced using the look-back rule in 2019 and 2020. It was assumed that under normal circumstances firms would spend the funds raised using the look-back rule uniformly over the year following the one when the expenditures were renounced. Starting March 2020, firms would decrease spending for the rest of 2020 as a result of COVID. The decrease was proportionate to the largest year-over-year decrease in METC claims in the historic data available. Firms are expected to return to pre-COVID spending patterns in 2021 onwards.<br><br>The claw-backs were calculated based on the difference that remained between the renouncement and expected spending in response to COVID by the end of the year. The PIT claw-back was calculated by multiplying the difference by the percentage held by individuals and the effective PIT rate. The CIT claw-back was calculated by multiplying the difference by the percentage held by corporations and the effective CIT rate. The METC claw-back was calculated by multiplying the difference by the percentage held by individuals and then by 15%. The value of the METC claw-back was then multiplied by the PIT rate to determine additional taxable income in the following year. The Part XII.6 fees and penalties were calculated according to the process detailed in Form T101C. The renounced values were adjusted to account for provincial differences in levied fees for unspent commitments. The prescribed interest rates provided by CRA were used to determine the monthly fees on the balance of unspent commitments. What remained at the end of the year determined the value of the 10% penalty.<br><br>Any amount that remained at the end of the year was carried forward into the following year and the same process was applied. This value was not eligible for extensions or reliefs resulting in revenues for the government. |
| Aggregate Results: | PBO estimates that the net cost of the policy will be $32.5 million from 2019-2020 to 2021-2022. |
| Sources of Uncertainty: | The cost estimates are sensitive to how firms' behavior adjusts in response to COVID. It is assumed that pre-COVID spending plans will resume in 2021, but firms may not have fully accounted for the pandemic in how they operate by then. The results can also be impacted if the renouncement in 2020 differs from current expectations. Limited data is available on when firms raised funds using general or look-back rule, and how they spent it. The estimates may be affected if the assumption of uniform spending over the following year does not hold. |
| Prepared by: | Mark Creighton |

## Cost of proposed measure

| $ millions | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2024-2025 |
|---|---|---|---|---|---|
| Cost | 8.5 | 25.5 | 1 | - | - |
| Cost Recovery | - | -0.5 | -2 | - | - |
| Total | 8.5 | 25 | -1 | - | - |

Notes:
Estimates are presented on an accruals basis as would appear in the budget and public accounts.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
"-" = PBO does not expect a financial cost