
Global Certificate in Mining Law

Mining Taxation and Royalties

Mining Taxation and Royalties Glossary

Ad Valorem Tax: An ad valorem tax is a tax based on the assessed value of an item, such as minerals extracted from a mining operation. The tax rate is typically a percentage of the value of the minerals extracted.

Base Erosion and Profit Shifting (BEPS): Base erosion and profit shifting refer to tax planning strategies used by multinational companies to exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax jurisdictions.

Beneficiation: Beneficiation refers to the process of improving the value of ore by removing impurities or upgrading the ore to a higher grade. This can increase the market value of the minerals and result in higher royalty payments.

Depletion Allowance: A depletion allowance is a tax deduction allowed to mining companies for the depletion of mineral reserves. It is designed to account for the reduction in the value of mineral reserves as they are extracted.

Double Taxation Agreement (DTA): A double taxation agreement is a treaty between two countries that aims to prevent the same income from being taxed twice. DTAs can impact how mining companies are taxed on their operations in different countries.

Excise Tax: An excise tax is a tax imposed on specific goods, such as minerals, produced or sold within a country. Excise taxes are typically included in the final price of the product.

Export Duty: An export duty is a tax imposed on goods that are exported out of a country. Mining companies may be subject to export duties on the minerals they extract and sell overseas.

Exploration: Exploration refers to the process of searching for minerals in a specific area. It involves activities such as geological surveys, sampling, and drilling to determine the presence and quality of mineral deposits.

Free Carry Interest: A free carry interest is a share of ownership in a mining project that is provided to the government or a local community without requiring them to contribute financially to the project. This can be a form of compensation for the extraction of mineral resources.

Joint Venture: A joint venture is a business arrangement in which two or more parties agree to combine their resources and expertise to undertake a specific project, such as a mining operation. Joint ventures can

be formed between mining companies, governments, or local communities.

Mine Development Agreement (MDA): A mine development agreement is a contract between a mining company and the government that outlines the terms and conditions for the development and operation of a mining project. MDAs typically cover issues such as royalties, taxes, and environmental regulations.

Mine Rehabilitation: Mine rehabilitation refers to the process of restoring a mining site to a safe and environmentally sustainable condition after mining activities have ceased. This can involve activities such as regrading land, planting trees, and treating water to prevent pollution.

Mineral Resource Rent Tax (MRRT): A mineral resource rent tax is a tax imposed on the economic rent generated from the extraction of non-renewable resources, such as minerals. The tax is designed to capture the excess profits made by mining companies due to high commodity prices.

Net Smelter Return (NSR): The net smelter return is the revenue generated from selling the mineral concentrate produced from a mining operation after deducting smelting and refining costs. Royalties are often calculated based on the NSR of a mining project.

Production Sharing Agreement (PSA): A production sharing agreement is a contract between a government and a mining company that governs the sharing of production from a mining project. Under a PSA, the government typically receives a share of the minerals produced in exchange for granting the right to mine.

Resource Nationalism: Resource nationalism refers to government policies aimed at increasing state control over natural resources, such as minerals. This can involve measures such as higher taxes, royalties, or ownership requirements for mining companies.

Royalty: A royalty is a payment made by a mining company to the owner of the mineral rights for the right to extract and sell minerals. Royalties are typically calculated as a percentage of the value of the minerals extracted.

Severance Tax: A severance tax is a tax imposed on the extraction of non-renewable resources, such as minerals, oil, or gas. Severance taxes are typically levied based on the volume or value of the resources extracted.

Special Economic Zone (SEZ): A special economic zone is a designated area within a country that is subject to specific tax breaks, regulations, or incentives to attract investment and promote economic development. Mining companies operating in SEZs may benefit from reduced tax rates or other incentives.

Transfer Pricing: Transfer pricing refers to the pricing of goods, services, or intellectual property transferred between related entities within a multinational company. Transfer pricing can impact the tax liabilities of mining companies with cross-border operations.

Value-Added Tax (VAT): A value-added tax is a consumption tax imposed on the value added at each stage

of the production and distribution of goods or services. Mining companies may be required to pay VAT on their inputs and collect VAT on their outputs.

Withholding Tax: A withholding tax is a tax deducted at the source of income, such as payments made to non-resident mining companies. Withholding taxes are typically levied on dividends, interest, royalties, or service fees.

Windfall Profit Tax: A windfall profit tax is a tax imposed on unexpected or excessive profits earned by companies in a specific industry, such as mining. Windfall profit taxes are designed to capture the additional profits generated by high commodity prices.

Work Program: A work program is a detailed plan outlining the activities and timeline for the exploration and development of a mining project. Work programs are typically included in mining licenses or agreements with the government to ensure that companies meet their obligations.