

Tonga's Taxation and Royalty Regime for DSM

SPC (SOPAC Division) Pacific ACP States 5th Regional Training Workshop
Organised in partnership with IMF (PFTAC)

“Deep Sea Minerals: Financial Aspects”



Tonga's Economy

- ▶ GDP – 2011 / 2012 \$7,700, Growth at 0.8%
- ▶ Major sectors

Primary Sector – 17% GDP

Secondary Sector – 19% GDP

Tertiary Sector – 54% GDP



DSM Companies

- ▶ Nautilus Minerals Tonga
- ▶ KIOST (Korea Institute of Ocean, Science and Technology)
- ▶ Bluewater Metals South Pacific Limited (BML) (Neptune)
- ▶ Modulus Pacific Company Limited



DSM Operations

- ▶ Licensed by the Ministry of Lands, Environment and Natural Resources
- ▶ Leased tenements 165,254km²
- ▶ Rent for tenements



CURRENT LAW

- ▶ Minerals Act 1949
 - ▶ Defines land to include submerged lands
 - ▶ Royalties
 - (a) for gold – 5% of value
 - (b) for silver – 1% of value
 - (c) for other minerals, royalties as prescribed by regulations (none made)
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Current law cont

- ▶ Income Tax Act 2007
- ▶ S60(11) a natural resource amount includes taking of minerals from Tonga including territorial waters
- ▶ Rate of tax is 15% of the gross amount of natural resource amount (non-resident)



DESIGN PRINCIPLES

- ▶ Ensure that Tonga receives an appropriate share of the economic rent generated from the natural resources
- ▶ In determining the “appropriate share” Tonga must balance the desire to maximize revenue against any deterrent this may have on investment
- ▶ Tax rules to be clear and simple and stable



Design principles cont.

- ▶ Tonga's share to be adjustable so that it can get a larger share of the most profitable projects
- ▶ Natural resource tax to be set out in the tax legislation
- ▶ Institutional clarity on fiscal policy
- ▶ Consider exemptions for mining companies from indirect taxes



Proposed natural resource tax

- ▶ A regime that incorporates a royalty, corporate income tax and a resource rent tax
- ▶ Ensures Government revenue from the time of production
- ▶ Ensures Government will receive fair share in economic rents



Royalties @ 3%

- Payment made by the mining company to the owner of the site
- Early revenue
- Easy to administer
- Guaranteed minimum payment for minerals extracted
- Specific levy (%) based on export value



Income tax @ 25%

- 25% corporate income tax
- 25% additional profits tax
- Provides Government with the opportunity of receiving a larger share of the profits of the most profitable projects
- Only applies if the company has excess profit taking into account its required rate of return



Other features

- Arms length rules
- Transfer pricing rules
- Thin cap rules
- Rehabilitation fund
- Ring fencing



TAKE AWAY POINTS

- ▶ Preparedness
- ▶ Balanced fairness
- ▶ Regional co-operation, sharing, understanding

