

DEVELOPING A NATURAL RESOURCE TAX

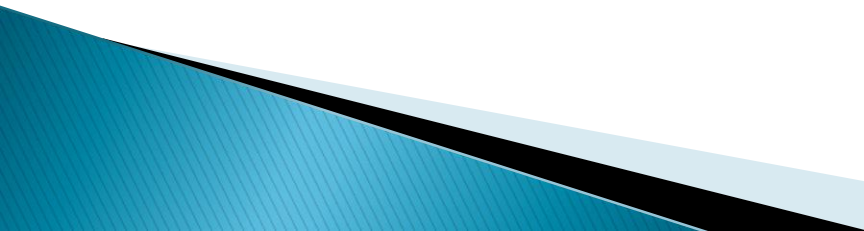
TONGA



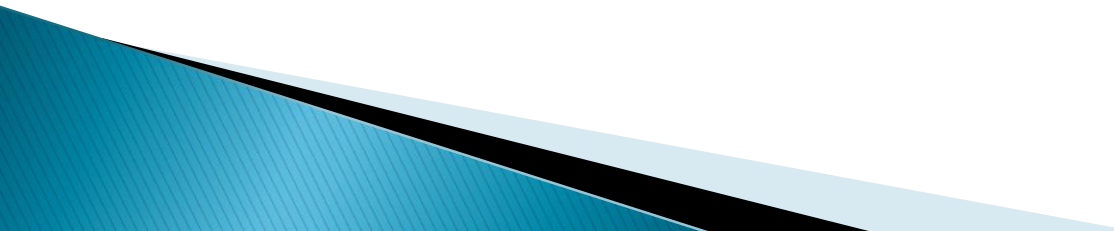
CURRENT LAW

- ▶ 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)
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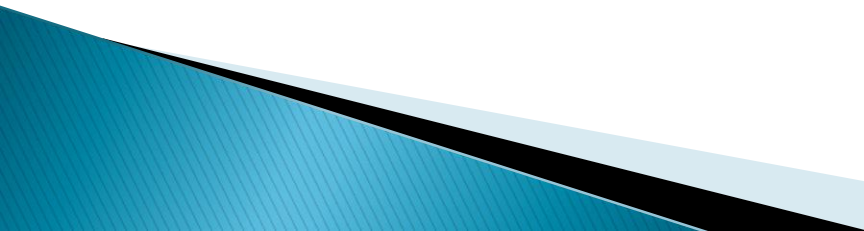
DESIGN PRINCIPLES

- ▶ 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
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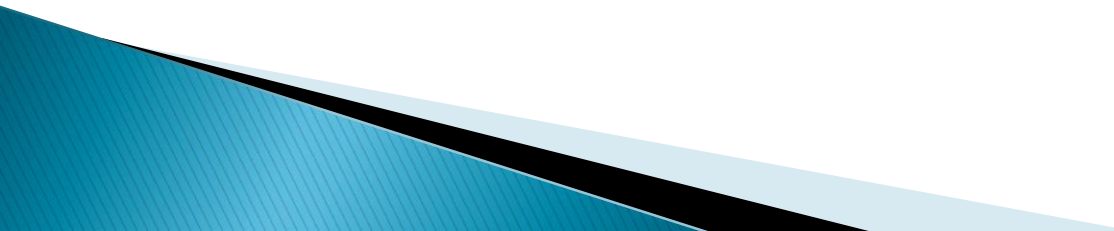
Design principles cont.

- ▶ 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
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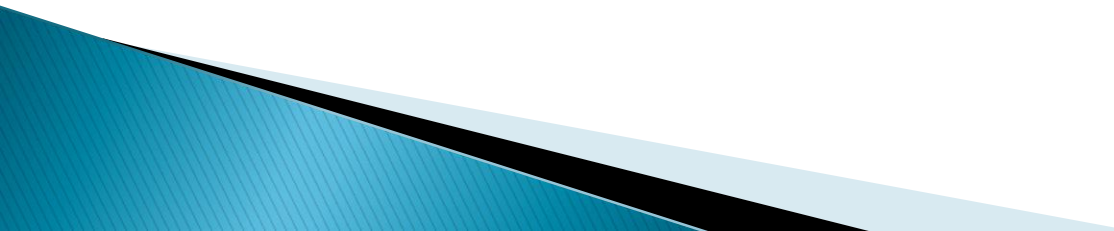
Royalties

- 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 volume or ad valorem
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Corporate income tax

- Same application as to other companies although some countries have a higher rate for mining companies
 - May be a deterrent to investors
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Resource rent 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
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Government involvement

- ▶ Production sharing contract
 - Mining company contracted to extract and develop resource in return for share of production
 - ▶ State equity
 - Allows Governments to participate more directly in the project
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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
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