

Deep Sea Minerals - Financial Aspects
13-16 May
Rarotonga, Cook Islands

Taxation and Royalty Regime – Cook Islands

The Challenges

Complexity

Burden of
Tax

Trust

Availability of
Information

Fair Share

Risk Sharing

Understand
Tax
Framework

Competitiveness

Basic Taxation Principles

No Perfect Tax System - five major principles which we sought to maintain:

- Efficiency and Growth
- Equity and Fairness
- Revenue and Integrity
- Fiscal Cost
- Compliance and Administration
- Coherence

Country Economic Context

The Cook Islands is a service based economy, taxing income, consumption and imports.

The tax base suits its economic circumstances.

The overall tax legislation was reformed late last year (2013) and included the changes to accommodate harvesting of minerals in the Cook Islands EEZ.

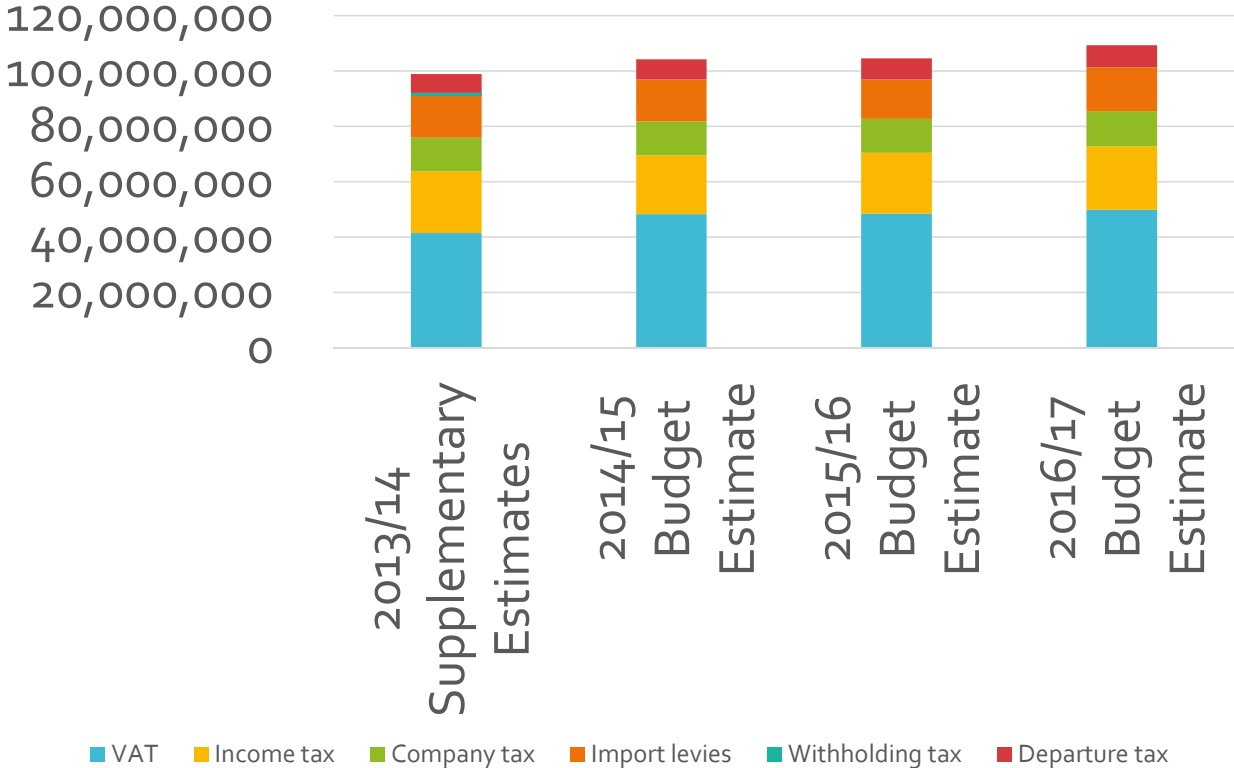
Taxation in the Cook Islands

The Taxes that apply in the Cook Islands are:

- Income Tax (personal income)
- Value Added Tax
- Company Tax
- Departure Tax
- Withholding Tax
- Import Duties and levies

How Much Taxes are Raised in the Cook Islands

Tax Base for the Cook Islands



What was the major Driver of Drafting the Law

The Ongoing Realisation about Work which was required in the Sector – the Seabed Mining Act which was approved in 2009 and to come into force in 2013.

A Cross portfolio Committee led by The Ministry of Marine Resources with representatives from

- Ministry of Finance and Economic Management
- Ministry of Foreign Affairs and Immigration
- Crown Law
- Ministry of Marine Resources
- Office of the Deputy Prime Minister

The Principles Underlying the Changes

The resource owner (Cook Islands) receives an appropriate share of the economic rent generated from natural resources.

Need to balance the desire between revenue maximisation and deterring investment.

Adjusting the Governments share so it gets a larger share of the most profitable projects.

Tax rules should be simple and clear, and preferably be set out clearly in the tax law.

Tax arrangements should be stable to provide certainty for long-term.

The Act

We didn't introduce a new Act

- We kept it within the Income Tax Act

What does the Act actually do

modifies the application of the income tax regime as it applies to seabed mining activities;
provides for the imposition of an additional profits tax on mining companies engaged in seabed mining;

Updates the definitions of Minerals;

Introduces a withholding tax on subcontractor service fees in respect of mining operations; and

Introduces a robust transfer pricing regime (including transfer pricing regulations).

What has not Changed

Company Tax (Domestic and Foreign)

Value Added Tax

Personal Income Tax

Withholding Tax

Departure Tax

What Has Changed

an ad valorem royalty of 3 per cent;
a resource rent tax (RRT) of 25 per cent after a 20 per cent uplift factor.

Questions