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BUDGET 2014-2015 : THE QUEBEC GOVERNMENT REDUCES THE MINING EXPLORATION TAX INCENTIVES

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As part of the June 4, 2014 Budget Speech, the Quebec Government announced an immediate 20% reduction in the rates of some business tax credits. The mining exploration tax incentives in Quebec did not escape this reduction.

Flow-through share regime

The flow-through share regime currently allows investors to deduct in the calculation of their income an amount equal to 100% of the subscription price. In addition, the Quebec legislation provides for two additional deductions of 25% each where certain conditions are met. The first deduction targets the exploration expenses incurred in Quebec (both surface and underground exploration), while the second deduction targets surface exploration expenses only that are incurred in Quebec. In certain circumstances, 150% of the cost of an investment in a junior mining exploration corporation may be claimed as a deduction in the calculation of the income of an investor.

Lastly, it is generally possible for a corporation proceeding with a public offering of flow-through shares to renounce the issue expenses to the benefit of the subscribers. However, this renunciation is limited to 15% of the proceeds of the issue.

In the context of the 20% reduction of some tax incentives, the 25% rate of the two additional deductions is reduced to 10% for each of them. Therefore, the maximum deduction investors may benefit from is henceforth 120% of the subscription price of flow-through shares.

It must be noted that the government has calculated the 20% decrease from the maximum deduction of 150% which may apply in certain circumstances. If only the additional deductions had been reduced by 20%, the total deduction would have been 140% of the subscription price of the flow-through shares. In other words, the additional deductions are reduced not by 20% but in fact by 60%, since they decrease from 50% to 20%.

The 15% applicable limit of the renunciation respecting certain expenses related to the issuance of flow-through shares is reduced to 12%, i.e. a 20% decrease.

These reductions apply in respect of flow-through shares issued after June 4, 2014, except for those issued further to a placement made no later than June 4, 2014 or pursuant to an interim prospectus receipt application or a prospectus exemption application made no later than June 4, 2014.

Refundable tax credit for resources

The refundable tax credit for resources rate was varying between 15% and 38.75% depending upon several parameters, including the type of resource to which the expenses were related, the location at which they were incurred and the type of corporation incurring the expenses.

In the context of the reduction of the tax assistance applied to some measures applicable to businesses, the rates applicable to the credit for resources are decreased by 20% in respect of eligible expenses incurred after June 4, 2014. Thus, the rate of this credit varies henceforth between 12% and 31% according to the same parameters.

Moreover, the government announced the indefinite postponement of the coming into force of the 10% reduction of the rates applicable to the credit for resources for corporations which operate no mineral resources and are not related to such a corporation and the 5% reduction for the other corporations. This measure had been unveiled on the occasion of the March 20, 2012 Budget Speech. The decision to apply or not this measure and the time from which it may apply will be announced later by the government, following the work of the Quebec Taxation Review Committee whose creation was announced as part of the 2014-2015 budget.