



2003-04 Budget amendments Eligible Exploration Expenditure

This circular provides information on proposed changes to the Mineral Royalty Act as part of the 2003-04 Budget. The changes are in relation to eligible exploration expenditure and include changes to the exploration expenditure certificate scheme.

Commencement and cessation

These measures commence from 1 July 2003. However, where a royalty year has commenced before 1 July 2003 and extends over this date, these changes apply to the following royalty year commencing on or after this date.

From 1 July 2010, exploration expenditure certificates (EECs) cannot be claimed as a royalty deduction.

Summary

In summary, the measures:

- (a) reduce the maximum eligible exploration expenditure (EEE) royalty deduction cap from:
 - 35 per cent to 30 per cent for royalty years commencing between 1 July 2003 and 30 June 2004 (inclusive); and
 - 30 per cent to 25 per cent for royalty years commencing on or after 1 July 2004;
- (b) remove the 50 per cent EEE uplift factor when determining royalty reductions;
- (c) cease the issue of an EEC for expenditure incurred on exploration work carried out in the Territory, on or after 1 July 2003;
- (d) provide that royalty payers will not be able to use existing EECs as a royalty deduction beyond 30 June 2010; and
- (e) provide that royalty payers will continue to be able to reduce the royalty payable by them to the extent of exploration expenditure that they incur on the mining tenements that form part of their production unit.

Reduction of the EEE royalty deduction and removal of 50 per cent uplift

Prior to 1 July 2003, royalty payers could deduct from their mining revenue 150 per cent of exploration expenditure incurred by them on their mining tenement and that purchased through the EEC scheme.

In addition, the extent to which royalty can be reduced by deducting EEE from mining revenue is capped to 35 per cent of the royalty that would otherwise be payable.

From the first royalty year commencing on or after 1 July 2003, the 50 per cent uplift factor on exploration expenditure is removed, reducing the amount of exploration expenditure claimable to 100 per cent. In addition, the maximum EEE deduction cap decreases from 35 per cent to 30 per cent for royalty years commencing between 1 July 2003 and 30 June 2004 (inclusive), and decreases again from 30 per cent to 25 per cent for royalty years commencing on or after 1 July 2004.

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Eligible exploration expenditure cont ...

Carry forward of exploration expenditure incurred on a mining tenement

Royalty payers can claim exploration expenditure arising from work carried out on the mining tenement that forms part of the production unit as eligible exploration expenditure. Prior to 1 July 2003, royalty payers were unable to carry forward this expenditure incurred outside the Territory, but could carry forward exploration expenditure for work carried out in the Territory through the EEC scheme.

As from 1 July 2003 royalty payers can carry forward all exploration expenditure that they incur on or after 1 July 2003, whether in or outside the Territory, on mining tenements that comprise their production unit in the Territory.

In addition, exploration expenditure incurred on or after 1 July 2003 under an exploration retention lease can also be carried forward as an EEE deduction for any future royalty returns of a mining tenement from which it was derived.

Accordingly, such exploration expenditure that is not used, either because the mine is in a "negative net value" position or is in excess of the deduction cap (whether 35 per cent, 30 per cent or 25 per cent), is able to be carried forward as an EEE deduction for future royalty returns.

In relation to existing production units, the pro-forma royalty return will be amended to allow the expenditure incurred in that period to be verified as part of the royalty assessment process and for any excess to be carried forward into the next return. This will alleviate the need to continually verify past excess expenditure when it is ultimately claimed.

For expenditure incurred prior to the commencement of production, proper records to substantiate the costs must be kept to satisfy the Secretary of their reasonableness, so the deduction can be claimed once production commences. Such records should include a detailed cost schedule by financial year supported by source documentation (ie invoices and general ledger listings) relating to the relevant exploration retention leases and/or mining tenements.

Cessation of EECs

EECs will not be issued for exploration expenditure incurred on or after 1 July 2003. However, they will continue to be issued after that date in respect of exploration expenditure incurred before 1 July 2003 provided an application is made to the Secretary within 6 months after the end of an explorer's reporting period (not exceeding 12 months) during which the expenditure was incurred.

Furthermore, unused EECs may still be used as an EEE royalty deduction until 30 June 2010.

Revenue Circular RA001, which sets out information on the revenue circular system, is incorporated into and is to be read as one with this Circular, although references to the Commissioner of Taxes in RA001 should be read as referring to the Secretary.

Refer to the Mineral Royalty Amendment Bill 2003 for precise details of the changes.

For specific information, please contact the TRM royalty branch on (08) 8999 7229.



Authorised by
the A/Secretary
3 July 2003