



## TECHNICAL UPDATE

### EXPLORATION DEVELOPMENT INCENTIVE – DISCUSSION PAPER RELEASED

**THE FEDERAL GOVERNMENT HAS RELEASED A DISCUSSION PAPER AS PART OF ITS CONSULTATION ON THE DESIGN OF ITS PROMISED TAX INCENTIVE FOR INVESTMENT IN AUSTRALIAN JUNIOR EXPLORATION COMPANIES UNDERTAKING 'GREENFIELDS' MINERAL EXPLORATION .**

This will allow eligible companies to pass the benefit of tax losses through to shareholders as refundable tax offsets.

While design details of the incentive are open for consultation, a number of the broader parameters seem to have been set. These include that the incentive will be:

- Limited to investment in companies which are:
  - Australian tax residents
  - Widely held
  - Junior mineral explorers
  - Engaged in exploration for 'greenfields' (new) mineral resources
  - Not engaged in existing mining activities
- Provided by way of exploration credits which arise through the eligible company:
  - Reducing its 'available loss' from the expenditure year ('renounced loss')
  - Calculating its exploration credits by multiplying its renounced loss by the corporate tax rate
  - Notifying its shareholders of their individual entitlements to the resulting refundable tax offsets
- Limited to a total cost to the Government of \$100 million such that exploration credits will be capped across all eligible companies at \$25 million in 2014-15, \$35 million in 2015-16 and \$40 million in 2016-17, with claims in excess of these caps being 'modulated' or rationed by imposing a pro-rata abatement of entitlements.

The Discussion Paper indicates that matters which are open for consultation include:

- Targeting the incentive at 'junior mineral explorers' – with proposals of 'no taxable income' and 'no mining activity' tests
- Determining which holders of equity interests in eligible companies can access the credits – positing as alternatives, providing the credit to all equity holders or limiting it to holders of new equity
- Defining eligible exploration expenditure – with suggestions that the definition be based on existing definitions in the tax legislation

#### SECTOR

Tax

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- Establishing a 'greenfields' threshold – with a suggestion that it be limited to 'expenditures ... incurred on activities that are deployed for the purpose of determining the existence, location, extent or quality of a new mineral resource in Australia'
- The operation of the 'modulation' or rationing process where claims exceed the annual monetary caps for the incentive
- Defining 'eligible losses' for conversion into credits – with indications that this would be the lesser of a company's 'relevant expenditure' on exploration for new discoveries and its tax loss from the expenditure year
- Conversion of tax losses into exploration credits – with a suggestion that in addition to the conversion of eligible losses by the eligible company:
  - A debit would arise in the franking account of the eligible company equal to the quantum of the exploration credit
  - The recipient equity holders would include the amount of the distributed credit in their assessable income.

#### **BDO Comment**

The incentive appears to be a positive step in providing:

- A tax incentive for investment in junior explorers pursuing exploration activities in respect of new mineral resources
- A means for such junior explorers to utilise their accumulating tax losses.

A real concern in respect of the impact of the incentive, however, arises from the operation of the monetary caps on the incentive and consequential 'modulation' mechanism.

BDO will be making a submission in respect of the matters raised in the Discussion Paper. Please contact your BDO tax adviser if you have matters that you want raised in that submission.

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