SUBMISSION

ON

EXPLORATION DEVELOPMENT INCENTIVE POLICY

From

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Introduction

The purpose of the proposed government incentive policy is to promote further exploration and discovery of Australia's mineral resources for development to boost export revenues and employment and in doing so the government recognises that the potential for discovery, particularly of new deposits is driven by small to medium organisations who in the current financial climate struggle to raise the necessary finance required to fund ongoing exploration.

One solution considered here is to provide investors with a tax incentive to invest monies into non-income generating exploration companies to provide that funding.

How to Target Junior Mineral Explorers

All junior mineral explorers will have no income, other than investor related funds, as by definition they expend funds in the hope of locating and developing a commercially viable deposit to generate an income. As such, a no taxable income test would exclude any profitable producer or any other income producing entity. However, the addition of a no mining activities test could act as a barrier to successful transition from explorer to producer.

It is therefore suggested that a no mining activities test be modified to a no revenue stream or other available source of finance test. This would allow all the necessary exploration, development cost and initial mining cost to be funded by investors up to the point in time when the company begins to generate revenue even though it may still be a long way from profit improving the potential for success. This should only apply past the resource definition drilling phase where no other finance or joint venture is available. Clearly this would apply to the new discovery as intended and not applicable to other resources that the company may already have or acquire during the period other than through further exploration on the current new project or other new projects.

The definition of Australian resident companies, as explained, would potentially exclude many small companies from participation as it in effect excludes all Australian private companies. Many small to medium explorers start out as private companies exploring with private funds prior to listing. With more and more regulation weighing public companies down and increasing costs it may be that more private companies will remain that way if funding can be arranged without going to the market. This in turn keeps overheads low and more money tends to be put towards effective exploration. These investors should be entitled to the same tax breaks as any public company investor. The obvious control for all company investors will be their eligibility to claim the tax benefits as Australian tax payers. This precludes any foreign investment from participating in the tax benefit incentive. It should also be clarified that only independent private companies are eligible and being a subsidiary of any other company would render the company exempt from claiming the tax incentives to prevent back door access by larger profitable organisations to the incentive scheme.

Which Investors will be able to receive exploration credits

In order to achieve the desired results, credits should only be issued to purchasers of newly issued shares. These can be existing shareholders as well as new shareholders but the tax credit only applies to the new shares issued and not existing shares. Obviously the purpose of the incentive policy is to raise funding for new exploration expenditure. By allowing the incentive to be applied to existing shares, no new funding will have been raised and the government will in effect simply subsidise the income of existing shareholders for no new investment in exploration. Choosing that course of action would make the policy ineffective in which case the government would be better off not implementing it at all and saving the tax payers dollars.

Implementation shouldn't be too hard with today's electronic controls and cross referencing. The company is required to keep records of its shareholders and all purchasers will have a purchase date. The company could issue a tax credit eligibility document with the purchase of the new shares. Investors requesting the tax credit would simply be required to file a copy of the purchase document with their tax return evidencing the period of purchase which would correspond with the company's documentation.

How will Eligible Expenditure and Greenfields be defined

Eligible expenditure should be defined as only that expenditure incurred directly for the search of new resources. This would include:

1) Geological mapping
2) Geochemical sampling
3) Geophysical surveying
4) Exploration drilling
5) Resource definition drilling

Each of these would include the actual cost of materials and equipment, wages, tools, travel costs and accommodation where remote as well as analytical costs.

Eligible expenditure should not cover the costs of office overheads except for field offices where this should be restricted to say 10% of actual expenditure on the above. Eligible expenditure should also not cover cost of employment other than wages for hands on personnel involved in the exploration effort. It should cover costs of operation of equipment or lease of equipment but not purchase of equipment required to carry out the exploration.

Subparagraph 40-730(4A)(a)(i) of the ITAA does not refer to geochemical sampling specifically, which is an integral part of mineral exploration and this should be added as relevant to the expenditure.

In effect, it is still high risk exploration activity until a resource definition drill program establishes the potential viability of the project. Once a viable resource has been defined then conventional forms of finance should be available to the company. However, the tax credit should still be available as a means to further fund to the development of a revenue stream if conventional forms of financing are not available so as not to stall the project.

With regard to defining Greenfields exploration, there is considerable conjecture as to what is or should be defined as Greenfields exploration. Historically, Greenfields exploration was defined as exploration carried out in areas not previously subject to historical mining having had minimal if any exploration work done.

However, careful consideration should be given to this definition as it would likely exempt areas of potential discovery that may be more readily explored from a logistics and cost perspective. Brownfields exploration is taken to mean near mine exploration. This could be current or historical mining activity. I believe this should be included as it generally gives companies with limited budgets a better chance of successful discovery for a lower cost and hence a better chance for return on investment for the investor.

Perhaps to allow the policy to be applied to lesser risk areas and still have the effect of only funding new exploration, the restriction would be defined as only applying to any new discovery that has not been previously defined by resource, worked or mined. Therefore it would not exclude historically explored areas where past explorers were not successful but does not mean a viable resource does not exist as technology, geological understanding and economic climate change with time, these areas could produce new discoveries.

With regard to quarrying materials, I can see no reason why the scheme should not apply to this industry.

How will the Modulation Process work

The only modulation process that should be applied is ex-post. The extra costs, burden and delay in choosing either of the other two methods would not be justified by the possible investor confidence in receiving the tax credit as this, in any case, is dependent upon the company's eligible expenditure which cannot be accurately calculated in advance.

Investors should view their investment as one which will return them a dividend in the future and that should be their reason for investing. The idea of the tax credit is simply to give them some level of confidence that by investing in high risk exploration companies, in the worst case scenario, they will recover some of their investment through tax credits. Although the investor will not know exactly how much until the tax year is completed they will know that they will receive some tax benefit and this is a greater incentive than currently exists for considering the investment.

How will the Exploration Credit System work

Given the examples provided, example 3 would be the fairer means for investors with a company that chooses to participate with respect to a company not participating and the benefits of each to the investor. As I am not an accountant I cannot comment on whether there is a better way.

However, example two is interesting in that it produces a marginally better outcome for the investor. This may be viewed by the tax office as inappropriate, but perhaps this would act as an incentive for a company that may be considering whether or not to participate and further reward the investor for taking the risk and making the investment. It would go towards boosting investor confidence in the scheme and insuring a better outcome for their high risk investment whilst minimising the work required by the Australian Taxation Office. It could be considered a bonus for the risk of the investment and the time they will have to wait to see what tax credit is available and when they can claim it. It would further incentivise the company to participate in the scheme which for the scheme to be of any value and achieve its purpose requires participation by companies to entice investor funds.

Disclosure Statement

I am writing this submission for consideration by the Treasury and Department of Industry as an individual who has been involved in the mineral exploration industry in Australia and overseas for many years and as an investor in mining and mineral exploration companies both private and public.

I am currently a director of a publicly listed company and this submission consists of my own views from my experience and do not necessarily represent the views of the company I am employed by or my fellow directors. This submission has not been discussed with any individual associated with the company for which I work and is not relevant to any current shareholding that I may hold either as an individual or through any associated entity.

END OF SUBMISSION