



COCHILCO
Ministerio de Minería

Gobierno de Chile

Royalty in mining activity: Chilean case

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General Description

Royalty: is a specific tax for mining industry

Tax base is the operating profit of mining business. If the activity is carried out by the same person, it includes the industrial added value up to the final product

- Despite royalty has adopted the form of income taxes, the basis of this tax are not those that authorize the State to collect taxes: These are justified as a general compensation to the citizens who pay them, this is, to live in a society organized through State institutions and social policies.
- A State would be authorized to collect royalties as a compensation for the deterioration of the country's natural heritage, which occurs when minerals are extracted. Therefore, although it took the form of an income tax, it is properly a mining royalty.
- The effective rate is variable for large-scale mining: from 5 to 14%, increasing by sections depending on Mining Operational Margin (quotient between utility and income)

Characteristics of the royalty model

Since prices in mining activity are cyclical:

- The miner does not pay if the operation has losses
- But, pays more while the utilities are greater
- The State does not receive compensations if the miner losses, even if there is a patrimonial deterioration
- In compensation, States increasingly receives more income if the miner's utility id higher than expected.

It is a fairly complex system to monitor:

- It requires specialization and knowledge of:
 - (1) the world market,
 - (2) the operations,
 - (3) the projects,
 - (4) financial-accounting standards



Royalty ad-valorem

It consist of applying a tax rate on the miners income:

- It can be fixed or growing depending on the market price of each mineral
- Exemptions on insignificant annual sales values can be established. This, as an incentive to the small entrepreneurs

Advantages:

- Its monitoring is simple
- It helps compensate the State for the heritage's deterioration produced when minerals are extracted.



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