

Ministry of the Economy

POTASH CAPITAL EXPENDITURE DEDUCTION RATE AND TAXATION REVIEW BACKGROUND

The Province currently levies a Crown Royalty on potash produced from Crown lands and a Potash Production Tax (PPT) on potash produced from both Crown and freehold lands in Saskatchewan. The Crown Royalty structure has been in place since 1960, while the modern PPT structure was introduced in 1990 and consists of a base payment component and a profit tax component. The profit tax is based on operating profits, determined by allowing a variety of deductions from gross sales revenues.

In order to incent the substantial capital investments that are required to expand productive capacity in the potash industry, including the development of new mines, capital expenditures are allowable deductions in determining operating profits for purposes of the profit tax.

Capital expenditures are classified into two types, deductible at two different rates:

- normal capital expenditures (i.e., those up to an historical level of capital spending sufficient to keep existing mines in operation) are deductible at a **35 per cent declining balance rate**; and,
- capital expenditures in excess of the normal level are deductible at a **120 per cent super-deduction rate**.

Change to Structure:

Effective January 1, 2015, all capital expenditures will be allowed to accrue at the 120 per cent rate, but will now be deductible from annual gross sales revenues at a 20 per cent declining balance rate for mine operation and maintenance expenditures, and at a 60 per cent declining balance rate for mine expansion or new mine development expenditures. This technical change will provide the Province with an immediate temporary increase in revenue from the potash industry by deferring deductions for current capital spending to future years.

Taxation Review:

This measure is an interim step that will be followed by a broader review of the entire potash taxation regime. The review process will gather input from stakeholders and seek opportunities to simplify the taxation and royalty system. Government strongly believes that any further changes must balance the excellent investment and operational environment for this industry, which is so important to the provincial economy, with the need for a fair return for the owners of the resource, the people of Saskatchewan.