

MINING & METALS **DOMINICAN R.**

Positives and nasty surprises in Dominican Rep. mining code overhaul

By Samuel Williams - Tuesday, October 24, 2017

Miners will pay at least 40% of mining income to the state under a proposed overhaul of the Dominican Republic's mining code.

In September the energy and mines ministry presented a draft bill aimed at replacing the current mining code, law 146, which dates back to 1971.

The draft bill aims to promote a sustainable mining industry and ensure benefits are fairly shared between miners, the nation and communities, energy and mines minister Isa Conde said.



STATE SHARE IN MINING INCOME

Under Article 171 of the draft bill, the state is guaranteed to receive a minimum of 40% of mining income, calculated as the value of production minus pre-processing extraction, transportation and storage costs, and depreciation.

This 40% rate will be made up of income tax, license fees and royalties, plus additional payments in case of any shortfall.

But the figure increases to a maximum of 60% at higher metals prices, according to Article 184.

If prices rise 5-10% compared to the base rate (based on historical average prices), the state's percentage increases to 42% from 40%, and to 44% with a 10-15% price increase.

The figure hits the 60% cap if prices rise 50% or more.

The price fluctuations will be based on changes in the price of gold, even for mines producing other metals. The bill proposes using a base price of US\$1,200/oz gold for the first two years.

ROYALTIES

As with the state's share of mining income, mining royalties are calculated on a rolling scale depending on metals prices, in the case of gold and silver, according to Article 164.

The royalties are based on pithead production value and deductible against income tax.

For precious metals, the rate is 8.0% when prices are above US\$1,200/oz for gold and US\$16/oz silver, falling to a minimum of 5.0% below US\$700/oz and US\$13.50/oz, respectively.

For all other products the royalty is a flat 5.0%.

This compares to a minimum 5.0% royalty on export value across all mining products in the current mining code, which is also deductible against income tax.

INCOME TAX, OTHER TAXES

Under the draft mining bill, miners pay the Dominican Republic's main rate for corporate income tax, currently 27%. This compares to 40% specified for miners in the 1971 law.

The proposals also include 10% taxes on dividends and profits remitted abroad.

ANALYSIS

The overhaul of the Dominican Republic's mining code includes some positives for the sector and some nasty surprises.

On the positive side, the 40% income tax rate is lowered to 27%. But the gains are partly offset by higher royalties and the guaranteed 40% share of mining income going to the state.

The main nasty surprise is the increase in the percentage of mining income going to the state at higher prices, up to the 60% maximum.

This is likely to undermine the country's ability to attract mining investment, making it a higher tax jurisdiction than more established Latin American rivals such as Mexico at higher prices.

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