Government of Saskatchewan

Ministry of the Economy
INFORMATION CIRCULAR
Last Update: April 1, 2013

ACTS:	*The Crown Minerals Act* *The Mineral Taxation Act, 1983*
REGULATIONS:	*The Coal Disposition Regulations, 1988* *The Freehold Coal Production Tax Regulations*
TOPIC:	**SUMMARY OF CROWN ROYALTY AND FREEHOLD PRODUCTION TAX FOR SASKATCHEWAN COAL**

This Information Circular has been prepared by the Ministry of the Economy to assist royalty payers and tax payers in their understanding of the royalty and tax calculations pursuant to the *The Coal Disposition Regulations, 1988* and *The Freehold Coal Production Tax Regulations*. Reference should be made to the Acts and Regulations for an exact statement of the law. In case of any conflict between this Information Circular and the provisions of the Acts and Regulations, the Acts and Regulations will prevail. Information Circulars are intended to have no legal force or effect.

Introduction

- The purpose of this Information Circular is to summarize the basic principles of the royalty and tax structure for Saskatchewan coal.
- Each Crown coal lease holder and each freehold mineral rights owner is respectively responsible for the payment of Crown royalty and freehold production tax for coal produced in Saskatchewan.
- Typically, the producer is the person (or persons to the extent of their individual interests in a lease or a mineral right property) who is the Crown coal mineral leaseholder or who owns the freehold coal mineral rights (or a freehold lease granting the right of production) at a given coal mining site. A producer may also contract out the operation of a coal mine to another person.
- The coal royalty and freehold production tax are ad valorem regimes, calculated as a percentage of the mine mouth value of coal produced. Mine mouth value is calculated by the average value of coal sold in the reporting period. The reporting period is a calendar quarter, ending on March 31, June 30, September 30, or December 31 in each year. Coal sales in the reporting period include amounts received and receivable.
- Mine mouth value means the gross sales of coal, less transportation costs to the point of sale (if different than the mine gate) and less any other ex-mine costs approved by the minister.
- Typical ex-mine costs approved by the minister include minesite coal handling facilities to load rail cars and to transport.
- Where ex-mine costs include expenditures which are capital in nature, depreciation costs reflecting the use of these assets will be allowed where the depreciation costs have been calculated in accordance with generally accepted accounting practice.
- The detailed calculation rules for the coal royalty are contained within The Crown Coal Royalty Schedule, and the detailed calculation rules for the freehold coal production tax are contained within The Freehold Coal Production Tax Schedule.

Crown Coal Royalty Schedule

- The royalty payments are 15% of the mine mouth value of coal.
- Fair market mine mouth value is the sales contract value. However, where the coal is not sold under a contract, or where the coal sale or consumption is not at arm’s length, a price equal to the fair market value of the coal will be determined.
- The ministry’s policy in determining fair market value for Crown royalty is to calculate the average price of all Saskatchewan coal sold under contract at arm’s length during the reporting period, and employ this price as the fair market value for Crown coal sold not at arm’s length or without a contract.

Freehold Coal Production Tax Schedule

- The tax payments are 7% of the mine mouth value of coal.
- Fair market mine mouth value is the contract value. However, where the coal is not sold under a contract, or where the coal sale or consumption is not at arm’s length, a price equal to the fair market value of the coal will be determined.
- The ministry’s policy in determining fair market value for a mine for Freehold Production Tax is to calculate the average price of all Saskatchewan coal sold under contract at arm’s length during the reporting period from that mine, and employ this price as the fair market value for freehold coal sold not at arm’s length or without a contract.

Saskatchewan Resource Credit (SRC)

- The SRC was established to partially offset the Corporation Capital Tax Surcharge;
- Any coal producer is eligible for the SRC, except for a coal producer which is a Saskatchewan Crown corporation;
- The SRC is a credit of 0.75 per cent of the gross value (before deduction of ex-mine costs) employed in the calculation of royalty and of freehold production tax. The credit can be applied to offset royalty and tax obligations by eligible producers.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Ministry of the Economy
Energy Economics
11th Floor, 1945 Hamilton Street
Regina, Saskatchewan S4P 2C8

Phone: (306) 787-7632
Fax: (306) 787-2198