

# Potash Production Tax and Crown Royalty

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Potash Information Circular

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Governing Legislation:

Acts: *The Mineral Taxation Act, 1983*

*The Crown Minerals Act*

Regulations: *The Potash Production Tax Regulations*

*The Subsurface Mineral Royalty Regulations, 2017*

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**Record of Change**

Revision	Date	Description
0.0		Initial draft
1.0	May 28, 2019	Approved first version

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## 1. INTRODUCTION

This summary has been prepared by the Ministry of Energy and Resources to assist users in their understanding of the calculation of potash production taxes and Crown royalty. For an exact statement regarding potash production taxes, refer to The Potash Production Tax Schedule of *The Mineral Taxation Act, 1983* and *The Potash Production Tax Regulations*. For an exact statement regarding potash Crown royalty, refer to *The Crown Minerals Act* and *The Subsurface Mineral Royalty Regulations, 2017*. In the case of conflict between this summary and the provisions of the Acts and Regulations, the Acts and Regulations will apply.

## 2. POTASH PRODUCTION TAX SYSTEM

The potash production tax system was introduced January 1, 1990, and is set out in The Potash Production Tax Schedule of *The Mineral Taxation Act, 1983* and *The Potash Production Tax Regulations*. Potash production taxes (base payment and profit tax) apply to all potash that is produced from Saskatchewan lands.

### (1) Base Payment

The Base Payment is a monthly payment based on an estimate for the entire year. Producers pay net base payment as follows:

Net Base Payment = Gross Base Payment – Incentive Tax Credits (prior year)

(a) Gross Payment is 35% of resource profits, subject to minimum and maximum payments:

Minimum: \$11.00 x (total K<sub>2</sub>O tonnes sold - base payment holiday tonnes)

Maximum: \$12.33 x (total K<sub>2</sub>O tonnes sold - base payment holiday tonnes)

A K<sub>2</sub>O tonne is the quantity of potash that contains the equivalent amount of potassium as one tonne of potassium oxide.

(b) Tonnes produced from approved new capacity that commences on or after January 1, 2005 receive a holiday from the base payment for ten years. The increase in capacity must exceed 122,000 K<sub>2</sub>O tonnes for the new tonnes to be eligible for the base payment holiday.

(c) Incentive Tax Credits are credits for expenditures of approved spending on research and development and market development programs that could not be deducted from profit tax otherwise payable in the previous year.

### (2) Profit Tax

Producers pay profit tax on a quarterly basis, based on an annual estimate. Producers will pay this tax on profits of individual mines or on the consolidated profits of the producer's Saskatchewan potash operations.

Net Profit Tax = Gross Profit Tax – Base Payment Credits – Incentive Tax Credits

- (a) Gross Profit Tax is determined by rates which increase with profits per tonne sold, with tax brackets indexed for inflation, as follows:

<b>2017 Brackets</b> <i>(\$ profit per K<sub>2</sub>O tonne sold)</i>	<b>Rate</b> %
0.00 – 67.36	15%
Over 67.36	35%

Gross Profit Tax for a bracket is calculated by multiplying profit per tonne in the bracket by the producer's sales that are subject to profit tax, times the tax rate for the bracket.

- (b) The producer's sales that are subject to profit tax are the greater of:
- (i) 35% of the producer's sales in the year and
  - (ii) the lesser of:
    - (A) the producer's Adjusted Base Tonnes, and
    - (B) the producer's sales in the year
- (c) The producer's Base Tonnes are:
- (i) For producers who were producing potash in Saskatchewan in 2001 and 2002, the average of the producer's sales in 2001 and 2002.
  - (ii) For producers who were not producing in 2001 and 2002, the lesser of:
    - (A) 1,000,000 K<sub>2</sub>O tonnes; and
    - (B) the sum, across all potash mines in Saskatchewan built after 2002 in which the producer has an interest;
      1. where the total amount of potash sold from a mine by all producers with an interest in the mine has exceeded 1,333,333 K<sub>2</sub>O tonnes in the current or any previous year, 1,000,000 K<sub>2</sub>O tonnes multiplied by the producer's percentage interest in the sales from the mine in the year; and

2. in all other cases, 75 per cent of the producer's sales from the mine in the year.

(d) The producer's Adjusted Base Tonnes are the producer's Base Tonnes multiplied by the Common Industry Adjustment Factor. Based on Base Tonnes in the previous year, the Common Industry Adjustment Factor is:

$$\frac{(\text{total industry Base Tonnes of type (c)(i)} + 35\% \text{ of total industry Base Tonnes of type (c)(ii)})}{(\text{total industry Base Tonnes of type (c)(i) and total industry Base Tonnes of type (c)(ii)})}$$

(e) Profits = Gross Revenue – Mine Operating Costs – Marketing Costs – Storage Costs – Railcar Costs – Taxes and Assessments – Corporate Allowance – Corporate Office Incentive – Depreciation Allowances;

(f) The Corporate Allowance is 2% of gross revenue, in lieu of nondeductible corporate administrative, overhead, financial, and general management expenses;

(g) The Corporate Office Incentive is \$25,000 for each existing corporate office position in Saskatchewan and \$100,000 for new corporate office position, where a new position is counted as an existing position after five years.

(h) Companies receive 120% recognition for capital expenditures and are eligible to depreciate capital expenditures at 35% per annum. Available deductions of capital from approved mine expansions and new mines that are in excess of the amount needed to reduce a producer's income to zero may be carried forward without expiry.

(i) Losses may be carried forward for application against future profits for a maximum of five years;

(j) Companies receive a credit for base payments against profit tax. The base payment credit is:

(i) Base Payment Tax Rate (\$11.00 to \$12.33) x (sales for which the producer is paying both Base Payment and Profit Tax).

(ii) Base payment credits may be carried forward for five years.

(k) Producers who participate in approved market development or research and development programs may claim an Incentive Tax Credit of 40% of the approved expenditure. If there is no profit tax otherwise payable, the Incentive Tax Credit may be deducted from the Base Payment in the following year.

3. POTASH CROWN ROYALTY SYSTEM

Potash Crown Royalty is payable under *The Subsurface Mineral Royalty Regulations, 2017*. Royalties are based on the value of potash produced from Crown mineral lands. The royalty rate is 3 per cent, and value is determined as the average price realized by the producer in the year, as determined by revenues and sales under *The Potash Production Tax Regulations*.

4. GENERAL

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