

New tax incentives for investors in junior exploration companies

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On 2 September 2017, the Prime Minister announced the introduction of a new initiative that should assist junior exploration companies by providing what may amount to a flow through tax credit scheme. In essence, this means that where a junior explorer makes a tax loss, that loss can be converted into tax credits to be used by the investors in the company to offset against the investors' tax liability.

This is encouraging news for Australian resources companies, many of whom have most recently focussed on brownfields exploration on their existing projects. Many in the industry who recently attended the 2017 Diggers and Dealers Mining Forum in Kalgoorlie were commenting on the need to encourage greenfields exploration to ensure the long term sustainability of the sector, particularly in Western Australia. It is broadly acknowledged that while there are high levels of prospectivity, there has been very little in the way of new major discoveries.

A scheme similar to what is proposed has been successfully operating in Canada for a number of decades.

Although draft legislation has not yet been released, the features of the new incentive appear to be as follows:

- It will only be available in relation to investors in "junior explorer" companies. A "junior explorer" might be defined as an exploration company that does not yet have any income (i.e. only expenses). Alternatively, a group turnover test might apply e.g. up to \$10m turnover within the group.
- It will only apply to new shares issued as a result of a capital-raising undertaken by the company. Presumably, the start date for "new" shares is 1 July 2017 (when the incentive is to apply from). Therefore, shares on issue prior to that date will be ineligible.
- The junior explorer will need to make a tax loss arising out of its green field exploration activities (which is usually the case – losses being made in the earlier years followed by taxable income in later years).
- Only Australian tax resident investors in the junior explorer will be entitled to the credits.
- The incentive will be "capped" at \$100 million worth of credits over a four year period.
- The credits will be made available from 1 July 2017 on a "first in, first served" basis. This is somewhat different from the current exploration development incentive, which pro rata's the credits across all applicants.

The new scheme will replace the existing exploration development initiative with final applications under that scheme due by the end of September 2017.

We will continue to monitor developments in relation to this incentive. Once the draft legislation has been released, it will provide a clearer indication of the details of the incentive. There is no doubt however that this is a positive step in making investment in junior explorers more attractive, meaning it is easier for juniors to raise capital for greenfields exploration.

We see the new scheme as offering real benefits, as it will ideally attract those investors who are generally risk adverse and would normally not invest in speculative companies.

For more information or discussion in relation to the exploration development incentive, please contact HopgoodGanim's [Taxation](#) or [Resources and Energy](#) teams.

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