

Program Overview

The GN established the Fuel Tax Rebate program on April 1, 2006 to achieve two main goals:

- reduce the fuel costs associated with traditional activities such as hunting, fishing and outfitting; and
- promote investments in mining by reducing operating costs facing mining firms.

To be eligible for a FTR, an applicant must have paid taxes on fuel used for any of the following qualifying traditional, commercial or industrial activities:

- *Harvesting*, including hunting, fishing, trapping and gathering, whether individually or in a community-organized or sponsored group;
- *Commercial harvesting*, with proper licensing and business incorporation;
- *Quarrying* for the purpose of obtaining carving stone;
- *Tourism services*, including properly licensed outfitting, guiding and other related services for contracting customers;
- *Mineral exploration*, including properly licensed pre-production activities of exploring or prospecting for minerals;
- *Mine development*, including properly permitted on-site construction activities leading directly to the production of minerals;
- *Mine extraction*, including properly permitted on-site activities associated with the extraction and processing of mineral ore; and
- *Mine reclamation*, including properly permitted on-site activities related to restoring a mine-site to its natural state or original use.

The *Tax Rebate Regulations* made pursuant to the *Petroleum Products Tax Act* govern the program's eligibility and application requirements. The Minister of Finance, because of his responsibility for the *Act* and for Nunavut's tax system more generally, oversees the administration of the FTR program. Department of Finance officials review applications to confirm eligibility, process payments, and prevent abuse.

Generally, applicants must have purchased or imported fuel according to the *Petroleum Products Tax Act* and paid taxes to the GN on that fuel within the preceding year. Applicants must have consumed the fuel in vehicles or machinery used off-road, and must not have engaged in any potentially qualifying activity for recreational purposes only. Applicants engaged in mine development, extraction or reclamation must also have entered into a Development Partnership Agreement (DPA) with the GN, remained in compliance with its terms, and submitted required documentation by program deadlines.

Under current regulations, applicants meeting all regulatory and administrative requirements (including, where required, those imposed by a DPA) are eligible to receive a rebate for the fuel tax paid to the GN for fuel used for qualifying activities.

Program Results

The Department of Finance collects program statistics across three categories: harvesting and quarrying, tourism, and mining.

As of November 2016, the GN has approved and paid rebates of \$3.8 million for 2014-15, and \$11,430 for 2015-16. However there is currently an outstanding application for approximately \$3.375 million for the 2015-16 year. The final rebate amounts for 2015-16 years could still change as mining companies still have time to apply for rebates relating to the 2015-16 year.

Since the program's inception in 2006, the GN has rebated just almost \$23 million in taxes. When the pending application from a mining firm is considered, total rebates for 2015-16 and prior will total about \$26.3 million. Harvesting, quarrying and tourism account for the largest number of total applications, but mining firms have received effectively the entire amount (99.8%) in dollar terms. Of the total amount rebated through this program, 86% (\$22.7 million of the total \$26.3 million) was rebated to a single firm.

Applications and Rebate Value, by Category

Decisions to date

	Prior Years (2006-07 to 2012-13)		2013-14		2014-15		2015-16		Total (All Years)		Breakdown
	#	\$	#	\$	#	\$	#	\$	#	\$	%
Harvesting and Quarrying											0.11%
Approved	188	19,614	4	535	20	2,612	19	3,039	231	25,800	
Denied	48	2,161	-	-	-	-	-	-	48	2,161	
Tourism											0.08%
Approved	27	12,594	4	1,319	3	674	2	3,291	36	17,878	
Denied	1	32	-	-	-	-	-	-	1	32	
Mining											99.81%
Approved	44	14,772,975	4	4,297,990	2	3,833,386	2	5,102	52	22,909,453	
Denied	10	1,462,338	-	-	-	-	-	-	10	1,462,338	
Pending	-	-	-	-	-	-	1	3,375,000	1	3,375,000	
Total (All Categories)											100.00%
Approved	259	14,805,183	12	4,299,844	25	3,836,672	23	11,432	319	22,953,131	
Denied	59	1,464,531	-	-	-	-	-	-	59	1,464,531	
Pending	-	-	-	-	-	-	1	3,375,000	1	3,375,000	

Note: Some totals may not add due to rounding.

Harvesting and Quarrying

To support traditional activities the GN allows individuals engaged in traditional activities to apply for a rebate, reducing their costs. While this is a reasonable goal, it is clear from how little it is used that the FTR is not a particularly important initiative in this sector. Very few Nunavummiut apply, and the total value of the rebates is quite low.

In 2014-15, the average rebate paid to each harvester was about \$130.60. This is equivalent to returning the taxes harvesters paid on a little more than 2,000 litres of gasoline. In 2015-16, the average rebate to harvesters increased to \$159.95 per application. However, the GN only received 19 applications in that year so the total benefit to harvesters remains low.

The number of applications from harvesters in 2014-15 and 2015-16 is higher than it has been in prior years as a result of a promotional campaign, but uptake is still extremely low when compared to the number of harvesters in Nunavut.

The GN has worked to increase uptake in a few ways, including simplifying forms, sending letters and applications directly to past recipients, and directly contacting local Hunters and Trappers

Organizations to promote the program. At the end of the day, however, most Nunavummiut simply do not bother applying for a small rebate.

It is likely that the costs of delivering the program (processing applications, issuing cheques, recording transactions, marketing the program, etc.) outweigh the value of the program to this sector.

Approved Rebates for Harvesting and Quarrying, by Community

	Prior Years (2006-07 to 2012-13)		2013-14		2014-15		2015-16		Total (All Years)	
	#	\$	#	\$	#	\$	#	\$	#	\$
Kitikmeot	12	705	-	-	-	-	-	-	12	705
Gjoa Haven	5	261	-	-	-	-	-	-	5	261
Kugaaruk	2	69	-	-	-	-	-	-	2	69
Kugluktuk	2	37	-	-	-	-	-	-	2	37
Taloyoak	3	338	-	-	-	-	-	-	3	338
Kivalliq	14	753	1	49	3	149	-	-	18	951
Arviat	1	21	-	-	-	-	-	-	1	21
Baker Lake	3	51	-	-	1	15	-	-	4	66
Chesterfield Inlet	-	-	1	49	-	-	-	-	1	49
Coral Harbour	7	436	-	-	-	-	-	-	7	436
Rankin Inlet	2	213	-	-	1	63	-	-	3	276
Repulse Bay	-	-	-	-	1	71	-	-	1	71
Whale Cove	1	32	-	-	-	-	-	-	1	32
Qikiqtani	162	18,158	3	485	17	2,464	19	3,039	201	24,146
Arctic Bay	2	141	-	-	1	59	-	-	3	200
Cape Dorset	1	21	-	-	-	-	-	-	1	21
Clyde River	20	1,793	-	-	-	-	-	-	20	1,793
Hall Beach	11	1,193	-	-	-	-	-	-	11	1,193
Igloolik	30	3,921	-	-	3	323	1	53	34	4,297
Iqaluit	11	1,320	1	200	1	103	1	112	14	1,735
Pangnirtung	62	6,911	-	-	1	41	-	-	63	6,952
Pond Inlet	10	1,405	2	285	2	372	1	245	15	2,307
Qikiqtarjuaq	8	1,020	-	-	8	1,553	16	2,629	32	5,202
Resolute	2	22	-	-	1	13	-	-	3	35
Sanikiluaq	5	411	-	-	-	-	-	-	5	411
Total	188	19,616	4	534	20	2,613	19	3,039	231	25,802

Note: Some totals may not add due to rounding.

Tourism Services

The GN has consistently received few applications related to tourism services. The GN has contacted tourism operators to inform them about the program, but it did not increase the number of applications received. Applications in 2014-15 and 2015-16 remained consistently low, as they were in past years. Although the average value of each application received for outfitters is higher than the

average harvester application, the total value is still quite low. To date, total rebates paid to outfitters account for 0.08% of all rebates paid under the program.

Mining

Mining firms involved in exploration are able to seek a rebate for the full amount of fuel tax they pay. This early stage in the mineral development process is relatively risky, as firms are not guaranteed to find deposits that can be developed into economically feasible mines. At the same time, exploration requires a number of costs but generates little to no revenue. Finally, exploration is a clear requirement to future development—without exploration, there can be no new mines.

Recognizing these realities, the GN supports exploration firms by rebating the full amount of territorial taxes they pay on the fuel they use.

Mining firms that have passed the exploration stage and are engaged in development, extraction or reclamation activities face quite different circumstances. By the time a firm has started developing a mine it has identified specific mineral deposits. Development costs are high and there are few (if any) revenues, but because the firm better understands how the site can profit its shareholders its work is less risky from an economic perspective. During extraction, revenues begin to flow to the firm and its shareholders. By the time reclamation (clean-up) occurs, the firm has removed all there is to extract profitably, and is preparing to leave the site for good.

In these cases, there are fewer good policy reasons for the GN to support mining firms. Recognizing this, the GN requires firms engaged in development, extraction, or reclamation activities to have entered into a Development Partnership Agreement (DPA) with the GN, and to have remained compliant with its terms, to qualify for a rebate under the FTR program.

DPAs are voluntary agreements between the GN and a mining firm that set out how they will work together to help Nunavummiut, their businesses and their communities benefit from resource development projects in Nunavut. Each DPA sets out a list of activities the firm will undertake or conditions the firm must meet. If the firm meets all of the DPA's terms to the GN's satisfaction, it is eligible to apply for rebate under the FTR program. In this way, the FTR is meant to provide the firm with a financial incentive to comply with the terms of the DPA.

The Department of Economic Development and Transportation leads the negotiation and monitoring of DPAs. To date, the GN has signed only one DPA with a mining firm. A number of other companies have indicated interest in entering into a DPA.

The cost of the FTR program will increase significantly if more mining firms move beyond the exploration phase and begin development, which uses more fuel and therefore generates more fuel tax. At current tax rates, a single medium-sized mine in Nunavut, consuming roughly 50 to 70 million litres of taxable fuel each year, can pay as much as \$4 million dollars in fuel tax annually. Considered over the multi-year life of a mine, the FTR represents a significant expenditure for the GN, comparable in dollar terms to a major capital project. Because the FTR is a rebate of taxes rather than a program expenditure, an appropriation is not required.

As of November 2016, mining firms received \$3.8 million for 2014-15 and \$11,432 for 2015-16 in tax rebates from the GN. Because mining firms have up to a year to apply for a rebate, we expect the 2015-16 number to increase significantly. We estimate that total rebates to mining firms in 2015-16 will be close to \$3.5 million, including one application which is currently under review for approximately \$3.375 million.