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**MULTI-YEAR EXPERT MEETING ON COMMODITIES  
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**MINING TAX REGIME  
AS DEVELOPMENT TOOLS**

by

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# MINING TAX REGIME AS DEVELOPMENT TOOLS



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# DOMINICAN REPUBLIC



# Dominican Republic (DR) Economic Facts



- Second largest Caribbean nation: 48,442 km<sup>2</sup>;
- Population of 10 million people
- Stable democracy with multi-party political system;
- GDP: US\$64.4 billion (2013)
- GDP per capita: US\$9,840 (2013)
- GDP growth rate: 4.1% (2013)
- 9<sup>th</sup> largest economy in Latin America;
- Caribbean's largest tourist destination;
- Economy based on tourism, agriculture, light industry and mining.
- Capital city, Santo Domingo.



Bayahibe Beach

# Dominican Republic Mining Tax Regimes



- **Mining Law**

- Apply for properties discovered by mining concessionaries
- 28 % net income tax (IRS).
- 5% of net income after IRS tax, for communities.
- 10% importation tax.
- 18% tax for local purchases.
- 5% FOB value of ore or metal product, in case of no earnings operation,

- **Special Contracts**

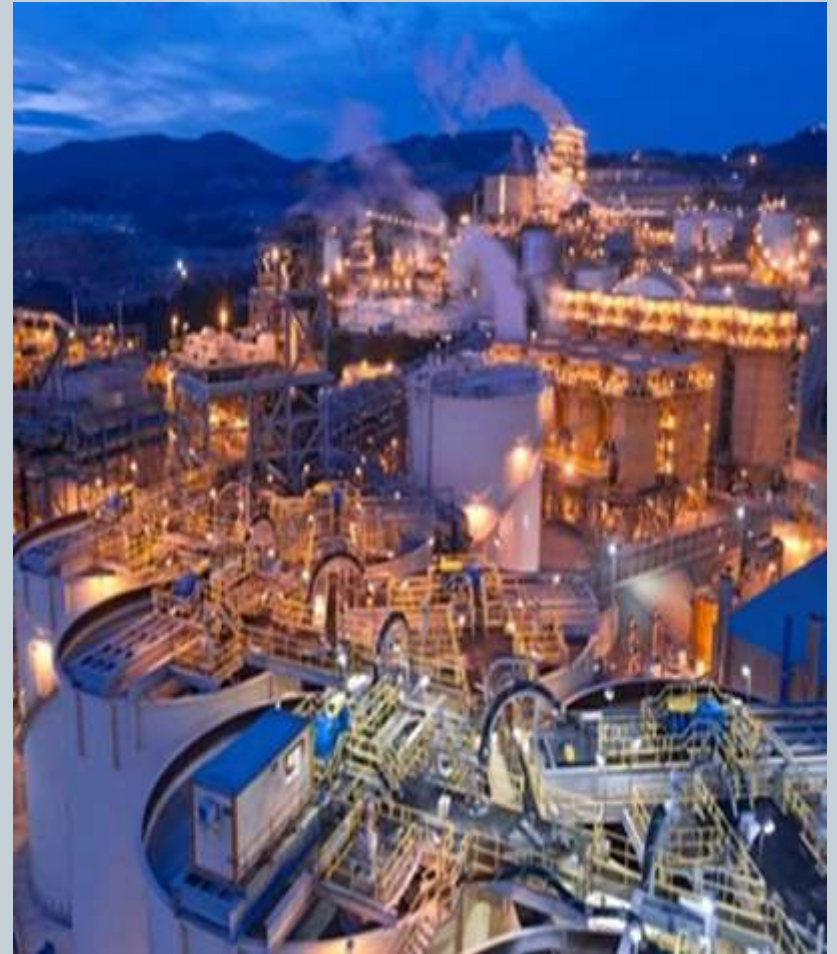
- Apply for government mine properties
- 50% sharing on net earnings as all inclusive tax.
- Contract for extractions of gold (Barrick Gold and Panterra Gold) and nickel (Glencore Xstrata) .

# Barrick Gold Pueblo Viejo Project 2013 Contract Renegotiation Case



# Barrick Gold Pueblo Viejo Mine

- Deposit of gold, silver, copper and zinc owned by Dominican State.
- Metallurgical plant owned by Barrick Gold and Gold Corp built with an investment of US\$ 4.4 billion. Started in August 2012.
- Proven reserves of 25.3 Moz. of gold 160.2 Moz. of silver and 591 Mlb. of copper. Potential reserves up to 38 Moz. of gold.
- Estimated annual production next five years 1MMoz gold and 5 Moz. of silver.
- Pueblo Viejo mine is one of the largest gold deposits in Latin America.



# Barrick Gold Pueblo Viejo

## Original Contract Terms



- 3.20% royalty as gross melting return since mine start up. No other tax collection for the next 5 years. Consequently 96.8% of all mine cash flow to be handled by investors.
- Accelerated depreciation of 40%.
- Repayment by 2016 of all capital invested before share any profits.
- 25% income tax (IRS), payable only after 2016.
- 28% net earnings participation (NEP), to be paid only after 2019, when the project reach 10% investment return.
- As a result Dominican government would receive US\$377 millions out of US\$8 billions of gross revenue for the period 2012-2016.



# Barrick Gold Pueblo Viejo

## Amendments to Original Contract



- Depreciation rate dropped from 40% to 15%
- Total project capital investment recognition from US\$4.47 to US\$3,79 billions.
- Repayment capital invested by 2026 instead of 2016.
- Reduction of interest rate on company loans from Libor plus 9.9% to Libor plus 3%.
- Minimum tax rate (AMT) on gross sales to collect 90% of IRS and NEP.

# Contract Amendment

## Annual Minimum Tax (AMT)

- Minimum tax rate related to gross revenue, apply above US\$800/oz price of gold, at 1.35% on gross revenues payment.
- Then, every US\$50 gold price increase, the AMT increase up to 23.05% for a gold price from US\$1,600 to US\$,1650 and ending at 32.55% for gold prices over US\$3,000/oz.. This table will apply from 2012-2016 and a new one will be calculated after that date.

# Contract Amendment

## Annual Minimum Tax (AMT)



- A new AMT rates will be recalculated every 3 years starting on 2017, from a revised financial model of mine plan. Those rates to be calculated dividing the 90% of projected taxes of income tax (IRS) and Net Earnings Participation (NEP) by estimated gross sales of gold per year at every price range between US\$800 and US\$3,000.
- The mine can declare Force Majeure to not pay AMT tax, in the event to have high price of fuel oil for 90 consecutive days and which divided by the price of gold result in a number over to 0.16.
- This tax regime secure an annual minimum income to Dominican government equivalent to the 90% of projected IRS and NEP taxes, no matters Barrick Gold declares no earnings in the period.

# Negotiation Outcomes

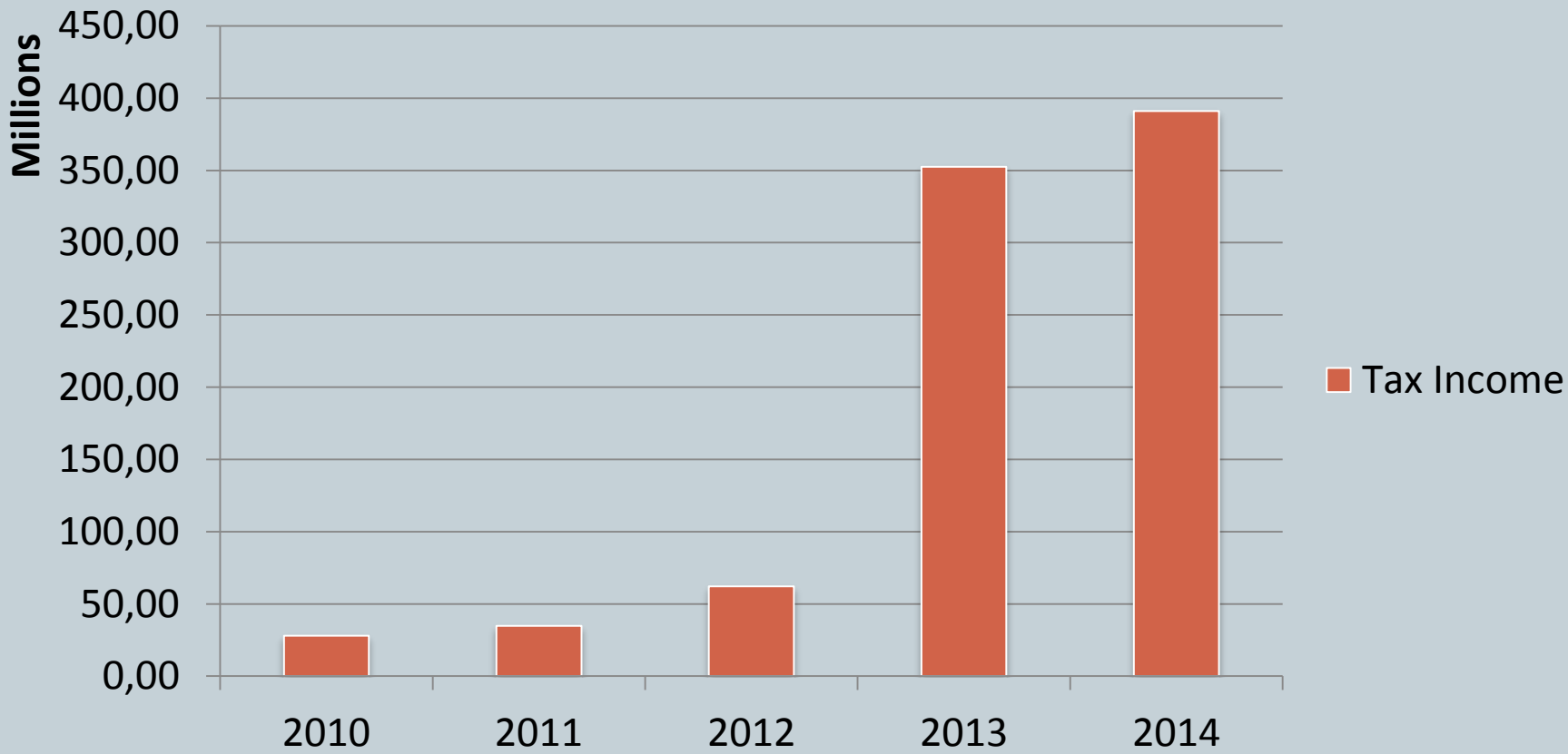


- Government earnings to be received since 2012 when mine start up.
- Increase government revenue for LOM, from US\$ 9,900 millions to US\$11,615 millions at a gold price of US.\$1,600/oz
- Increase government share on LOM profits from 37.1% to 51.3%
- Increase government tax income from US\$ 377.4 millions to US\$2.200 millions for the period 2013-2016 at gold price of \$1,600.

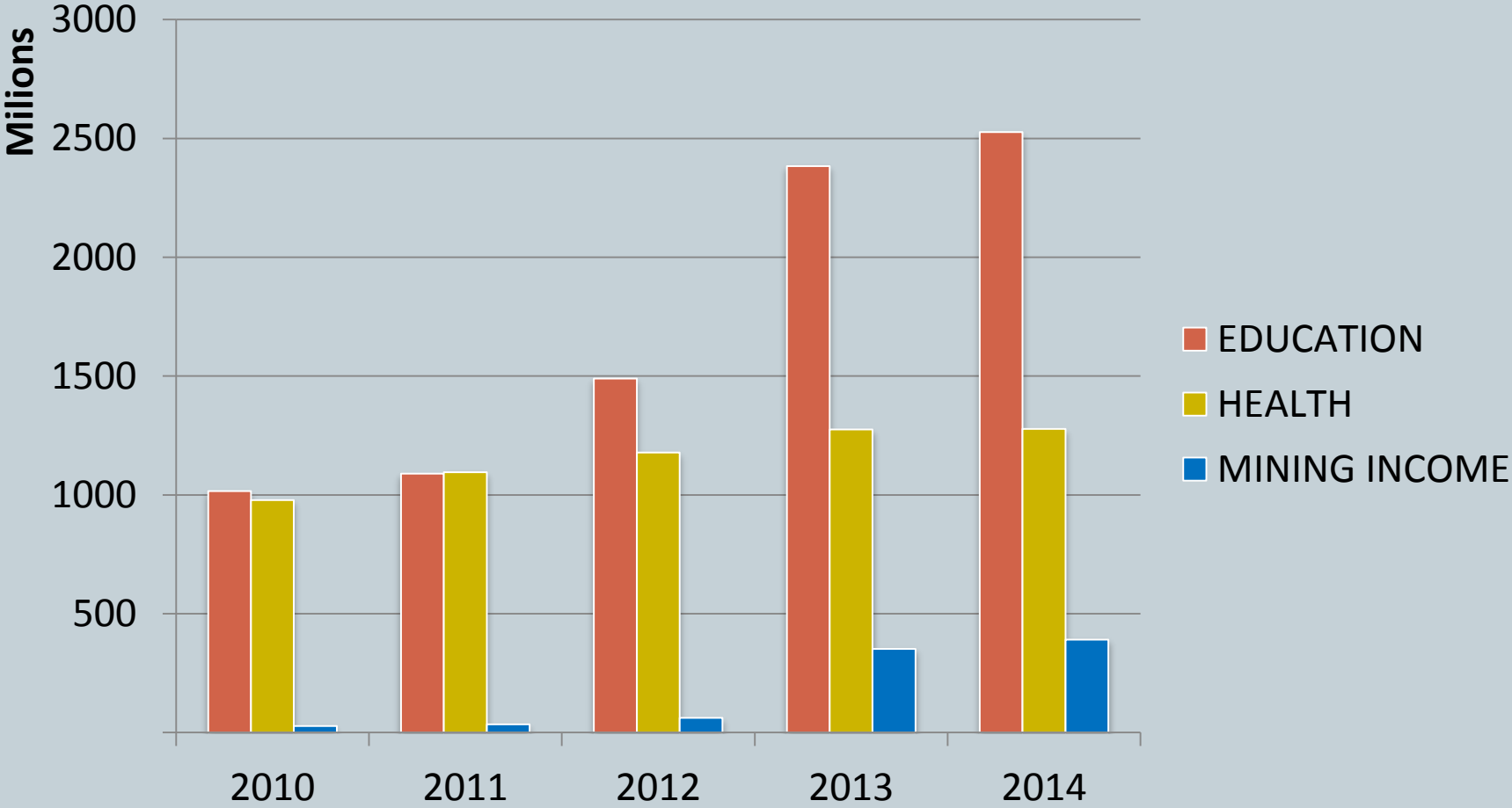
# Tax Revenues from Mining 2010-2014



## Tax Income



# Dominican Republic Education and Health Expenditure



# Dominican Republic Development Improvements



- Economy:
  - GDP growth by 4.1% in 2013, better than expected,.
  - Growth in mining increased by 151%, due to new gold production.
- Health:
  - ✦ 461,858 low income people included in health plan.
  - ✦ Free care in public hospitals. RD\$600 millions budget increase
  - ✦ RD\$2,000 millions for a fund to pay catastrophic illness expenses
  - ✦ RD\$79 millions to help people living with HIV-AIDS.
  - ✦ 34 new hospitals.
  - ✦ 51 new low price pharmacies.
  - ✦ Maternal mortality reduction by 4%
  - ✦ 37% decrease tuberculosis mortality

# Dominican Republic Development Improvements



## ● Education:

- ✦ Increase education budget from 2.8 to 4% of GDP
- ✦ 10,000 new classrooms for public schools.
- ✦ Doubled the budget for food service to public school students
- ✦ 100 new early childhood care facilities across the country.
- ✦ 200,000 students to a new full time public school schedule.
- ✦ Grant 20,000 scholarship for university students.
- ✦ 40% pay raise to teachers.
- ✦ Pension rise to retired teachers.
- ✦ RD\$2,000 millions for teachers training program