

Earth Resources Regulation

Royalty information sheet – minerals

The *Mineral Resources (Sustainable Development) Act 1990* (MRSDA) requires that “the holder of a mineral licence must pay royalties in accordance with the rate or method of assessment”.¹ Mineral Industries Regulations gives the royalty rate as 2.75 per cent of the “net market value” for all minerals other than lignite.²

Calculation of Royalties (Gold)

A royalty is payable for gold produced under a mining licence, except the first 2,500 ounces of gold produced each financial year.³

Net Market Value

Net market value means the market value of the mineral at the time it is first sold, transferred or disposed of less any costs reasonably, necessarily, and directly incurred by the licensee in connection with the sale, transfer or disposal (including insurance, freight and marketing).⁴

It should be noted that the minerals royalty under the MRSDA is a royalty on *value not profit*. As such, the costs that are deductible are only those that relate to the movement or sale of the finished product from the mine site to the customer.

In determining *net market value*, the following should be observed:

The *market value of the mineral* means the value of the mineral if it were sold to an unrelated party in an arms-length commercial sale. The transfer or sale of the mineral to a related party at a price not reflecting the market value of the mineral is not accepted as the *market value of the mineral*.

Deductible costs are only those directly incurred by the licensee in connection with the sale, transfer, or disposal of the mineral, and may include:

- Costs related to the purchase, hiring, or maintenance of delivery vehicles to the extent they are used for the delivery of the product from the mine site to the customer.
- Costs related to the insurance of the product while it is being delivered off site
- Costs related to the marketing of the product such as print advertising

¹ Act, s 12 (1)

² Mineral Resources (Sustainable Development) (Mineral Industries) Regulations 2019, Regulation 6 (1) and Mineral Resources (Sustainable Development) (Mineral Industries) Amendment Regulations 2019, Regulation 5 (1)(a)

³ Mineral Resources (Sustainable Development) (Mineral Industries) Amendment Regulations 2019, Regulation 5 (1)(b)

⁴ Mineral Resources (Sustainable Development) (Mineral Industries) Regulations 2019, Regulation 4

Costs incurred in the finding, extraction, or processing of the mineral prior to its first sale are not deductible costs.

Costs claimed that are not 'reasonable, necessary, and direct' in the opinion of the Minister, may be disallowed.

Minister's power to determine *net market value*:

If the Minister is of the opinion that the net market value reported in respect of a particular mineral is not a true or fair net market value of the mineral, the Minister may require the licensee to pay a royalty in relation to the mineral on the basis of the net market value of the mineral as determined by the Minister.

This regulation may apply if the Minister is of the view that the costs reported in relation to the sale of that mineral do not all relate to that mineral, or are unreasonably high. This regulation may also apply if the Minister is of the view that the reported sale price of a mineral resulted from a transaction that was not a genuine commercial transaction because the parties to the contract were related bodies corporate.⁵

⁵ Mineral Resources (Sustainable Development) (Mineral Industries) Regulations 2019, Regulation 7