Guide to completing the Annual Royalty Return Form

AR Guide

What is an annual royalty return?

The annual royalty return (AR) is the form used to report to the Chief Executive of the Ministry of Economic Development the value of production under your mining permit and your liability to pay royalties to the Crown.

An annual royalty return is required to be completed for every mining permit.

Who should file royalty returns?

Permit holders are legally responsible for the calculation and payment of royalties, even if they nominate some other person to complete the returns. A permit holder who holds several permits must ensure that returns are filed for each permit held.

How is royalty liability calculated?

Royalty is payable on all coal or minerals produced from the permit that are sold, disposed of or used in production. (If you do not sell, dispose or use the coal or minerals, you do not have to pay royalty.)

The amount of royalty payable is based on the net sales revenues (the value of production sold, disposed of or used) from your permit.

The royalty regime provides for two rates of royalty; the ad valorem royalty (AVR) which is 1% of the net sales revenues and the accounting profits royalty (APR) which is 5% of the accounting profits from the permit.

If annual net sales revenues are less than $100,000 or average monthly net sales revenues are less than $8,333 you do not have to pay royalty.

If annual net sales revenues are $100,000 or more and not greater than $1 million or average monthly net sales revenues are $8,333 or more but not greater than $83,333 you pay the 1% AVR only.

If annual net sales revenues are greater than $1 million or average monthly net sales revenues are greater than $83,333, you are required to pay the higher of the 1% AVR or 5% APR.

Which part of the annual royalty return to complete?

The annual royalty return is divided into three parts. Part A provides for calculation of net sales revenues and any outstanding royalty liability. Part B provides for the calculation of the provisional APR. Part C provides for calculation of losses for periods when provisional APR did not have to be calculated.

Where annual net sales revenues are $1 million or less (or on a monthly average basis are $83,333 or less), you need to complete Part A.

Where annual net sales revenues are over $1 million (or on a monthly average basis are over $83,333), you need to complete Parts A and B, and perhaps Part C.

All mining permit holders are forwarded Part A to complete. Part B is forwarded to those the Ministry of Economic Development estimates could have net sales revenues over $1 million.

Where you anticipate that at any time in the future net sales revenues will exceed $1 million, we strongly recommend that you complete Part B. (The requirement for accountant or auditor sign-off does not apply.) You do not have to send us the completed Part B. Keep it in your files to assist in calculating allowable APR deductions to be claimed against future accounting profits.

If you need Part B but we have sent you Part A only, please contact Crown Minerals Finance Unit and ask for Part B.

Do I need to complete the return if production from the permit is nil?

Yes. If production from the permit in the reporting period is nil and you have not sold, disposed of or used any coal or minerals previously mined, you declare a nil return. Write nil in Boxes 8A and 8B, page 3 of the return. Sign the Declaration and send the form to us by the due date.

Filing of returns when a permit is sold or transferred

When you sell or transfer a permit, your last annual royalty return will cover the period from the first day of the reporting period up to the day when the sale or transfer occurs. The new owner of the permit must file a return to cover the period from the date following the date of transfer up to the end of the reporting period in which the transfer occurs.

Further information

If you want to know more about the royalty regime, refer to your permit conditions or Chapter 15 of the Minerals Programme for either Coal or Minerals. You can also contact Crown Minerals Finance Unit.

The annual royalty return form is available on disk. The disk version (Excel 97) contains formulas for royalty calculation. A copy of the disk is available on request.

A basic flow diagram of the AVR/APR royalty regime is provided at the back of this Guide.

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Email: crown.minerals@med.govt.nz **www.crownminerals.govt.nz**

Ministry of Economic Development
Manatū Ōhanga
Crown Minerals

Filling out the annual royalty return

Fill in the form using black or blue ball point pen. Please use capital letters.

Please enter all costs, prices and sales figures excluding GST. These may be rounded to the nearest whole dollar.

We send you two copies of the AR form. You may wish to complete both forms so that you can have a copy for your files.

Royalty return: Part A

Information printed on page one of the return

Page one of the return contains information which helps us contact you and informs you of when royalty returns are due. If any of the details are incorrect, draw a line across and write the correct information or notify us by accompanying letter.

Permit number

This is the unique reference number given to your mining permit when it was granted.

Return number

Our computer system allocates a unique number to each annual return printed. We use this number to keep track of the annual returns sent to permit holders.

Customer code

This is your customer account code that we use when processing royalty returns, payments and invoices.

Operation name

Some permit holders prefer to identify their permit area or mining project by a name rather than the permit number. If you have advised us of the operation name, then this will be printed in the annual return. If you want to specify a name or change this, please notify us in writing.

Permit holder details

If any of the details have changed, let us know so we can update our records.

Contact person details

The contact person should be the one you would like us to contact if we have queries about the payments or annual return. It should preferably be the person who actually completes the annual return.

Reporting period

This is the period covered by the annual royalty return. Most permit holders have 1 April to 31 March as their reporting period.

Return and payment due by date

This is the last day we expect to receive the annual return and payment due. If you are forwarding by mail, you should ensure it is posted before the due date to allow sufficient time for mail delivery.

Number of whole months in the period

The annual return covers a period of 12 months. Exceptions may be in the first year of operations and where a permit has been transferred. For example, in the first year, the annual royalty return will cover the period from the day of the grant of the permit up to the last day of the reporting period.

Point of valuation

The point of valuation is the term we use to refer to the point in the permit operations where a value is established for purposes of calculating royalty for the minerals or coal sold or otherwise used.

Steps to complete Part A of the Annual Royalty Return

Number 1

If you have completed two interim royalty statements for the reporting period you do not need to report details of your net sales revenues on the royalty form as the Ministry of Economic Development already has these. Just enter in Boxes 1A and 1B both of your half year net sales revenues from the interim royalty statements, and total these at Box 1C. Then go to number 5.

If you have completed one interim royalty statement you need to provide details of the net sales revenues for the remaining period not covered in the interim royalty statement.

If you have not completed any interim royalty statement you need to provide details of production and sales for the full reporting period.

Number 2: Details of production, sales and disposal

The following details are required:

Product type

You need to write each type of product mined from your permit in a separate column, for example, gold, silver.

If there are more than three products obtained from the permit, you should photocopy page one of the annual return and use that copy for reporting details of the other products. Attach this copy to the annual return.

Unit of measure

We prefer that you use kilograms for gold and silver, cubic metres for peat and tonnes for coal and other minerals. (1 kilogram = 32.15 troy ounces.)

Opening stock (Box 2A)

This is the balance at the start of the period (this will be the closing stock from the previous period).

If you ticked the yes box in number 2 (this means you have filed one interim statement in the reporting period), copy the Closing Stock reported in the interim statement.

If you ticked the no box in number 2 (this means you have not filed any interim statement for the reporting period), copy the Closing Stock reported in the annual return filed for the immediately preceding reporting period.

Note: For purposes of royalty calculation, stock means mined or processed products being held for future sale.

Quantity produced (Box 2B)

This is your production for the period.

Quantity available (Box 2C)

This is opening stock added to production over the period of the royalty return.

Quantity sold (Box 2D)

This is your sales for the period.

Quantity used in production (this does not apply to gold) (Box 2E)

Sometimes coal or minerals are used in the production process, for example, coal may be used as a fuel to operate water heating systems on the production site; aggregates may be used for roading purposes. If you have production used in this way, enter the amount here.

Quantity gifted/exchanged/removed (Box 2F)

This refers to the quantity of coal or minerals you may have gifted or given away, exchanged or bartered or removed from the permit area without sale, for example, coal gifted to workers as part of an employment agreement.

Note: Coal or minerals removed from the permit and held in a stockpile for future sale do not come into this category. They will be accounted for in the stocks on hand and if the coal or minerals are subsequently sold they are accounted for as Quantity Sold. (You pay royalty only if you sell, dispose of or use the coal or minerals produced from the permit.)

Note: In the final royalty return, a fair value of the unsold stocks is established and taken into account in calculating the royalty liability.

Quantity otherwise used (Box 2G)

This is the sum of quantity used in production and quantity gifted, exchanged or removed.

Production adjustment (applies to coal only) (Box 2H)

This refers to coal wasted or dumped on the mine site which has no value. For example, the amount of ash and other impurities in the coal that are removed during screening or washing.

Closing stock (Box 2I)

This is the balance remaining at the end of the period. The Quantity Available (which is the total of opening stock and production) is reduced by the quantity sold, disposed of, used in production and adjustment for coal wasted or dumped. This closing stock will be the opening stock for the next period.

Sales (Box 2J)

This is the amount of sales (excluding GST) of each product type. If any amount shown in your sales records includes GST, you have to deduct the GST, by dividing the sales figure by 9. For example, if sales including GST are $11,700, the GST is $1,300 ($11,700/9). The amount to report in the interim statement is $10,400 ($11,700 - $1,300).

Note: If sales include any of the items below you have to apply different rules in calculating gross sales:

- sales of coal or minerals on a forward sales contract
- sale of coal or minerals on a take or pay contract
- repayment of a gold loan with gold produced from the permit
- sale of coal or minerals in a foreign currency
- sale of coal or minerals at a price which is not an arm's length price (see below)

The rules that relate to the above transactions are explained in paragraphs 15.13 (a) to (e) of the Minerals Programmes. If you are unsure about how the rules apply, contact the Crown Minerals Finance Unit and we will explain the rules to you.

Value otherwise used (Box 2K)

Where a sale has not occurred, as with quantity otherwise used, its value or a notional one has to be determined.

To calculate this figure, multiply the Quantity Otherwise Used by an acceptable arm's length value.

Arm's length value

This is a value agreed between the permit holder and the Minister of Energy as an appropriate notional price where arm's length transactions have not occurred, as with the use of mineral or coal in production or where gifted.

The Minister will generally accept the average price per unit as the arm's length value. If you wish to use any other value, you must get approval from the Secretary. Contact the Crown Minerals Finance Unit to find out more details on how to obtain approval.

Gross sales (Box 2L)

This is the sum of the sales of all products. For each column add together all figures in line 2(J).

Total value otherwise used

Add together all entries in line 2(K).

Number 3: Netbacks/net forwards

Netbacks or net forwards are costs incurred between the point of valuation and the point of sale. The point of valuation is agreed to at the time of the grant of the permit. In most instances, the point of valuation is set at the mine gate or permit boundary which is also the point of sale and so netbacks or net forwards will be nil or insignificant.

To find out whether you need to account for netbacks or net forwards, refer to the Point of Valuation box on page one of the return. We specify in that box whether netbacks or net forwards apply to your permit.

Number 4: Calculation of Net Sales Revenues

If you have filed an interim royalty statement for the first half of the reporting period enter the net sales revenues shown in Box 4B of the interim royalty statement to Box 4A of the annual return.

Add Boxes 2L (Gross Sales) and 2M (Total Value Otherwise Used) and either deduct any netbacks or add any net forwards. This calculation is entered at Box 4C.

Net Sales Revenue is the sum of Boxes 4A and 4C.

Number 5: Determine whether royalty is payable

If the permit is part of a production unit, you have to report the total net sales revenues for the other permits or licences in the production unit.

Production unit

A production unit is where two or more mining permits or a mining permit and a licence are being worked together as a single project and there is common ownership.

If a permit is part of a production unit, the net sales revenues from the other permits or licences making up the production unit are taken into account in determining whether royalty is payable.

The amount of royalty you will pay is calculated on the net sales revenues from the permit, not on the production unit.

Calculate average monthly net sales revenues if the period covered by the return is less than 12 months.

Answer question 5(C) to determine if royalty is payable.

Number 6: Calculate royalty payable

Follow the steps to determine any royalty payable.

Number 7: Details of payments made

Provide details of any interim payments or any overpayment carried forward from a previous period.

Number 8: Outstanding royalty payment due

The Royalty Payable (calculated in number 6) is reduced by the total payments made for the period (number 7).

If the total payments exceed the royalty payable, the excess payment will be refunded to you.

Number 9: Payment option

Tick the payment option you prefer.

If paying by direct credit, details as follows should be provided to the bank:

Direct credit details

Bank/Branch
WestpacTrust Banking Corporation
New Zealand Government Branch

Account Name
Ministry of Economic Development: Crown Receipts,
Corporate Services Division

Account Number
03-0049-0001311-25

Particulars
Customer Code (copy from top left hand corner on page 1 of the return)

Code/reference
Royalty CRCMOG

Number 10: Refund option

Tick the refund option you prefer.

Declaration

The Declaration must be signed by the permit holder/s or the person/s authorised by the permit holder/s.

Section to be completed by an accountant or auditor

The notes under this section explain how the requirement for accountant or auditor sign-off applies.

Forwarding your annual royalty return

Forward your annual royalty return with any accompanying cheque:

- in the envelope provided, addressed to:
  Crown Minerals Finance Unit
  Ministry of Economic Development
  PO Box 1473
  Wellington
  New Zealand
- hand delivered to:
  Crown Minerals Finance Unit
  Level 6
  33 Bowen Street
  Wellington
  (between 8.00am and 4.30pm on any business day)
- by facsimile to:
  04 499 0968

If you forward your return by facsimile you must make sure the original copy is sent to arrive at Crown Minerals within ten business days as we need an original of the permit holder's declaration and accountant's or auditor's statement, if applicable. You will need to pay any royalty due by direct credit.

Royalty return: Part B

What does Part B of the royalty return cover?

Part B of the annual royalty return covers the calculation of the provisional accounting profits royalty.

Who should complete Part B of the annual royalty return?

You must complete Part B of the return if:

- net sales revenues for the permit or for a production unit which includes the permit are over $1 million for the reporting period;
- average monthly net sales revenues for the permit or the production unit are over $83,333 for a period less than 12 months.

How is the provisional accounting profits royalty determined?

Costs relating to the mining operations are claimed as a deduction from net sales revenues to calculate the provisional accounting profits royalty. These costs are referred to as allowable APR deductions. They are:

Pre-production costs;
Production costs;
Depreciation;
Administrative costs;
Restoration costs; and
Operating losses carried forward.

Any cost which does not fall under any of the categories specified above cannot be claimed. It is referred to as a non-allowable cost. Some examples of non-allowable costs are foreign exchange gains and losses, income taxes and goods and services taxes.

Allowable APR deductions are defined and discussed in Chapter 15 of the Minerals Programme for Coal and the Minerals Programme for Minerals.

Deductions allowed only once

No deduction or allowance may be made more than once for any amount expended.

Deduction made in the period the costs are incurred

All allowable costs except pre-production costs and operating losses must be claimed in the period they are incurred.

Steps to complete Part B of the annual royalty return

Number 11: Pre-production costs

Pre-production costs from a permit are amortised over the expected period of extraction of the economically recoverable reserves. The costs are amortised on an output basis, that is, in the ratio of output or production in the reporting period to the remaining reserves assessed at the start of the period. The amount of pre-production costs used up or expended in a given period is the amount allowed to be claimed as the APR deduction for that period.

If you want to claim a deduction for pre-production costs, you should obtain approval from the Chief Executive of the Ministry of Economic Development prior to including the costs in your return. Contact Crown Minerals Finance Unit on how to obtain approval.

Where there are two or more minerals produced from a permit, amortisation should be calculated on the reserves figure of the predominant mineral because the reserves of this mineral will determine how long the permit operations will last for.

Number 12: Production costs

These are costs incurred in extracting, processing, sorting, refining and concentration of coal or minerals from a permit up to the point of valuation.

Number 13: Depreciation

Depreciation can be claimed for fixed assets used in production. It is not claimable on assets included under pre-production costs. Depreciation should be calculated in accordance with Generally Accepted Accounting Practice (GAAP).

Depreciation where sale or transfer of permit occurs

If a permit is sold or transferred, the new owner of the permit can continue to claim depreciation for the assets relating to the permit as if no sale of transfer has occurred.

Number 14: Administrative costs

This category includes costs of negotiating sales contracts, insurance, communication, travel, audit, legal and office expenses.

Number 15: Restoration costs

If you incur costs in abandoning and restoring sites and dismantling or demolishing production equipment or structures, you may claim these costs.

Number 16: Operating losses carried forward

Where allowable APR costs exceed net sales revenues for a reporting period, the costs over and above the net sales revenues can be carried forward to the next reporting period as Operating Losses Carried Forward.

If a permit is sold or transferred, any operating losses as at the date of the sale or transfer of the permit may be claimed by the new owner of the permit. The losses will be accounted for in the same manner as if no sale or transfer has taken place.

Operating losses may be carried forward until they are fully offset against accounting profits or until the expiry of the permit, whichever comes first. Losses for the final reporting period cannot be claimed in any future period or carried forward/transferred to another permit.

Claiming operating losses - prior periods when provisional APR did not have to be calculated

If you did not have to calculate provisional accounting profits royalty in previous reporting periods and you want to claim losses for those periods, you should complete Part C of the annual royalty return. Bring forward any loss calculated in Part C to Box 16.

Number 17: Calculate sum of allowable deductions

Add the boxes specified in the form.

Number 18: Proceeds from hire, rent or lease of land or fixed assets

The requirement to account for the proceeds applies to fixed assets or land on which depreciation or pre-production costs have been claimed.

The total amount you are required to report is limited to the amount of depreciation or pre-production costs previously claimed.

For example, you have received $20,000 for lease of an asset. The annual depreciation of the asset is $18,000. Then $18,000 should be reported as the proceeds from the lease of the asset.

Number 19: Gain or loss on sale or disposal of land or fixed assets

The requirement to account for the gain or loss applies to fixed assets or land on which depreciation or pre-production costs have been claimed.

The total amount of gain you are required to report is limited to the amount of depreciation or pre-production costs previously claimed.

For example, you sold some machinery for $135,000 which originally cost $130,000. At the time of sale, the net book value of the asset is $110,000 ($130,000 less depreciation of $20,000). Although your actual gain is $25,000 ($135,000 - $110,000), $20,000 is the amount to be reported as the gain on sale.

If the sale or disposal results in a loss, you can claim the difference or shortfall between the amount of the actual loss and the depreciation or pre-production previously claimed.

For example, if the same machinery in the previous example was sold for $60,000, the actual loss is $70,000 ($130,000 - 60,000). The loss that can be claimed is $50,000 (actual loss of $70,000 less depreciation of $20,000).

Number 20: Calculate net allowable deductions

Complete the steps specified in the form to determine the net allowable deductions. If the calculation results in excess gain or proceeds, the excess must be carried forward to the next period and offset against the sum of allowable deductions in that period.

Number 21: Calculate provisional accounting profits royalty

Complete the steps specified in the form to determine the provisional accounting profits royalty. This leads you back to Part A of the royalty return.

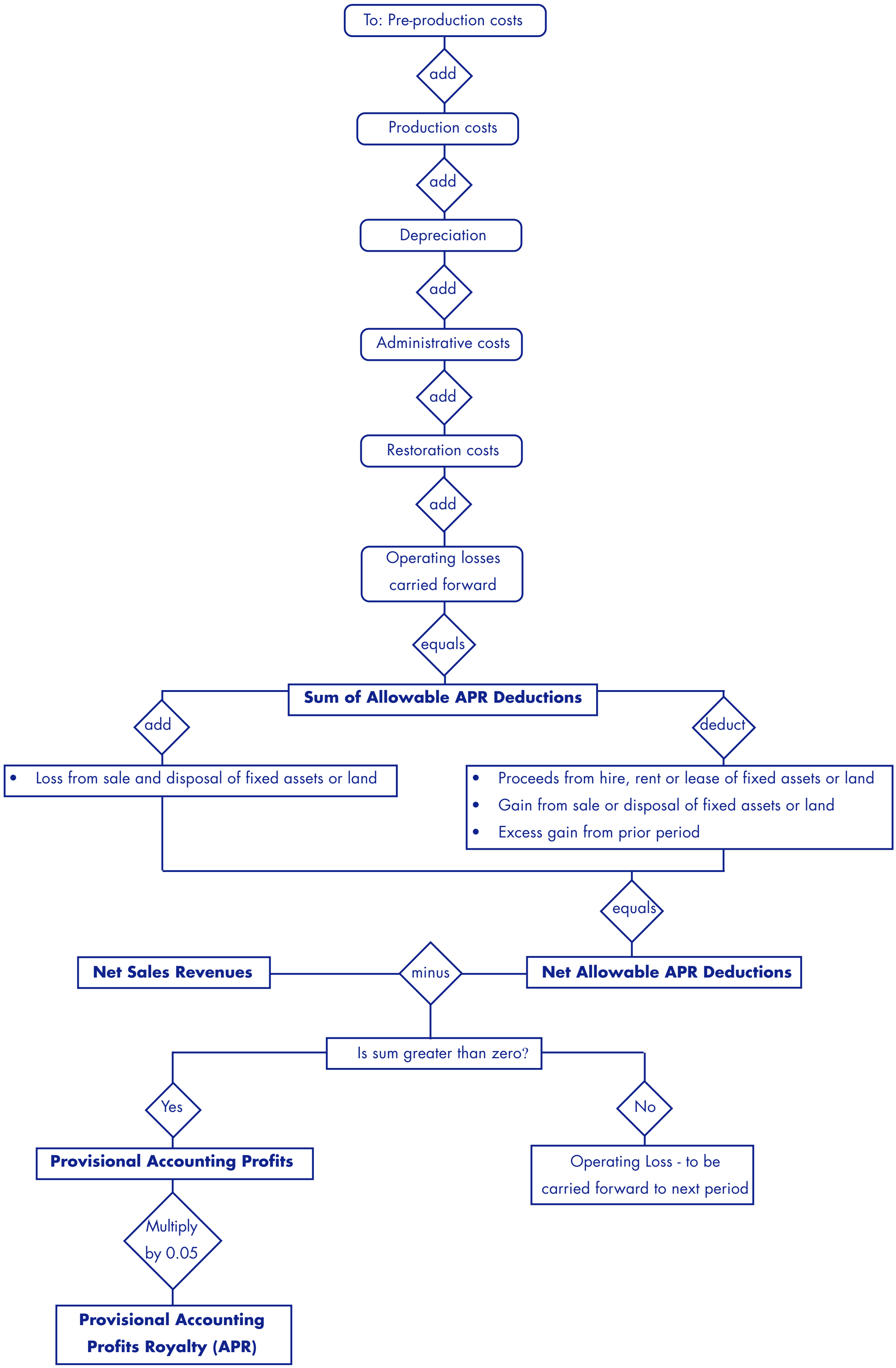
Number 22: Where net allowable deductions exceed net sales revenues

As noted under number 16, allowable APR costs which exceed net sales revenues can be carried forward as operating losses. The permit holder also has the option to account for restoration costs claimed in the period as accumulated unclaimed restoration costs (see number 23).

Number 23: Accumulated unclaimed restoration costs

During the final years of the permit's life, production declines or ceases. The allowable APR deductions during the final years will be comprised mostly (or completely) of restoration costs. It is likely that net sales revenues will be minimal or nil and will be insufficient to offset the restoration costs against. Accordingly, you can accumulate restoration costs in a separate account called accumulated unclaimed restoration costs and include these as an APR deduction in the final royalty return. Until the final royalty return, provisional accounting profits are calculated. At the final royalty return, unclaimed restoration costs are taken into account and are added to the allowable APR deductions for previous reporting periods to determine the final accounting profits and accounting profits royalty liability.

Determining provisional accounting profits liability each reporting period



Determining your liability to pay royalty each annual reporting period