

# Mineral Royalty Act: Royalty Guideline – RG-MRA-003 Negative Net Value

Version	Issued	Dates of Effect	
		From:	To:
1	29 August 2011	29 August 2011	30 June 2018
2	29 June 2018	1 July 2018	30 June 2019
3	1 July 2019	1 July 2019	Current

## Purpose

1. This Guideline explains the circumstances in which a royalty payer may carry forward negative net value (NNV) into a subsequent royalty year for the purpose of calculating net value under the *Mineral Royalty Act 1982* (NT) (the MRA).
2. This Guideline is issued by the Secretary under section 4E of the MRA.

## Introduction

3. NNV represents limited losses in respect of an individual mine or project (the production unit) which may be carried forward into a subsequent royalty year with the approval of the Secretary.
4. Section 10 of the MRA sets out the formula for calculating the net value of a saleable mineral commodity sold or removed without sale from a production unit. The rate of royalty is applied to the net value to establish liability for the relevant royalty year.
5. Under section 10(2), net value is calculated in accordance with the formula:

$$NV = GR - (OC + CRD + EEE + AD)$$

where:

NV is the net value from a production unit in a royalty year.

GR is the gross realisation from the production unit in the royalty year.

OC is the operating costs of the production unit for the royalty year.

CRD is the capital recognition deduction.

EEE is any eligible exploration expenditure.

AD is any additional deduction under section 4CA.

## How a NNV may arise

6. Based on the formula in paragraph 5, the net value of production in a royalty year is established by deducting all allowable deductions necessary to produce a saleable mineral commodity from the production unit's gross realisation. A NNV arises where the resulting amount is negative.
7. The MRA provides that eligible exploration expenditure (EEE) cannot be used to reduce the resultant net value of production in a royalty year to a negative amount. As the total EEE amount may exceed the amount of net value, any unused EEE may be carried forward to reduce the royalty payable on the basis of net value in future royalty years (see Guideline [RG-MRA-008](#): Eligible Exploration Expenditure). This is best illustrated by way of example.

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### Example 1

During the 2017 royalty year, a royalty payer has incurred \$340 000 in EEE and has calculated the following:

	\$
Gross Realisation	4 000 000
Less: Operating costs	(3 000 000)
Less: Capital recognition deduction	(1 500 000)
Less: Additional deduction	<u>(0)</u>
Equals: Negative net value	<u>(500 000)</u>

As the production unit has calculated a negative net value (\$500 000), the EEE of \$340 000 can not be applied as a royalty deduction in the 2017 royalty year. However, the unused EEE may be carried forward for use as a deduction in the net value calculation in a future royalty year.

### Carry forward of NNV

8. NNV can only be carried forward with the Secretary's approval. Generally, approval for the NNV to be carried forward is given on the issuance of a royalty assessment for a particular royalty year. In the subsequent royalty year, the approved NNV is deducted from the gross realisation.
9. NNV may not be carried forward indefinitely. As a general rule, where a production unit ceases mineral production and its operation is placed in care and maintenance for an indefinite period, NNV is only allowed to be carried forward for a period not exceeding three royalty years.
10. Where a production unit is permanently shut down (for example, closure activities have commenced under the *Mining Management Act 2001* (NT) or the mining plant is decommissioned), disbanded or the mining tenement is relinquished or forfeited, any existing NNV cannot be carried forward or transferred to a subsequent owner.

### Transferability of NNV

11. Subject to paragraphs 8 to 10 (that apply with equal force to the transferability of NNV), where a production unit is sold or conveyed, any NNV associated with that production unit that has been approved for carry forward may be transferred to the new owner, provided the entire production unit has been sold and the new owner intends to operate it as a going concern and the production unit has not undergone substantial or material changes (that is, the mining tenement(s) remain substantially the same).

### Changes to a production unit – substitution, reduction or expansion

12. Paragraphs 14 to 17 set out general rules in relation to changes to a production unit arising from substitution, reduction and expansion in the geographical area of the production unit.
13. It is recognised that a production unit's facilities may be changed or replaced over the mine production phase of the production unit and such changes do not generally affect carried forward NNV.

## Substitution

14. Where a production unit comprised of one mining tenement discontinues commercial production of a saleable mineral commodity from that mining tenement and is substituted with a new mining tenement, this results in a new production unit. NNV derived from the first mining tenement cannot be carried forward to reduce the gross realisation from the new production unit.
15. Similarly, where a production unit comprises two mining tenements, if commercial production of a saleable mineral commodity from those mining tenements is discontinued and new mining tenements are substituted, this results in a new production unit. NNV derived from the two mining tenements from the former production unit cannot be carried forward to reduce the gross realisation from the new production unit.

### Example 1

Production Unit A consists of one mining tenement and some production facilities. To improve mineral production, the royalty payer replaces most of its production facilities but continues to produce a saleable mineral commodity from the mining tenement. As there has been no change in the mining tenement that forms part of the production unit, approved carried forward NNV may be utilised.

If Production Unit A ceased production of a saleable mineral commodity at one mining tenement and began producing a saleable mineral commodity from another tenement, any NNV derived from the operations from the former tenement cannot be carried forward to the new tenement.

## Reduction

16. When the number of mining tenements that form a production unit is reduced, NNV derived from the former production unit (the production unit immediately before reduction) may be carried forward to reduce the gross realisation for the reduced production unit as long as a commercial quantity of a saleable mineral commodity is still being derived from one or more tenements of the former production unit.

### Example 1

A production unit consists of two tenements, Tenement A and Tenement B, as well as some facilities that are essential to production. The production unit has a NNV approved to be carried forward for its royalty year from 1 January 2017 to 31 December 2017. In 2018 the production unit is reduced when Tenement B is sold.

The NNV that was derived from the operations of the former production unit that consisted of Tenements A and B can be brought forward to reduce net value for the reduced production unit which is now comprised only of Tenement A and the facilities. The purchaser of Tenement B is not entitled to any of the approved carried forward NNV.

## Expansion

17. A production unit may be expanded through acquisition or granting of additional mining tenements that are integrated into the existing operation. Where the production unit is expanded, NNV derived from the original production unit can be carried forward to the expanded production unit, provided a commercial quantity of a saleable mineral commodity continues to be produced by a tenement that was part of the former production unit. Guideline [RG-MRA-002](#): Production Unit provides further information on the integrated operation concept.

Example 1

Production Unit X consists of Tenement A and some production facilities. In 2018, the tenement holder purchases another production unit (Production Unit Y) which consists of Tenement B and its production facilities. A reason for acquiring Production Unit Y is that its facilities are more efficient than those on Production Unit X. Following the acquisition, the facilities on Tenement A are decommissioned and both mining tenements are operated as an integrated operation in which minerals obtained from Tenement A are transported to Tenement B for processing. Under the operating arrangement, Tenements A and B now form part of a single expanded production unit.

If Production Unit Y had NNV approved to be brought forward from 2017 this can reduce the net value from the expanded production unit, provided a commercial quantity of a saleable mineral commodity continues to be derived from Tenement B.

If Production Unit X had NNV approved from 2017 this can reduce the net value of the expanded production unit, provided a commercial quantity of a saleable mineral commodity continues to be derived from Tenement A.

## **MRA publications**

18. Guideline [RG-MRA-001](#): Guidelines and Advance Opinions, which sets out information on the Guideline system, is incorporated into and read as one with this Guideline.



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Date of Issue: 1 July 2019

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