Suppliers to the mining industry in Greenland

Tax, legal and accounting considerations

November 2012

kpmg.gl
KPMG in Greenland

From our office in Greenland, KPMG offers you locally-based advisory services as well as access to our extensive international network of specialists. We can provide you with a broad perspective in a complex world of changing legislation, and we will help you identify the prime challenges and key opportunities for your business.

Our services in Greenland include:

- Auditing, accounting and bookkeeping
- Tax advice with specialist knowledge of the oil, gas and mining industries
- Tax advice regarding secondment and relocation of employees, etc.
- Advisory services in corporate finance, business performance, risk management, etc.

Contact
KPMG Grønland
Statsautoriseret Revisionsanpartsselskab
Postboks 370
Aqqusinersuaq 9, 1st floor
3900 Nuuk
Greenland
www.kpmg.gl

Carina Korsgaard
Corporate Tax
+45 7323 3764
ckorsgaard@kpmg.dk

Per Oertoft Jensen
Individual Tax
+45 7323 3239
pojensen@kpmg.dk

Ole Hedemann
Audit
+45 7323 3248
olehedemann@kpmg.dk

Jens Frederiksen
Audit
+299 584510
jfrederiksen@kpmg.dk
Introduction

This brochure gives an insight into Greenlandic tax, legal and accounting issues which are relevant for mining industry suppliers with business activities in Greenland. It is aimed specifically at suppliers to mining companies (license holders) and is intended as a guide in relation to compliance requirements in Greenland.

Greenland has experienced a boom in exploration activities over the past years. With this, we have seen that some specific patterns have emerged on the part of mining industry suppliers as well as the treatment of suppliers by the Greenland authorities. We have used this knowledge in this brochure.

Many suppliers do not yet have a permanent presence in Greenland and presumably do not plan such a presence in the short or medium term. This brochure therefore focuses mainly on the challenges facing foreign suppliers with short to medium term operations in Greenland. The international perspective of such a presence is also addressed below.

Many suppliers and mining companies include tax clauses in the contractual basis for their work. These tax clauses may indemnify one of the parties from all relevant taxes, but it should be kept in mind that the obligations towards the Greenlandic authorities will remain with the company or individual performing the activity in Greenland.

In order to meet the challenges from the booming mining exploration activity and to modernize the legal system, significant changes have been made to Greenland’s legislation in recent years. This brochure reflects legislation as of 1 November 2012.

This brochure is a brief guide which highlights some of the tax, legal and accounting issues for mining industry suppliers in Greenland. As our guide is merely intended as a brief introduction, we recommend that every supplier seeks individual advice in order to have an understanding of all of the relevant issues taking into consideration the supplier’s specific situation and circumstances. This will reduce the risk of an adverse tax cash position.

As long-standing advisors to some of the world’s largest mining companies as well as international suppliers, KPMG has built up a wealth of experience from exploration operations in Greenland which our clients benefit greatly from.
Contents

KPMG in Greenland 2

Introduction 3
Legislation 6
Definition of supplier to the mining industry in Greenland 6
Operating entity/vehicle 6
Corporate tax 6
   Tax liability 6
   Double tax treaties 7
   Compliance obligations 7
   The Greenlandic Companies Register (GER) 7
   Corporate income tax return 7
   Depreciation 8
Taxation of individuals 9
   Tax liability 9
   Consultants 9
   Double tax treaties 9
   Compliance obligations 9
   Taxable income 9
   Tax rate 10
Accounting 10
   Greenlandic GAAP or IFRS 10
   Use of foreign currency as functional and reporting currency in connection with presentation of annual report 10
International perspective 10
   Individuals 10
   Corporate tax 10
Practical information 11
Legislation

Greenland has one tax act (and a number of circulars and ministerial orders) which covers all business activities and individuals in Greenland, including license holders and suppliers to the mining industry.

Greenland also has corporate laws and a trade act. The trade act does not apply to qualifying suppliers to license holders, and the corporate laws are therefore only relevant if you choose to set up a subsidiary for the operations in Greenland or are looking for a more permanent business set up in Greenland.

The Greenland Government, Naalakkersuisut, has introduced a number of legislative measures in recent years which have given rise to many interpretational issues for companies operating in Greenland. A Tax and Welfare Commission was appointed in 2010 to look at ways of remediying the huge financial inequality amongst the population of Greenland and of managing the influx of oil and mining companies to Greenland. New tax legislation can be expected in the wake of the Commission’s findings, and it is therefore advisable to keep updated on legislative developments in Greenland.

KPMG regularly publishes Greenland Updates on new legislation which you can find on our webpage www.kpmg.gl

Definition of supplier to the mining industry in Greenland

On 1 January 2010, new tax provisions aimed at license holders and license holder suppliers were enacted. The new provisions define a supplier as a business which earns income linked to exploration and exploitation of mineral resources.

Hiring out facilities, e.g. drilling equipment, building roads and harbours, constructing buildings, carrying out geological surveys, running accommodation services and/or canteens, hairdressing services (on site), health services and other welfare measures can be categorised as activity “linked to exploration and exploitation”.

Examples of activities which can be categorised as not “linked to exploration and exploitation” are the supply of legal and accounting services, financial services, goods, building material, foodstuffs, etc.

Operating entity/vehicle

The Greenland Trade Act applies to all businesses operating in Greenland. A business which is subject to the Trade Act must, as a minimum, register a branch in Greenland. However, mining industry suppliers do not fall within the scope of the Act and can therefore operate without registering a branch. (Registration in the Greenlandic Companies Register (GER) is however required; see below).

If special circumstances call for a company to be incorporated or a branch to be registered (e.g. a wish for a more permanent presence), suppliers from most countries can register a branch or a private or public limited company (ApS or A/S) in Greenland. A branch or a company is registered through the Danish Business Authority and in GER. Many activities carried out by suppliers in Greenland are short or medium term, and therefore it would normally not be necessary to set up a company or a branch.

A tax registration may however be required if activities linked to exploration and exploitation are conducted in Greenland, and these activities extend beyond a 30-day grace period.

Corporate tax

Tax liability

Most suppliers to the industry do not have a permanent set-up (e.g. a company) in Greenland at this level of activity (e.g. the supply of a specific service linked to a mining operation, geological surveys, etc.). Consequently, they may only be subject to tax on Greenland-source income under the provision described below (enacted on 1 January 2010) which is aimed specifically at suppliers to the industry.

Under the Greenland Tax Act, a foreign business which earns income linked to exploration and exploitation of mineral resources will be liable to tax on the income earned from such activity in Greenland as well as on if the activity lasts more than 30 days during a 12-month period. The 30-day threshold includes the day of arrival and departure.

This means that most suppliers of services to the mining industry are subject to Greenland corporate tax if the activity exceeds 30 days.

For tax purposes a foreign company which is deemed to be limited tax liable in accordance with the above provi-
sion should be treated as if it has a permanent establishment in Greenland from a corporate tax perspective. However, this does not necessarily create a permanent establishment in accordance with the OECD principles and does not automatically trigger taxation for individuals since a “true” permanent establishment is not always present.

If suppliers choose to set up a Greenlandic company, the company will be tax liable to Greenland on its world-wide income.

**Double tax treaties**
Currently, Greenland has double tax treaties with Denmark, Faroe Islands, Iceland and Norway. Some treaties contain special provisions such as a provision exempting onshore and/or offshore work from Greenland taxation under certain conditions.

Greenland has also concluded a few bilateral agreements with other countries. The bilateral agreements are of limited scope and content and primarily cover taxation of individuals and mutual exchange of information between the authorities.

**Compliance obligations**

**The Greenlandic Companies Register (GER)**
A foreign supplier which is deemed tax liable in accordance with the above provision must register in GER. A registration in GER is normally processed within a few days. A GER number will be issued which is the foreign company’s registration number in Greenland and must be used when filing tax returns, payroll reports, etc. (see below).

**Corporate income tax return**
A foreign supplier which is tax liable to Greenland must file a corporate income tax return no later than 1 May in the year following the relevant income year. Greenland does not have a withholding regime where the supplier withholds and pays a certain percentage of the contractual fees to the Greenlandic authorities. The taxable income must therefore be calculated as described below.
The taxable income is calculated as the income from the operations in Greenland minus the deductible costs related to the income. The corporate income tax rate is 31.8 pct. (30 pct. plus a surcharge of 6 pct. of the tax payable).

In some cases, suppliers do not have a specific bookkeeping set-up for their Greenland activities. It can therefore be a challenge to identify all relevant costs which are deductible for tax purposes in Greenland. Foreign companies often use non-Danish currency, but filing in Danish kroner is mandatory. Therefore, conversion of transactions to Danish kroner can be quite a challenge, e.g. regarding which exchange rate to use. We thus recommend that these issues be considered before the activity begins – even in the case of short or medium term contracts.

**Depreciation**

Some operations require that high value equipment is used in Greenland to perform the activity. Under Greenlandic tax legislation, assets are depreciable as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Depreciation Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and installations (straight line)</td>
<td>5 pct.</td>
</tr>
<tr>
<td>Ships and aircrafts (straight line)</td>
<td>10 pct.</td>
</tr>
<tr>
<td>Operating equipment, fixtures and intangible assets, etc. (declining balance)</td>
<td>30 pct. (100 pct. if the acquisition value is less than DKK 100,000)</td>
</tr>
</tbody>
</table>

However, to be able to depreciate assets which are used in Greenland in connection with the operations, the value of the assets must be assessed when the asset enters Greenland as well as when it leaves Greenland. The depreciation is based on the market value of the asset and this can be both costly and difficult to assess.

Furthermore, an asset cannot be depreciated in the year in which it leaves Greenland. This means that for most suppliers operating in Green-
land for a short period (less than one income year) depreciation may not be possible.

Taxation of individuals

Tax liability
Individuals are taxable as non-residents on employment income from mining exploration/exploitation related work performed in Greenland. However, a non-resident employee’s income from work onshore in Greenland is tax exempt if the employee does not stay in Greenland for more than 14 consecutive days and provided that the work performed in Greenland is for his/her “normal” foreign employer who does not have a permanent establishment in Greenland. If these conditions for exemption are not met, then tax liability applies from day 1.

Greenland tax residents are taxable on worldwide income from day 1.

Employees’ residency in Greenland is generally triggered by either permanent accommodation available in Greenland combined with staying in Greenland for other purposes than vacation, etc. or alternatively 6 months’ consecutive stay without accommodation in Greenland, (including short stays outside Greenland for vacation purposes or the like), in which case the individual becomes taxable on his/her worldwide income from day 1 (unless otherwise stated in an applicable double tax treaty).

Consultants
If a supplier does not only use employees but in some cases would hire an independent consultant the supplier may nevertheless be considered as the employer of the independent consultant and hence be required to assume the payroll obligations etc.

In some cases, the tax authorities deem a consultant to be employed for employer withholding obligation purposes, i.e. “employer” (the consultant’s client) must withhold taxes from payments to the consultant as if the consultant was employed by the client. A case-by-case assessment is made based on the actual facts and circumstances.

Consultants who qualify as external independent contractors – as opposed to consultants who are deemed as dependent/employees (see above) – and who are not resident in Greenland will become taxable as non-residents from day 1 if they perform their professional activities from a fixed place in Greenland or if they stay in Greenland for at least 90 consecutive days.

If a business provides personnel/manpower/hired out labour to perform work in Greenland for another business, this will usually imply that such individuals are treated as deemed employed by the business on behalf of whom they are working in Greenland and therefore subject to tax from day 1, depending on actual facts and circumstances on a case-by-case assessment.

Double tax treaties
Currently, Greenland has double tax treaties with Denmark, Faroe Islands, Iceland and Norway. Some treaties contain special provisions such as a provision exempting onshore and/or offshore work from Greenland taxation under certain conditions.

Greenland has also concluded some bilateral agreements with other countries. The bilateral agreements are of limited scope and content and primarily relate to taxation of individuals and mutual exchange of information between the authorities.

Compliance obligations
Employers who employ personnel who are tax liable to Greenland must register with the tax authorities in Greenland and handle Greenlandic withholding tax on a monthly basis and comply with monthly and annual reporting obligations.

Individuals who are tax residents must submit a preliminary tax assessment in the year of arrival and if the circumstances, including e.g. salary level etc. change; further they must submit a tax return each year.

The monthly and annual reporting must be prepared/filled out in Greenland, i.e. the individual who carries out this administration work for the employer or for the employer’s representative/agent must be physically present in Greenland when he prepares/fills in the forms.

Payroll taxes must be reported to the tax authorities and the Bureau of Minerals and Petroleum (BMP) on specified forms.

Taxable income
Taxable income includes cash remuneration as well as various benefits in kind (for mining workers this typically includes free lodging, free meals, free telephone, etc.) that are taxable at either fixed rates or market value, depending on the benefit.
### Tax rate

The applicable tax rate depends on the relevant municipality/area.

<table>
<thead>
<tr>
<th>Municipality/Area</th>
<th>Tax rate (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kommune Kujalleq (South Greenland)</td>
<td>45%</td>
</tr>
<tr>
<td>Kommuneqarfik Sermersoq (Nuuk)</td>
<td>42%</td>
</tr>
<tr>
<td>Qeqqata Kommunia (Kangerlusuaq, Sisimiut)</td>
<td>43%</td>
</tr>
<tr>
<td>Qaasuitsup Kommunia (Ilulissat, Thule)</td>
<td>45%</td>
</tr>
<tr>
<td>&quot;Tax Department&quot; as tax municipality (outside the official municipality areas)</td>
<td>37%</td>
</tr>
</tbody>
</table>

From income year 2011 a flat rate regime of 35 pct. tax with no deductions and no allowances has been introduced for residents and non-residents alike. The flat rate regime only applies to employed individuals and only under certain conditions with respect to the nature of their work and tax liability status in Greenland prior to the commencement of work in Greenland.

In Greenland, employers must also pay a mandatory 0.9 pct. labour market contribution of the gross salary.

Generally, residents or non-residents do not have to pay employee social security contributions in Greenland. Greenland has no social security totalisation agreements apart from being part of the Nordic social security treaty, with respect to other Nordic countries than Denmark.

### Accounting

#### Greenlandic GAAP or IFRS

Greenlandic companies must prepare an annual report. The preparation of an annual report is governed by law which sets out formats, contents and standard principles for the financial statements.

It is optional for a Greenlandic company whether to report the financial statement in accordance with local Greenlandic GAAP or IFRS.

#### Use of foreign currency as functional and reporting currency in connection with presentation of annual report

Considering that the USD is the commonly used international currency in the mining industry and that most of a Greenlandic mining company’s future income base is expected to be in USD or another world wide used currency and that sub-suppliers and financing sources are expected to issue invoices and financing primarily in USD, a functional and reporting currency in USD is optimal in order to reduce the risk of potential future currency rate differences in relation to most of the company’s external business partners.

The use of a foreign currency as opposed to Danish Kroner should be carefully evaluated in connection with the preparation of the corporate income tax return and the way bookkeeping is done by the company.

#### International perspective

##### Individuals

Since the non-resident individual’s income for work performed in Greenland is taxed as a non-resident’s income in Greenland, each individual should consider if double taxation relief measures (credit or exemption) are available in their country of residence or in the relevant double tax treaty, if applicable. Any home country application procedures, documentation etc. should be carefully considered.

##### Corporate tax

If a foreign supplier operates in Greenland through its foreign entity, the income from such activity should be taxed in Greenland as if the foreign entity had a permanent establishment in Greenland. This income may also be taxed in the country in which the foreign entity is resident. Since Greenland only has a limited network of double tax treaties, the income may suffer double taxation. In many cases this double taxation will be credited in the country of residence, but this is an issue which should be examined in detail in order to avoid unnecessary tax leakage. This is particularly important since the corporate income tax rate in Greenland on average is somewhat higher than the corporate tax rate in other jurisdictions.

If a supplier chooses to incorporate a company in Greenland (see Operating Entity), dividend distributed from the company to its parent company is subject to a withholding tax of 37 pct. (unless a double tax treaty applies) and may also be taxed in the country of residence.

The distributed dividend can be deducted for tax purposes in the Greenlandic company, but due to this deduction right some countries do not grant credit relief. There is a risk that double taxation on the dividend may not be relieved. This is another reason why the tax consequences of incorporating a company should be carefully considered.
Practical information

Skattestyrelsen is the tax authority in Greenland to whom GER registrations, employer registrations, corporate income tax returns, payroll reporting etc. must be submitted.

The BMP is the government body which handles all licenses and activities relating to mineral resources in Greenland. Payroll reports must also be submitted to BMP.

KPMG in Greenland is at your disposal and can assist you to make the necessary registrations in Greenland and to answer any questions you have regarding tax, legal and accounting matters related to your business activity and employees.