

AUDIT OF THE MINING INDUSTRY

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1. INTRODUCTION

Tax administration faces important challenges for controlling large mining companies due to the complexity of this industry. This sector has multiple transactional and operational variables that need to be known for an effective control. Besides considering the specific tax aspects applied in each country and the treatment of transnational operations and transfer pricing, we also need to know the regulations in force (exploration and operation permits, mining security, mineral trade); customs (content and amount of mineral exported); labor and environmental regulations (mines closures), since they affect taxation.

The Internal Tax Service (SII) experience is built based on a constant activity over the years, because (as previously mentioned) Chile is a country where mining justifies an important part of the GDP, exports, and tax revenue. In this context, the SII has taken strategic decisions about the control of large mining companies, and has made great efforts to provide officers with adequate training and a methodological and institutional framework allowing them to successfully manage their control task.

This document presents general issues and is structured as follows: Section 3 shows a synoptic vision about why mining is important in Chile. Section 4 summarizes essential aspects of mining taxation in the country. Next, section 5 describes the main tax institutions responsible for regulating and controlling the mining activity. Finally, section 6 describes the tax audit in the mining industry.

2. THE IMPORTANCE OF MINING IN CHILE

Chile has a population and a territory equivalent to 0.2% of the world and its GDP is 0.3% of world's GDP. According to these dimensions Chile is not very important. However, regarding mining activity, our country is a major player among the first for reserves and production share (see Table 1)¹.

But we are important in mining

Mineral	Participation in World reserves	Participation in world Production	Ranking In world production
Copper	28%	32%	1*
Molybdenum	21%	14%	3*
Silver	14%	5%	8*
Gold	8%	2%	14*
Rhenium	52%	52%	1*
Industrial mineral			
Natural nitrates	100%	100%	1*
Iodine	24%	61%	1*
Lithium	58%	35%	1*

Fuente: UBB, 2009-10

Table 1: Global importance of Chilean mining

Undoubtedly mining has been for many years the cornerstone of the Chilean economy and, in this context, copper mining stands out above all extractive mining activity. Some figures show the above mentioned:

- Chile contributes to 32% of global copper production
- Chile has 28% of detected copper reserves in the world
- Copper exports represent 55% of the country total exports

Chilean Public finances have benefited in recent years from the boom in copper prices (super cycle). The main effects of high prices for period 2000 - 2008² are: an increase on central government savings, which has gone from a deficit to a surplus; an increase in net tax revenue and contributions made to the Treasury by CODELCO, and the accumulation of resources in special funds, among others.

¹ "Competitiveness of Chilean Mining"; Presentation by the Vice President of COCHILCO at the publication of the 1993-2012 statistical yearbook of the institution, June 19, 2013

² "Efectos del Cobre en las Finanzas Públicas Chilenas", José Yáñez, Revista Contabilidad y Sistemas, Depto. Control de Gestión y Sistemas de Información, Facultad de Economía y Negocios, U. de Chile, 2008.

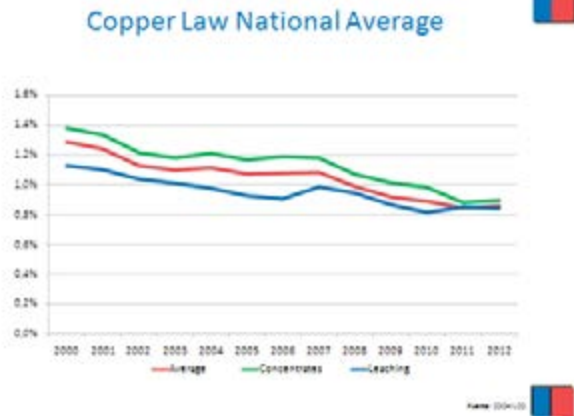
Indeed, the budget statistics on the Central Government's tax revenues (2000 - 2011) show that 73% are from tax revenue source, 12.2% are from the CODELCO contributions (taxes and transfers), 6.1% from withholdings, and the rest from various sources (donations, property income, operating income, etc.).

Regarding income tax, the Revenue Monitoring Report 2010-2012 published on the SII website notes that mining companies represent 30.2% of the total monthly first category income tax advance payments. If we add the specific tax provisional payments to mining withholding and the payment of the additional tax, mining companies provide 35.9% of monthly payments of income taxes. In this line, when analyzing the evolution of copper nominal price (annual average, London Metal Exchange) and the ratio of the income tax on tax revenue, direct correlation between the two variables can be observed (coefficient 0.95).

Another element to consider comes from the statistics compiled by the Chilean Copper Commission (COCHILCO) in its Monthly Bulletin, which states that in the period 2008-2011, 99.7% of the copper production was exported. Moreover, between 2000 and 2011 more than 99% of copper physical shipments, measured in metric tons of fine copper are reported by CODELCO and large mining companies (GMP). On average CODELCO participation reaches 33.3%, while GMP reaches 66.5%. According to the latest COCHILCO bulletin, the number of mining companies (CODELCO and GMP) for these figures is less than 30 companies.

Along with the copper price super-cycle, the cost of mining production has increased, which is partly explained by the depletion of ore deposits grades and the increase in the cost of strategic supplies (see charts below).³.

³ *“Competitiveness of Chilean Mining”*; Presentation by the Vice President of COCHILCO at the publication of the 1993-2012 statistical yearbook of the institution, June 19, 2013
According to Brook Hunt nomenclature C1 represent the cost of the mine plus the cost of facilities, plus the general costs and the sales costs.



Regarding the technical complexity of this industry in terms of production and transactional processes, different control mechanisms are needed for monitoring the tax associated with this sector of the economy.

3. MINING TAXATION IN CHILE

From a tax perspective, the mining sector is defined as an activity essentially linked to commercial extraction, production and marketing of non-renewable mineral resources, except for hydrocarbon fuels.

The legal nature of the companies that can perform mining activities varies: corporations, limited liability companies, partnerships, cooperatives and public enterprises. There are also small businesses or artisanal miners (pirquineros).

3.1. Tax regimes

The first category income tax applies to income from all mining companies, regardless their size, type of organization or location. Determining the taxable income allows classifying taxpayers into three groups:

- **Effective income:** this category includes corporations and limited joint-stock partnerships; mining producers with annual sales exceeding 36,000 tons of nonferrous metal ore or which annual sales, whatever the mineral, exceed 2000 Annual Tax Units (UTA), and miners who elect to pay under this category.

- § **Presumptive income:** This category includes medium and small producers which are not taxed on real income, and small-scale miners who choose to be taxed according to the presumptive income

- **Single tax:** applicable to small-scale miners, who personally work in a mine and / or a mineral benefit plant, self-owned or not, with or without the help of their family and / or up to five waged employees. This legal definition also includes mining companies with no more than six partners and mining cooperatives, when all the cooperative partners are artisanal miners.

3.2. Specific taxation of the mining activity

Title IV (bis) of the Income Tax Law establishes a specific tax on the operating income of mining activity obtained by a mining operator. Articles 64 define the tax subjects, the taxable event, and the tax base and tax rates.

In summary, the aforementioned tax applies to the operational taxable income of mine operators according to the following:

- Mining operators which annual sales are equal or less than a value equivalent to 12 thousand metric tons of fine copper are exempt from this tax.

- Mining operators which annual sales are equal to or less than an amount equivalent to 50 thousand metric tons of fine copper and above 12 000 metric tons of fine copper, a rate according to the table established in the Law is applied .

- Mining operators which annual sales are more than 50,000 metric tons of fine copper pay a progressive rate according to the operational mining margin, from a table established in the Law

3.3. Foreign investment (law decree n°600)

According to the statistics of the Foreign Investment Committee of Chile (www.ciechile.gob.cl), from 1974 to 2011, mining (34%) and electricity (18 %), followed by Telecommunications and Financial Services (9%) are the economic sectors that have received most foreign investment in Chile.

The Foreign Investment Statute, Decree Law No. 600, is very important for the Chilean mining industry since it governs investment contracts agreements between foreign investors and the Republic of Chile. It has two tax options applicable to these investments:

- A fixed rate of 42% as a total effective tax burden, or
- The general tax regime of the First Category Tax and Additional Income Tax.

Under the provisions of Decree Law No. 600, mining companies which had signed investment contracts before the entry into force of this law in 2005, that establishes a specific tax for mining, and its 2010 amendment had the option to adhere to this tax treatment with some royalties related to a decrease of rates according to each contract period.

4. MINING CONTROL WITHIN THE INSTITUTIONAL CONTEXT IN CHILE

The control of the mining activity in Chile has different aspects and actors. One is the National Service of Geology and mining for the administration of exploration, exploitation and control of mining safety; environmental permits for exploration and exploitation are delivered by the Superintendence of Environment. The control of copper contracts exports and their derivatives is performed by the Chilean Copper Commission; the National Customs Service is responsible for export controls and the internal taxation control is under the Internal Tax Service. The following is a brief description of each of these institutions that together constitute the institutional monitoring of mining in Chile.

4.1. National service of geology and mining

The National Service of Geology and Mining, known by its acronym SERNAGEOMIN, is a decentralized public service and autonomous legal entity. Under the Ministry of Mining, it contributes to the geological and geophysical knowledge of the country.

Its strategic objectives are, among others: to assess the State regarding mining property, to develop the Chilean mining statistics and control the mining safety conditions. Regarding this last objective, SERNAGEOMIN seeks to increase the quantity, quality and coverage of mine safety inspections on site in order to decrease accident risks. It also promotes, regulates and monitors projects operation and closure of mining pits in small mining operations, and must timely answer to environmental authorities regarding environmental impact assessment within its competences.

4.2. Environmental superintendence

The Environmental Superintendence (SMA) is a decentralized public service with legal status, and is subject to the supervision of the President of the Republic through the Ministry of Environment.

The SMA is specifically in charge of executing, organizing and coordinating the monitoring and control of the Environmental Qualification Resolutions; of environmental prevention plans and / or decontamination plans, of the Environmental Quality Regulations and emissions standards, Management Plans, when applicable, and all other environmental instruments established by law.

The SMA develops three types of monitoring: a direct control, through its own officers; another through sectorial agencies, responsible for certain inspection tasks based on specific programs and subprograms for this purpose, and, finally, through third parties duly accredited and authorized by the Superintendence.

The Environmental Superintendent has the authority to apply sanctions against private or public entities that violate environmental regulations. Sanctions involve enforcing a set of principles and standards for ensuring that the decision is consistent and well-based: i.e. a predictable answer to noncompliance, through a rational and fair procedure.

4.3. Chilean copper commission

The Chilean Copper Commission (COCHILCO) is a highly specialized technical agency established in 1976. Since then it advises the Government on copper and byproducts production, and for all metal and nonmetal mineral substances except coal and hydrocarbons.

It also protects the state's interests in mining companies by controlling copper export contracts and evaluating their management and investments (especially in relation to foreign investment), and assesses the Finance and Mining Ministries in planning and monitoring their budgets.

The COCHILCO management areas are part of the Directorates of Education and Public Policy, Control and Evaluation of Strategic Management. They have key functions such as statistics, reports and studies relevant to the mining sector, audit of state mining companies management (Codelco and Enami), and assessment to the ministers of Finance and Mining.

4.4. National customs service

The National Customs Agency (NCA) is an autonomous public service with own assets, under the executive branch through the Ministry of Finance.

This service is responsible for monitoring and controlling the transits along the coasts, borders and airports, collect import and export duties in international traffic, and generate statistics on cross-borders traffic. This derives from its customs authority, i.e., the power to control entry and exit of goods to and from the country and to comply with the laws and regulations governing customs procedures. People crossing the borders, ports and airports are also subject to this authority, as well as the import and export of services for which the law requires the Customs intervention.

Its main strategic product is the clearance of merchandises, which include entry, exit, transit and free zone. Regarding the outputs and exports of goods, the mining sector represented about 64% of total exports in 2012. The NCA has established specific control procedures to certify the quality and content of concentrate ore shipped, in particular for the export of bulk or concentrated minerals.

4.5. Internal tax service

The Internal Revenue Service (SII) is a decentralized public service, with own assets, related to the executive branch through the Ministry of Finance. The SII, as well as Customs, is a state institution of Control. According to the law, its functions are the “implementation and control of all internal taxes and other taxes in which the Treasury has interest and which control is not attributed by law to a different authority. “The Tax Code and its Organic Law determine how to develop them. Basically, the SII is responsible for:

- Interpreting administratively the tax regulation, providing guidelines and orders for their correct enforcement and control
- Overseeing compliance with tax laws and defend the tax authority in court regarding litigation about application and interpretation of tax regulations
- It must develop the taxpayers’ tax ethics and inform them about the use of their taxes and the sanction they face in case of not complying with their duties

The Internal Revenue Service, in line with other tax administrations, has created in 2001 the Large Taxpayers Division (DGC). This operating unit includes the 1500 largest taxpayers nationwide, which is approximately 65% of the national taxation. These groups of companies meet certain requirements established by resolution; they specifically states that Large Mining taxpayers are under the jurisdiction of this unit. The DGC is organized to control the mining mainly through the Audit Group No.2 (mining industry group) and Audit Group No. 6 (transfer pricing group) from the Large International Companies Department and the Foreign Trade Control Department, respectively.

5. TAX AUDIT TO MINING IN CHILE

The following is a brief review of audits to the mining industry in Chile, starting with a review of a mining project cycle and its tax incidences, and the generic structures of the mine holdings in Chile are also outlined. In addition, we provide information on the process of designing a tax audit and a description of the controlled variables. It also provides an example of audit and a detail of audit best practices resulting from the experience of the Large Taxpayers Directorate. Finally, we present some results and raise some issues that may challenge future audits.

5.1. Life cycle of a mining project

There are several ways to present the life cycle of a mining project. However, in most available models the common denominator can be explained through the following phases: discovery and exploration, pre-feasibility, feasibility and development, construction, operation and mine closure.

As shown in Figure 1, each of these phases or stages presents events or transactions that generate a series of tax effects, which must be considered when making an audit.

When dealing with a mining company (extraction and mineral processing) which is vertically integrated, i.e., present at every stage of the project, the expenses that occur at the stages prior to operation are called operating and start-up expenses and they have a special taxation rule.

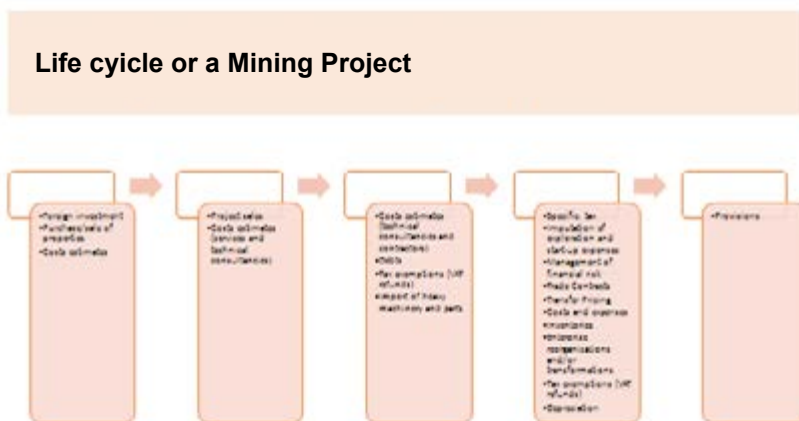


Figure 1: Taxed events through the phases of a mining project

However, if the mining company is not vertically integrated but organized in a specific holding structure (see section 6.2), each event will be taxed according to the adopted business configuration. In this sense, for example, the exploration costs will be located in the holding company that performs this function, and similarly for the common administration services.

5.2. Large private mining companies structures in Chile

While all the big miners have different corporate structures, we can identify some common elements, which have been outlined in Figure

2. Usually, the adoption of a holding type organization depends, among other reasons, on the mining project cycle, strategic definitions by owners (e.g., to maintain the mineral exploration under one's control), on the investment volume (forming consortiums), and on the laws of each country (mainly labor and tax laws).

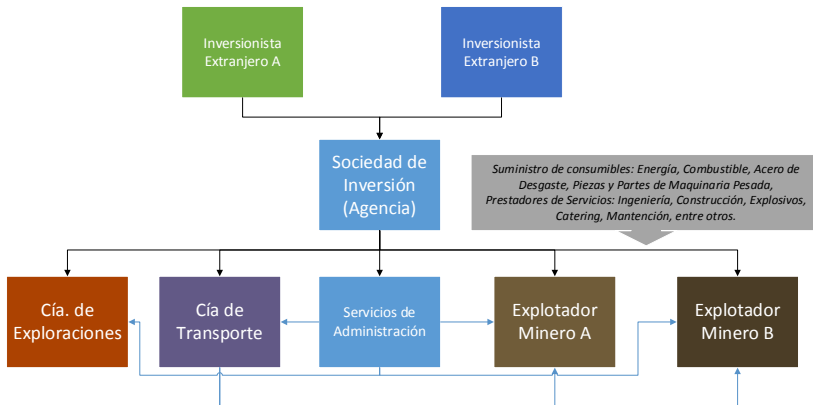


Figure 2: A Mining Holding Scheme in Chile

Due to the scale of investment required, most of the projects associated with large mining require the creation of consortiums by large multinational corporations. The diagram in Figure 2 illustrates this fact by identifying foreign investors (A and B), which generally create an investment company (agency) in Chile.⁴

How a holding mining group will be structured depend on each case. Some common elements are:

- In general, the various companies of a holding share, for example, management services (including accounting and financial).
- It is also possible to observe that - either by restrictions that imposes the regulations relating to the specific tax on mining activity or by the logic of their business units - holdings tend to keep separate the different mining projects.
- On the other hand, and considering both the business risks and the strategic aspects, many holdings decide to have a company exclusively for mining exploration.
- For labor economic reasons, they also seek to outsource all the services that are not an essential part of the mining business.

⁴ There are also cases where the foreign investor directly operates the mining exploitation company.

- Holdings established medium- or long-term relationships with providers of most important consumables goods (energy, fuel, steel, and parts).
- Given that power supply is critical, many mining holdings are part of consortiums linked to the power generation sector.
- Finally, those holdings that export bulk products (copper concentrate for example) tend to consolidate all the mining business. Thus, concentrates usually go to refineries from the same group while another group company is responsible for the final sales.

5.3. Audits process

The Tax audits process can start from two sources: from SII or from the taxpayer, on occasion of any special requests (for example VAT refund claim for export or fixed assets).

Audits from SII may come from the National Directorate or from the Large Taxpayers Directorate. In both cases the audit design follows the same process, starting with identifying an elusive figure, then the approach of a working hypothesis, the objectives to achieve, the strategy for control and the specific actions to execute the control.

Finally all the work is documented through an instructions control guide and attachments that allow to support the work to be performed, which are submitted, before the execution of the audit, to the opinion of the operational units that will review them.

Below is a more detailed description on each stage of the audit process:

- **Identification of the elusive figure to control:** the figure is linked with non-compliance of tax law and/or SII guidelines. The identification is based on information about the taxpayer and the economic or business sector. It can also result from a monitoring to a particular taxpayer, or from press news.
- **Taxpayers' selection criteria:** are defined as logical rules leading to detect tax noncompliance characteristics or patterns. Based on these rules and criteria, it is possible to identify a set of compliant taxpayers.
- **Working hypothesis:** It refers to the definition of evasion, mainly based on the detected elusion behavior.

- **Goals to be achieved:** They include the hypothesis fact and legal support, identifying its elements, noting the main facts leading to demonstrate or verify through the audit that allow determining the differences and collect the applicable taxes.
- **Control strategy:** corresponds to the definition of planned actions of the audit, which will be materialized through the actions of control. This guides the review towards the verification of the working hypothesis and the fulfillment of the goals established.
- **Inspection actions:** correspond to concrete actions that control officials should carry out in order to obtain sufficient evidence that verifies the existence of the elusive figure identified.
- **Discussion forum:** It is a collaborative work to collect the opinion and experience of the operating units which will carry out the audit. These views and experiences are gathered for the efficiency and effectiveness of the audit.

Once the control program is created and validated by the operational units, the controlling officers of the SII perform the audit.

5.4. Controlled tax schemes

Within units responsible for controlling Large Mining Companies in the DGC, the tax schemes most frequently discussed are associated with aggressive tax planning, tax expenditure, tax-specific mining activities and transfer pricing.

5.4.1. Aggressive tax planning

Corresponds to the use of elusive practices aimed at reducing the tax base, or moving it to obtain a minor tax burden or tax benefits. In relation to mining, the following can be observed:

- a. Use of financial hybrids: operations that take advantage of the economic group's corporate structure, located in different territories, for investment enterprises to obtain returns without paying taxes, by hiding the concept as financial operations, with different tax treatments, allowing the non-payment of taxes in the involved territories.

- b. Use of tax losses: since the Chilean tax legislation does not define a time limit for the extinction and carry-forward of tax losses, these can be used for reimbursing taxes paid related to profits; costs and revenues are moved from or out of Chile to generate or maintain negative tax bases.
- c. Others: cover the price paid for the acquisition of a mining property as a payment for transfer of royalties; This allows the purchaser of the mining asset to deduce the total amount paid as expenditure in a single tax period, rather than in several periods according to the life of the mining site, as it is the case if the acquisition of a mining property is considered. In addition, the taxpayer provides that the highest amount obtained in the royalties' contract takes place abroad, through a related party not resident in Chile, so that the higher amount is not taxed in Chile.
- d. Sales to related parties mineralized rock at a very low value, in order to reduce the taxation of the specific mining tax, and the related party sells it to the customer, obtaining a major income, which is not affected by the mining tax, since it does not qualify as mining agent, under the Chilean legislation

5.4.2. Tax expenditure

It is the use of non-tax expenditures to reduce profits tax affected by the First Category Tax - determined by applying the rate on the respective tax base. Their control requires knowledge of the mining activity and expenses and costs concepts, as well as the regulations and guidelines in force. For example pre-stripping and stripping expenses associated with the purchase of land for the tailing ponds have been examined to verify them.

5.4.3. Specific mining activity tax (IEAM)

The Chilean tax system establishes a specific Mining Activity Tax (IEAM), applied on a basis determined by deducing the associated costs from the income obtained exclusively from the mining activity. Therefore, it is important to determine that the taxed concepts effectively correspond to mining. On the other hand, the Decree-Law N ° 600 grants foreign investors the possibility of having an invariable tax burden for a number of years. However their constant changes, particularly with regard to mining, have resulted that the profits on these investments are taxed with different rates. Indeed, a company can be taxed at various rates depending on how many investment projects it has and what article of the DL N ° 600 is considered. In addition the related mining companies'

sales must be added for determining the rate. For these reasons, it is necessary to constantly analyze the applied rates, contracts and their modifications, and verify sales between affiliates, among others.

An example from the revenues' point of view is the mineral extraction from mineral waste, which is not taxed with the specific mining activity tax (IEAM). From the costs or expenses perspective the stripping must be treated as expenditure of the period, rather than considering it as extracted ore cost; the "provision for mine closure" must not be added; allocation costs common to the mining operational income (RIOM) must not be added either. Finally, and considering the applied rate, the invariable rate associated to mining projects from the general regime was applied to mining project which were under the general regimes.

5.4.4. Transfer pricing

Transfer pricing control focuses on the examination of cross-border transactions in which conditions and/or amounts different from those established by independent enterprises in normal market conditions are convened, so the review focuses both on the selling prices (calculation of the value of the cathode or concentrate) and their sales conditions, as well as the value of components or raw materials that are part of the product.

In this respect, it is observed:

- a. Determination of the sales price of cathodes and concentrates: contract of copper supply between the taxpayer and related companies that set prices and conditions that are beyond the normal market ranges without an effective business reason.
- b. Sales conditions to related traders: existence of copper supply contracts signed between the taxpayer and a related company (located in a territory of low or no taxation) which acts as a reseller (trader), by which a deduction is performed associated with the copper value and responding to transfers of functions and risks.
- c. Sulfuric acid purchase conditions, as a component of the production process: the review detected a significant increase in the cost of sulfuric acid, one of the main components to produce coppers cathodes. When reviewing invoices and contracts, a great disparity in the prices of the sulfuric acid was observed, along with the existence of different suppliers, among which there were companies marketing the product, as well as producers, in addition to the existence of a fixed price in case of related suppliers.

- d. Insurance and transport cost analysis: review of distribution basis for both concepts, which are mainly chosen centrally by the mining group headquarters located abroad.
- e. Analysis of financial transactions: contracts, royalties and agreements to acquire rights in mineral production. In this case the operation corresponds to the purchase of a right (intangible) and involved the participation of the buyer in a percentage of the production sales.

5.5. Audits best practices

In the development of audits, the practices facilitating and helping to control large mining companies in Chile are identified as follows:

- a. Field visits and meetings with the taxpayer, in order to meet the business and to contrast the accounting facts with the reality.
- b. Meetings with other Public Administration agencies related to mining, such as SERNAGEOMIN and COCHILCO, and participate in events organized by these institutions or by the SII. This allows having information from other perspectives, in particular databases that the SII does not have, and develop collaboration to resolve queries from a source other than the taxpayer.
- c. Good relations with audited taxpayers: thanks to good relations with managers of the controlled companies, explanatory visits to the productive processes have been organized, information is accessed in a quick and timely manner, and agreements have been achieved regarding controversial tax matters, avoiding losing resources in administrative and judicial instances.
- d. Intra-group training: allow sharing personal knowledge, and it is a feedback mechanism with respect to revisions or control programs involving more than one mining company.
- e. Exhibition of relevant cases: in which each different field team exposes their most important cases in terms of results or controversial issues. This allows having a different view with respect to the case, and sharing identification of evasive behaviors in different industries.
- f. To maintain a continuous operational coordination between groups linked to audits on mining issues (auditing, transfer and foreign trade prices). This delivers a direct communication channel

to consult with respect to matters controlled by each group to a particular taxpayer.

- g. External training, participation in seminars and lectures related to the category: so direct contact is created with agents involved in the industry (exploration companies, large suppliers, related government agencies, etc.), where issues and concerns that affect mining companies are analyzed.

5.6. Statistical background of applied audits

Between 2010 and 2012, 127 cases of audit to 58 large-scale mining companies in Chile were performed, which correspond to around 2.2 audits every 3 years for this group of companies, related to various tax issues. In average, for all companies at national level the rate reached 1.2. These indicators reflect the focus on this particular group of companies.

In April 2013, 63% of the above-mentioned cases were concluded and the average duration of these audits was 9 months. Depending on the type of tax or figure, the average duration moved in a range between 7 and 15 months. Table 2 shows more statistics relating to these cases.

Tipo de programa	2010	2011	2012	Total x tipo	Distribución
Renta	100%	88%	37%	60%	59%
IVA e IVA Exportador	88%	0%	18%	59%	20%
Auditoría Integral	75%	100%	100%	82%	11%
Tributación Internacional	100%	100%	33%	80%	10%
Total x año	91%	86%	34%	63%	100%

Table 2: Percentage of audits completed by type of program per year

As can be seen in table 2, 59% of the audit cases are linked to the income tax law, followed by 20% of VAT-related cases, 11% with comprehensive audits and 10% with international taxation. The following evolution of cases completed per year is observed: 91% for 2010, 86% for 2011 and 34% for 2012.

5.7. Tax figures to control in the future

In addition to the previous subsections, here are some issues associated with large-scale mining that have not been fully addressed by the SII. These tax issues represent challenges that must be met, given their importance for the mining industry, since they are following new forms of tax planning that in most cases are cross-borders.

5.7.5. Costs review

The tax control that the SII has carried out focuses primarily on incomes and tax expenditures, with a lesser emphasis on the analysis and review of the costs, including: energy, steel and parts, fuel, payment to contractors, raw materials, labor, etc. It has been shown in the press, and commented by the companies themselves, that observed variations in their results in recent years have been mainly due to strong variations in costs, which will continue to affect the future operations. This increase in costs would be compounded by the phenomenon of mineral deposits exhaustion.

5.7.6. Tax analysis of the holdings

As noted previously, some of the major mining companies in Chile are created with foreign capital, which have their matrix abroad and that are integrated both horizontally and vertically to improve their global performance. This is why inspections must include not only the partial vision of the extractive company but also the movements within the conglomerate of companies that make up the transnational mining holding company.

6. CONCLUSIONS

Given the importance of mining in Chile, the State has created an institutional framework to deal with these specific control issues and has promoted the cross specialization in institutions (as in the tax administration) to cover the various fields that this industry mainly impact. In particular, the internal revenue service has created working groups for the control of the large mining companies that are coordinated with other institutions in order to achieve better results in their audits. The SII also permanently promotes the training of its officials in order to keep up to date their knowledge about this industry.

In this context, there is increasingly more knowledge of mining cycle business, and its related processes, which is essential for the success of the tax audits, whenever differences are detected on a technically founded basis. The officers' training has been focused both from the institutional point of view (agreements with other entities), as from a good relations with taxpayers (companies) point of view which have transferred knowledge of an important part of their production processes through guided tours.

The mining industry is complex not only for their production processes but also because most of its transactions are transnational. Given

this reality, the holding structure increases the complexity of the tax control. In the Chilean case, most of the major mining companies are managed by transnational conglomerates with global operations.

These business groups structure their holding in Chile in order to minimize their tax burden and, in addition, their trade relations (exports) are made with related parties abroad.

In its audit work, the SII has developed in recent years audits with an emphasis on tax figures relating to aggressive tax planning, tax expenditure, tax specific to the mining industry and transfer pricing, from which it has been able to define the best control practices, for which coordination is needed. This coordination occurs at different levels: between working groups within the institution; between the SII and other institutions with competences in mining areas; and between control groups and mining companies.

The future challenges identified by the SII for the control of the large mining companies are increasing the capacity to address complex industry issues, such as the audit of cost and structure of these companies; in this last case the tax control focuses on the operations of the holding mining groups.