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Republic Act No. 12253: Enhanced Fiscal Regime for Large-Scale Metallic Mining Act

Unearthing a new fiscal regime

On 5 September 2025, Republic Act No. 12253 was signed into law, reshaping the fiscal architecture of large-scale metallic mining in the Philippines. With the new regime becoming operative on 17 February 2026, the law signals a decisive shift in how the government engages with the mining sector with provisions aimed at equitable returns, fiscal transparency, and sustainable development.



RA 12253: The anatomy of reform

At its core, RA 12253 is a fiscal overhaul.

For decades, the Philippine mining industry has operated under a patchwork of fiscal rules that often failed to capture the full value of its mineral wealth. While mineral production surged in certain years, government revenues lagged, and local communities saw little of the promised prosperity. RA 12253 aims to change that narrative. It introduces a modernized fiscal regime that balances investor confidence with public accountability, aligning the country's mining policy with the best global practices.



RA 12253: what changed, what stayed

Key changes

- **Margin-based royalties outside reservations** – Royalties are now based on profit margins, ranging from 1 percent to 5 percent. A minimum royalty of 0.1 percent applies to low-margin mines.
- **Windfall Profits Tax (WPT)** – A tiered tax from 1 percent to 10 percent is imposed on excess profits during commodity price surges.
- **Per-project ring-fencing** – Each mining project is taxed separately. Losses from one project cannot offset profits from another.
- **Thin-capitalization limit (2:1)** – Restricts related-party debt loading, curbing profit-shifting through excessive interest deductions.
- **Royalty collection by BIR** – The Bureau of Internal Revenue is now responsible for collecting royalties.
- **Audit and transparency rules** – Mining companies must disclose financial and operational data. Confidentiality restrictions are lifted for regulatory purposes.

Retained provisions

- **4% excise tax on mineral products** – Continues to apply regardless of profitability, as provided under RA 7942 (Philippine Mining Act of 1995).
- **5% royalty inside mineral reservations** – Still imposed on gross output for mining operations within designated mineral reservation areas, under RA 7942.
- **1% minimum royalty for ICCs** – Maintained to ensure ICCs receive a guaranteed share from mining activities, based on Section 16 of DENR Administrative Order No. 96-40, Series of 1996.





Salient provisions and key insights

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Interest expense deductibility: curbing profit sharing

Under RA 12253, metallic mining contractors and operators may not deduct interest on related-party loans if their debt-to-equity ratio exceeds **2:1** in any quarter of the taxable year. This marks a major shift from the previous law, which imposed no such threshold. The old regime allowed broader financing flexibility, while the new cap restricts it to curb profit-shifting



In practice, this change carries two key implications for mining companies:

Quarterly monitoring and disclosure: The 2:1 debt-to-equity cap requires quarterly tracking of financing mix to avoid disallowed interest deductions. Interest must be treated as a financing cost under PFRS 18 and disclosed in related-party transactions, with loans backed by transfer pricing documentation, formal agreements, and clear repayment terms to withstand BIR review.

Capital structure alternatives: Investors should reassess capital structure each quarter. If parent-company debt risks breaching the ceiling, alternatives such as equity infusions, joint ventures, syndicated loans, or hybrid instruments can preserve deductibility and diversify funding sources.

Salient provisions and key insights

Royalty rates: balancing risk and rewards

- **Within Mineral Reservations:** A royalty of five percent (5%) of the gross output shall be imposed on all large-scale metallic mining operations conducted within mineral reservations.
- **Outside Mineral Reservations:** A margin-based royalty shall be imposed on the gross output of large-scale metallic mining operations conducted outside mineral reservations, at the following rates:

Margin	Rate (on income from metallic mining operations)
Over 0% but not over 15%	1.0%
Over 15% but not over 30%	2.0%
Over 30% but not over 45%	3.0%
Over 45% but not over 60%	4.0%
Over 60%	5.0%

If the margin of large-scale metallic mining operations outside mineral reservations is less than or equal to zero percent (0%), a minimum royalty of one-tenth (1/10) of one percent (1%) of the gross output of the minerals or mineral products extracted or produced shall be imposed.

This is a fundamental shift. Under the old mining law, only projects within mineral reservations paid a fixed 5% royalty on gross output. RA 12253 now extends royalties to projects outside mineral reservations, applying a margin-based system that could temper investor enthusiasm for thinner-margin or high-cost ventures by adding a fiscal burden where none existed before. The reform thus embodies a tradeoff: greater equity for the government versus tighter viability for certain projects. For investors and operators, two implications stand out:

Progressive royalties outside reservations: Outside mineral reservations, royalties rise with profitability (1%–5%) but never fall below 0.1% of gross output, even in loss-making years. Because higher margins automatically trigger higher rates, investors must plan capital expenditures and dividend policies around the reality that stronger earnings will also mean larger royalty outflows.

Segregation of revenues for compliance: The distinction between operations inside and outside mineral reservations is central to royalty compliance. Investors should expect auditors to demand clear segregation of revenues and costs by location, as errors in allocation can lead to higher royalty liabilities and potential regulatory challenges.

Salient provisions and key insights

Income computation under RA 12253: from ambiguity to clarity

Under the old mining law, the definition of “income from mining operations” was less detailed, leaving room for disputes over which expenses could be deducted in computing taxable income. RA 12253 tightens this by providing an exhaustive list of allowable deductions, effectively standardizing the tax base across the industry.



Allowable Deductions

Mining, milling, transporting, and handling expenses together with smelting and refining costs incurred

General and administrative expenses actually incurred by the metallic mining contractor or operator

Environmental expenses of the metallic mining contractor or operator

Expenses for the development of host and neighboring communities and of geosciences and mining technology, including training costs and expenses

Lease and royalty payments to claims owners or surface landowners relating to the contract area during the operating period, if any

Continuing exploration and development expenses within the contract area after the pre-operating period

Interest expense charged on loans, or such other financing-related expenses incurred by the metallic mining contractor or operator

Depreciation, depletion, or amortization

Duties, fees, charges, and taxes, excluding royalty, as provided in this section, and windfall profits tax

Reduced ambiguity, greater accountability: In practice, this means companies must maintain clear documentation to substantiate each deduction, while auditors and regulators gain a firmer benchmark for assessing compliance. Compared to the old law, RA 12253 reduces ambiguity but raises the stakes for accurate reporting, as disallowed deductions could materially affect taxable income and trigger disputes.

Salient provisions and key insights

Royalty obligations: navigating the MGB-BIR shift

With RA 12253 transferring royalty administration from the Mines and Geosciences Bureau (MGB) to the Bureau of Internal Revenue (BIR), mining companies must now navigate a new compliance landscape.

Beyond the deadlines and procedures, two operational adjustments stand out:

Compliance processes: Filing and payment processes must now follow the BIR's prescribed forms, deadlines, and electronic remittance systems. Internal controls should be adjusted to prevent errors or delays during the transition from the former MGB procedures.

Audit and enforcement exposure: With royalties now under BIR jurisdiction, companies face greater audit risk. Because the BIR treats royalties as part of its broader tax framework, underpayments or misclassifications can trigger both royalty penalties and tax deficiency assessments. Firms should reinforce documentation, align royalty computations with income tax filings, and prepare for cross-checks during BIR audits.

Requirement	Compliance Rules
Filing and Payment Deadline	File a return and pay the royalty within 60 days after the end of the calendar quarter when the minerals or mineral products were removed, whether from inside or outside mineral reservations.
Bond Requirement	File a bond approximating the royalty due on removals for the quarter. This is subject to a final royalty adjustment return covering the total royalty due for the preceding calendar or fiscal year
Annual Reconciliation	If total quarterly royalty payments during the taxable year do not equal the total royalty due for the year, the contractor or operator must either: (a) Pay the balance of royalty still due; or (b) Carry over the excess credit.
Mode of Filing/Payment Channels	The royalty tax return shall be filed, either electronically or manually, and the royalty paid to the Bureau of Internal Revenue (BIR) through any revenue district office, revenue collection officer, authorized agent bank, or authorized tax software provider, unless otherwise prescribed by the Commissioner.
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Salient provisions and key insights

Windfall profits tax: capturing super-cycle gains

For the first time, Philippine mining law imposes a windfall profits tax. It applies when margins exceed set thresholds, with higher profitability triggering progressively higher rates. By focusing on income rather than output, RA 12253 introduces a mechanism aimed at taxing exceptional gains during commodity upswings while leaving lower-margin operations less affected.

The law defines windfall or margin as the proportion obtained by dividing the net income from metallic mining operations by the gross output. In computing the margin, only the corporate income tax and royalty may be deducted, while the optional standard deduction is disallowed. The windfall profits tax itself is not deductible from taxable income.

Margin of Income	Royalty based on net income
Equal to 30% but not over 40%	1.0%
Over 40% but not over 55%	3%
Over 55% but not over 55%	5.0%
Over 65% but not over 75%	7.0%
Over 75%	10.0%

The mining contractor or operator shall file a windfall profit tax return and pay the tax due thereon, if any, on or before the fifteenth (15th) day of April, or on or before the fifteenth (15th) day of the fourth (4th) month following the close of fiscal year.

Tax returns may be filed electronically or manually, with payment made to the BIR through authorized offices, banks, or accredited tax software providers.

For companies, three practical considerations stand out:

Counter-cyclical impact: Because the windfall profits tax applies only when profitability surpasses 30 percent of gross output, it functions as a counter-cyclical mechanism. Mining firms must model how quickly rising commodity prices can push them into higher levy brackets, reshaping cash flow forecasts and dividend strategies.

Narrow cost deductions: In computing the tax, only costs directly attributable to mining are deductible, while corporate income tax and royalty payments are treated as additional deductions. This narrow definition of allowable costs increases the risk of disputes, making rigorous cost allocation and documentation essential.

Audit scrutiny: Auditors will not only verify whether the 30 percent threshold has been correctly assessed but also test the robustness of cost segregation, the consistency of gross output measurement, and the timeliness of remittances. Weaknesses in these areas can result in misstated liabilities, financial penalties, and heightened scrutiny during BIR review.

Salient provisions and key insights

Ring-fencing: enforcing project-by-project accountability

Ringfencing is another new feature under RA 12253. It requires each mining agreement to be treated as a separate taxable entity, preventing contractors from pooling results across projects. This approach isolates revenues, costs, and liabilities by contract, ensuring that tax obligations are assessed on the actual performance of each operation. Below is the tax treatment under different conditions:

Condition	Tax Treatment
A contractor has a valid and effective operating agreement	The mining operator is treated as a separate taxable entity.
More than one valid mining operator exists under the same mineral agreement or financial or technical assistance agreement	Each mining operator is deemed a separate taxable entity for its respective mining operations under the agreement.
A mining operator conducts operations by virtue of a valid operating agreement with the mining contractor	The mining operator, not the contractor, is liable for the pertinent taxes.

Ring-fencing does not stop at defining separate taxable entities on paper; it creates concrete compliance pressures, and companies will need to pay close attention to how these rules play out in practice:

Segregation of accounts: Ring-fencing requires each mining agreement to stand on its own. Contractors must segregate revenues, costs, and deductions by contract to prevent cross-charging, with auditors scrutinizing whether internal controls and documentation are strong enough to support this separate-entity treatment.

Transfer pricing exposure: Because royalties and corporate income taxes are based on mineral values, sales must be priced accurately. Related-party transactions across the mining value chain, including intragroup financing, mineral sales, and treatment charges, can distort reported income. Ringfencing heightens this exposure by requiring each project to stand alone, making transparent pricing essential to ensure that reported profitability reflects actual project performance.

Salient provisions and key insights

Expanded audit powers: BIR and BOC oversight of mining

Under RA 12253, the BIR and the Bureau of Customs (BOC) are authorized to audit all sales and exports of minerals, mineral products, and raw ores for tax purposes. Metallic mining contractors and operators must make their books, records, assay reports, and sales or marketing agreements available for inspection. MGB shall provide both bureaus with copies of these documents, along with contractors integrated annual reports. Contractors are further required to comply with disclosure and reporting obligations under the transparency mechanism of this Act.

This provision marks a clear departure from the old mining law, where oversight largely rested with the MGB. By extending audit authority to the BIR and BOC, RA 12253 shifts the focus from technical monitoring to direct fiscal and trade enforcement. The effect is twofold:

Closer scrutiny of transactions: Contractors face closer scrutiny of sales values and export declarations, and reporting obligations now carry higher stakes since inconsistencies across agencies can trigger both tax assessments and customs reviews.

Layered compliance environment: In practice, this creates a more layered compliance environment, where accurate pricing, consistent documentation, and timely disclosure are essential to avoid penalties and prolonged audits.

Share of LGU: *reinforcing mandated entitlements*

Under both the old mining law and RA 12253, local government units (LGUs) are entitled to a share in the national wealth derived from mining activities. The 40% allocation formula remains consistent, covering excise taxes, royalties, and other related revenues. What RA 12253 clarifies is the mechanism of release and enforcement: the LGU share must now be released directly and immediately to local treasurers, insulated from national government discretion, and supported by implementing rules from the DOF, DBM, and DILG. In addition, LGUs retain the authority to impose a capped business tax on contractors, reinforcing their fiscal role in mining governance.

Provision	Details
LGU Share	40% of the gross collections from the preceding fiscal year derived from: <ul style="list-style-type: none">Excise taxes on mineral productsRoyaltiesOther taxes, fees, charges (including surcharges, interests, fines)National government's share in co-production, joint venture, or production-sharing agreements within LGU jurisdiction
Release of Share	Direct and immediate release to the provincial, city, municipal, or barangay treasurer concerned. Not subject to lien, holdback, or further action by the national government.
Implementing Agencies	Department of Finance (DOF), Department of Budget and Management (DBM), and Department of the Interior and Local Government (DILG) to issue rules for streamlined disbursement.
Additional Authority of LGUs	May impose a business tax on mining contractors, capped at 0.5% of 1% of total gross output. This is over and above the 40% share.

Salient provisions and key insights

Share of Mines and Geosciences Bureau (MGB): earmarking royalties for resource development

Under the old mining law, royalties collected from mineral reservations accrued to the national government, with no fixed allocation directly earmarked for the MGB. While MGB oversaw mineral reservations, its funding for exploration and development depended on broader appropriations and was not tied to a guaranteed revenue stream.

Under RA 12253, a ten percent (10%) share of royalties from mining operations within mineral reservations shall accrue to MGB to fund special projects and administrative expenses for the exploration and development of other mineral reservations. The same share shall also support the development of value-adding activities and downstream industries for strategic metallic ore, in line with national mining laws and policies promoting responsible resource utilization.

Fiscal regime in agreements: continuity for old, uniformity for new

Under RA 12253, the fiscal regime and revenue-sharing arrangement under this Act shall be incorporated into all mineral agreements and financial or technical assistance agreements on metallic mineral production entered by the government. These terms shall remain in force for the entire duration of contracts executed after the enactment of this Act and shall also apply to contracts entered before its enactment if they are renewed thereafter.

Valid mineral agreements and financial or technical assistance agreements entered prior to the effectivity of this Act shall remain governed by their respective terms and conditions until expiration, unless such agreements expressly provide that changes in law or regulation shall be deemed incorporated into them.

Salient provisions and key insights

Transparency and accountability: mandatory disclosure and public scrutiny

Under the old mining law, transparency was limited to agency reporting, with confidentiality rules restricting public access to financial data. Civil society and local stakeholders had little visibility into the mining sector.

RA 12253 shifts this framework by making transparency a legal obligation:

- The Department of Finance, with other agencies, must establish a participatory system for collecting, verifying, disclosing, and scrutinizing industry-related data (including tax, non-tax, beneficial ownership, PENCAS data, and extractives revenue/expenditure).
- Disclosures must cover the General Information Sheet and other SEC reportorial requirements and be available in both electronic and non-electronic forms.
- A multi-stakeholder group of government, industry, and civil society representatives will be part of this mechanism.
- All businesses engaged in mineral and natural resource activities are exempt from confidentiality provisions under the NIRC and the Revised Corporation Code, ensuring these disclosures are legally open to public access.



Key takeaways

What RA 12253 means for mining and beyond

RA 12253 reshapes the mining landscape. Beyond setting a clear formula for income computation and introducing progressive royalties, it also transfers royalty administration to the BIR, imposes a windfall profits tax, standardizes allowable deductions, and introduces ring-fencing so that each project is taxed on its own merits. Together, these reforms close critical gaps and create a more transparent, predictable system.



The law's true impact lies in how these interests converge. When compliance is met with responsibility, when profitability is balanced with stewardship, and when revenues translate into shared progress, mining can move beyond being a contested industry to becoming a driver of inclusive growth.

For the government, this means a fairer share of resource wealth. For investors, it offers certainty but also demands sharper strategies to manage costs and sustain returns. For communities, it ensures that environmental protection and social development are not afterthoughts but built into the financial structure of mining itself.

Thank you

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