The background of taxation and savings economics essay

Economics

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Abstract

In this project, we summarize and evaluate the extant literature concerning taxation and personal saving. We describe some of the determinations of savings, which are individual savings, human capital investment and the consequences of public sector savings. The central positive question is the effects of taxation on savings that include individual savings and the tax substitute with individual revenue neutrality. Finally, we give general information about the tax system in Albania and the main taxes in this system.

Introduction

Taxation is playing an important role in the economic development all over the world in the lasts decades. Taxes are the foundation of public finance, they have been used in most of their role of regulating of economical issues. Tax system is influencing in employment, in consumption patterns, incomes, in savings and investments. In this project we are going to analysis the effect of taxation on savings. The choice how much to save for future consumption is one of the most important economic decisions. It may have implications not only for the well-being of the households making the decisions, but also the extent to which the economy invests and grows, and therefore the welfare of future generations. Savings are not only affect by taxation , but there are many policies that affect savings , like the system of social insurance, especially pensions, welfare services and education, debt policy etc. We begin our project with the determinations of savings and with the effects of taxation on savings. Finally, we give information about the tax system in our country, Albania.

The determination of savings

There are several aspects of saving that differentiate saving from other consumeroptimisation decisions and that turn out to be important for tax analysis. The ultimate object of choice is future consumption, of which savings is the value rather than the quantity. The price of future consumption in terms of current consumption is the after-tax discount factor. Therefore, saving is the discounted present value of future consumption. Even though a fall in the price of future consumption, a rise in the after-tax interest rate may cause a rise in future consumption, it may involve a fall in the level of savings since a given amount of future consumption can be obtained at a lower cost in terms of forgone current consumption. The second distinguishing feature of saving concerns the type of the budget constraint. An individual's income may take the form of a stream of earnings or other forms of non-capital income in present and future periods, so that the budget constraint involves a present value of earnings, referred to as lifetime wealth. This has two implications. First, a certain flow of consumption over time will include different levels of savings depending on the time profile of the income stream. The later that earnings occur, the less savings will be required to finance a given amount of consumption Second, a change in the consumer price in the future consumption (after-tax discount rate) will cause a change in the present value of lifetime income or wealth. This change will be greater the more skewed income stream into the future, because the discount factor will be higher for earnings further in the future. This induced change the wealth of life caused by a change in the price of the next consumption will lead to an indirect effect on household saving behavior, referred to as human wealth effect, that's not present in standard models of consumer choice. The temporary nature of the saving decision gives rise to various other unique issues. For one thing, there will be uncernity for the future, and different amounts of it can be covered by the individual saver. For another, to the extent that the individual is a dissever in certain periods, may have restrictions that will limit the liquidity of individual choice. Also, there will be a variety of instruments for conversion of present into future consumption, including financial assets (debt, shares in companies, annuities, pension funds, mutual funds, insurance policies), real estate, business assets , durable consumer corporation (including housing) and even investment in human capital formation. These distinctions are relevant because different savings instruments are typically treated differently for tax purposes. In the end, saving is often seen as a vehicle for achieving altruistic objectives, particularly altruism within the family. Existence of altruism turns to have a profound effect on how the tax affects savings, as well the manner in which we perform our analysis economic saving. Maintaining the account for altruistic motives give rise to inheritance and gifts for young people.

Individual savings

Simplest case to consider is that of a selfish individual whose economic life can be divided into two periods, who receives income in the first period only, face perfect capital markets with a complete safety and whose only decision is how to share gains in the pre-consumption, and the second period consumption, in order to maximize a utility function of life in the first period consumption. Budget constraint facing the household states that the present value of consumption, discounted at the after-tax interest rate, equal to earnings. The combination of current consumption and future will be chosen such that marginal rate of substitution between the two is only relative price of future consumption, which include interest rate and tax interest income., will depend on the earnings of the household and relative price. An increase in income will typically increase savings, since the household will desire to increase both present and future consumption. However, an increase in price will have consumption effects on savings. The higher price will tend to make the consumer substitute present consumption for the more expensive future consumption (the substitution effect), so reducing savings. At the same time, the higher price of future consumption makes the consumer worse off since less of both goods can be bought with a given amount of income. This reduction in real income tends to cause the household to reduce both present and future consumption and so to save less (the income effect). Though future consumption will doubtless fall, whether saving rises or falls with a fall in the interest rate depends upon the relative strengths of the income and substitution effects. Generally speaking, the more the consumer is willing to substitute present for future consumption the less the curvature in the household's indifference curves between consumption. The amount of saving, and consumption the greater will be the substitution effect relative to the income effect, and the larger positive (smaller negative) will be the responsiveness of saving to increases in the after-tax interest rate. The issue becomes an empirical one. The above discussion assumes that all earnings are in the first period. If there are second-period earnings, there will be additional effects. The household problem now involves maximizing lifetime utility subject to a budget constraint which says that the present value of consumption must equal the present value of earnings, or lifetime wealth. An increase in earnings in either period will increase lifetime wealth, and thus will increase both present and future consumption if both are normal goods. However, the effect on savings will depend upon the period in which the earnings increase. Increases in first-period earnings will increase savings as above. However, increases in second-period earnings will reduce savings since the individual will need to borrow against the future earnings increase in order to increase first-period consumption. This lifetime cycle effect is of crucial importance to the analysis of the effect of taxation on savings. An increase in price will have the usual income and substitution effects as above, but there will now be an additional effect, the human wealth effect. The increase in price will increase the present value of future earnings, thereby causing lifetime wealth to rise. This will increase the demand for consumption, thus reducing savings unequivocal. In other words, the human wealth effect will unambiguously increase the interest elasticity of saving. For a given initial value of lifetime wealth, the interest elasticity of saving will be higher the higher is the proportion of earnings accruing in the second period.

Human Capital Investment

There are various extensions that could be added to this two-period model of savings. The first involves human capital investment, which effectively makes the earnings stream endogenous. Suppose individuals can convert forgone present earnings into increased future earnings by devoting some of their time to education or training rather than working. The stream of earnings will then be chosen as that at which the marginal rate of return to human capital formation(the increment in future earnings from a marginal reduction in current earnings) just equals the after-tax discount factor defined as above. A reduction in the interest rate increases investment in human capital, causing current income to fall and future income to rise. This causes saving to fall, thereby reinforcing the human wealth effect in increasing the interest elasticity of saving. In effect, the individual has substituted human wealth for asset wealth. Another extension to the two period models is to allow for bequests and there are three main reasons for bequests: uncertain lifetime, altruism and strategic behavior with respect to children.

The Consequences of Public Sector Savings

To see the implications of public sector saving (or decrease) in the determination of savings and its changes, consider a simple economy consisting of overlapping generations of identical individuals who leave no bequests. At one time, only changing individual behavior by age: young cohorts will be saving old and then a decrease . The sum of individual savings plus government saving would be equal to aggregate investment; equivalent, capital stock shall be the sum of household wealth holdings of government debt less. Most of the issues involved in aggregation can be seen focusing on policy changes that include only income. Revenue-neutral income changes for each household- consider first the hypothetical case of a policy which changes the after-tax income stream of a given group but keeps its present value the same. For example, each member of the group might pay lower taxes (receive transfers) early in life and higher taxes later, such that the present value of the changes is zero. The typical individual in this cohort will save more when young to spread the income change over the life cycle to keep the consumption stream unchanged. In the absence of any other changes, aggregate saving and the demand for assets would increase temporarily while that cohort was young, then fall temporarily while it was old, but remain unchanged after that cohort had passed away. However, from the point of view of the government, net revenue would be lower while the cohort was young and higher when it was old. To make good the tax–transfer change without affecting other households in the economy, the government would have to borrow money. The amount of the public dissaving would exactly offset the increased private saving, and total saving would remain unchanged. In effect, the increased saving would go entirely to purchase the new debt issued by the government so that private capital investment would remain unchanged. More generally, the same principle would apply to a permanent tax reform which took increased taxes from the old and reduced them for the young. In order that the present value of taxes of all cohorts remain the same, this would have to be accompanied by an increase in government debt. The demand for assets by households would have permanently increased, but so would the supply of assets from the government by an equal amount. The economy would remain unchanged in real terms and all households would be equally as well off.

The effects of taxes on savings

Taxes effects savings through two main mechanisms. First they may affect the rate of return on savings and second they may the income stream which is converted in a stream of consumption through savings. These effects can be seen by focusing in three forms of taxation which are , wage taxation , consumption taxation and capital income taxation. For simplicity we assume that taxes are at proportional rates.

1-The effects of taxes on individual savings

First consider a person who obtains an earnings stream for a given number of working period, and then is retired for a given numbers of periods. Capital markets are perfect so the individual is able to freely borrow against future profits. There are no bequest so saving is for life cycle smoothing purpose only. All taxes are include in the budget constraint. Consumption expenditures include taxes on consumption, net income stream in the payroll tax, and earnings are discounted by the interest rate net of capital income taxes. In these conditions the effect on savings of each of these three taxes is straightforward. Wage taxation- A tax on wage reduces wealth and leaves the after tax interest rate unchanged. Time consumption profile over the life cycle will shift downwards though it shape will remain the same. In the same way the time earnings profile will shift downwards during working periods. As consequence, savings will fall during the working years since less consumption during retirement needs to be financed, and fewer assets will be demanded. Earlier in the life cycle the earnings are obtained the greater will be the decrease in savings. Equivalent , the later in the working part of the life cycles the wage tax imposed, the higher the proportion of the tax will go to reduce savings. Consumption taxation- Like the wage tax the consumption tax causes the consumption stream to fall, not by lowering the earning stream but by increasing the cost of consumption. However , as the tax liability occurs later in the life cycle , saving will not fall so much. The rice in cost of consumption with given life time wealth, causes consumption to fall in the same way in each period. Since consumption tax applies proportionality in each period, consumption expenditures inclusive of the tax remaining unchanged, so the same amount of saving is required to finance them since earnings do not change. This fact that a consumption tax live savings unchanged makes tax substitutions involving consumption taxes easy to analyses. Capital income taxation- A capital income tax is equivalent to a reduction in an after tax interest rate. In the short run it will have an effect on saving depending on the size of income and human wealth effects and substation. In the long run, a reduction in the after tax interest rate causes the whole consumption profile to become flatter, so that over the life cycle the saving needed for life cycle smoothing will be reduces.

2. Tax substitution with individual revenue neutrality.

It is straightforward to substitute one tax for another since these individual tax effects. Since consumption tax does not affect the level of savings, substituting consumption tax with a wage tax or a capital income tax will have the same effects as imposing them alone as discussed before. The wage tax substitution will influence individual savings to fall, while the capital income tax substitution will have an effect on saving in the short run, but will reduce the demand for assets over the life cycle. Now, substituting a capital tax for a wage tax will also have an ambiguous effect since both are likely to reduce the demand for assets in the long run. However, these ambiguities disappear when we take public sector savings into account. If the present value of taxes to all ages is held constant, time model of government tax receipts will change, it will need to borrow or lend. For example, when an income tax is replaced by a consumption tax, the whole the amount of the decline in private savings comes from the change in time tax liabilities that the consumer movement remains unchanged. In this case, the decline in private savings will be offset by increased savings just as a public result of the fact that tax revenues are received earlier. Thus, the total savings would remain unchanged, along with the path of consumption and capital accumulation for the economy as a whole and the welfare of all cohorts. In fact, the tax the changes are revenue-neutral for all families, all changes in private savings which originate in changes in the timing of tax liabilities will be offset bychanges in public savings in the opposite direction. Only those changes resulting from the relative price effect of a change in the after tax interest rate will cause savings to change. In the case of replacement of a capital income with a wage tax, the substitution effect which causes saving to fall will remain. Given the changes in the public saving, the substitution of a tax on capital income for a wage tax will have the same aggregate effect as the substitution of the same tax for a consumption tax. In the both cases , saving will fall by the substitution effect. All individuals will be worse off as a result of substituting a capital income tax for either consumption tax or wage tax.

Tax system in Albania

The tax system of Albania is based on a 10% flat tax. The tax was implemented in 2008. The Albanian Taxation Office is the revenue service of Albania. The most widespread division mentioned in various publications is according to tax base. Tax revenues in Albania are grouped into three main categories: (a) indirect taxes (VAT, excise, gambling and other indirect taxes), direct taxes (income tax, personal income taxes, taxes on capital); (b) local taxes, and (c) social and health security contributions. National Taxes, administered by the CTA and Customs Administration include: - Indirect taxes a. Value added tax; b. Excise; c. Taxes on gambling, casinos and hippodromes; - Direct taxes a. Income tax; b. National taxes; c. Other taxes, which are defined as such by special law, and d. Customs taxes. - Social and health security contributions, as defined in the social insurances law. Local taxes and tariffs administered by LTA include: a. Local tax on small business; b. Tax on immovable property, which includes tax on buildings and agricultural land; c. Tax on hotel accommodation; d. Tax on impact of new constructions upon infrastructure; e. Tax on transfer of ownership right on real estate; f. Annual tax for vehicle registration; g. Tax for occupation of public space; h. Board tax; i. Temporary taxes j. Registration tariff for various activities; k. Cleaning and waste disposal tariff; l. Vehicle parking tariff; m. Tariff for servicesLocal Tax Administration is composed of a network of tax administrations, as part of local government organization. Organization of LTA includes: General Directorate of Taxes and Tariffs in Municipality of Tirana, Local Tax Departments for main Municipalities and Tax Revenue Sections in small municipalities and communes. LTA is a very important component in the structure of Municipalities and Communes, as the institution which ensures mutual cooperation between the local business community administered by respective local tax structures and local leaders on a variety of necessary services for citizens. In this administration, the local business community operating in the administrative unit can pay local tax liabilities. This administration is the structure responsible for collecting local taxes and tariffs specified in the laws and decisions of City Council. This administration also pursues relations with Tax Agents responsible for local taxes and tariffs. You can find more information about the organization of local government in www. moi. gov. al or for each major municipality you can search the internet by typing the words Municipality (name of municipality) e. g. Municipality of Tirana. Tax liability arises when persons raise incomes, become a property owner or make payments, which are subject to tax, according to tax legislation. Tax liability also arises when persons derive incomes illegally, make payments or become owners of something illegally. When persons become owners of an item in an illegal way, this obligation is calculated for the entire period in which the person has enjoyed the fruits of such property. Tax liability includes tax, interest on arrears, and fines. Tax liabilities are calculated and paid in national currency, unless otherwise provided by law. Depending on the type of tax they have registered for, taxpayers are required to make tax declaration and payment, which they are obliged to self-calculate and pay in due time. Data on accounting and financial information are stored by taxpayers for at least 5 years, starting from the end of the tax year, which the documents belong to. Records, books and financial information are documents containing chronologic and systematic information on taxpayers' trading operations, which are kept to determine the amount of taxes for these taxpayers. Taxpayers conducting flow of goods and services, for which payment is not made through banks, are obliged to introduce and use the fiscal system through the use of fiscal devices in order to record cash payments and issue tax receipts. Taxpayers, private individuals or legal entities and traders cannot perform purchase or sales transactions in cash among them if the value of transaction is higher than 300. 000 ALL. Registered taxable persons are obliged to request deregistration no later than 15 days from the last day they made taxable supplies as part of their economic activity. Taxable persons, who want to deregister, are subject to procedures stipulated in the law " On tax procedures in the Republic of Albania". Each individual, who is a partner in a commercial company, is responsible for the company's tax liabilities to the tax administration, according to provisions in the company charter. According to commercial registry, over 95 percent of companies are limited liability companies. The remainde At the moment a company is created and starts its economic activity, it is responsible for:• Calculation of VAT and timely declaration and payment;• Payment of advance tax installments for profit tax to pay every month;• Calculation, timely declaration and payment of tax on incomes from employment for employers and employees;• Calculation, timely declaration and payment of social and health insurances contributions;• Monthly payment of advance income tax installments in time;• Withholding and payment of withheld tax, under obligation from the Law " On Income tax";• Calculation, timely declaration and payment of taxes according to specific activity " for gambling, casinos and hippodromes";•

Calculation, timely declaration and payment of excise under specific law " On Excises";• Calculation, timely declaration and payment of national taxes and local taxes. In order to calculate taxes, taxpayers who are subject to VAT or profit tax keep registers, accounting records, books and financial information and issue tax receipt or tax coupon, in accordance with relevant laws and regulations pursuant to them. r is joint stock companies, partnerships and less than 0. 5 percent is limited partnerships

The main taxes in the Albanian tax system

Tax legislation

Tax and tariff regime in the Republic of Albania consists in a package of laws, directives, regulations, tax agreements with other countries which display complete review of all kinds, levels, calculations, procedures, as well as the methods and forms of tax control for taxes included in the Albanian tax system. Tax legislation is subject to continuous amendments and changes, due to the rapid developments of the economy.

Tax Rate

The Legal and physic persons in the Republic of Albania are subject to the followingtaxes:

Type of Tax Tax Rate

Profit Tax 10%Personal Income Tax 10%Withholding Tax 10%Value Added Tax 20%

Profit Tax

All companies which are registered in the trade register and pay VAT are subject to the profit tax. The Resident taxpayers are subject to taxation only for incomes generated (produced) inthe territory of the Republic of Albania. A legal person is considered resident in Albania if: a)he has a permanent residence (central offices) in the Republic of Albaniab) he has an efficient center of business management in the Republic of AlbaniaThe tax rate for profit tax is 10%. The taxable profit for the tax period is defined based on the balance-sheet and its annexes which should be in conformity with the law " On accounting", with the provisions of this law, as well as with the sub-legal acts issued by the Ministry of Finance to that end. In order to settle the taxable profit in the Republic of Albania, the expenses carried out to profit-seeking, profit-security and profit-keeping, in case when these expenses are certified and documented by the taxpayer, as well as when they are subject to restrictions specified by this law are considered as expenses. The basic document used to justify the expenses for tax effect is: VAT tax invoice, the imple tax invoice and any other document compiled and issued in conformity with the instructions of the Minister of Finance, in application of the tax legislation.

Value Added Tax

The Value Added Tax is payable: for all taxable supplies of goods and services realized against the payment by a taxable person, as part of his economic activity in the territory of the Republic of Albania. for all imports of goods in the territory of the Republic of AlbaniaThe VAT threshold for registration is 5 million lek (per calendar year) of the annualbusiness turnover and 2 million lek per the free professions. All legal and physical persons involved in export or import activities are constrained to register in order to pay the VAT. Any other entity such as individuals, central and local government, social, politic and international organizations, diplomatic missions, etc, which carry out import-export activities, regardless of the turnover are also constrained to register. For any entity which carries out import-export activity, the customs operations will proceed after he submits the original or the notarized copy of the Certificate of the Identification Number for the Taxable Person (NIPT). The total annual turnover is calculated based on the total price paid by the buyer, inclusive also the tax and condemnation fees (fines). The VAT declaration and payment form is filled in three copies and the taxable person submits it to the respective bank with which the DGoT has an agreement regarding the admission of VAT payments, within 14 days after the expiration of the tax period. VAT is applied at 20% , unless otherwise settled by law. The following operations are excluded from payment of VAT: financial services supplygold, bank-notes or currencies supplies to the Bank of AlbaniaPostage-stamp supply used for mail service or similar stampsSupply provided by a non-profit organization against a reduced payment isconsidered an excluded supply under the conditions laid down by the article 24etc. The taxable value of supply is the total amount paid to that supply, unless otherwisesettled by law no. 7928, date 24. 04. 1995.

Withholding Tax

All the residents in the Republic of Albania, central and local government, non-profit organizations and any other entity, recognized by the legislation into force, are constrained to withhold the tax at source at 10% from the gross amount of the following payments, generated by a source in the Republic of Albania:

Taxable Base

The taxable revenues are fixed based on the balance-sheet and its annexes which should be in accordance with the law " On accounting", with the provisions of this law, as well as with sub-legal acts issued by the Ministry of Finance to this end. Gains or other net revenues are the difference between the revenues and deductible expenses. The tax year corresponds to calendar year and it commences since January 1st and terminates on December 31st.

Deductible Expenses

As in other countries of the region, the expenses deducted from taxes are those which produce incomes, which ensure and maintain taxable incomes. The expenses are deductible if: They result from economic activities which produce revenues or if they are related to the usual management of the taxpayer’ business activity. They provide sufficient documents which confirm the destination of these expenses. They are reflected into the book accounts by reducing the net assets

Albania Corporate Tax Rate

Albania corporate tax rate is a flat 10%. Taxpayers subject to local tax on small businesses with an annual turnover between ALL 2 million and ALL 5 million are subject to personal income tax of 10% on net profit. If a company is effectively managed in Albania, then the business is accepted as resident and pays Albanian company tax. A legal entity or a partnership who has a permanent establishment are also considered tax payers and they pay Albania corporate tax.

Albania Tax on Capital Gains

Capital gains deriving from the sale of immovable property are treated as business income and taxed accordingly at 10%. Where after the sale of immovable property there is a loss, it can be carried forward for three years, unless 25% or more of the selling company's share capital has been transferred. The donation of Albanian property is treated the same as sale of the property, and is taxed accordingly at 10% of the difference between the fiscal price of the donated property and the purchase price. In both cases, the seller/donor of the property will be liable to pay the property transfer tax before transferring it to the buyer and registering it at the respective offices. The transfer tax payable is about €7 ($9. 27) a square metre for residential buildings and €14 for commercial buildings in Tirana while it is less for other cities. Tax Credits-A tax relief may be allowed under an applicable tax treaty. Withholding Tax on Dividends-If there is no tax treaty which can reduce the rate, dividends which are paid to nonresidents are subject to a 10% dividend withholding tax. Withholding Tax on Interest Payments-If made to a nonresident, an interest payment is taxable in Albania, and is taxed at 10% unless the tax rate is reduced under a tax treaty. Withholding Tax on Royalty Payments-If made to nonresidents, royalty payments are also subject to the same 10% tax rate, if there is no applicable tax treaty between the two countries. Certain payments and fees are subject to withholding tax, including rental payments, certain service fees and fees paid for management. Types of national taxesNational taxes are: 1. Port taxes. 2. The annual fee cash traffic. 3. Tax on vehicles used to transport. 4. Tax on mineral rent. 5. Tax Act and stamp. 6. Carbon tax for gasoline (according to tariff codes CNG'sand for coal, the tariff headings CNG's 2701 and 2702. 7. Tax on the exercise fishingPortal tax--Portal tax is calculated at the rate of 1 Euro. This tax is paid from every shipthat is anchored and trAde in all Albanian ports. Annual tax for all--Annual tax for all the vehicles is fixed according the annex 1, linked with the law and component part of it. This tax is defined by the vehicle type. The tax level is detailed in a significant manner according to the vehicle type. Vehicle obligation is paid from the vehicles' owner. This tax is collected during the vehicles' technical control. In any case this tax revenue is collected from theGeneral Directorate of Service Road Transportation, regional directories, before the technical control of the vehicle. For the first time registration the vehicle are paying the whole tax despite the registration date and is valid for 365 days. Tax on Used Vehicles of Transportation--Tax on vehicles used to transport calculated as follows: Cylindrical in cm3 x coefficient fixed for each year using x fixed fee for the type of fuel. Fixed fee for the type of fuel is 25 lek 20 lek petroleum and gasoline. Coefficient for years of use is: a) for vehicles (of heading 8703): 0. 5 for each year of use; b) for other tools (heading 87): 0. 25 for each year of use." Years of use" means the difference between the years when the vehicle enters the territory Customs of the Republic of Albania at the time of clearance, the year of manufacture. For purposes of this law, considered tools used transport vehicles, which have previously been recorded in the ownership of at least one person, including the person importing or selling the vehicle, or / and the temporary registration of vehicle, no More than 3 months. Tax on used vehicles of transport is collected at the time of importation and sale within the country. Tools used only for transportation, which is paid in import tax and other sales experience within the country, the tax is the difference between the tax calculated at the time of sale within the country and pay tax at the time of casting the vehicle for traffic free. In the case of selling second later the vehicle, used vehicle tax is calculated as the difference between sales tax at the time of the previous sales tax. Tax liability was at the time of importation, the importer and seller in the case of sales within the country. Carbon tax on gasoline, benzene and gazoilin--Carbon tax is determined by 1. 5 leks per liter for gasoline, 3 leks per liter for ALLgasoline and 3 per kg for coal (according to tariff headings CNG's 2701 and 2702). Thistax applies to imported fuels and coal, as well as those produced in the country. ". Mining tax rate--Every natural or legal person who is licensed and / or operating in the mining industry, according to a contractual relationship with the Minister responsible for economy, mining has to pay rent for natural resources extracted from / on / and subsoil of the Republic of Albania . Mining Rent calculated monthly obligation taxpayer’s subject at the time when he sells mineral products. In the case of export of mineral products, rent paid at the time of making the export declaration. 25 percent of revenues from mining Rent exceed local government where the activity. Mining Rent determined by multiplying the total value of the product wholesale to the percentage of rent, as defined in Appendix below.