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Exempt - section 22

From: Binsted, Paul
Sent: Wednesday, 30 June 2010 8:22 AM
To: Barrett, Chris (Treasurer's Office); Winters, Tracey
Cc: Parker, David; Davis, Graeme
Subject: MRRT Design Features [~~SEC=PROTECTED~~]

Chris and Tracey,

firstly, you are now negotiating a "beachhead reform". It is not the nature and quality of reform recommended by AFTS, but it is still a significant reform upon which future governments can build.

My thoughts on some of the design features that you are negotiating follow:

1. The starting base

Including the NPV of extant projects is expensive, but will "wash out" of the system. Accordingly, I support your proposals to:

a) allow expensing of this allowance at 4% pa without uplift. It ought also be used only after full utilisation of "upliftable" expenses and be lost after 25 years or end of project, change of project control or end of project whichever first occurs. It should also be non-transferable.

2. Tax Rate

This will be whatever it will be (I prefer 35% to 30%, 30% to 25% and 25% to 20%), however I suggest:

a) don't lock in (by announcement) the rate for more than say 7 years. Further, given a rate under 40% I suggest a bright line tough test on allowable expenses. I would only allow expenses DIRECTLY incurred with respect to a Project. I would explicitly exclude all allocations or shared expenses (this may be something for drafting next year).

3. Transferability

David Parker and Graeme Davis expect that this might save the Commonwealth revenue as expenses which would otherwise accrue at an uplift rate of bond + 700bps would be utilised more quickly and hence at a lower real value. I suspect it may be costly as it will allow deduction of atypical but large losses which would otherwise "be trapped". It would be nice to have some flexibility on this issue going forward.

Negotiation Tactics

It is clearly in the national interest to conclude this matter quickly given the negative effect on economic confidence caused by the miners public campaign against the RSPT. Accordingly, my personal view is conclude arrangements quickly, even if that requires concessions provided that those concessions are largely temporary.

regards

Paul