

(103)

Exempt - section 22

From: Barrett, Chris (Treasurer's Office)
Sent: Thursday, 1 July 2010 11:52 AM
To: Parker, David; Davis, Graeme
Cc: 'Tracey.Winters@ret.gov.au'; McDonald, Hamish
Subject: Fw: Concept_1310hrs_30Jun10.docx [SEC=IN CONFIDENCE]

Classification: [SEC=IN CONFIDENCE]

David,

Please see the draft heads of agreement sent yesterday by BHP. We aim to sign this at 5 today with all three companies. Can your troops read it and ensure all the elements are OK? Please get back to me with any problems asap. Tracey, you might want to check with DRET.

I will send a separate email on the \$50m threshold, which is new, but helpful, I think.

Regards,

Chris

Chris Barrett
Chief of Staff
Office of the Treasurer
The Hon Wayne Swan MP

*Sent from my blackberry

From: Bond, Gerard <Gerard.Bond@bhpbilliton.com>
To: Barrett, Chris (Treasurer's Office); tracey.winters@ret.gov.au <tracey.winters@ret.gov.au>
Sent: Wed Jun 30 13:11:51 2010
Subject: Concept_1310hrs_30Jun10.docx

As discussed

The Design of the Minerals Resource Rent Tax

The new resource tax will apply from 1 July 2012 to iron ore and coal mined in Australia only. All other mineral products excluded.

The rate of tax will be 30% applied to the taxable profit at the resource.

Taxable profit is to be calculated by reference to:

- The value of the commodity will be being determined at its first saleable form (at mine gate). i.e. first saleable form receipts less all costs to that point
- An extraction allowance equal to 25% of the otherwise taxable profits will be deductible to recognise the profit attributable to the extraction process. (i.e. this to only tax the resource profit)
- Arms length principles – i.e., commercial rates will be applied for full services required pre and post first saleable form.

MRRT is to be calculated on an individual taxpayer's interest in the project.

The MRRT becomes payable when the resource level profits of the taxpayer exceeds \$50m (i.e. a threshold).

All post 1 July 2012 expenditure to be immediately deductible for MRRT on an incurred basis.

MRRT losses will be transferable to offset MRRT profits the taxpayer has on other iron ore and coal operations.

Carried-forward MRRT losses are to be indexed at the allowance rate equal to the LTBR plus 7%.

All State and Territory royalties will be creditable against the resources tax liability but not refundable. Any royalties paid and not claimed as a credit will be carried forward at the uplift rate of LTBR plus 7%.

Starting Base

The starting base for project assets is, at the election of the taxpayer, either:

- Book value (as per 6.3 of the RSPT Announcement) or
- Market value (as at 1 May 2010).

All capital expenditure incurred post 1 May 2010 will be added to the starting base and depreciated against mining operations from 1 July 2012.

"Project assets" for the purpose of the MRRT will be defined to include tangible assets, improvements to land and mining rights (using the Income Tax definition).

Where book value is used to calculate starting base, the depreciation will be as proposed per the RSPT at accelerated depreciation over first 5 years.

Where market value used to calculate starting base, depreciation will be based on an appropriate effective life of assets, not exceeding 25 years.

Any undepreciated starting base and carry forward MRRT losses is transferred to a new owner if the project interest is sold.

Implementation Committee

A mutually acceptable Committee comprising credible, respected industry leaders will oversee the implementation of the agreed design principles into legislative form. This will have the objective of ensuring the agreed principles are effected in line with their intent in a commercial, practical matter.