

104

Exempt - section 22

From: Barrett, Chris (Treasurer's Office)
Sent: Thursday, 1 July 2010 4:32 PM
To: 'Bond, Gerard'
Cc: Davis, Graeme; McDonald, Hamish
Subject: HOA [~~SEC=IN-CONFIDENCE:COMMERCIAL~~]

Gerard,

Final, clean version for signature. Please let me know if any issues at your end.

Regards,

Chris

Chris Barrett

Chief of Staff to the Hon Wayne Swan MP

Treasurer

Commonwealth of Australia

P: + 61 2 6277 7340 | F: + 61 2 6273 3420 | E: chris.barrett@treasury.gov.au

MINERAL RESOURCE RENT TAX HEADS OF AGREEMENT

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 minerals are 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 determined at its first saleable form (at mine gate) 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 on all transactions pre and post first saleable form.

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

There will be no MRRT liability for taxpayers with low levels of resource profits (i.e. \$50m per annum).

All post 1 July 2012 expenditure to be immediately deductible for MRRT on an incurred basis. Non-deductible expenditure will be broadly consistent with PRRT.

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 percent.

The MRRT will be an allowable deduction for income tax.

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

Starting Base

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

- Book value (excluding the value of the resource) 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, depreciation will be accelerated over the first 5 years. The undepreciated value will be uplifted at LTBR plus 7 percent.

Where market value is used to calculate starting base, there will be no uplift and 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 development of more detailed technical design to ensure the agreed design principles become effective legislation. This will have the objective of ensuring the agreed principles are effected in line with their intent in a commercial, practical matter.

Signed on behalf of the Australian Government by:

Hon Julia Gillard MP
Prime Minister

Hon Wayne Swan MP
Deputy Prime Minister and
Treasurer

Hon Martin Ferguson AM MP
Minister for Resources, Energy
and Tourism

Marius Kloppers
BHP Billiton

David Peever
Rio Tinto Australia

Peter Freyberg
Xstrata Coal

Canberra, 1 July 2010