105

Exempt - section 22

From: Davis, Graeme
Sent: Thursday, 1 July 2010 2:29 PM
To: Barrett, Chris (Treasurer's Office)
Subject: Concept_1310hrs_30Jun10 (6).docx [~~SEC=IN-CONFIDENCE~~]

Chris

see attached

still not sure on the small exclusion

cheers

GCD

The Design of the Minerals Resource Rent Tax

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

The rate of tax will be 30 per cent applied to the taxable profit of the non-renewable resource.

Taxable profit is to be calculated by reference to:

- The value of the commodity being determined at its first saleable form (at mine gate). (i.e. first saleable form value less all costs to that point)
- An extraction allowance equal to 25 per cent 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 will apply to all transactions.

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

The MRRT becomes payable when an entity's level of resource profits exceed $50m for a given income year (i.e. a threshold).

All post 1 July 2012 expenditure on depreciable assets outlaid by an entity to be immediately deductible for MRRT.

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 Per cent.

All state and territory royalties will be creditable against the resource tax liability but are 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 Per cent.

Starting Base

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

- Book value excluding the value of the resource (as per 6.3 of the RSPT Announcement) or
- Full 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. The starting base will not be uplifted.

"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.

Comment [pjv1]: Products does not sound right

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Comment [pjv2]: May not be actually sold

Comment [pjv3]: Direct and indirect?

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Comment [AE4]: Need to be very, very careful with what was here. Unrelated joint venturers may have arrangements under which one sells the extracted resource to the other at extraction cost, with overall profits from the venture determined by all the downstream activity.

In addition, in the original version, why is there a reference to post salesable form if the taxing point is when the first saleable commodity arises

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Comment [AE5]: Is the $50m a tax free threshold or does it determine who is taxed (the wording is very unclear). That is, are you taxed on all your profits if they exceed $50m or are you taxed on all your profits over $50m?

Comment [pjv6]: What about cost of land etc ie cost of non depreciable assets. should this be limited to depreciation costs only?

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