

12

1/25

S 22 exemption

Resource Super Profits Tax

Tsr's Office, March 2010

Overview

This paper looks at key design and handling aspects of a Resource Super Profits Tax.

- A. Design question 1: coverage of the RSPT
- B. Design question 2: interaction of the RSPT with state royalties
- C. Design question 3: a deal for the states

— S22 exemption)

- G. Handling strategy 3: dealing with the states

Attachment C: Background on a Resource Super Profits Tax

A. Design question 1: coverage of the RSPT

There are different options for which projects the RSPT might cover - these are listed below with the highest return options at the top, and the lower return ones towards the bottom.

- We recommend further consideration of options 1 and 2 (which are variants of each other).
- The choice between these options (ie how big a transition credit to provide to existing projects) boils down to how much we want to use the reform to fund. Spending on additional transition credits will reduce spending available on other items (Section D draws the different spending priorities together).

Option	Description	Comments
	S 22 exemption	
2. Softer transition A: more generous transition credit	Include all projects from the start. Existing projects get a credit equal to somewhere between the tax value of their assets and their market value.	<ul style="list-style-type: none"> • Net revenue can be scaled depending on the size of the transition credit. • Day 1 share price impact will also scale in proportion with the smaller revenue impact. Can we say more about the relationship?

Comment [gzd1]: The relativity between the national accounts value of mining capital and the income tax value suggest this could be in the order of three years under a market value approach.

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P 5-6 - S 22 exemption

B. Design question 2: interaction of the RSPT with state royalties

There are three different options for how the RSPT interacts with state royalties

- We recommend option 2.

Option	Description	Comments
1. Replaces state royalties from day one	Require the states to remove their royalties as part of introducing the RSPT	<ul style="list-style-type: none"> • Relies on State agreement to get off the ground. Places the Commonwealth over a barrel in any negotiations / public debate.
2. Initially bolted on top of royalties, with an offer to the states to replace their royalties	Provide a refundable credit for state royalties Make an offer to the states to provide an ongoing payment/share of the RSPT revenues if they remove or phase down their royalties	<ul style="list-style-type: none"> • Doesn't rely on State agreement to get off the ground. • But also leaves open the possibility of a single system, which would be welcomed by resource companies (especially on complexity grounds)
3. Permanently bolted on top of royalties	Provide a refundable credit for state royalties Don't make an offer to the states to share RSPT revenues	<ul style="list-style-type: none"> • Closes off the possibility of a single system (which undermines the efficiency of the reform and buy-in from companies)

C. Design question 3: a deal for the states

Attributes of an offer

we recommend that an offer to the states should have the following attributes:

The offer:

- Means no states are worse off compared to their projected royalty revenue at existing royalty rates (and GST interactions) into the future.
- S 47 B exemption
- protects states during resource downturns while also providing them some of the benefits during upswings.

- This means that the offer might be thought of conceptually as having two components:
 - A "cash out" component, which is designed to mimic the projections of existing royalties and put states in the same position as they would have been with no change (including CGC interactions).

S 47 B exemption

P a-16

exempt under

- S22

- S47B

G. Handling strategy 3: dealing with the states

Front foot strategy

- We are making a \$6 billion offer to the states
- This offer will mean no states are worse off compared to their projected royalty receipts into the future
- S 47 B exemption
- And it will protect states during resource downturns while also providing them with extra benefits during booms
- State Premiers should not stand in the way of their states benefitting from these changes.

- S 22 exemption
- S 47 B exemption

P 18-22

S 22 exemption

Key design elements of the proposed RSPT are:

- A 40% rate
- Using the government bond rate for the interest uplift factor
- proposed coverage be for all resources (noting AETS recommended excluding low rent resources) but leave room for consultation on style of carve out from the regime eg exclude some minerals or exclude small players
- losses from resource projects would be both transferable against profits from another project by the owners and ultimately losses are refundable
- apply the regime in parallel to existing state royalties but provide entities with a refundable credit against RPT liability for any government royalties paid by them
- all existing projects to be brought into the system with consultation on the recognition of costs incurred prior to announcement by the private producers - these costs would not be transferable or refundable once the new regime is running. Important the costs recognised at their value at the time of announcement to address integrity issues
- Revenue and project impacts have been conducted on the basis of tax values being used to recognise prior costs
- Costs incurred from announcement but prior to commencement of the new regime to have the same treatment as costs incurred post commencement to avoid distorting investment decisions (ie transferable and refundable)
- regime will only apply at the actual private producer level and not at the investor level eg at the company/trust level and not at the shareholder/beneficiary level
- the reduction in company tax rate linked to introduction of resource tax regime with initial reduction
- likely to commence from 1 July 2012 at the earliest

Comment [sz16]: Leaves open the option to use alternative techniques, such as cash flow treatment.

Comment [sz17]: Going forward costs in respect of an interest in an existing project would be only available to offset income from that interest in a project.

- The new regime will be announced on day 1.

P 24-25 - S22 exemption

