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TREASURY EXECUTIVE MINUTE

Minute No.

31 March 2010

Treasurer

THE GOVERNMENT'S TAX REFORM PACKAGE

Timing: To allow for release prior to the Budget.

Recommendation: That you note the elements of a proposed initial tax reform package and formal decision making timeline and processes.
Noted Signature:...................................... ...../...../2010

KEY POINTS

- Drawing on our recent discussions, this is an update of my minute of 17 February 2010 (EM2010/0387) providing Treasury's advice on a package of reforms to be announced as the Government's response to the report of the Australia's Future Tax System (AFTS) review.
- The basic narrative of the reform package is one of challenges and opportunities in four areas.
  - The emergence of China and India has vastly lifted the value of Australian resources and there is an *opportunity* for Australians to again **get fair value for our natural resources** from a much better tax base. The Resource Super Profits Tax is outlined at Attachment A. The revenues will emerge only after several years but will fund reform of the tax system and eventually make a significant contribution to meeting our long term fiscal challenges. A "double dividend" results from the effective removal of distorting royalty tax arrangements, lifting GDP by an estimated 0.3 per cent due to mining sector expansion.

S 22 exemption

P 2 – 4 – S22 exemption

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ATTACHMENT A

A FAIR RETURN FROM NON-RENEWABLE RESOURCES

RESOURCE SUPER PROFITS TAX

- A national resource profits tax (RSPT) would provide:
  - a more appropriate return to the Australian community for the exploitation of its non-renewable resources compared to the current resource charging arrangements; and
  - a more efficient resource tax that is responsive to changes in resource project profitability without distorting investment and production decisions.
- The RSPT would apply to profits made from the exploitation of non-renewable resources after 30 June 2012 at a rate of 40 per cent.
  - The RSPT would apply to all non-renewable resource projects.
  - Existing resource projects would be brought into the scheme.
    - To smooth the impact on existing projects, project owners would be provided a tax shield as credit for assets that they brought to a resource project, excluding the value of the non-renewable resource which belongs to the community.
- The RSPT would replace resource taxes levied by the Australian Government and, in the long run, replace resource taxes imposed by the States. Until the states remove their royalties, a refundable credit would be provided to firms for state royalties (at an agreed value) to effectively remove the impact of state royalties.
  - This removes the economic effect of one of the most distorting taxes, increasing GDP by around 0.3 per cent.
- S 47B exemption
- The RSPT would be announced as part of the initial package with a start date of 1 July 2012. Industry will be consulted on some of the technical details of the policy to minimise compliance and administrative costs.
- Likely criticism/stakeholder reaction:
  - **Supporters:** Resource companies with low profit projects will benefit from the RSPT as they would pay less tax than they would under the current royalty arrangements. They would also benefit from increases in the resource profits as their investment and production decisions would be less distorted. This could restore viability for some projects.
  - **Supporters:** Non-resource companies would gain from a reduction in the company tax rate funded from the RSPT. Well diversified investors and superannuation funds would gain from the reduced company tax cut and stronger economic growth.

- **Opponents:** Resource companies with high profit projects would pay more tax than they would under the current royalty arrangements. They would, however, benefit from increases in the resource profits as their investment and production decisions are less distorted.

  : Industry is likely to be particularly concerned about transitioning existing projects into the new system. The impact on cash flows in the early years could be addressed by allowing resource companies early access to the tax shield provided in recognition of existing assets.

- State governments could perceive the RSPT as a threat to their royalty revenue stream and a reduction in their autonomy to potentially lift royalty rates in the future.

S22 exemption

P 7 - 13 - S22 exemption

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ATTACHMENT E

BETTER TAXES ACROSS THE FEDERATION

EFFECTIVELY ABOLISHING ROYALTIES

- Royalties imposed on mineral production are the most inefficient taxes in the Federation.
  - To remove the effect of State based royalties, the Australian Government will provide a refundable tax credit equal to the amount of royalties paid by companies (up to an agreed limit) that are liable for the RSPT.

S 47B exemption

S 22 exemption

P 15-19 - S22 exemption