

Srivastava, Nitin

From: Parker, David
Sent: Wednesday, 31 March 2010 5:57 PM
To: Barrett, Chris (Treasurer's Office); Henry, Ken
Cc: McDonald, Hamish; Jacobs, Martin; Chalmers, Jim
Subject: RE: RSPT latest [SEC=PROTECTED]

S 22 exemption

Chris,

Yes, there is a possible way that avoids the worst of the integrity issues and gets much of the up-front

This would be an upfront expensing model. Specifically, if we:

- allow immediate expensing of capital expenditure (rather than allow only depreciation of capital expenditure over time);
- that expense would be offsetable against RPT payments (as now) but not beyond (as now)
- residual losses would be carried forward at the bond rate (as now).

Then:

- the big profitable miners paying RPT would effectively get full up front loss refunds (note that we are proposing loss transferability between projects). It would change the timing of their tax profile - less immediately after investment but more later. There is a partial natural hedge in the system as they tend to invest when commodity prices are high, i.e., when they would otherwise be paying more RPT
- The small guys would not get much benefit as they wouldn't otherwise be paying much RPT to net against the immediate expense. So they would just carry forward the up-front loss at the bond rate to offset against later tax. They would be somewhat better off as they would be uplifting from an earlier date.

The downsides of this are the cost: this is where the first year \$6 billion cost came in the early estimates of RPT revenue - that involved an immediate write off model. And more pressure around big guy / small guy discrimination, which lead to the exploration flow through shares and AFTS offset proposal.

The upsides are less pressure on transition and uplift. And it wouldn't have the quite same degree of integrity problems of a pure up front cash out - a pure Brown tax would give the small guys access to a Commonwealth "cash discount card" which gave them 40% off all their expenses and the Commonwealth would pick up the bill. We would have to have a tax guy at every mine to audit this in real time to deal with the integrity issues.

We can develop this further of course.

David

From: Barrett, Chris (Treasurer's Office)
Sent: Wednesday, 31 March 2010 5:21 PM
To: Parker, David; Henry, Ken
Cc: McDonald, Hamish; Jacobs, Martin; Chalmers, Jim
Subject: RE: RSPT latest [SEC=PROTECTED]

Ken and David,

Sorry - was on the road on the BB so couldn't read these before now. Is up-front payment feasible at all? Avoiding the whole uplift rate argument would be very attractive. I can see the very real integrity issue here, but wonder if that mightn't end up being easier (and cheaper) to solve than the discount rate.

Regards,

Chris

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From: Parker, David
Sent: Tuesday, 30 March 2010 6:39 PM
To: Henry, Ken; Barrett, Chris (Treasurer's Office)
Cc: McDonald, Hamish; Jacobs, Martin; Chalmers, Jim
Subject: RE: RSPT latest [SEC=PROTECTED]

A Minute is coming up on the uplift factor tomorrow.

This liability is contingent essentially only in a timing sense, i.e the liability is triggered in the event of mine shut down and, absent that event, the liability remains until it is in fact extinguished only by recoupment of all capital expenditure, including the implicit 40% "govt share" of the capital expense.

So, faced with the following choice of either:

- allowing uplift at more than the bond rate; or
- paying out the govt share of the capital expense to the companies in cash up front as it is incurred, and funding the cost to the government by selling bonds at the bond rate;
 - clearly the second option would be cheaper. This second option is the pure "Brown tax".

The cost is the same only if the uplift rate is the bond rate. The reason for going for delayed recoupment uplifted at the bond rate (over a Brown tax) is driven by a couple of factors, including integrity issues in the tax and, more broadly, debt aversion.

(Uplifting at the bond rate means that the liability is effectively certain in NPV terms as to its magnitude - absent uplift at the bond rate the liability would become uncertain with upside risk to magnitude given the timing uncertainty. This is Ken's last point.)

David

From: Henry, Ken
Sent: Tuesday, 30 March 2010 2:28 PM
To: Barrett, Chris (Treasurer's Office); Parker, David
Cc: McDonald, Hamish; Jacobs, Martin; Chalmers, Jim
Subject: RE: RSPT latest [SEC=PROTECTED]

Chris

We do need to talk about this. With respect to 2, the more we think about it, the weaker we see the case for legislating anything above the bond rate. It is important to keep in mind the risk to which we are exposing the budget in undertaking to pay out any costs (uplifted at the bond rate) that are not covered by revenues if and when a project is terminated: If you have just 'blown' \$100 million we will pay you \$40 million if you close the project today, or $\$(1+r)40$ million if you close the project next year, and so on. This is a risk to which the budget is not presently exposed. The \$40 million is effectively a contingent liability from the moment it is spent. You would want to think very carefully about the rate at which you are prepared to see that contingent liability grow.

Ken

From: Barrett, Chris (Treasurer's Office)
Sent: Tuesday, 30 March 2010 9:06 AM
To: Henry, Ken; Parker, David
Cc: McDonald, Hamish; Jacobs, Martin; Chalmers, Jim
Subject: RSPT latest [SEC=PROTECTED]⁺

Ken and David,

As discussed briefly, have had some further chats with the boss over the weekend, preparatory to the SPBC discussions on tax this week. What we're trying to work towards is the set of core principles we would announce and not resile from, given we will need fairly extensive discussions with companies around implementation and legislative design, but don't want the key elements to be seen as in some way negotiable through that subsequent process.

It seems to us there are four core elements of potential uncertainty which we need to nail down and stick to (tell me if I've missed anything):

1. The rate (easy, this one);
2. The uplift factor (we see the merit in the "anchoring" effect of the govt bond rate, but think the rate itself is hard to defend. Can we find another anchor in a bond rate plus some observable and defensible risk premium. We agree we need to avoid the PRRT problem);
3. Treatment of existing investment (this is probably the balancing item, depending on how we want the revenue phase-up to work); and
4. The taxing point in the value chain.

This last one raises the question of how we deal with the major companies post-announcement. One thought I had was to give each of them in advance a date for post-announcement consultation with officials (it could be a standing IDC of yourselves, DRET and the ATO; it could have an external chair if we thought that beneficial). This is partly about creating a process to discover the genuine anomalies we know will be thrown up by the new policy (let's face it, they'll force us to confront these anyway) and partly about giving them a process for raising their concerns other than doing so publicly. DRET would need to advise us on which companies we need to offer this treatment to, based on those with big FIDs approaching, or those simply too big to ignore. The CSG players in Queensland are a classic example.

Finally, I think we need a significant effort to try and explain the benefits of the policy to the small caps and explorers. They should be early converts to the policy, and their support will be critical in the debate. Certainly we need to include their industry reps and specialist brokers in our lockup, but we probably also need a worked example of the treatment of a typical explorer to show how they benefit. I would hope DRET would have this kind of information.

I'm off to Sydney at lunchtime but will have time this afternoon to discuss.

Regards,

Chris

Chris Barrett

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