S 22 exemption

From: Francis, Geoff
Sent: Monday, 3 May 2010 4:09 PM
To: McDonald, Hamish; Jacobs, Martin
Cc: McCullough, Paul; McDonald, Jason; Binsted, Paul; Davis, Graeme; Parker, David
Subject: Why does the RSPT only tax super profits [~~SEC=UNCLASSIFIED~~]

Hamish/Martin

Following yesterday's lockup and some inquiries we have had today, we thought it would be advisable to provide the attached document explaining why the RSPT only taxes super profits. These are the simplest words we could come up with that are technically correct. Given the questions we have faced, it is quite possible that at some point the Treasurer will be asked to explain it. This can get into some risky technical and semantic arguments and if possible is best avoided. However, given the "Super" in the name this may not be possible.

Expressions like "tax is payable only after providing a normal return to shareholders" are best avoided.

Cheers

Geoff

WHY DOES THE RSPT ONLY TAX SUPER PROFITS?

Simple answer:

- It's a 'super profits' tax because it effectively has immediate deductibility for all expenses; capital and labour. When you do that, all that's left is super profits.

- To provide certainty and simplicity for business and governments, we are using the income tax system, which delays the use of some expense deductions. To compensate for not providing cash up front, we will grow such expenses by the government bond rate. It is certain we'll pay interest on our bonds and its certain we'll pay out any losses if needed.

More complex answer:

- The RSPT operates like a cash flow tax. Over the life of the project, new investment will get a full deduction for all operating expenses and a full deduction for all capital. This includes an interest allowance when capital is not immediately deductible.
  - That is, over the life of the project, tax is only paid after all expenses and all capital with interest are deducted.
  - For existing investment, capital will be able to be deducted on the basis of its book value at the time of announcement.
  - As use of this deduction is guaranteed by the government because of the refundability provisions, the appropriate rate of interest to pay for its delayed use is the government bond rate.