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From: Rueckert, Michelle
Sent: Monday, 3 May 2010 6:17 PM
To: Jacobs, Martin
Cc: McDonald, Hamish; Bartley, Scott; Stojanovski, Pero; Davis, Graeme; Francis, Geoff
Subject: FW: Resource Cameos [SEC=~~PROTECTED~~]

Martin

Please find attached the requested cameos. Richardson analysis will follow in 10-15 minutes.

Regards

Michelle Rueckert
Strategy Unit
Business Tax Division
Ph: (02) 6263 2983

From: Stojanovski, Pero
Sent: Monday, 3 May 2010 6:13 PM
To: Rueckert, Michelle
Cc: Bartley, Scott
Subject: Resource Cameos [SEC=PROTECTED]

Hi Michelle,

The resource cameos document is attached.

Cheers,

Pero.

IMPACT OF THE ANNOUNCED CHANGES TO RESOURCE TAXATION AND THE COMPANY TAX RATE ON MINING AND EXPLORATION COMPANIES

The examples below illustrate how the announced changes to resource taxation, the resource exploration rebate and moving to a 28 per cent company income tax rate impact upon hypothetical resource extraction and exploration companies. Three cases are presented:

- Company A operating a single high profit mine;
- Company B operating a single low profit mine; and
- Company C engaged in exploration for new resources.

The following general assumptions apply:

- A royalty of 7 per cent applies to the value of production.
- Capital is depreciated on a straight-line basis at a rate of 10 per cent.
- The RSPT Allowance is based on a long term bond rate of 6 per cent.
- The companies are assumed to be financed through equity.

COMPANY A: A HIGH PROFIT MINE

Company A owns a single high profit mine. The project has a capital base of $1 billion. The project reaches full production in Year 1. A royalty of 7 per cent applies to the value of production. The company spends $50 million per year on exploration to prove–up further resources in the project area.

Existing arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	500	500
Expenses			
Operating expenses	*(2)*	*100*	*100*
Exploration expenditure	*(3)*	*50*	*50*
Depreciation	*(4)*	*100*	*100*
Operating profit before taxes (item 1 *less* items 2, 3, 4)	(5)	250	250
Taxable income			
Operating profit	*(5)*	*250*	*250*
State royalty paid	*(6)*	*35*	*35*
Total (item 5 *less* item 6)	(7)	215	215
Income tax liability @ 30%	(8)	65	65
Taxes			
State royalty paid	*(9)*	*35*	*35*
Income tax paid	*(10)*	*65*	*65*
Total taxes (item 9 *plus* item 10)	**(11)**	**100**	**100**

Proposed arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	500	500
Expenses			
Operating expenses	*(2)*	*100*	*100*
Exploration expenditure	*(3)*	*50*	*50*
Depreciation	*(4)*	*100*	*100*
Operating profit before taxes (item 1 *less* items 2, 3, 4)	(5)	250	250
RSPT allowance	(6)	60	54
RSPT profit (item 5 *less* item 6)	(7)	190	196
RSPT tax liability (0 if item 7 negative)	(8)	76	78
Taxable income			
Operating profit	*(5)*	*250*	*250*
RSPT liability	*(8)*	*76*	*78*
State royalty paid	*(9)*	*35*	*35*
State royalty credit	*(10)*	*35*	*35*
Total (item 5 *less* items 8,9 *plus* item 10)	(11)	174	172
Income tax liability @ 28%	(12)	49	48
Taxes			
RSPT paid	*(13)*	*76*	*78*
Income tax paid	*(14)*	*49*	*48*
Total taxes (item 13 *plus* item 14)	**(15)**	**125**	**126**

RSPT Capital Base			
Carry forward losses (item 7 if negative)	*(16)*	*0*	*0*
Undepreciated assets	*(17)*	*900*	*800*
Total (item 16 *plus* item 17	(18)	900	800

COMPANY B: A LOW PROFIT MINE

Company B owns a single low profit mine. The project has a capital base of $1 billion. The project reaches full production in Year 1. A royalty of 7 per cent applies to the value of production. The company spends $50 million per year on exploration to prove–up further resources in the project area.

Existing arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	500	500
Expenses			
Operating expenses	*(2)*	210	210
Exploration expenditure	*(3)*	50	50
Depreciation	*(4)*	100	100
Operating profit before taxes (item 1 *less* items 2, 3, 4)	(5)	140	140
Taxable income			
Operating profit	*(5)*	*140*	*140*
State royalty paid	*(6)*	*35*	*35*
Total (item 5 *less* item 6)	(7)	105	105

Income tax liability @ 30%	(8)	32	32
Taxes			
State royalty paid	*(9)*	*35*	*35*
Income tax paid	*(10)*	*32*	*32*
Total taxes (item 9 *plus* item 10)	**(11)**	**67**	**67**

Proposed arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	500	500
Expenses			
Operating expenses	*(2)*	*210*	*210*
Exploration expenditure	*(3)*	*50*	*50*
Depreciation	*(4)*	*100*	*100*
Operating profit before taxes (item 1 *less* items 2, 3, 4)	(5)	140	140
RSPT allowance	(6)	60	54
RSPT profit (item 5 *less* item 6)	(7)	80	86
RSPT tax liability (0 if item 7 negative)	(8)	32	34
Taxable income			
Operating profit	*(5)*	*140*	*140*
RSPT liability	*(8)*	*32*	*34*
State royalty paid	*(9)*	*35*	*35*
State royalty credit	*(10)*	*35*	*35*
Total (item 5 *less* items 8,9 *plus* item 10)	(11)	108	106
Income tax liability @ 28%	(12)	30	30
Taxes			
RSPT paid	*(13)*	32	34
Income tax paid	*(14)*	30	30
Total taxes (item 13 *plus* item 14)	**(15)**	**62**	**64**

RSPT Capital Base			
Carry forward losses (item 7 if negative)	*(16)*	*0*	*0*
Undepreciated assets	*(17)*	*900*	*800*
Total (item 16 *plus* item 17)	(18)	900	800

COMPANY C: AN EXPLORATION COMPANY

Company C is an exploration company. It spends $100 million a year on exploration. During the first year, it proves up a new mineral deposit. Mining rights to the deposit are sold to a mining company for $500 million at the end of the second year. The sale of the mining rights is assumed to be a revenue item for income tax purposes.

Existing arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	0	500
Expenses			
Exploration expenditure	*(2)*	*100*	*100*
Unutilised losses (from previous periods)	*(3)*	*0*	*100*
Operating profit (item 1 *less* items 2 and 3)	(4)	-100	300
Taxable Income	(5)	*-100*	*300*
Total taxes @ 28%	**(6)**	**0**	**84**

Proposed arrangements

	Item	Year 1 $m	Year 2 $m
Revenue	(1)	0	500
Expenses			
Exploration expenditure	*(2)*	*100*	*100*
Unutilised losses	*(3)*	*0*	*0*
Operating profit (item 1 less items 2 and 3)	(4)	-100	400
Taxable Income	(5)	*-100*	*400*
Tax before Exploration Tax Rebate @ 28%	*(6)*	*0*	*112*
Exploration Tax Rebate	*(7)*	*-28*	*0*
Total taxes (item 6 *plus* item 7)	**(8)**	**-28**	**112**