

40

1/3

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From: Francis, Geoff

Sent: Monday, 3 May 2010 5:35 PM

To: McDonald, Hamish; Jacobs, Martin

Cc: Parker, David; McCullough, Paul; Davis, Graeme; McDonald, Jason; Bartley, Scott

Subject: Press Release [~~SEC=IN-CONFIDENCE~~]

Hamish/Martin

As requested, a draft RSPT press release is attached.

Geoff



Treasurer

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2/3

EMBARGO 3 May 2010

PUTTING THE RESOURCE SUPER PROFITS TAX INTO PERSPECTIVE

Much has been said about the Resource Super Profits Tax since it was announced on 2 May 2010, some of it is inaccurate and some aimed at whipping up fear. It is reminiscent of the Fringe Benefits Tax – which opponents at the time said would lead to the economy [collapsing] – when in truth it was about improving the taxation of something that had been under taxed.

Resource rent taxes apply many places over the world, including to minerals. Many of the companies complaining about the RSPT operate in those jurisdictions.

Claims that the RSPT will result in the highest rate of taxation for the mining industry anywhere in the world are untrue and based on misleading comparisons of headline tax rates, which do not take into account the overall tax system.

Even the simplistic comparisons are not true as super profits taxes are used in other countries at higher rates. For example, Norway's and Denmark's successful petroleum sectors have a 50 and 52 per cent tax respectively on resource super profits. Those taxes are not deductible against company tax liabilities.

Australia's own offshore petroleum sector has operated successfully for over 25 years under the Petroleum Resource Rent Tax, which taxes super profits at a 40 per cent rate.

Indeed some of the biggest investments in Australia, worth tens of billions of dollars, have taken place or are set to take place under the PRRT regime. For example, up to \$300 billion of projects have been proposed by the oil and gas industry in Australia over the next decade to develop our oil and gas resources, much of which is marked for offshore LNG projects under the PRRT.

Projects within the scope of the PRRT can remain within the PRRT unless they elect to move to the RSPT.

The RSPT is not a double hit on top of income tax. It will be deductible as an expense before company income tax is calculated so it will reduce company tax. The "all in" tax rate is not 70% (40% + 30%).

And, the RSPT package includes a refund of royalties, even when there is no RSPT payable. So this will reduce tax and will remove the disincentive effects of royalties on investment and production decisions.

As the RSPT is based on profitability, projects won't pay the tax until they are profitable, unlike royalties, which are payable even when a project is making a loss. Presumably this was the reason why the Minerals Council of Australia argued for a move to profits-based taxation in its submission to the *Australia's Future Tax System Review*.

By removing the economic effect of royalties, mines will be able to operate for longer and more resources will become viable to develop. This has been shown through independent modelling by KPMG Econtech. This independent modelling has estimated that by removing the economic effects of royalties and putting in place the RSPT, the resource sector's output will increase by 5.5 per cent in the long run.

Of course it suits the resource sector to argue against a profits-based tax during a period of high profitability. It is true that highly profitable projects will pay more tax under the RSPT. This is by design, but it will still leave those mines highly profitable. And when profits are low the tax burden on mining will be lower, reducing the effects of the boom bust cycle in mining.

It would have been better to introduce the RSPT ten years ago when mining profits were low – there would not have been the big whinge. But we are not going to wait until the next downturn either. This would simply see mining companies be the big winners from the Resource Boom Mark II, while Australia would have squandered the boom by selling its resources too cheaply.