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TREASURY EXECUTIVE MINUTE

Minute No.

18 May 2010

Treasurer

ECONOMIC IMPACTS OF THE RESOURCE SUPER PROFITS TAX (RSPT)

Timing: At your convenience.

Recommendation/Issue:

That you note the following in response to media reports on the economic impact of the RSPT.

Noted Signature: ..../...../2010

KEY POINTS

- Australia's natural resources are owned by the Australian community. Where we undercharge for the exploitation of these resources the wealth of current and future Australians is eroded.
- Current charging arrangements are based on a range of distorting excises and royalties levied by the Commonwealth, State and Territory governments. In general, royalty adjustments have not kept pace with the value of Australia's resources. The RSPT is a more efficient mechanism for charging for the exploitation of our natural resources.
- A better designed, more efficient, approach to charging for the exploitation of Australia's natural resources can raise more revenue — that is, get a better return for the community — while still attracting more investment.
  - The Australia's Future Tax System Review (the 'Henry' Review) recommended that the current royalty based charging arrangements should be replaced with a resource rent based tax.
- The RSPT is a resource rent tax falling only on economic rents. As such, it should not affect the prices at which gas and coal (and therefore electricity) are sold into the domestic market.
  - DRET has advised that it expects there will be no significant effect on electricity prices from changed tax arrangements under current contracts between coal miners and electricity generators. DRET is conducting a detailed analysis of all existing contractual arrangements to verify that advice.
  - Commodity prices are typically determined on a world market where Australia is generally a price taker. But, where production in Australia influences the world price, it is likely that replacing a royalty with the RSPT will actually see prices fall.
    - This is because the RSPT only takes a share of profits, rather than distorting price and lowering output (as occurs under a royalty).

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- Mining companies may also pay less than the assumed statutory rate of 28 per cent due to existing tax concessions. The 'Henry Review' cited a study that mining companies pay an effective tax rate of 17 per cent, the second lowest of all industries reviewed.

- Cutting the company tax rate, abolishing the economic effect of royalties and introducing the RSPT reflects a structural shift in the tax base from mobile to immobile factors. The RSPT will not reduce investment since 60 per cent of the economic rents are still 'on the table'. The cut in the company tax rate will help underpin Australia's ability to continue to attract capital in other areas.
  - As well as the 'Henry Review', shifting the tax base to immobile factors has been recommended by reports from the International Monetary Fund, the Organisation for Economic Cooperation and Development and numerous other reviews (for example, papers in the current independent Mirrlees Review in the UK).
  - Independent modelling done by KPMG suggests that these reforms improve long run GDP by 0.7 per cent. The gains are due to a higher capital stock due to the reduction in the corporate tax rate and the effective abolition of royalties.

The Resource Super Profits Tax Secretariat has been consulted in the preparation of this minute.

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