

57

1/5

## Exempt - section 22

**Sent:** Wednesday, 26 May 2010 12:59 PM

**To:** Stojanovski, Pero; Greagg, Peter

**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Parham, Dean

**Subject:** RE: Roundup Article and average company tax rates [SEC=PROTECTED:CABINET-IN-CONFIDENCE]

Thanks Pero

The Treasurer is not so focussed on whether the figures are in the roundup edition or not, its more about having the figures available, and able to be quoted, given the extensive public debate.

Cheers,  
Hamish.

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**From:** Stojanovski, Pero

**Sent:** Wednesday, 26 May 2010 12:56 PM

**To:** McDonald, Hamish; Greagg, Peter

**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Parham, Dean

**Subject:** RE: Roundup Article and average company tax rates [SEC=PROTECTED:CABINET-IN-CONFIDENCE]

Hi Hamish,

We will discuss a timeframe for updating the figures and get back to you on that later today.

Does the Treasurer want the updated figures to be included in the Roundup Article?

Changes in red.

- The Treasury company tax study was started around 18 months ago.
- It involves a complex, detailed analysis using fine level data.
- At the time the study was commenced, the 2004-05 data was the latest ATO data available when the project commenced with enough detail to undertake this particular study.

- The ABS and ATO continue to revise the relevant income, expenditure and tax data. This makes it difficult to extend the analysis further, as Treasury always seek to use the most settled, and therefore robust, data in their analysis.
- But I am advised that preliminary analysis of the available data for 2005-06 and 2006-07 is that the average tax rates remain broadly the same.
- This is not a surprising result as there have not been any fundamental changes in the company tax system over this period.
- The Minerals Council analysis of effective company tax rates is based on comparing company tax paid to taxable income, rather than economic income. This may overstate effective rates because it ignores that many of the mining tax concessions mean a company's taxable income is lower than its economic income.

The word 'may' could also be 'can'. This is just to be conservative/err on the safe side.

Cheers,

ro.

**From:** McDonald, Hamish  
**Sent:** Wednesday, 26 May 2010 12:41 PM  
**To:** Greagg, Peter  
**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Stojanovski, Pero; Parham, Dean  
**Subject:** RE: Roundup Article and average company tax rates [~~SEC-PROTECTED-CABINET-IN-CONFIDENCE~~]

Hi Peter,

Sorry, a couple of further suggestions for readability:

- The Treasury company tax study was started around 18 months ago.
- It involves a complex, detailed analysis using fine level data.
- At the time the study was commenced, the 2004-05 data was the latest ATO data, available when the project commenced with enough detail to undertake this particular study.
- The ABS and ATO continue to revise the relevant income, expenditure and tax data. This makes it difficult to extend the analysis further, as Treasury always seek to use the most settled, and therefore robust, data in their analysis.
- But I am advised that preliminary analysis of the available data for 2005-06 and 2006-07 is that the effective tax rates remain broadly the same.
- This is not a surprising result as there have not been any fundamental changes in the company tax system over this period.
- The Minerals Council analysis of effective company tax rates is based on comparing company tax paid to taxable income, rather than economic income. This overstates effective rates because it ignores that many of the mining tax concessions mean a company's taxable income is lower than its economic income.

Also – we are very (very) keen to get the analysis for the additional years. Could you please advise on the quickest they could be produced? The Treasurer has specifically asked for them by the weekend.

Cheers,  
Hamish

**From:** Greagg, Peter  
**Sent:** Wednesday, 26 May 2010 12:10 PM  
**To:** McDonald, Hamish  
**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Stojanovski, Pero; Parham, Dean  
**Subject:** RE: Roundup Article and average company tax rates [SEC=PROTECTED:CABINET-IN-CONFIDENCE]

Hamish

1. • The Treasury company tax study was started around 18 months ago.
2. • It involves a complex, detailed analysis using fine level data.
3. • At the time the study was commenced, the 2004-05 data was the latest ATO data available when the project commenced with enough detail to undertake this particular study.
4. • The ABS and ATO continue to revise past outcomes. We seek to use the most settled, and therefore robust outcomes in our analysis. We could do detailed analysis of 05-06 and 06-07 given sufficient time. This extension will not be able to be included in the next Roundup as it needs to be finalised by Monday.
5. • But I am advised that preliminary analysis of the available data for 2005-06 and 2006-07 is that the numbers remain broadly the same.
6. • This is not a surprising result as there have not been any fundamental changes in the company tax system over this period.
- 7.
8. Cheers
9. Peter

**From:** McDonald, Hamish  
**Sent:** Wednesday, 26 May 2010 12:01 PM  
**To:** Greagg, Peter  
**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Stojanovski, Pero; Parham, Dean  
**Subject:** RE: Roundup Article and average company tax rates [SEC=PROTECTED:CABINET-IN-CONFIDENCE]

Hi Peter,

Would it be ok to characterise this as:

10. • The Treasury company tax study was started about a year ago.
11. • It involves a complex, detailed analysis using fine level data.

12. • At the time the study was commenced, the 2004-05 data was the latest ATO data available with enough detail to undertake this particular study.
13. • The ABS and ATO are still revising the relevant data for 2005-06 and 2006-07 years.
14. • But I am advised that preliminary analysis of the available data for 2005-06 and 2006-07 is that the numbers remain broadly the same.

Cheers,  
Hamish

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**From:** Greagg, Peter  
**Sent:** Wednesday, 26 May 2010 10:42 AM  
**To:** McDonald, Hamish  
**Cc:** Resource Tax Executive; Brown, Colin (RG TAD); Stojanovski, Pero; Parham, Dean  
**Subject:** Roundup Article and average company tax rates [SEC-PROTECTED:CABINET-IN-CONFIDENCE]

Hi Hamish

We have done a quick "back of the envelope" calculation to extend the published analysis to include the additional years of 2005-6 and 2006-7 — these additional calculations do not change the thrust of the Roundup's analysis — that is, using our modified economic income base, mining is taxed at a rate lower than the all industry average. Including the two additional years, the average from 95-96 until 06-07 does not change the all industry average, while the average tax rate of mining falls to 16 percent. The Roundup analysis had the mining average tax rate for period 95-96 until 04-05 at 17 percent.

There is no data available of sufficiently robust nature to analyse 2007-08 or other years. I need to stress that as the ABS and the ATO continue to revise past outcomes that the 05-06 and 06-07 and later years results can only be described as preliminary estimates, and very rough ones at that.

On this analysis (using our measure of economic income), the low average tax rate of mining reflects that the company tax system treats the mining industry very generously, compared to an economic benchmark. As the paper suggests, the more generous tax treatment of depreciation (compare to an economic benchmark) and other mining specific expenses like exploration costs (which are deductible immediately, rather than depreciated as they would be on an economic benchmark) means that the mining industry is treated generously.

Electricity, gas and water are similarly treated by the tax system as big users of capital and the impact of faster than economic depreciation, including the operation of statutory life caps for pipelines etc.

Conversely, the finance and insurance industry has a high average tax rate, based on our measure of economic income. This is because that sector is not a big user of inputs that are generously treated by the company tax system, compared to an economic benchmark.

Colin Brown is working on something for the Secretary for estimates tomorrow and he will send you that soon.

I should also point out that the MCA including royalties in their effective tax rate calculations is conceptually flawed.

1. • It is conceptually incorrect to include royalties in calculating effective company tax rates because royalties represent a charge for an input to production and have nothing to do with the operation or impact of the company tax system.
2. • If so-called "effective tax rates" were calculated on this flawed basis, all inputs should be included in the calculations for all industries, including the wages bill, electricity, gas water and so on.

3. • On this flawed basis, all companies would be expected to have effective rates around 85 percent (based on an average profit of 15 percent).

Hope this helps

Cheers

Peter