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DESCRIPTION OF THE ANALYSIS PRESENTED BY GOVERNMENT

- During the public debate on the Resource Super Profits Tax, a number of different questions have been raised.

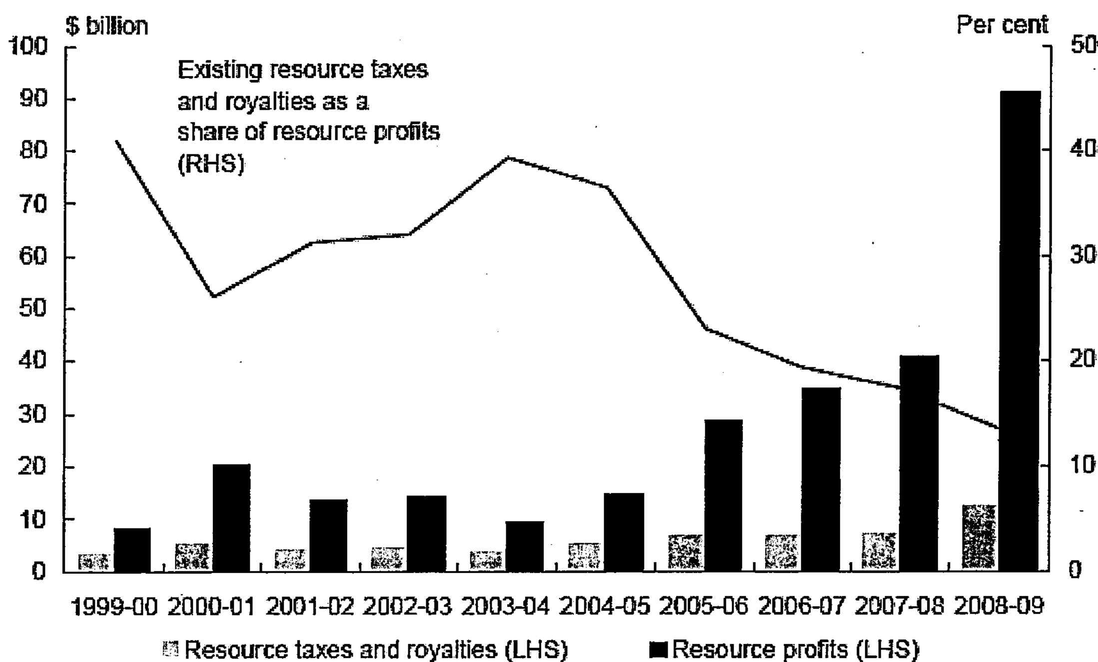
- The Government has presented various pieces of analysis in response to these different questions. Each piece of analysis has been designed to answer the particular question.

1. IS THE AUSTRALIAN COMMUNITY GETTING A FAIR SHARE FOR OUR NON-RENEWABLE RESOURCES?

- The Government has presented the same data that was presented by the AFTS panel to explain that resource royalties and taxes have fallen, as a proportion of estimated resource rents, from around one in three around the first half of the decade, to one in seven today.

- The chart was included on page 47 of the AFTS report and the identical data was included in a number of the Stronger, Fairer, Simpler announcement documents, including on p12 of the tax policy statement (reproduced below).

Chart 1: Royalties and resource taxes as a share of resource rents



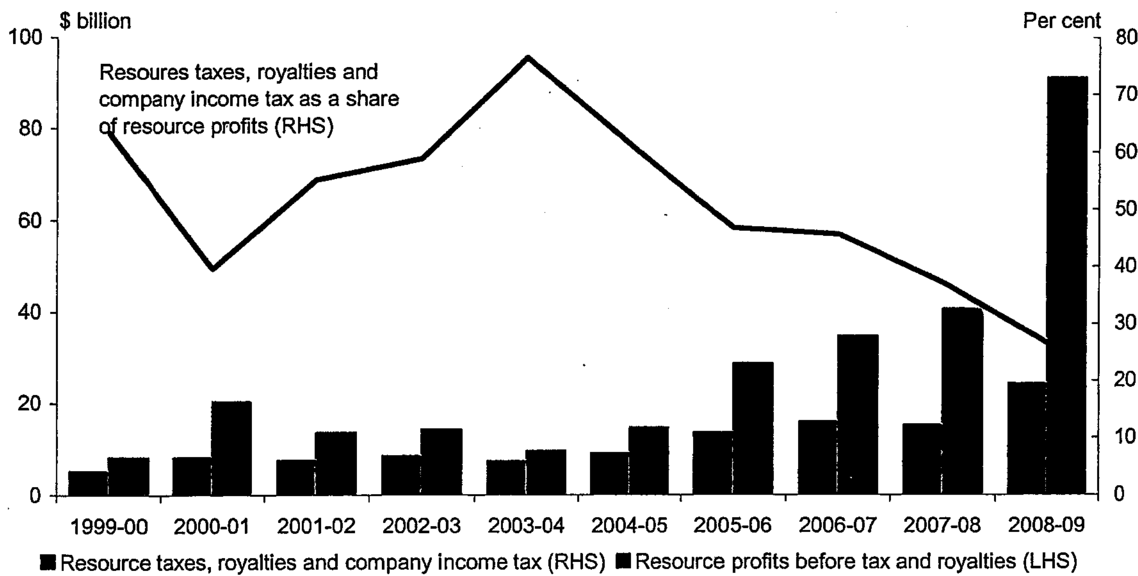
Note: Estimates of resource taxes and royalties exclude income taxes.
Source: Treasury estimates.

- The chart plots actual royalty and resource tax receipts (sourced from State and Commonwealth budget papers), and a measure of resource rents (labelled "resource profits") that was developed by Treasury for the AFTS Review Panel using ABS and ATO data.

2. THE GOVERNMENT'S MEASURES OF RESOURCE RETURNS DO NOT INCLUDE COMPANY TAX, DOES THIS CHANGE THE ANALYSIS?

- It was noted that the Government's analysis of the share of resource returns did not include company tax.
- The Economic Note of 9 May explained that this was the appropriate measure of how much the Australian community charges for our non-renewable resources:
  - "All companies in Australia pay company tax on their profits. But just because they pay company tax does not mean that Australia should give them our non-renewable resources for no charge. We don't normally give companies land for free, just because they pay company tax. So it is not correct to argue that Australia should undercharge any company for our non-renewable resource wealth."
- However, in the interests of public information, the Economic Note went on to explain that even if you include company tax, the story is much the same:
  - "However, even if we include company tax, the point holds. The amount the Australian community charges for its non-renewable resources has halved, as a share of profits, compared to about ten years ago. And the amount the Australian community receives in both taxes and charges for our non-renewable resources has also halved."
  - The statements above are based on the same definition of resource profits (ie estimated resource rent) that was used on pag3 47 of the AFTS Review.
- The Economic Note then presented four pie charts.
  - The first two pie charts are simply the data from the AFTS charts (Chart 1, above). It presents the average for 1999-00 to 2003-04, and the point figure in 2008-09.
  - The second two pie charts are based on the same data set, but added actual company tax receipts to the royalties and resource taxes line. The pie charts were the averages of this data for 1999-00 to 2003-04 and the point figure for 2008-09. A chart of the underlying data, in the same format as Chart 1, is below.

Chart 2: Royalties, resource taxes and company tax as a share of resource rents



- This analysis was presented not as a methodology to calculate average company tax rates, but to demonstrate that including company tax didn't change the point that the Australian community's share of resource rents has fallen significantly during the decade.
  - As is discussed below, analysis of average company tax rates is complex, and importantly relies on picking the correct measure of company income for the right purpose.

3. WHAT ARE THE RELATIVE IMPACTS ON PROJECTS WITH DIFFERENT RETURNS FROM MOVING FROM ROYALTIES TO AN RSPT

- Another question that the Economic Note of 9 May sought to clarify was the impact of moving from royalties to the RSPT on projects with different rates of return. The Economic Note presented a hypothetical example of a mine and presented alternative effective tax rates.
- The table is below:

Effective tax rates on a hypothetical resource project

Rate of return	Effective tax rate under royalties plus 30% company tax	Effective tax rate under RSPT plus 28% company tax
6%	45.4%	28.0%
10%	40.9%	39.5%
15%	38.7%	45.3%
20%	37.6%	48.2%
25%	36.9%	49.9%
50%	35.5%	53.3%

Note: Assumes a risk-free rate of 6 per cent and royalty rate is 6 per cent. These estimates ignore the risk-sharing aspect of the RSPT. Therefore these estimates should be taken as an estimate of

the tax rate applying to a project that generates, say, a 25 per cent return *with no risk.* Effective tax rates under the RSPT are lower if the project involves risk, because the risk is shared with government under the RSPT.

- The Economic Note noted that the table assumes that the project is risk free – i.e. it does not account for the risk sharing aspects of the RSPT. It was noted that this means the 'effective' tax rates under the RSPT are overstated.

- For the purposes of this calculation, a simplifying assumption was also made of assuming that the effective company tax rate is equal to the statutory company tax rate.

  – This not noted explicitly in the Economic Note, but it was noted by the Treasurer in his ministerial statement of 24 May, when he referred to the calculation and said: "Firms that have lower profit levels will have a lower effective tax rate — for example, on reasonable assumptions a project with a risk-free return of 15 per cent — still very healthy — might still have an effective tax rate of 45 per cent. However, even this calculation is an over-estimate, because it does not allow for the generous company tax concessions that mining companies benefit from. The effective company tax rate for mining companies is well below the statutory company tax rate. This is due to a range of concessions that benefit the mining industry, in particular generous deduction concessions."

4. WHAT ARE THE AVERAGE TAX RATES FACED BY COMPANIES?

- An issue that has received much discussion in the past week is about what the value of various company tax concessions are for mining companies and the tax burden faced by the mining sector.

- Analysing this question essentially involves comparing company tax paid, to a measure of a company's economic income. Identifying an appropriate measure of taxable income is important in generating reliable analysis.

- Comparing tax paid to an ATO Taxation Statistics measure of "taxable income" does not shed much light on this question. This is because taxable income is the income that is left for taxation after many of the tax concessions (such as accelerated depreciation) have already been taken out. So, in effect, comparing company tax paid to company taxable income ignores many of the concessions that are of real value to the industry.

- Treasury officers have written a research piece for inclusion in the Treasury Round-Up. It was published on Monday 24 May, ahead of being published in the next Round-Up edition, due to public interest.

- The Treasury officers' research analyses how much concessions such as accelerated depreciation benefit different industries.

- It involves comparing actual company tax paid to a measure of a company's economic income, which is derived by Treasury.

  – The Round-Up article has a significant discussion of what an appropriate income definition is and outlines the methodology for deriving its measure of economic income.

- The Treasury analysis is based on data up to 2004-05. As a Treasury Executive Minute, provided with the analysis, states:

- The following table of average tax rates over the last 10 years to 2004-05 is based on data used in the Round-up article. The authors did not present average tax rates in article because they wanted to focus on the disparity between industries, rather than the level of tax (additional information on the table is attached).

	Mining	Electricity, Gas & Water	Construction	Transport & storage	Communication	Finance & Insurance	Industry average
Average	17%	1%	19%	27%	17%	29%	26%

- The Round-Up article makes it very clear that it is focussed on company tax paid, not company tax plus royalties and resource taxes.
  - It is conceptually incorrect to include royalties in the numerator when calculating average 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.
- The Round-Up article only included data up to 2004-05, because that was the most recently available data available at the time of the commencement of the study that had a sufficient degree of stability (ie not subject to significant revisions) and detail for Treasury to undertake their calculations.