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Excluded - Section 22

From:	McDonald, Jason
Sent:	Thursday, 3 June 2010 10:20 AM
To:	McDonald, Hamish; Jacobs, Martin; Barrett, Chris (Treasurer's Office); Chalmers, Jim
Cc:	Maloney, Matthew; Bartley, Scott; Johnson, Shane; Francis, Geoff; Davis, Graeme
Subject:	Some things [SEC=~~PROTECTED~~]

Hamish

…e are in a good position. The longer this runs, the more the big mining arguments appear hollow and the more good …ews stories will come through (mining investments will continue, small miners and finance will see through the misinformation).

I'm on leave for a week (sorry). Some things -

- Shane Johnson will be doing the daily 10 am hook ups for the next week.
- Attached is the latest version of a letter to small miners/explorers. These guys are critical since they demonstrate that the tax falls on smaller miners and assists their communities. We need time to get the message out.
- We are finding that small miners are likely to be significantly better off, we just need time to explain it to them.
  - For example, the New Hope Coal mine in Jeebropilly may have a RSPT liability of approximately $1 million but royalties refunded of $11m up to 2015-16. Similarly, UBS thinks the NPV on the Centennial Coal mine in NSW/Qld falls 10 per cent, we think it rises by 10-15 per cent. **None of these can be used yet because the companies know more than us and if we are wrong it would be devastating.**
- We will be putting up worked examples on the website tomorrow (hopefully) which will show that the tax rate on investment falls when royalties are abolished (eg below) and that there is no tax on the risk premium. (Scott and Shane are contacts)
- Matt Maloney is giving you tomorrow a refund figure for the RSPT if it were operating today for the back pocket that also could be used as necessary. It demonstrates that the refunds are valuable (because its real dollars) and that it would go to struggling companies. The ATO might even be able to give you a rough regional breakdown. Matt will also give you a chart of RSPT tax paid by commodity, which should show most commodities pay little (except a few like iron ore, coal and gas) but will receive significant royalty refunds.
- The Treasurer could consider writing a letter to the ASX about the Fortescue travesty and how it misleads shareholders. Peter Martin has debunked some of it already http://petermartin.blogspot.com/

All the best

Geoff is the best contact in the meantime 6263 2456 or 0434603853.

Jason

Letter from Treasurer 01 (2).d..

Hurdle rate 20%

No tax

		Initial investment	Tax credit on investment	Capital at risk	PV return on capital at risk	PV other costs	PV total receipts	PV royalt payment
		($m)	($m)	($m)	($m)	($m)	($m)	($m)
Success	10%	-1,000	0	1,000	2,000	2,000	2,000	0
Unsuccessful	90%				0	0	0	0

Royalty

		Initial investment	Tax credit on investment	Capital at risk	PV return on capital at risk	PV other costs	PV total receipts	PV royalt payment
		($m)	($m)	($m)	($m)	($m)	($m)	($m)
Success	10%	-1,000	0	1,000	2,000	2,000	2,000	120
Unsuccessful	90%				0	0	0	0

RSPT

		Initial investment	Tax credit on investment	Capital at risk	PV return on capital at risk	PV other costs	PV total receipts	PV RSPT pa[illegible]t
		($m)	($m)	($m)	($m)	($m)	($m)	[illegible]
Success	10%	-1,000		600	2,000	2,000	2,000	800
Unsuccessful	90%		-400		0	0	0	0

Guaranteed
tax credit

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Mining or exploration company

Dear XXXX,

I am writing to you to discuss the Government's proposed resource taxation reforms scheduled to start from 1 July 2012. I trust you have heard quite a bit about this already, but you may not be aware of the significant benefits available to your company.

The new arrangements will effectively replace state royalties and ultimately the company tax rate will be reduced to 28 per cent. Further, unlike royalties, which typically apply to total sales, the resource super profits tax (RSPT) will only apply to cash flows after items such as exploration expenditure, other capital expenditure, operating costs and wages are taken into account.

The Government's proposed reforms will increase the tax paid by highly profitable mining projects. But at the same time the reforms will ensure better investment and a more sustainable mining industry that supports mining communities through ups and downs.

Under the proposed RSPT, both the profitable end and the loss-making end of possible project outcomes will be reduced in a balanced way, with minimal affect on investment decisions. This is of particular benefit to smaller miners who often take on big risks.An RSPT loss attracts a cash rebate equal to 40% of the loss if the loss cannot be written off against RSPT income from other projects. Delay in accessing a cash rebate is compensated for by interest at the long term bond rate to ensure the up-front value of the loss is maintained.

Take, for example, unsuccessful exploration costs by an explorer with no RSPT income from other projects. The explorer will not have long to wait for the guaranteed rebate for their RSPT losses. Moreover, for every $100m of failed exploration expenditure, after a $40m RSPT cash rebate (net $28m after 30 per cent company tax) and $30m from the new exploration rebate at the 30% company tax rate, the net cost will be only $42m – that's a guaranteed refund of over half the exploration costs. This will be particularly beneficial to mining exploration where failed projects are a very high proportion of all projects undertaken, and gives junior explorers a fair go.

In contrast to the balanced RSPT outcomes, the current Petroleum Resource Rent Tax (PRRT), takes from a project's possible upside without providing any recompense on the downside possibilities. Royalties typically take from both the upside and the downside, with greater relative impact on the downside.

It's not surprising that the benefits of the ~~Governmment's~~Government's proposed reforms has not yet registered with many smaller miners too busy working to worry about tax. Besides, the level of support given by way of cash rebates for losses may be difficult to fully appreciate.

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Even though your focus may be on profits and not losses, the benefits of the proposals should losses arise should assist with the financing of projects. Indeed, with the Government effectively taking on 40 per cent of project risk, borrowing costs of new mining investments may well fall.

We are also keen to bed down this system so it remains stable for a long time. Since the amount of RSPT automatically changes with profits, the proposed tax regime will be more stable than the existing State royalty regimes which are constantly changing. You may also be aware that the 40 per cent tax rate on the Petroleum Resource Rent Tax has not changed since it was introduced 24 years ago, and the PRRT regime will continue unchanged even now.

Further information on the reforms can be found at http://www.futuretax.gov.au.

Yours sincerely

WAYNE SWAN