S22 exemption

Australian Government

The Treasury

Resource Profits Tax

A presentation to the Treasurer
10 February 2010

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Reform Package

- Introduce a new resource profits tax
  - would not bias investment decisions
  - would help realise maximum value from resources
  - by design, the tax would remove adverse effects from existing resource taxes
    - royalties reduce investment in mining
- Lower company tax
  - would assist all companies and raise investment
- Refundable tax offset for exploration

The 'big picture'

- A reform package with substantial gains for Australians
  - more investment and prosperity
  - higher community returns from use of resources
- There will be opposition
  - some misinformed
- Long process envisaged
  - core features on announcement
  - education and familiarisation
  - consultation on technical issues (with scope for compromise)
  - commencement 1 July 2012

Core features

- Resource Profit Tax (RPT) rate = 40%
- Government bears 40% of costs and receives 40% of revenue
  - this means 60%, rather than 100%, of project's funds are 'at risk'
- Government share of resource costs is guaranteed
  - can be delivered as an offset against revenue
  - unclaimed costs are refunded if company exits resource sector

Why are these features needed?

- Risk sharing ensures
  - projects viable before tax are equally viable after tax
  - better investment and production decisions compared with current resource tax arrangements

RPT calculation

Profit = (Income – Costs) – Interest allowance

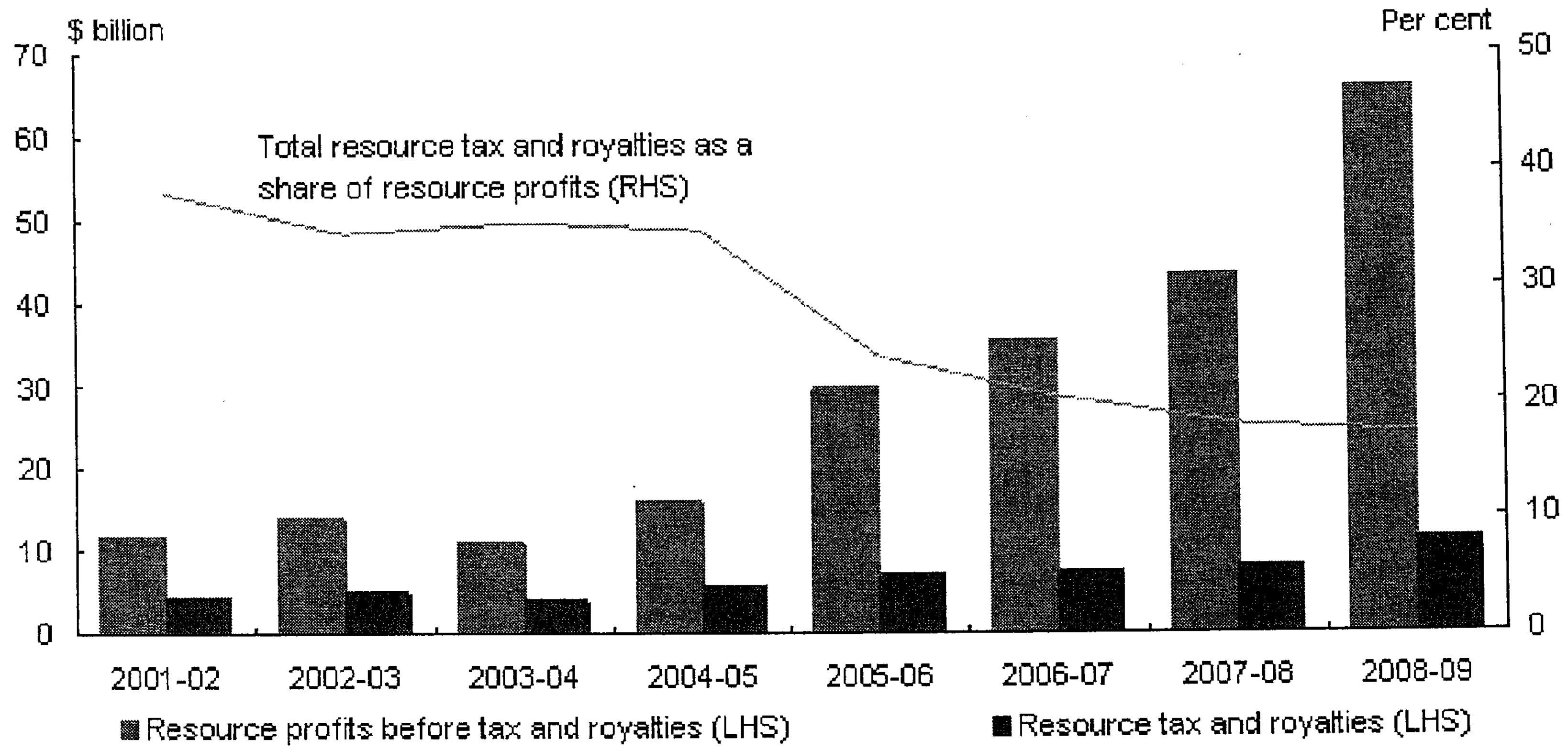
Any realisation of value from resources

- Operating costs
- Annual depreciation
- Debt financing costs are not included

Interest allowance on:

- Undeducted capital expenditure
- Unused losses from previous years

Existing taxes are inefficient and unresponsive



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RPT differs from PRRT

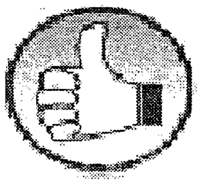
- RPT allows refundability
  - reduces bias towards less risky investments
  - eliminates need for excessive uplifts of expenditure

Support for RPT

"… a *profits based system with an appropriate rate and base better takes account of the sharing of the risk in the joint venture arrangement.*"

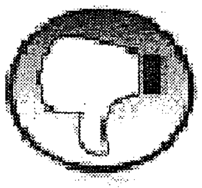
– Minerals Council of Australia submission to AFTS review

Stakeholders



Supporters

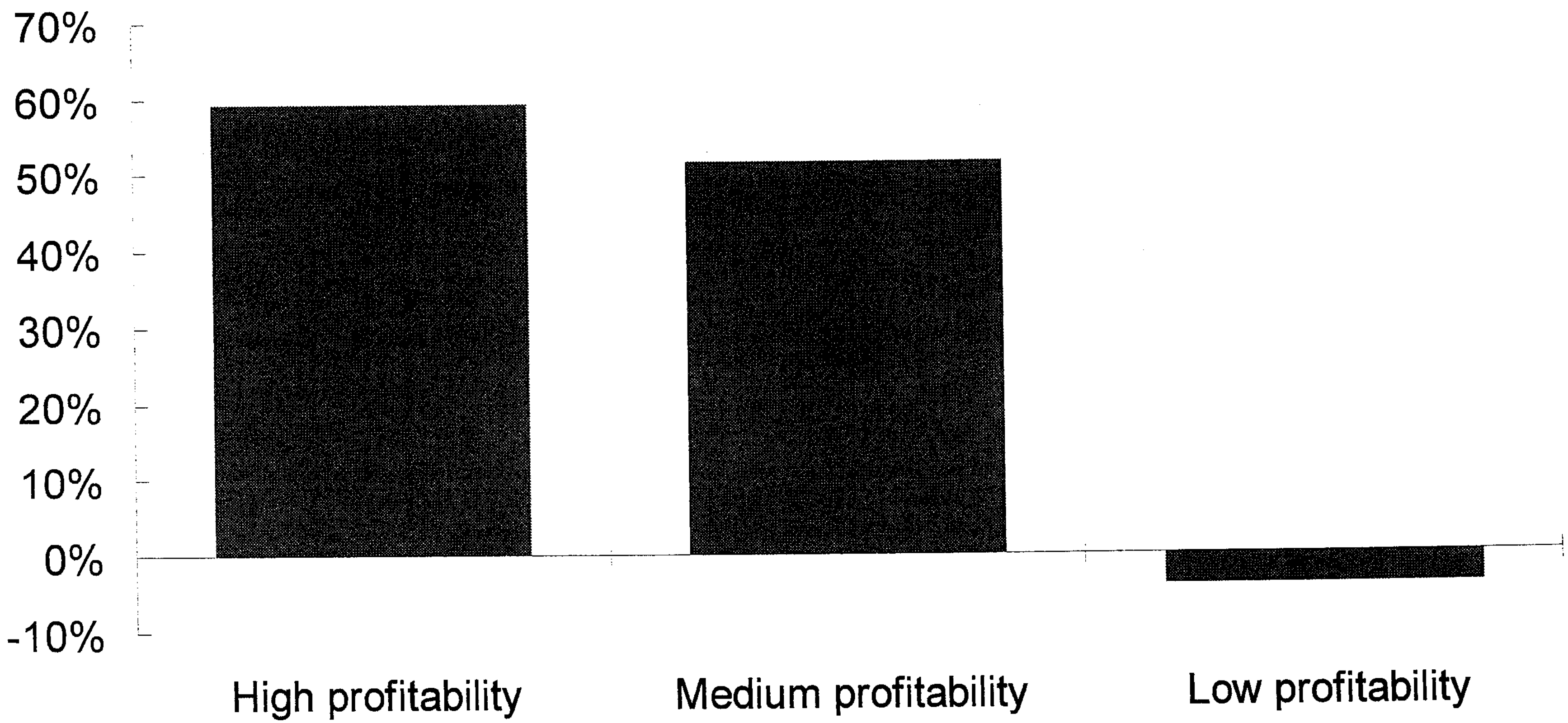
- Resource companies with low profit projects
  - pay less tax than under royalties
  - investment and production decisions are improved
  - restores viability to some projects
- Non-resource companies
  - gain from a reduction in company tax rate
- Well diversified investors and superannuation funds
  - gain from stronger economic growth



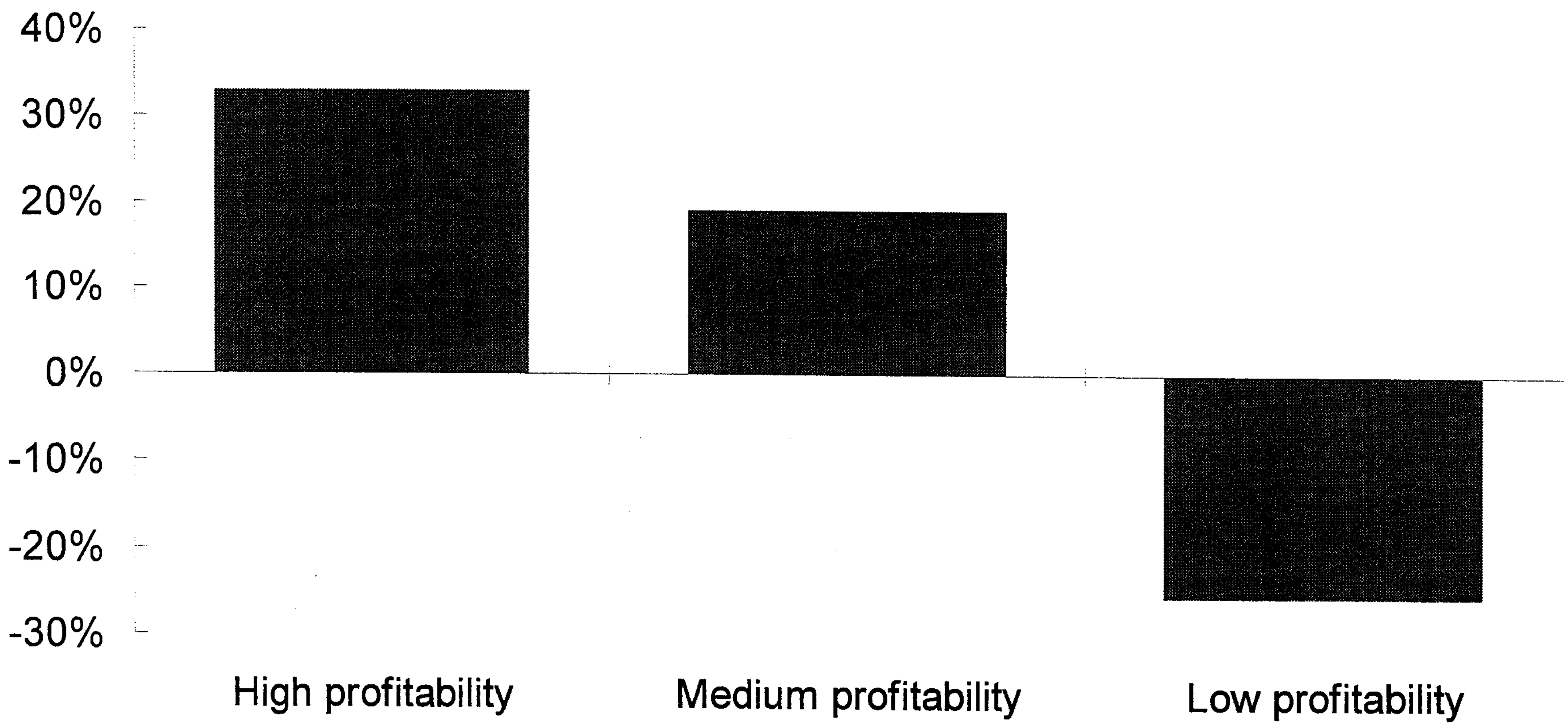
Opponents

- Resource companies with high profit projects
  - pay more tax than under royalties, but investment and production decisions are improved
- State governments
  - perceived threat to their royalty revenue stream
- Geoscience Australia and DRET
  - concern about level of exploration in Australia
- Investors heavily weighted towards mining companies

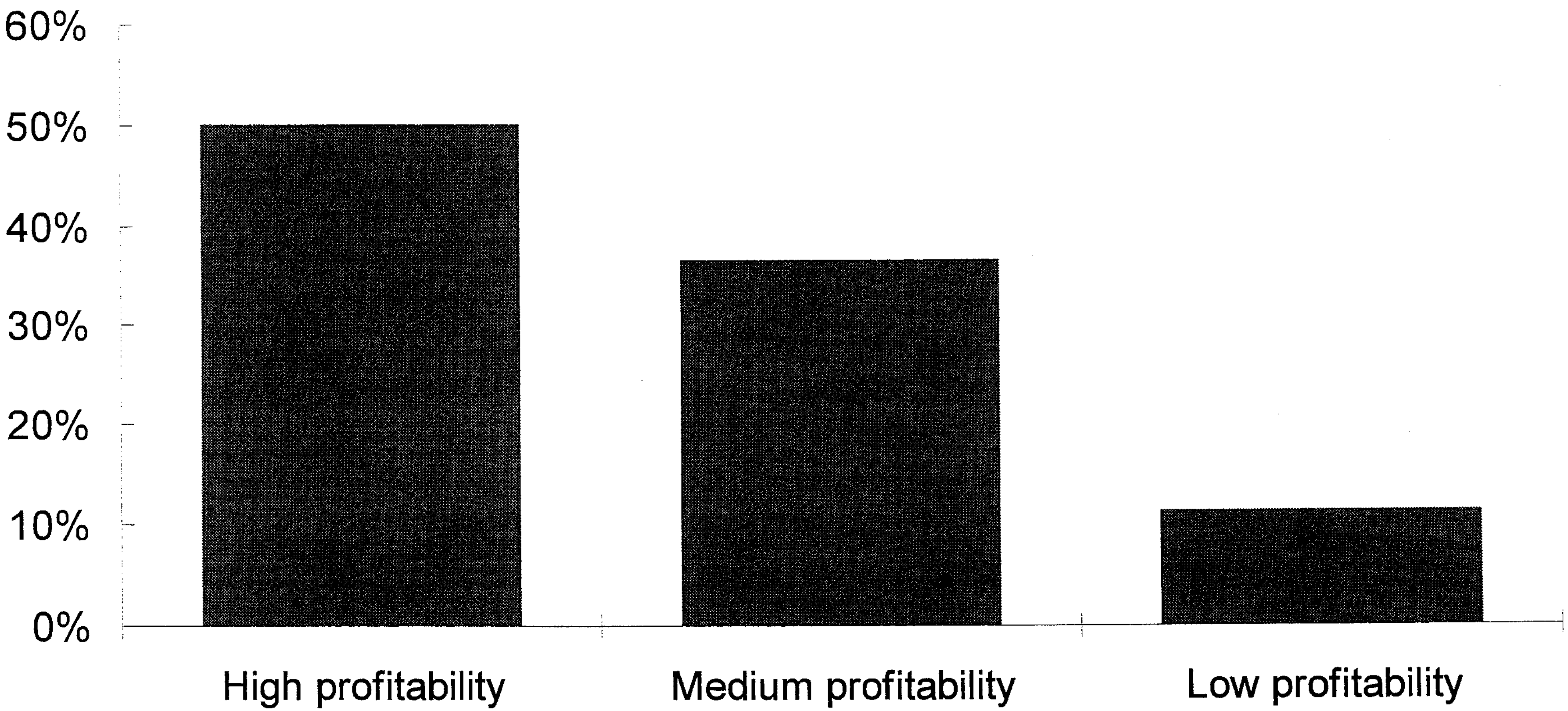
Example: Copper – change in tax paid



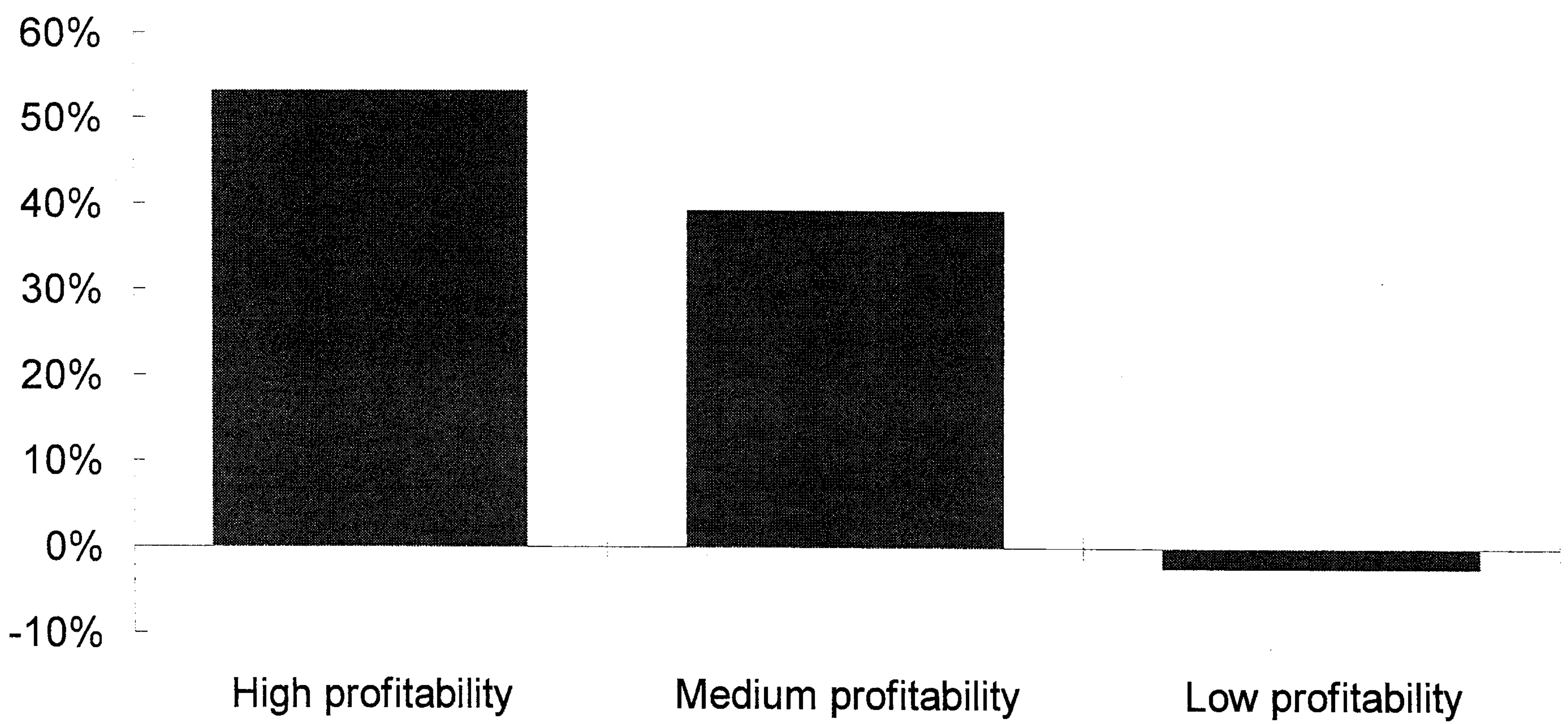
Example: Coal – change in tax paid



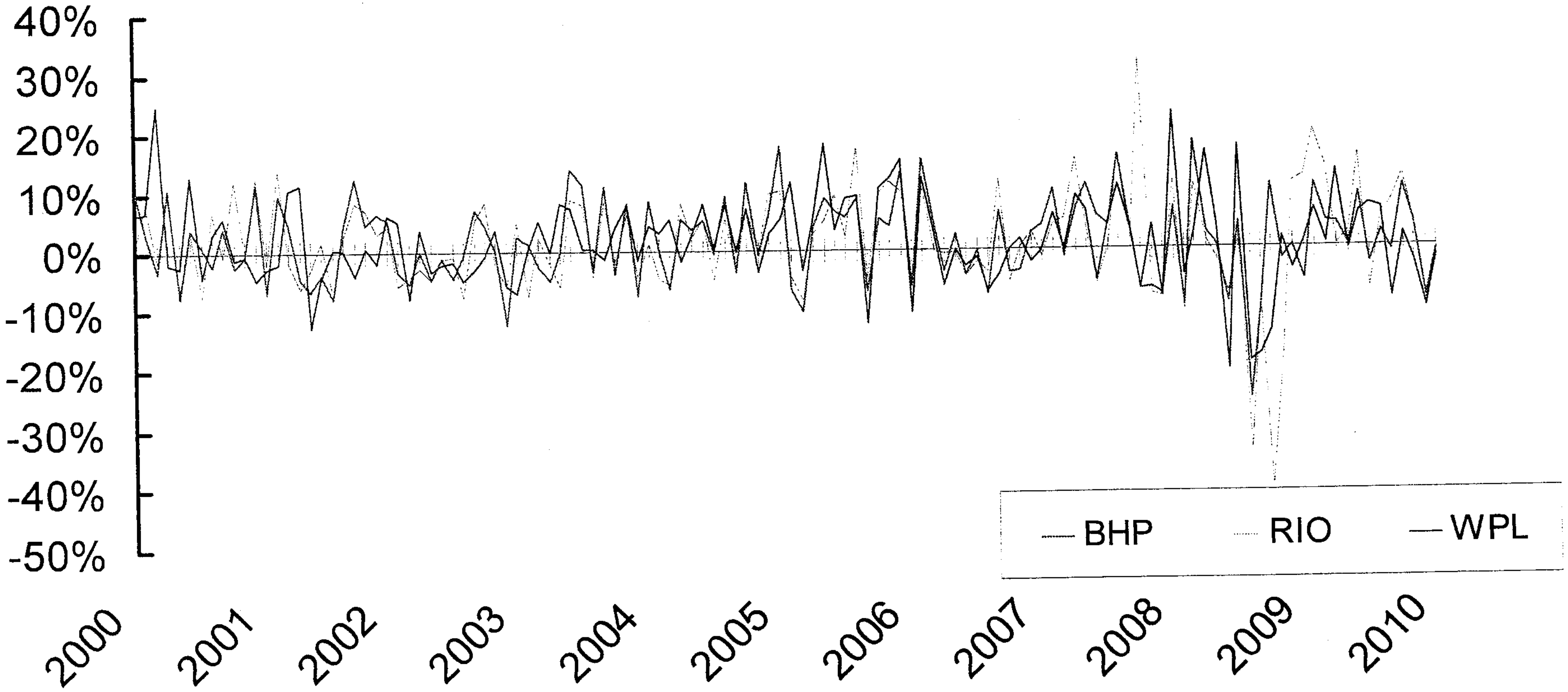
Example: Iron ore – change in tax paid



Example: Gold – change in tax paid



Monthly changes in share price



BHP Billiton: reliance on Australia for earnings

Commodity	Proportion of global earnings derived from Australia
Iron ore	28%
Coal	16%
Petroleum	14%

- Foreign ownership : 40%*

*could be larger, as holding companies dominate the share registers

Rio Tinto: reliance on Australia for earnings

Commodity	Proportion of global earnings derived from Australia
Iron ore	54%
Coal	3%

- Foreign ownership : 80%*

*could be larger, as holding companies dominate the share registers

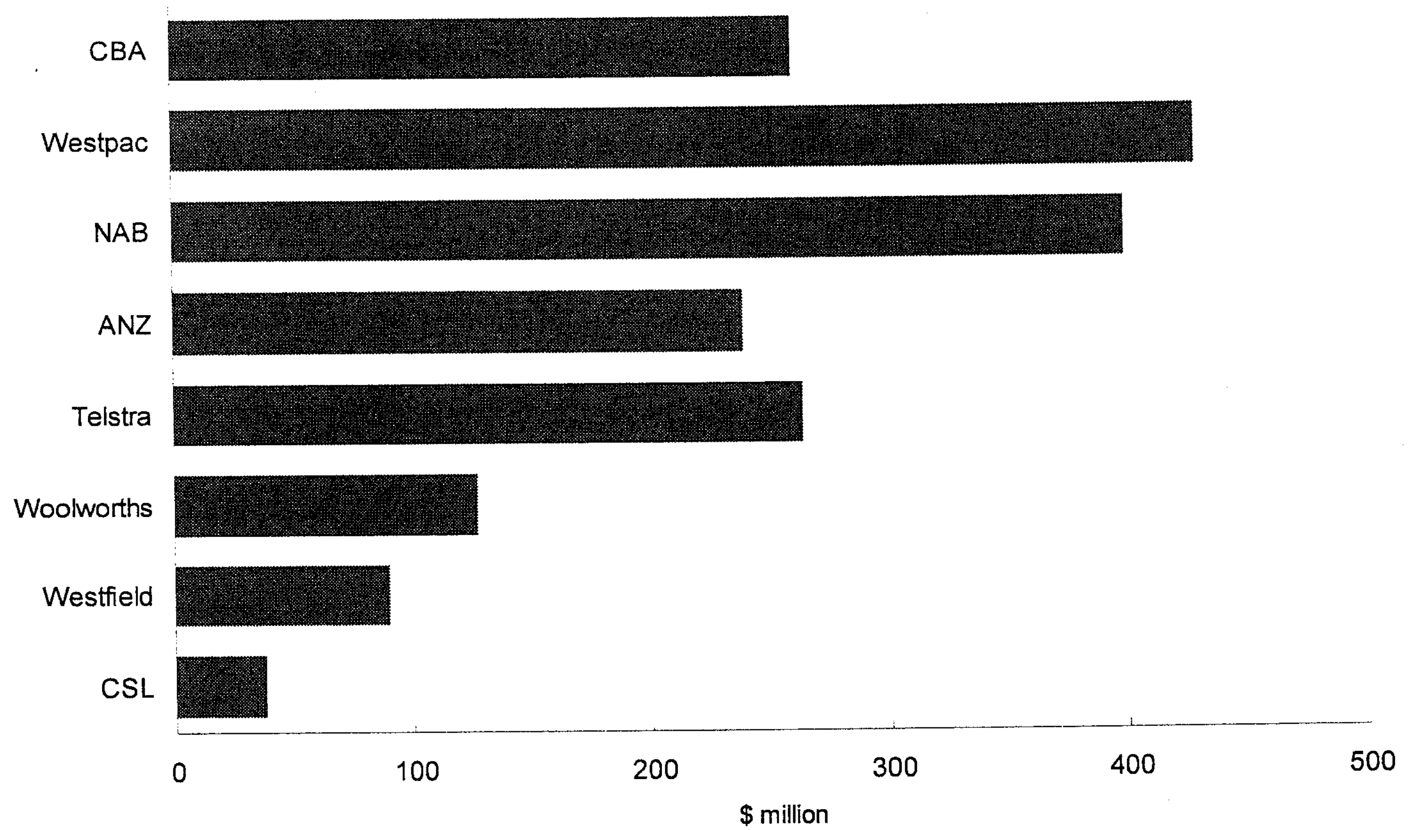
Woodside Petroleum: reliance on Australia for earnings

Commodity	Proportion of global earnings derived from Australia
Petroleum	97%

- Foreign ownership : 35%*

*could be larger, as holding companies dominate the share registers

Company income tax savings of selected major company groups (a)



(a) Tax saving calculated as a proportionate adjustment of company income tax reported in 2009 Annual Reports (2008 for Westfield)

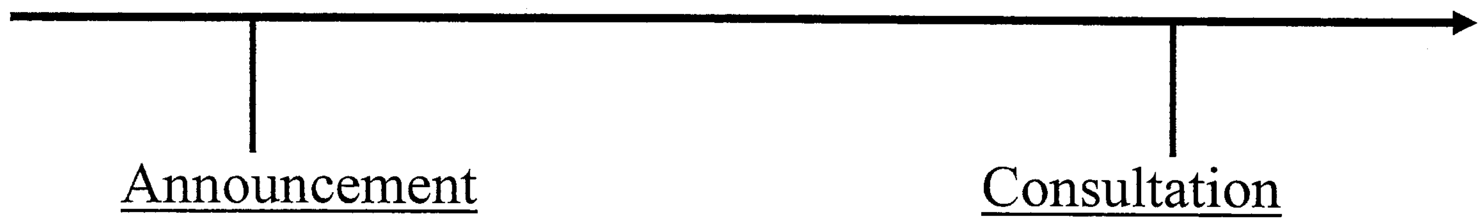
Timeline of issues

Announcement	Consultation
Firm policy:	Negotiable:
•interest allowance	•transitioning existing projects
•state royalties	•transfer pricing
•resource coverage	

Interest allowance

- Preserves the value of the government's guaranteed contribution
- The risk of government not making contribution is associated with government, rather than project
  - the interest rate for AAA rated government bond is therefore appropriate

Timeline of issues



Firm policy:

- interest allowance
- state royalties
- resource coverage

Negotiable:

- transitioning existing projects
- transfer pricing

State royalties

- Ultimately, state royalties would no longer apply
  - initially, states would continue to levy royalties
  - mining companies would receive a refundable credit for royalties against their RPT liability
  - low profit companies may pay less than current royalties
  - in this way the impact of royalties is removed from investment or production decisions
- Private and Indigenous rights not affected

Timeline of issues

<u>Announcement</u>

<u>Consultation</u>

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Negotiable:

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Resource coverage

- AFTS recommended apply to all resources except:
  - those expected to generate low rent where the administration and compliance costs are likely to outweigh any gains
    - for instance, some building materials such as sand, gravel and rock
- Consideration is being given to cover all resources

Timeline of issues

Announcement

Consultation

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- resource coverage

Negotiable:

- transitioning existing projects
- transfer pricing

Transitioning existing projects

- Concerns about sovereign risk in short run
- Costs incurred for existing projects need to be recognised
  - the exact value of these costs can be negotiated with stakeholders
- These costs would be transferrable, not refundable
  - allowing immediate access of the value of these costs would shield projects from tax in short run and increase acceptance of RPT

Timeline of issues

Announcement | Consultation

Firm policy:

- interest allowance
- state royalties
- resource coverage

Negotiable:

- transitioning existing projects
- transfer pricing

Implementation: announcement

- Important to provide certainty that:
  - the key parameters of the tax arrangements that will apply going forward and the government will consult on the technical details
  - existing projects will be transitioned into the system and the government will consult on the details
  - investment between announcement and commencement would be treated as if the new arrangements applied from announcement

Implementation: consultation

- Other Departments - ATO and DRET
- States
- Public Consultation – with industry:
  - transition arrangements