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Australian Government

The Treasury

Resource Profits Tax

A presentation to the Treasurer
21 February 2010

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RPT would apply to

- Profits realised from non-renewable resources
  - commencement – 1 July 2012
  - all major resources
    - however some may be excluded after consultation
- All entities involved in exploitation of non-renewable resources
- All existing and future projects

Why 40%?

- A 40 per cent rate is a reasonable trade-off between the competing interests of:
  - allowing a reasonable community return
  - while encouraging miners to pursue profits from Australian resources
    - firm specific expertise
    - capital mobility
  - and recognising imperfections in the measurement of profit and incentives to avoid high taxes

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Resource Profit Tax (RPT) rate = 40%

- Government bears 40% of costs and receives 40% of revenue
  - this means 60%, rather than 100%, of miner's funds are 'at risk'
- Government guarantees its share of the costs
  - would be delivered as an offset against revenue
  - refunds cost when no further offsetting revenues likely

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Delay in government contribution

- Rather than pay out money at the beginning of projects, the government contribution could be delayed

- The system would be designed to compensate the private sector for this delay
  - government paying interest for loan from miners

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Key Decisions

- timing of government contribution
- value of interest allowance
- transitioning existing projects
- costs pre and post announcement

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Timing of government contribution

- Timing has important implications for the design of the RPT and stakeholder acceptability
- In principle, could be paid upfront
  - in practice, integrity issues arise
  - potential for volatility in revenue collection
- Alternatively, timing would be determined by:
  - offsetting costs against other profits
  - depreciating capital assets, rather than immediate write-off
  - refunding when no further offsetting revenues are likely

Restricting access to government contribution

- What would government contribution be offset against?
  1. resource profits earned by a specific project; or
  2. all resource profits earned by an entity

- When would government contribution be accessed?
  1. when costs are incurred
  2. when RPT profits are earned
  3. refund when no further offsetting revenues are likely

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The trade off

Less restrictive

<u>Later contribution</u>

Revenue less volatile

Refund when no further offsetting revenues likely

All resource profits earned by entity

<u>Earlier contribution</u>

Less pressure on interest allowance

Potentially simpler design- less compliance costs

When costs are incurred

Restrictive

Resource profits earned by specific project

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Key Decisions

- timing of government contribution ▶
- value of interest allowance ▶
- transitioning existing projects ▶
- costs pre and post announcement ▶

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Value of interest allowance

- Preserves the value of the government's guaranteed contribution

- The risk of not receiving the contribution is a government rather than project/company risk
  - the interest rate for AAA rated government bond is therefore appropriate

- This would be a key pressure point in the design

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Key Decisions

- timing of government contribution
- value of interest allowance
- transitioning existing projects
- costs pre and post announcement

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Transitioning existing projects

- All existing projects should be transitioned
  - alternatives would limit any revenue gain and potentially lead to significant distortions
- Recognise existing costs to smooth transition
- Need to establish a basis for extent of costs recognised
  - the aim is to put firms in a position similar to one that would have applied had the RPT existed for some time
- Negotiate with stakeholders on the methodology

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Methods of recognising prior costs

- The choices available range from
  - no recognition
  - tax value
    - income tax
    - PRRT
  - market value of assets

- However, recognising costs comes at a price
  - delays collecting revenue
  - reduces total tax take

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Strategies to transition existing projects

- Allowing immediate write-off of all undeducted depreciation
  - would shield projects from tax in short run and increase acceptance of RPT
- Once RPT commences, prior costs could be offset against profits
  - but not refundable

Key Decisions

- timing of government contribution
- value of interest allowance
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- costs pre and post announcement

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Costs pre and post announcement

- Aim to minimise disruption to mining investment decisions
- Pre announcement costs could be
  - recognised based on values at time of announcement
- Post announcement costs could be
  - treated same as those incurred after RPT commences

State royalties would be redundant

- The impact of existing royalties would be removed from investment or production decisions
  - mining companies would receive a refundable credit for royalties
- Thus, the two systems run in parallel
  - objective would be to eliminate royalties over time
- Credit would be limited to existing royalty rates
  - Cth would not credit any further increases

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Exploration

- Resource Profits Tax
  - examine potential for government contribution to be paid earlier for explorers

- Election commitment to flow-through share scheme
  - refundable offset for exploration

- Cash-bidding system would replace current tenement allocation systems

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Election Commitment: provide flow-through share scheme

- Instead, a refundable offset for exploration
  - lower compliance costs
- Could limit to junior explorers, however:
  - difficult to define junior exploration companies
  - raises compliance issues & creates incentives for companies to remain 'junior'
- Could extend to all exploration companies
  - less complex but at a greater cost to revenue
- Could start in 2012-13, or earlier (2010-11)

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Stakeholder Consultation

1. Policy Announcement
   - government announcement of policy
   - Design principles paper
2. Resource Tax Advisory Panel (Ongoing)
   - for targeted high level consultation with key stakeholders
3. Discussion/ Issues Paper (2/3 Months)
   - release consultation paper discussing technical and design issues
   - stakeholder submissions and ongoing meetings

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Stakeholder Consultation

4. Final Design Paper (6 Months)
   - release design paper outlining policy's detailed design for stakeholder certainty
5. Exposure Draft and Implementation Details (10 Months)
   - release of exposure draft, implementation details and explanatory memorandum for consultation
6. Legislation
   - introduced into the Parliament mid 2011

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Key stakeholders

- Industry:
  - MCA, APPEA, AMEC, AusIMM, State Mining Chambers, mining companies, exploration companies
- Government:
  - DRET, Gescience Australia, MCMPR, State Treasuries, State mining departments