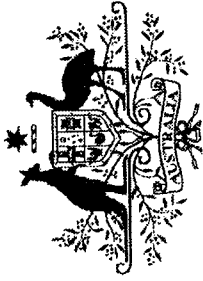


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Australian Government

The Treasury

Resource Profits Tax

A presentation to the Treasurer
21 February 2010

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

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

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

Key Decisions

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

Timing of government contribution

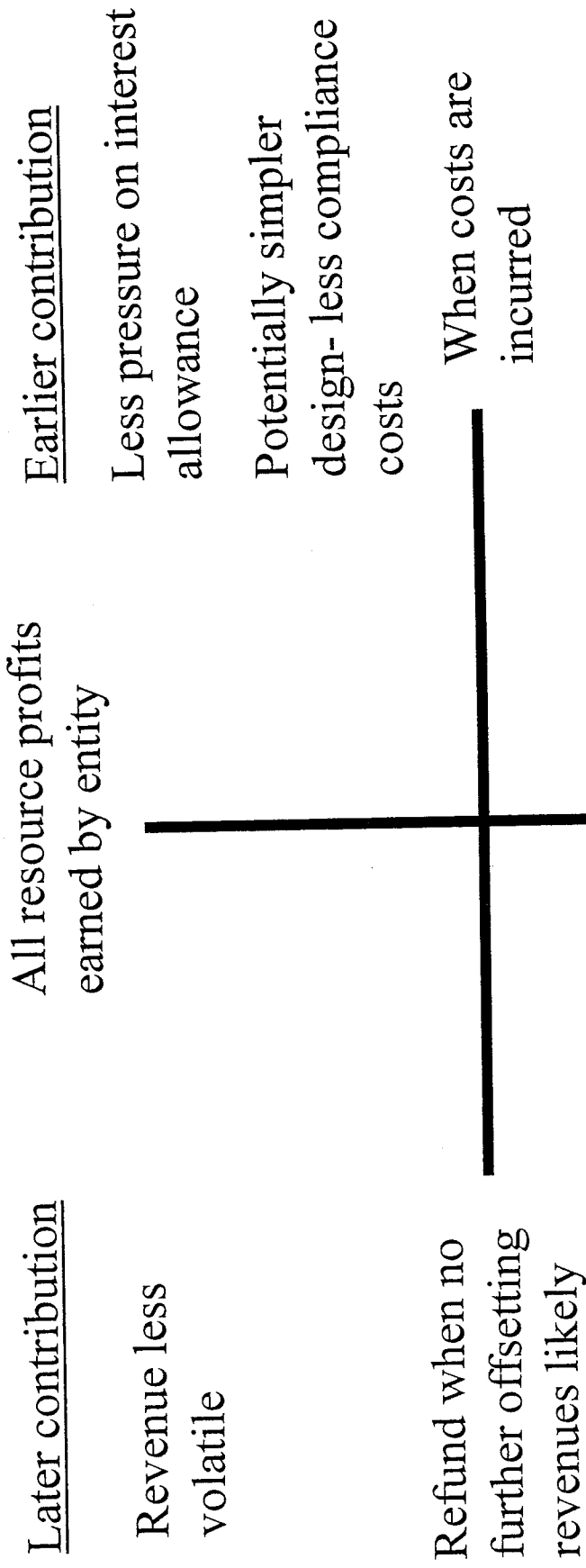
- Timing has important implications for the design of the RPT and stakeholder acceptability
- In principle, could be paid upfront
 - in practice, integrity issues arise
 - potential for volatility in revenue collection
- Alternatively, timing would be determined by:
 - offsetting costs against other 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

The trade off

Less restrictive



Key Decisions

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

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

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

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 ▲
- transitioning existing projects ▲
- costs pre and post announcement ▲

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

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**

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)

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

Key stakeholders

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