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Excerpt - section 22

From: Bartley, Scott
Sent: Tuesday, 29 June 2010 7:23 PM
To: McDonald, Hamish; Barrett, Chris (Treasurer's Office)
Cc: Davis, Graeme; Mayo, Wayne; Bastian, Bruce; Parker, David
Subject: FW: Mine [~~SEC-PROTECTED~~]
Importance: High

Hamish

Your spreadsheet with Indonesian coal and Brazilian iron ore added and a chart summarising the results.

Note that the RSPT/MRRT calculations assume royalties are refundable.

We are also investigating this issue from another angle. If we look back over the period to the mid-1980s, our preliminary analysis suggests that the RSPT rate that produces resource revenue with an equivalent NPV value to then existing arrangements would appear to be around 30 per cent. In other words, based on that comparison reducing the RSPT rate below 30 per cent would produce a worse outcome over that period. Note that this is a historical comparison and one for all resources. We need to think about a forward looking comparison and what it might mean for an iron ore/coal comparison (might be a lower rate).

It is important to note that there should be no inclusion of the resource value in the starting base when the RSPT/MRRT base is close to the equivalent rate. To do so will reduce revenue relative to the status quo.

Also included is some specific mine modelling under the alternative policy settings.

Regards

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From: Davis, Graeme
Sent: Tuesday, 29 June 2010 5:54 PM
To: Bartley, Scott
Subject: FW: Mine [SEC=IN-CONFIDENCE]

PROJECT AVERAGE TAX RATES (ATR) (1)

		Original RSPT	MRRT (2)	MRRT (2)
		3-year write-off 40% tax rate Uplift 6%	3-year write-off 30% tax rate Uplift 13% Mkt value 25 yrs	3-year write-off 20% tax rate Uplift 13% Mkt value 25 yrs
Coal (3) (new)				
	Multiple projects(7)			
	ATR (%)	53.6	46.2	39.2
	Prices down 40%			
	ATR (%)	46.5	38.6	32.0
Iron Ore(4) (new)				
	Multiple projects(7)			
	ATR (%)	56.4	48.9	41.8
	Prices down 40%			
	AER (%)	13.1	14.6	-13.4
Coal (5) - existing				
	Multiple projects(7)			
	ATR (%)	58.4	46.9	41.8
	Prices down 40%			
	ATR (%)	3.8	3.4	2.3
Iron Ore (6)-existing				
	Multiple projects(7)	56.5	36.4	33.6
	ATR (%)			
	Prices down 40%	55.8	27.3	27.5
	ATR (%)			

(1) Total RSPT/MRRT plus company tax as a percentage of total cash flow. Company tax rate set at 30%. Royalties not considered.

(2) Market value (NPV of pre-tax flows at 10% discount) spread over 25 years only relevant to existing projects.

(3) Hypothetical but representative (confidential) coal project.

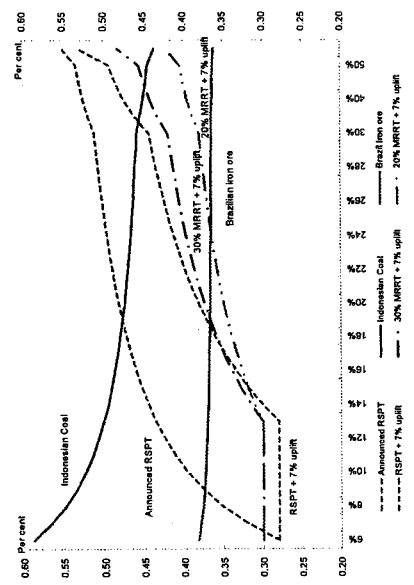
(4) Based on public Macquarie Bank data for a typical Pilbara iron ore project.

(5) Confidential data.

(6) Extrapolated from public information on Fortescue Metals Group.

(7) Project within a multi project group at current prices

Rough etrs	Announced RSPT		40% rate, +7% uplift		30% rate, +7% uplift		25% rate, +7% uplift		20% rate, +7% uplift		Indonesian Coal		Brazil Iron ore	
	ETR	RSPT	ETR	RSPT	ETR	RSPT	ETR	RSPT	ETR	RSPT	ETR	RSPT	ETR	RSPT
Government bond rate	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%	6%
Extra uplift	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
RSPT tax rate	40%	40%	40%	40%	30%	30%	30%	30%	20%	20%	33.5%	33.5%	33.5%	33.5%
Co tax rate	28%	28%	28%	28%	30%	30%	30%	30%	30%	30%	20.0%	20.0%	20.0%	20.0%
Max statutory rate	56.8%	56.8%	56.8%	56.8%	51.0%	47.5%	47.5%	47.5%	44.0%	44.0%	34.0%	34.0%	34.0%	34.0%
Project rate of return	6%	28.0%	28.0%	28.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	38.2%	38.2%	38.2%	38.2%
	7%	32.1%	32.1%	32.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.9%	37.9%	37.9%	37.9%
	8%	35.2%	35.2%	35.2%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.4%	37.4%	37.4%	37.4%
	9%	37.6%	37.6%	37.6%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.3%	37.3%	37.3%	37.3%
	10%	39.5%	39.5%	39.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.2%	37.2%	37.2%	37.2%
	11%	41.1%	41.1%	41.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.1%	37.1%	37.1%	37.1%
	12%	42.4%	42.4%	42.4%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	37.0%	37.0%	37.0%	37.0%
	13%	43.5%	43.5%	43.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	36.9%	36.9%	36.9%	36.9%
	14%	44.5%	44.5%	44.5%	31.5%	31.5%	31.5%	31.5%	31.5%	31.5%	36.8%	36.8%	36.8%	36.8%
	15%	45.3%	45.3%	45.3%	32.3%	32.3%	32.3%	32.3%	32.3%	32.3%	36.8%	36.8%	36.8%	36.8%
	16%	46.0%	46.0%	46.0%	33.4%	33.4%	33.4%	33.4%	33.4%	33.4%	36.7%	36.7%	36.7%	36.7%
	17%	46.6%	46.6%	46.6%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	36.7%	36.7%	36.7%	36.7%
	18%	47.2%	47.2%	47.2%	34.9%	34.9%	34.9%	34.9%	34.9%	34.9%	36.6%	36.6%	36.6%	36.6%
	19%	47.7%	47.7%	47.7%	35.5%	35.5%	35.5%	35.5%	35.5%	35.5%	36.6%	36.6%	36.6%	36.6%
	20%	48.2%	48.2%	48.2%	36.1%	36.1%	36.1%	36.1%	36.1%	36.1%	36.5%	36.5%	36.5%	36.5%
	21%	48.6%	48.6%	48.6%	36.7%	36.7%	36.7%	36.7%	36.7%	36.7%	36.5%	36.5%	36.5%	36.5%
	22%	48.9%	48.9%	48.9%	37.2%	37.2%	37.2%	37.2%	37.2%	37.2%	36.6%	36.6%	36.6%	36.6%
	23%	49.3%	49.3%	49.3%	37.6%	37.6%	37.6%	37.6%	37.6%	37.6%	36.6%	36.6%	36.6%	36.6%
	24%	49.6%	49.6%	49.6%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	36.5%	36.5%	36.5%	36.5%
	25%	49.8%	49.8%	49.8%	38.4%	38.4%	38.4%	38.4%	38.4%	38.4%	36.5%	36.5%	36.5%	36.5%
	26%	50.2%	50.2%	50.2%	38.8%	38.8%	38.8%	38.8%	38.8%	38.8%	36.5%	36.5%	36.5%	36.5%
	27%	50.4%	50.4%	50.4%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	36.5%	36.5%	36.5%	36.5%
	28%	50.6%	50.6%	50.6%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	36.4%	36.4%	36.4%	36.4%
	29%	50.8%	50.8%	50.8%	39.7%	39.7%	39.7%	39.7%	39.7%	39.7%	36.4%	36.4%	36.4%	36.4%
	30%	51.0%	51.0%	51.0%	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	36.4%	36.4%	36.4%	36.4%
	35%	51.9%	51.9%	51.9%	41.8%	41.8%	41.8%	41.8%	41.8%	41.8%	36.4%	36.4%	36.4%	36.4%
	40%	52.3%	52.3%	52.3%	42.4%	42.4%	42.4%	42.4%	42.4%	42.4%	36.4%	36.4%	36.4%	36.4%
	45%	53.0%	53.0%	53.0%	43.4%	43.4%	43.4%	43.4%	43.4%	43.4%	36.4%	36.4%	36.4%	36.4%
	50%	53.3%	53.3%	53.3%	43.9%	43.9%	43.9%	43.9%	43.9%	43.9%	36.4%	36.4%	36.4%	36.4%
	100%	55.1%	55.1%	55.1%	45.2%	45.2%	45.2%	45.2%	45.2%	45.2%	36.4%	36.4%	36.4%	36.4%



LTBR28/Project IRR + (Project IRR - LTBR)56.8/Project IRR