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Barry, Yasmine

From: Bartley, Scott
Sent: Wednesday, 30 June 2010 2:54 PM
To: Jacobs, Martin; McDonald, Hamish
Cc: Dickinson, Howard; Mayo, Wayne; Bastian, Bruce; Davis, Graeme; McDonald, Jason; Francis, Geoff; Stojanovski, Pero
Subject: 200629 new announcement RRT fact sheet draft_ST (2).doc [~~SEC-PROTECTED~~]
Attachments: 200629 new announcement RRT fact sheet draft_ST (2).doc
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Martin/Hamish

Attached is a five year example of how the MRRT works. I think this is simple enough for people to understand and it avoids all the traps associated with picking a single year.

The effective tax rate is 46.1% at a 40% rate of return (pre-tax).

Note that the effective tax rate falls to the company tax rate at a particular (lower) rate of return but then increases as the royalty becomes the effective tax mechanism.

This illustrates why the simple models can be misleading. The rate of return in the project needs to go very high indeed to get to a 51% ETR.

Let us know if you want this in the fact sheet or as a separate release.

Regards

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FACT SHEET

A NEW RESOURCE TAXATION REGIME

How the MRRT works

The following example is intended to illustrate how the MRRT will apply to iron ore and black coal projects. As many of the design details of the MRRT are subject to finalisation by the MDP, the example is designed to illustrate the mechanics of the MRRT, rather than the likely tax outcome.

The example presents outcomes for a single project company with an equity financed five-year mine. The company is assumed to invest \$150 million immediately prior to commencement of the project. Over the life of the project the pre-tax rate of return (revenue less operating and investment costs) is 40 per cent.

The MRRT is levied at a rate of 30 per cent of the operating margin (revenue less operating and investment costs) less the MRRT allowance. The MRRT allowance is calculated as the value of losses multiplied by an allowance rate equal to the Long Term Bond Rate plus 7 percentage points. State royalties are assumed to be equal to 7.5 per cent of sales revenue and creditable against the MRRT liability. Where royalty payments exceed the MRRT liability in anyone year, the balance is uplifted at the allowance rate to be offset against future MRRT liabilities. The company tax rate is 30 per cent.

In this example the average effective tax rate over the life of the project is 46.1 per cent, which is below the maximum effective tax rate payable at a MRRT rate of 30 per cent and a 30 per cent company income tax rate.

Comment [sbw1]: Hamish/Martin
 Note that the effective tax rate falls to the company tax rate at a particular (lower) rate of return but then increases as the royalty becomes the effective tax mechanism. This illustrates why the simple models can be misleading. The rate of return in the project needs to go very high indeed to get to a 51% ETR.

	Year 1	Year 2	Year 3	Year 4	Year 5
Resource Charge	\$m	\$m	\$m	\$m	\$m
Revenue	80.0	95.0	105.0	125.0	126.0
Operating expenses	20.0	23.8	26.3	31.3	31.5
Depreciation	150.0	0.0	0.0	0.0	0.0
MRRT allowance @ 13 per cent	19.5	14.2	6.8	0.0	0.0
Taxable MRRT profit	0.0	0.0	19.4	93.8	94.5
Royalty @ 7.5 per cent	6.0	7.1	7.9	9.4	9.5
Uplifted Royalty offset	6.0	13.9	17.8	1.3	0.0
MRRT @ 30 per cent	0.0	0.0	0.0	0.0	17.4
Net resource charge	6.0	7.1	7.9	9.4	26.9
Company tax					
Revenue	80.0	95.0	105.0	125.0	126.0
Operating expenses	20.0	23.8	26.3	31.3	31.5
Depreciation	30.0	30.0	30.0	30.0	30.0
Net resource charge	6.0	7.1	7.9	9.4	26.9
Company taxable income	24.0	34.1	40.9	54.4	37.6
Company tax @ 30 per cent	7.2	10.2	12.3	16.3	11.3
Profit before tax	30.0	41.3	48.8	63.8	64.5
Total tax	13.2	17.4	20.1	25.7	38.2