MINERALS RESOURCE RENT TAX (MRRT)

Headline Statement

- Minerals Resource Rent Tax Costing Brief

Revenue ($m)

	2010-11	2011-12	2012-13	2013-14	2014-15
MRRT	-	-	3700	4000	3400

The Government will implement improved resource taxation arrangements for Australia's largest and most profitable commodities: iron ore, coal, oil and gas. These new arrangements will ensure that the Australian community receives a fairer share of resource profits gained from these non-renewable resources. Together, they represent three-quarters of the value of our exports and resource operating profits and account for an even greater share of rents in the mining industry. From 1 July 2012:

- a new Minerals Resource Rent Tax (MRRT) regime will apply to the mining of iron ore and coal in Australia; and
- the current Petroleum Resource Rent Tax (PRRT) regime will be extended to all Australian onshore and offshore oil and gas projects, including the North West Shelf.

The MRRT will apply at an internationally competitive rate of 30 per cent to taxpayers with MRRT assessable profits above a $50 million per annum threshold – (phased up to $100m). In addition, the MRRT will provide a 25 per cent extraction allowance to further shield from the tax the important know-how and capital that mining companies bring to mineral extraction.

Existing investment in iron ore and coal projects will be recognised through a credit that recognises the market value of that investment, written down over 25 years, or through accelerated write-off of the book value of project assets, excluding the value of the resource, over 5 years.

New investment will be immediately deductible for MRRT purposes. Unutilised expenditure will be transferable to offset MRRT profits on other projects or will

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attract an allowance equivalent to the long terms government bond rate plus 7 percentage points.

Royalties will continue to be payable but will be creditable against the MRRT liability for a project. Royalty credits will not be transferrable or refundable.

Investment in existing projects entering the PRRT as a result of its extended coverage will be recognised through the market value of that investment or the written down book value of the project assets. All state and federal resource taxes will be creditable against current and future PRRT liabilities from a project.

The Policy Transition Group (PTG) was established to advise on the development of the technical design of the MRRT and the transition of existing petroleum projects to the PRRT regime. The PTG made 94 recommendations on the new resource tax arrangements. The main issues cover issues such as the taxing point, starting base and starting base losses, deductions and the test for deductibility as well as a phased extension of the $50 million threshold and the transferability of expenditure and project losses.

Key Points

- The new resource tax will apply from 1 July 2012.
- The MRRT is a 30 per cent tax on the taxable profit of the resource.
- An extraction allowance equal to 25 per cent of the otherwise taxable profit will be deductible to recognise the profit attributable to the extraction process.
- There will be no MRRT liability for taxpayers with low levels of resource profits ($50m per annum phased up to $100m per annum).
- Carried forward MRRT losses are to be indexed at the allowance rate equal to the LTBR plus 7 per cent.
- All State and Territory royalties will be creditable against the MRRT.
- The starting base for losses will be either the book value (deducted over 5 years) or market value depreciated over the effective life or the mine life whichever is sooner. Both book and market value are as at the original announcement date of 1 May 2010.

Data

- The base data for the mining sector is drawn from ABS publications on the mining industry. This includes information on income, expenses, capital expenditure, depreciation, royalties paid and interest expenses claimed.

- Domestic Economy Division (DED) provide forecasts of major mining commodities. This includes the exchange rate, prices and volumes.
- The market value of capital assets from the iron ore and coal sectors was supplied to the Treasury by the industry.
- Historical PRRT and crude oil excise collections have been sourced from Budget papers.
- State and Territory royalty data was supplied to TAD through the Commonwealth State Relations Division (CSRD) and was compiled from various State and Territory Budgets.

Key Assumptions

- Income from the coal and iron ore sectors will move in line with DED parameters for these commodities. Expenses are assumed to move in line with a combination of production volumes and the GDP deflator.
- Terms of trade assumption is consistent with that used in the 2011-12 Budget.
- The timing of MRRT payments is assumed to be 75 per cent within the year and 25 per cent outside of the year.

Methodology

- The model estimates a coal and iron ore sector income series using ABS data as a base and applying DED/industry growth parameters to estimate changes in the volume/prices of mineral commodities. The DED estimates reflect the export value of mining commodities. This produces an income series for total revenue from these sectors of the mining industry. This excludes income from exploration and mining support services.
- An expenses series is derived using ABS base data for total expenses, interest expenses, depreciation and royalties. Adjustments are made and forecasts are estimated by growing the base by a combination of the GDP deflator and the change in production volumes.
- Expenses are adjusted removing items that are no longer deductible under the MRRT (interest expenses and royalties). Depreciation is also removed as capital expenditure becomes immediately deductible under the MRRT.
- The depreciation profile of 36%, 24%, 15%, 15%, 10% is used over the first 5 years if book value is used and any residual starting base that is not deducted is uplifted by the LTBR. If market value is used the base is deducted over effective life or 25 years and any residual starting base that is not deducted is not uplifted.

- The gross tax is estimated by taking the income less modified expenses and deducting part of the market value starting base. From this existing taxes are netted off and an additional company tax deduction is removed.

Distributional Impacts

- Distributional impacts are unable to be determined as detailed mining project level information is not available.