



Australian Government

The Treasury

The 5<sup>th</sup> IMF-Japan High-Level Tax Conference for Asian Countries

# Resource Taxation in Australia

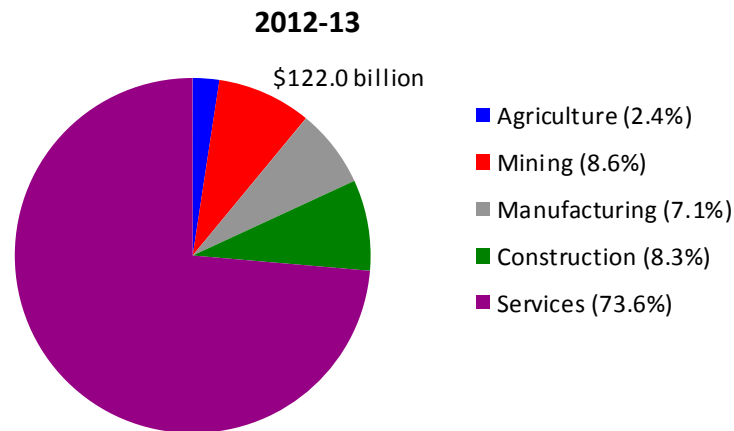
APRIL 2014

# The Australian Resources Sector

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Australia is endowed with high quality mineral and petroleum resources.

The resources sector is around 9 per cent of total output.



The resources sector employs around 260,000 people in Australia.

Mining is Australia's largest export industry.

# Australian Governments own Resources on Behalf of the Community

- Ownership of Australia's non-renewable resources resides with the crown.
- Resources located in Australia's offshore areas beyond three nautical miles are the responsibility of the Australian Government.
- Resources located on land or in coastal waters within three nautical miles of the coast are the responsibility of the corresponding state or territory government.

# Resource Tax Structure



Hydrocarbons (Oil, Gas)

Excise / Royalties

PRRT credit



PRRT

Income deduction



Company Tax



Minerals (Iron Ore, Coal)

Royalties

MRRT credit



MRRT

Income deduction



Company Tax

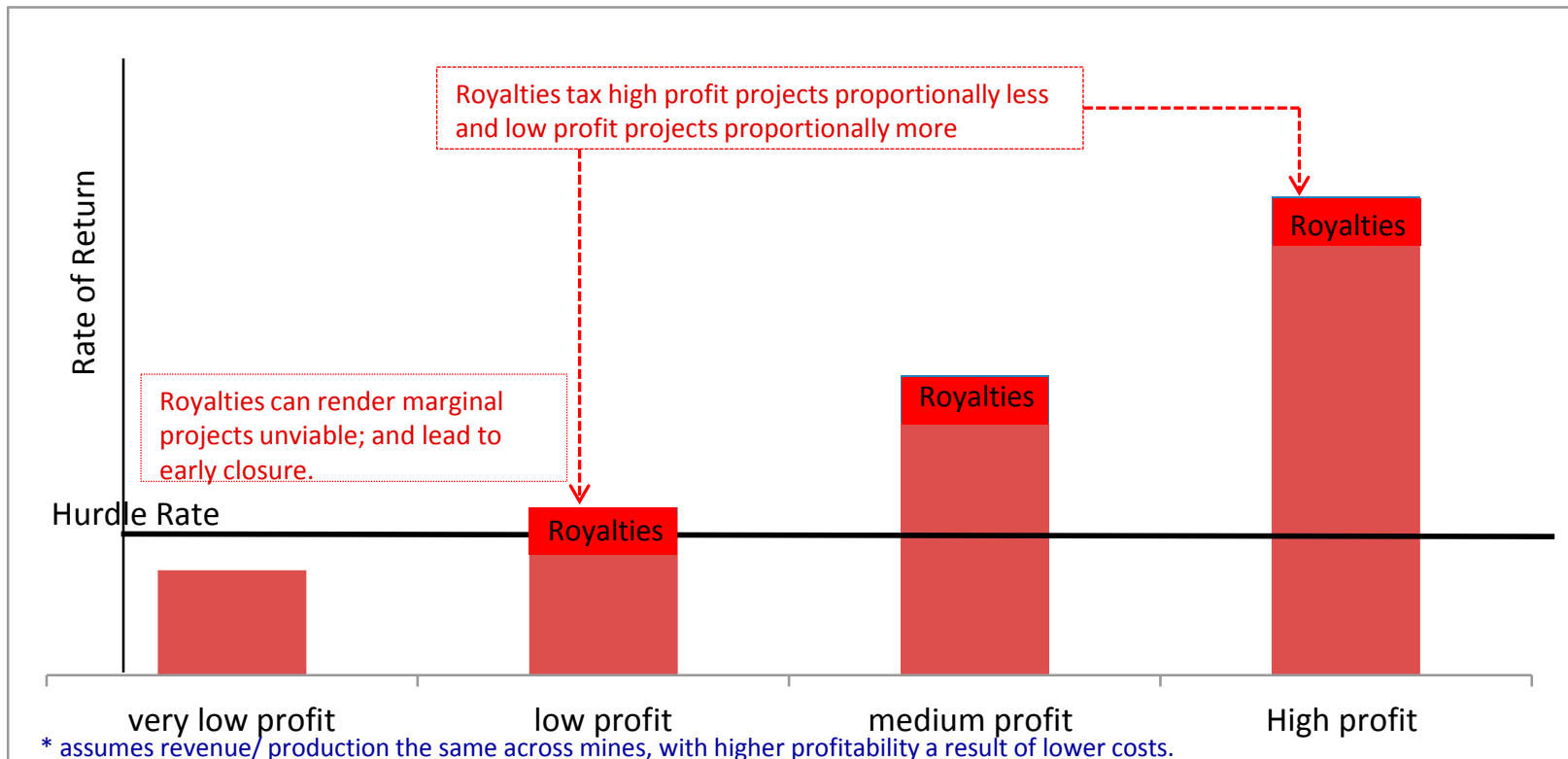
# Reason for 2012 introduction of MRRT and extension of PRRT onshore

## Australia's Future Tax System Review

- In 2008 the former government undertook a 'root and branch' review of tax system.
- **Key Finding:** Taxation of Australian resources sub-optimal.
- State & Territory royalties to onshore minerals and petroleum
  - Distort investment and production decisions;
  - Lower community return during boom times.

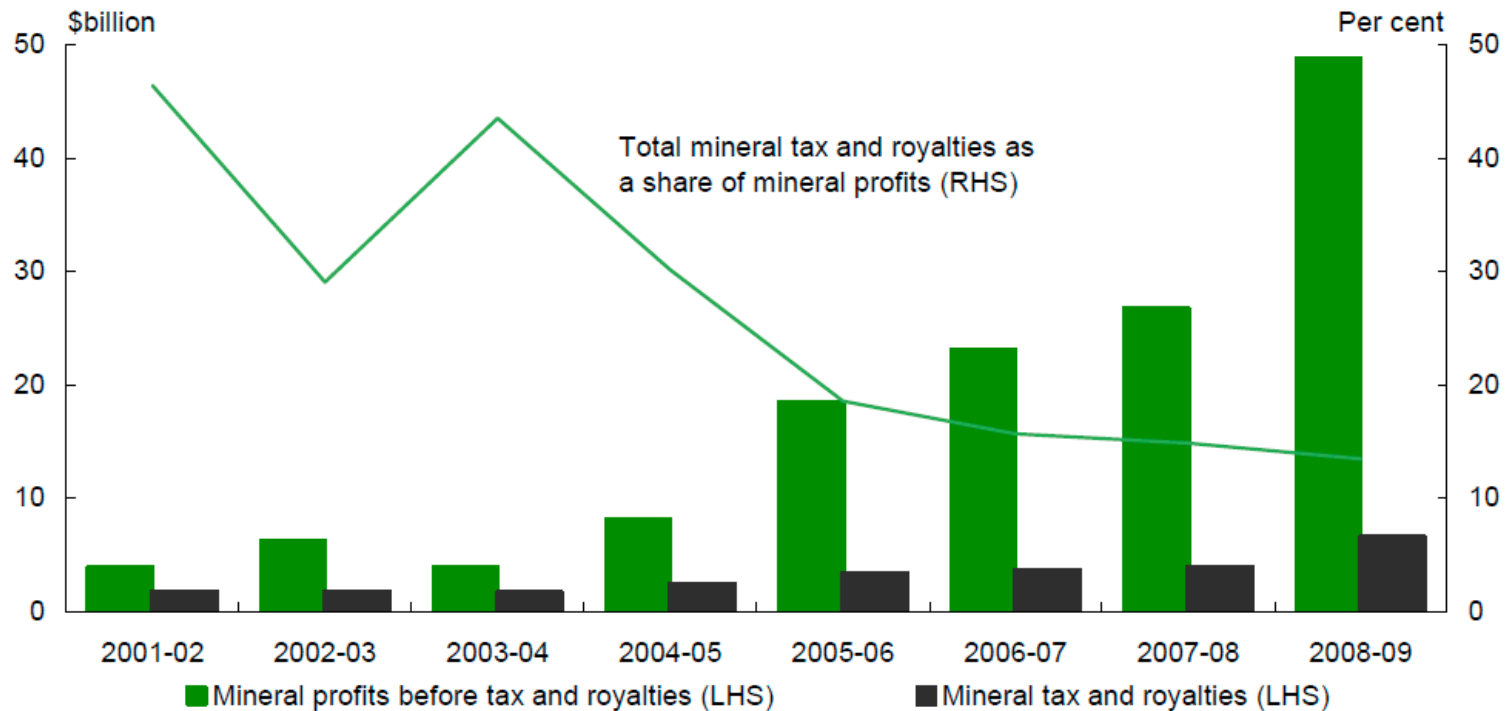
# Royalties Distort Investment

- Royalties are generally applied on a basis of value or volume.
- Producing miners in a loss position still have to pay royalties.



# Royalties result in a Lower Community Return During Boom

Chart C1-1: Mineral tax and royalties as a share of mineral profits<sup>(a)</sup>



(a) Mineral profits before tax and royalties are measured using income less an allowance for corporate capital.  
Source: Australian Treasury estimates.

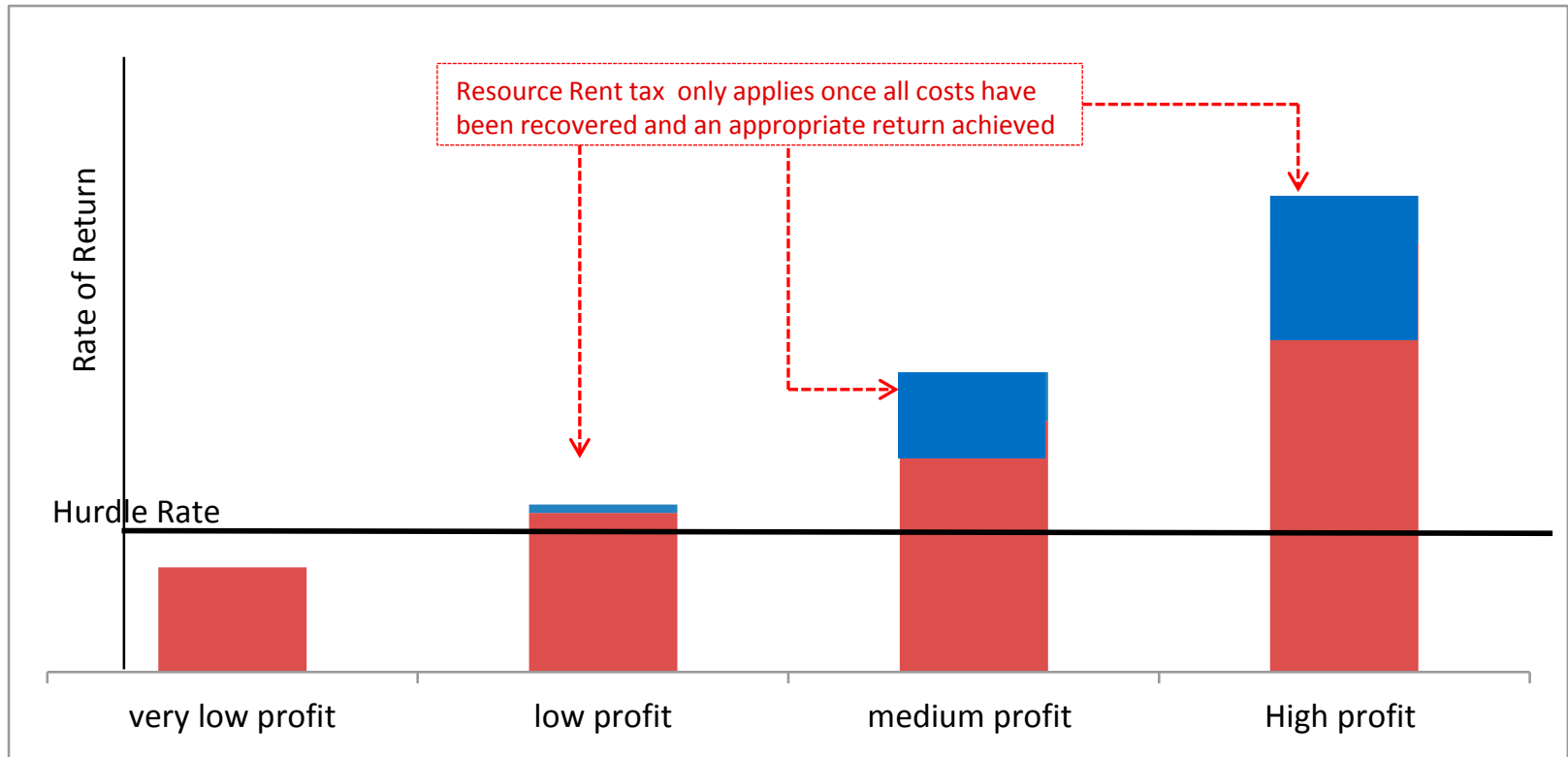
# Taxing Resource Rents

## *What is rent?*

- Profit can comprise two components:
  - **Normal profit** where receipts just cover expenses plus a return to compensate the investor for time & risk.
  - **'Economic rent'** is the return in excess of what is needed to undertake the investment.
- Rent is a return from an activity beyond that required for the activity to occur.
- Economics Rents can accrue to resources because resources:
  - non-renewable in nature; and
  - Vary in characteristics and quality.



# A Resource Rent Tax Minimises Distortions

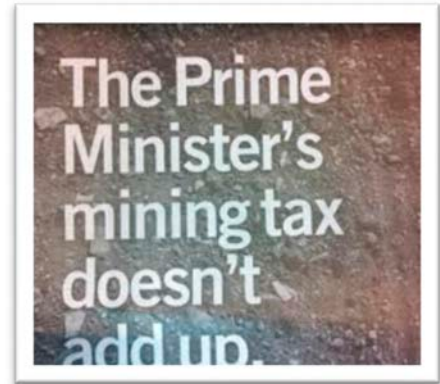


# Resource Rent Tax Arrangements

- On 2 July 2010 the Government announced that from 1 July 2012:
  - The MRRT would apply to coal and iron
  - The PRRT would apply to all Australian oil and gas projects
- The PRRT onshore extension received little attention, but;
- The MRRT announcement was badly received by important stakeholders

# Stakeholder Response

- Strong opposition to reform
  - Mining companies
  - State Governments
  - general public
- Claims it would destroy investment, reduce employment and 'kill the golden goose'
- Lack of consultation heavily criticised

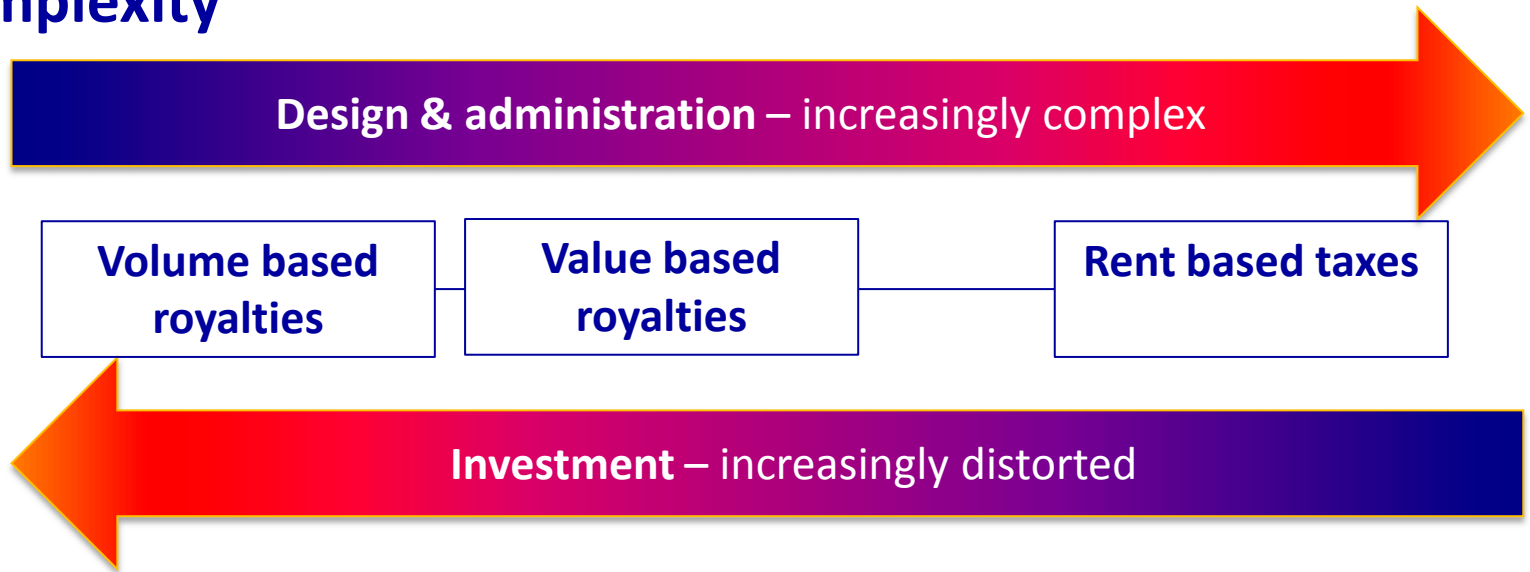


# MRRT revenue was disappointing

| MRRT Estimate History             | 2012-13<br>(\$m) | 2013-14<br>(\$m) | 2014-15<br>(\$m) | 2015-16<br>(\$m) | 2016-17<br>(\$m) |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| RSPT Estimate                     | 3,000            | 9,000            | 12500*           | 12,500           | 12,500           |
| Original MRRT Estimate (Jul 2010) | 4,000            | 6,500            | 6500*            | 5,500            | 4,000            |
| PEFO 2010                         | 4,000            | 6,500            | 6500*            | 5,500            | 4,000            |
| <i>change from previous</i>       | -                | -                |                  |                  |                  |
| MYEFO 2010-11                     | 3,300            | 4,100            | NA               | NA               | NA               |
| <i>change from previous</i>       | - 700            | - 2,400          |                  |                  |                  |
| Budget 2011-12                    | 3,700            | 4,000            | 3,400            | NA               | NA               |
| <i>change from previous</i>       | 400              | - 100            |                  |                  |                  |
| MYEFO 2011-12                     | 3,700            | 3,800            | 3,100            | NA               | NA               |
| <i>change from previous</i>       | -                | - 200            |                  |                  |                  |
| Budget 2012-13                    | 3,000            | 3,500            | 3,200            | 3,700            | NA               |
| <i>change from previous</i>       | - 700            | - 300            | 100              |                  |                  |
| MYEFO 2012-13                     | 2,000            | 2,400            | 2,100            | 2,600            | NA               |
| <i>change from previous</i>       | - 1,000          | - 1,100          | - 1,100          | - 1,100          |                  |
| Budget 2013-14                    | 200              | 700              | 1,000            | 1,400            | 2,200            |
| <i>change from previous</i>       | - 1,800          | - 1,700          | - 1,100          | - 1,200          |                  |
| PEFO 2013                         |                  | 700              | 800              | 1,100            | 1,800            |
| <i>change from previous</i>       |                  | -                | - 200            | - 300            | - 400            |

# Trade-offs

- **Complexity**



- **Revenue**

- Revenue received earlier and more predictable under royalties arrangements

- **Sustainability**

- Rent taxes can be more stable as don't need to be adjusted to reflect economic conditions

# Resource Rent Tax Arrangements

- On 13 November 2013 legislation was introduced into Parliament to:
  - repeal the MRRT
  - but retain the onshore PRRT
- The repeal of the Minerals Resource Rent Tax is a public commitment to which the Government will be pursuing, despite it being rejected by the Senate on 25 March 2014.

# Future Resource Tax Structure



Hydrocarbons (Oil, Gas)

Excise

PRRT credit



PRRT

Income deduction



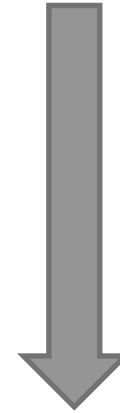
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Thank You