Parliamentary Budget Office

Policy costing

Introduce a genuine mining super-profits tax	
Party:	Australian Greens

Summary of proposal:

This proposal would introduce a new mining super-profits tax on minerals projects in Australia that is based on the former minerals resource rent tax but includes some important differences in design. The proposed mining super-profits tax would be levied at 40 per cent of the net value of mine revenue, minus expenses.

The mining super-profits tax would be calculated as follows.

- Revenue of mines would be determined by operating revenue less operating expenses.
- Capital expenditure of mines would be determined as the book value of capital expenditure as at 2017-18, which would be uplifted at the long-term bond rate plus 2 per cent.
- Each mine would be assessed individually for the purposes of the tax and there would be no transferability of expenditures between mines owned by the same company.
- Royalty expenses would not be deductible against the proposed mining super-profits tax.
- Decommissioning costs would not be allowed to be used to offset the proposed mining super-profits tax.

The mining super-profits tax would be deductible from company tax.

The proposal would start on 1 July 2019.

Costing overview

This proposal would be expected to increase the fiscal balance by $12,565 million and the underlying cash balance by $11,565 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis this impact reflects an increase in revenue of $12,700 million, partially offset by an increase in departmental expenses for the Australian Taxation Office (ATO) of $135 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications over the period to 2029-30 is provided at Attachment A. There is a significant increase in revenue from 2023-24 to 2024-25 due to the effect of the starting base deduction of mines being used up by this time.

The departmental costs for the ATO to administer the collection of, and ensure compliance with, the proposed mining super-profits tax would be ongoing at $30 million per year with an additional set up cost of $15 million in the first year of the proposal.

The fiscal and underlying cash balance impacts of the proposal are different due to differences between the timing of when the proposed mining super-profits tax liability is raised and when it is paid.

Revenue from the proposed mining super-profits tax is partially offset by a decline in company tax revenue due to the mining super-profits tax being deductible for company tax purposes.

There are considerable uncertainties associated with this costing. These include possible behavioural responses to the new tax, future mineral production, future mineral prices, and future exchange rates. The Parliamentary Budget Office (PBO) has assumed that there would be no changes in production levels or the development of mining projects as a result of the proposal, as any of these impacts are highly uncertain. There are also uncertainties around future mineral prices, variations in which are likely to significantly affect the estimated revenue from the proposal.

As discussed in *Methodology* below, the PBO has used an aggregate model to estimate which minerals would be subject to the mining super-profits tax. The aggregate model indicates that it is likely that only iron ore would be subject to the tax, based on the starting base costs for other minerals and expected prices for the minerals. It is possible that some individual mines for other minerals may be in a position to pay the mining super-profits tax. This also adds to the uncertainty of this costing.

Table 1: Financial implications ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	**Total to 2022–23**
Fiscal balance	4,955	2,070	2,670	2,870	**12,565**
Underlying cash balance	3,555	2,570	2,670	2,870	**11,565**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) Figures may not sum to totals due to rounding.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Production in the iron ore sector over the period to 2029-30 would be at levels forecast by Wood Mackenzie as at April 2019, and would not alter as a result of this proposal.
- Iron ore prices by mine would be as forecast by Wood Mackenzie as at April 2019.
- The costs of production in the iron ore sector over the period to 2029-30 would be as forecast by Wood Mackenzie as at April 2019.
  - The introduction of the proposed mining super-profits tax will not materially alter mineral prices.
- Only iron ore mines would be sufficiently profitable to pay the mining super-profits tax.
- The mining super-profits tax would be calculated and paid quarterly.
- Mining companies liable for the mining super-profits tax would be subject to the higher rate of company tax.
- Companies that would pay the mining super-profits tax would not vary their company tax instalments in the first year of the proposal.

- The majority of production of iron ore (around 95 per cent in 2019-20) would be from companies that have a majority foreign shareholding.
  - It is assumed that approximately 70 per cent of the change in overall profits would be passed on to shareholders.

Methodology

To cost this proposal, the PBO first used an aggregate model of each mineral that is mined in Australia, based on overall mineral production, which estimated the starting base depreciation and costs for each mineral. This aggregate model indicated that only iron ore mines would be liable to pay the mining super-profits tax, based on expected mineral prices and the estimated starting base of capital for all minerals. The aggregate model is able to provide an indication of the overall profitability of minerals, however it has limitations in that it is possible that some individual mines for other minerals may also be liable to pay the mining super-profits tax.

The PBO then used mine-level data from Wood Mackenzie to estimate the expected revenue from iron ore mines under the proposal. The value and expected costs of production were calculated for each mine to determine their expected profit. Capital costs for each mine were also estimated and uplifted to the start date using an uplift rate equal to the long-term bond rate plus 2 per cent.

The overall net profit was calculated for each mine in each year to 2029-30. The rate of the proposed mining super-profits tax was then applied to mines that were estimated to have a positive profit. This amount was then adjusted for the timing of the assumed collection profile.

The loss in company tax, arising from deductibility of the mining super-profits tax, was calculated from the estimated underlying cash balance impact of the mining super-profits tax and the relevant company tax rates.

As the proposal would increase the amount of tax paid by affected companies, it has been assumed that this will lead to lower dividend payments. To calculate this, the amount of the additional tax (relative to current arrangements) was deducted from expected dividend payments, and the overall decline in tax from Australian shareholders as a result of lower dividend income was calculated. This amount also took into account the effect of lower imputation credits for shareholders. These company tax and dividend tax changes were summed to calculate the income tax (company tax and personal income tax) clawback as a result of this proposal.

Departmental costs were estimated based on the overall departmental costs of the 2010-11 Budget measure *Stronger, fairer, simpler tax reform – resource super profits tax.*

Revenue estimates have been rounded to the nearest $100 million.

Departmental expense estimates have been rounded to the nearest $1 million.

Data sources

Australian Bureau of Statistics, 2018. *Australian Industry, 2016-17,* ABS Cat. No. 8155.0.

Australian Bureau of Statistics, 2018. *Australian System of National Accounts, 2017-18*, ABS Cat. No. 5204.0.

Australian Bureau of Statistics, 2016. *Mining Operations, Australia, 2014-15,* ABS Cat. No. 8415.0.

Commonwealth of Australia, 2011. *Budget 2010-11*, Canberra: Commonwealth of Australia.

Department of Industry, Innovation and Science, 2018. *Resources and Energy Quarterly – March 2019*, forecast data and historical data [online] available at https://publications.industry.gov.au/publications/resourcesandenergyquarterlymarch2019/index.html [Accessed 25 April 2019].

Grenville, S 2018. *Foreign Investment: Let's talk about mining, not agriculture*, [online] available at https://www.lowyinstitute.org/the-interpreter/foreign-investment-lets-talk-about-mining-not-agriculture [Accessed 24 April 2019].

Wood Mackenzie provided mine-level data on iron ore mining operations.

Attachment A – Introduce a genuine mining super-profits tax – financial implications

Table A1: Introduce a genuine mining super-profits tax – Fiscal balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Revenue													
Mining super-profits tax	*5,700*	*3,900*	*3,900*	*4,100*	*5,200*	*10,500*	*12,200*	*12,600*	*12,700*	*12,700*	*12,800*	***17,600***	***96,400***
Income taxes	*-700*	*-1,800*	*-1,200*	*-1,200*	*-1,500*	*-2,700*	*-3,500*	*-3,800*	*-3,900*	*-3,900*	*-3,900*	***-4,900***	***-28,000***
Total – revenue	**5,000**	**2,100**	**2,700**	**2,900**	**3,700**	**7,800**	**8,700**	**8,800**	**8,800**	**8,800**	**8,900**	**12,700**	**68,400**
Expenses													
Departmental expenses – Australian Taxation Office	*-45*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-135*	*-345*
Total – expenses	**-45**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-135**	**-345**
Total	**4,955**	**2,070**	**2,670**	**2,870**	**3,670**	**7,770**	**8,670**	**8,770**	**8,770**	**8,770**	**8,870**	**12,565**	**68,055**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

Table A2: Introduce a genuine mining super-profits tax – Underlying cash balance ($m)[(a)(b)]

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	**Total to 2022–23**	**Total to 2029–30**
Receipts													
Mining super-profits tax	*4,300*	*4,400*	*3,900*	*4,100*	*4,900*	*9,200*	*11,800*	*12,500*	*12,700*	*12,700*	*12,800*	***16,600***	***93,200***
Income taxes	*-700*	*-1,800*	*-1,200*	*-1,200*	*-1,500*	*-2,700*	*-3,500*	*-3,800*	*-3,900*	*-3,900*	*-3,900*	***-4,900***	***-28,000***
Total – receipts	**3,600**	**2,600**	**2,700**	**2,900**	**3,400**	**6,500**	**8,300**	**8,700**	**8,800**	**8,800**	**8,900**	**11,700**	**65,200**
Payments													
Departmental expenses – Australian Taxation Office	*-45*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-30*	*-135*	*-345*
Total – payments	**-45**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-30**	**-135**	**-345**
Total	**3,555**	**2,570**	**2,670**	**2,870**	**3,370**	**6,470**	**8,270**	**8,670**	**8,770**	**8,770**	**8,870**	**11,565**	**64,855**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.