Parliamentary Budget Office

Mining Super Profits Tax	
Party:	Australian Greens

Summary of proposal:

This proposal would introduce a new 40% Mining Super Profits Tax (MSPT) on the super profits of individual Australian mining projects, where the super profits would be calculated at the project level as revenue less expenses.

- Project expenses would comprise of:
  - general project operating expenses
  - a deduction that recognises the book value of the project's capital expenditure base just before the introduction of MSPT. The deduction would be equal to the project's starting capital base depreciated on a straight-line basis over the first five years of the proposal. The starting capital base amount would be the book value of all capital expenditure as of 1 July 2021, uplifted each year at the 10-year government bond rate plus 2%. The starting capital base amount would step down over the first five years of the proposal as the depreciation deduction amounts are subtracted.
- Project expenses would not be transferrable between projects owned by the same company.
- Royalty expenses and decommissioning costs would not be deductible against the MSPT.

The mining super profits tax would be deductible for company tax purposes but not frankable for personal income tax.

The proposal would have effect from 1 July 2022.

Costing overview

This proposal would be expected to increase the fiscal balance by around $40.0 billion and the underlying cash balance by around $37.7 billion over the 2022-23 Budget forward estimates period. On a fiscal balance basis this impact reflects an increase in net revenue of around $40.2 billion, partially offset by an increase in Australian Taxation Office (ATO) departmental expenses of $135 million.

The proposal would have ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

It should be noted that the MSPT revenue in the first year of the proposal is significantly higher than other years due to elevated mineral prices in recent years. The MSPT revenue is also estimated to increase significantly in 2027-28 because the starting capital base deductions cease at this time as the starting capital base would have been fully depreciated over the first 5 years of the proposal.

ATO departmental costs to collect and ensure compliance with the MSPT are estimated to be $30 million per year with an additional set up cost of $15 million in the first year of the proposal.

The fiscal balance and underlying cash balance impacts are different due to differences between the timing of when mining companies become liable for the MSPT and when it is paid.

Revenue raised from the MSPT would be partially offset by a reduction in company tax revenue due to the MSPT being deductible for company tax purposes.

There is considerable uncertainty associated with this costing as the proposal is extremely sensitive to forecasts of mineral prices. The estimates of MSPT revenue are consistent with the most recent Treasury forecasts of commodity prices which are from the 2022-23 Budget[1]. The Treasury has stated that they have adopted 'conservative export commodity price assumptions' that return to levels 'consistent with long-term fundamentals' by the end of the September quarter 2022. The Treasury states this approach is to ensure that 'economic and fiscal parameters are grounded in long-term economic fundamentals and are not unduly influenced by short-term volatility'[2]. Other sensitivities include changes in:

- mining activity in response to the new tax
- mineral production
- capital expenditure
- economic trends
- exchange rates.

Variations in these factors would significantly affect the revenue raised by the proposal. In practice, a MSPT would be a highly variable tax and changes in the revenue collected would be expected to vary more than proportionally with any changes to these parameters.

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

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	24,775.0	2,530.0	6,310.0	6,430.0	**40,045.0**
Underlying cash balance	17,975.0	6,830.0	6,510.0	6,430.0	**37,745.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Production volume and production costs over the period to 2032-33 for all minerals, including iron ore, would be unaffected by the implementation of the proposal and would remain consistent with current forecasts by Wood Mackenzie and Treasury.
- The MSPT would be calculated and paid quarterly.
- Mining companies liable for the MSPT would pay the 30% company tax rate.

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[1] Under section 64E(3) of the Parliamentary Service Act, the PBO 'must use the economic forecasts and parameters and fiscal estimates contained in the most recent economic and fiscal outlook statement'.

[2] 2022-23 Budget Paper No.1, p.63-64.

Methodology

Mining Super Profits Tax - iron ore

The PBO used detailed mine-level data to estimate the financial implications for iron ore as it is the most significant mineral that would be covered by this proposal. Each mining project's super profits were estimated by calculating total revenue and subtracting general production costs and the depreciation allowance for starting base capital. Each project's annual MSPT liability was then calculated by multiplying its super profit by the 40% super profits tax rate. Finally, the MSPT liability was timed according to the assumed cash timing profile.

Mining Super Profits Tax - other minerals

The expected MSPT for metallurgical coal, thermal coal, gold and alumina were calculated using a model that is based on aggregate price and volume data for each mineral.

Super profits for each of these minerals were estimated by calculating total revenue and subtracting general production costs and the depreciation allowance for starting base capital. Each mineral's annual MSPT liability was then calculated by multiplying its super profits by the 40% super profits tax rate. Finally, the MSPT liability was timed according to the assumed cash timing profile.

It should be noted that the aggregate model is less precise compared to the project level iron ore model because it does not take into account different levels of profitability across particular mining projects.

Interaction with company tax

As specified, the MSPT would be a deductible expense for company tax purposes. The loss of company tax resulting from this deduction was estimated by multiplying the MSPT impact by the company tax rate. This interaction also includes a very small impact on personal income tax due to the reduction in dividends paid to domestic shareholders brought about by lower profitability.

Departmental expense

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.*

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[3]

[3] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Data sources

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

ABS (Australian Bureau of Statistics) (2020) *Australian Industry, 2018-19, ABS Cat. No. 8155.0,* ABS, Australian Government.

ABS (Australian Bureau of Statistics) (2021) *Australian Industry, 2019-20, ABS Cat. No. 8155.0*, ABS, Australian Government.

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

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

Commonwealth of Australia (2011) *Budget 2010-11*, Australian Government.

Commonwealth of Australia (2022) *Budget 2022-23,* Australian Government.

DISER (Department of Industry, Science, Energy and Resources) (2022) *Resources and Energy Quarterly – March 2022*, forecast data and historical data, DISER, accessed 5 May 2022.

Grenville, S (2018) *Foreign Investment: Let's talk about mining, not agriculture*, Lowy Institute, accessed 1 May 2021.

The Treasury provided projections for the long-term bond rate and the commodity price for metallurgical coal and thermal coal as at 2022-23 Budget.

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

Attachment A - Mining Super Profits Tax – financial implications

Table A1: Mining Super Profits Tax –Fiscal balance ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Tax revenue													
Administered tax													
Mining super profits tax	*27,400.0*	*10,200.0*	*9,400.0*	*9,300.0*	*8,700.0*	*15,700.0*	*17,000.0*	*16,500.0*	*15,900.0*	*15,500.0*	*11,000.0*	***56,300.0***	***156,600.0***
Income taxes	*-2,580.0*	*-7,640.0*	*-3,060.0*	*-2,840.0*	*-2,710.0*	*-4,090.0*	*-4,990.0*	*-5,050.0*	*-4,890.0*	*-4,750.0*	*-3,770.0*	***-16,120.0***	***-46,370.0***
Total – revenue	**24,820.0**	**2,560.0**	**6,340.0**	**6,460.0**	**5,990.0**	**11,610.0**	**12,010.0**	**11,450.0**	**11,010.0**	**10,750.0**	**7,230.0**	**40,180.0**	**110,230.0**
Departmental													
Australian Taxation Office	*-45.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	***-135.0***	***-345.0***
Total – expenses	**-45.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-135.0**	**-345.0**
Total (excluding PDI)	**24,775.0**	**2,530.0**	**6,310.0**	**6,430.0**	**5,960.0**	**11,580.0**	**11,980.0**	**11,420.0**	**10,980.0**	**10,720.0**	**7,200.0**	**40,045.0**	**109,885.0**

(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) Income taxes include personal income tax and company tax, with company tax making up 99% of income taxes collected.

Table A2: Mining Super Profits Tax –Underlying cash balance ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Tax receipts													
Administered tax													
Mining super profits tax	*20,600.0*	*14,500.0*	*9,600.0*	*9,300.0*	*8,900.0*	*13,900.0*	*16,700.0*	*16,700.0*	*16,100.0*	*15,600.0*	*12,100.0*	***54,000.0***	***154,000.0***
Income taxes	*-2,580.0*	*-7,640.0*	*-3,060.0*	*-2,840.0*	*-2,710.0*	*-4,090.0*	*-4,990.0*	*-5,050.0*	*-4,890.0*	*-4,750.0*	*-3,770.0*	***-16,120.0***	***-46,370.0***
Total – receipts	**18,020.0**	**6,860.0**	**6,540.0**	**6,460.0**	**6,190.0**	**9,810.0**	**11,710.0**	**11,650.0**	**11,210.0**	**10,850.0**	**8,330.0**	**37,880.0**	**107,630.0**
Departmental													
Australian Taxation Office	*-45.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	***-135.0***	***-345.0***
Total – payments	**-45.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-135.0**	**-345.0**
Total (excluding PDI)	**17,975.0**	**6,830.0**	**6,510.0**	**6,430.0**	**6,160.0**	**9,780.0**	**11,680.0**	**11,620.0**	**11,180.0**	**10,820.0**	**8,300.0**	**37,745.0**	**107,285.0**

(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) Income taxes include personal income tax and company tax, with company tax making up 99% of income taxes collected.

Table A3: Mining Super Profits Tax – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Fiscal balance	*200.0*	*490.0*	*650.0*	*810.0*	*980.0*	*1,210.0*	*1,550.0*	*1,940.0*	*2,360.0*	*2,810.0*	*3,370.0*	***2,150.0***	***16,370.0***
Underlying cash balance	*180.0*	*450.0*	*630.0*	*790.0*	*960.0*	*1,190.0*	*1,510.0*	*1,890.0*	*2,310.0*	*2,750.0*	*3,300.0*	***2,050.0***	***15,960.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[4].

(b) 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. 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.

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[4] Online budget glossary – Parliament of Australia (aph.gov.au)