

SENATE SELECT COMMITTEE ON THE SCRUTINY OF NEW TAXES

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

**Inquiry into a national mining tax**

22 November 2010

**Question: 1**

**Topic:** Government's response to the orders of the Senate seeking that information

Senator Cormann asked:

1. Did you—or did Treasury, rather—draft the government's response to the orders of the Senate seeking that information?
2. We have had a discussion about this in the past. In terms of the RSPT and the MRRT and its original \$10½ billion revenue estimate iteration, there was not much information forthcoming on the underlying revenue assumptions. I have not been able to put my finger on any more transparent information in the context of MYEFO, but you are checking that. How much of the \$3.1 billion in reduced revenue estimate from the mining tax was due to the variation in the exchange rate and how much was due to other causes?
3. Who provided the initial draft of the joint press release that was put out on 2 July by the Prime Minister, the Deputy Prime Minister and Treasurer, and the Minister for Resources and Energy? What was Treasury's involvement in drafting that release?
4. This is a four-page release which includes all other elements of the heads of agreement and faithfully restates all of the other parts of the heads of agreement. Even the second part of the sentence about the state royalty credits is reproduced. In the heads of agreement it says: All state and territory royalties will be creditable against a resource tax liability but not transferable or refundable. Any royalties paid and not claimed as a credit will be carried forward at the uplift rate of long-term bond rate plus seven per cent. The only reference in the press release is to 'unused credits for royalties paid will be uplifted at the government long-term bond rate plus seven per cent, as per other expenses. Unutilised royalty credits will not be transferable or refundable.' The eight words 'all state and territory royalties will be creditable' have been removed. I am trying to find out who did that.
5. If you do find out who has removed those eight words which have turned out to be quite strategic and critical in the way the debate has developed, could you take on notice to find out why they were removed.
6. But you can confirm that that is analysis that has been done? That is what you told us on 5 July, so it has been done. It is information that is held by Treasury; it is information that is held by the government but the Treasurer has decided not to release that information.

Mr Parker—That is right. We have the information.

CHAIR—You have the information?

Mr Parker—We have done the analysis by commodity.

CHAIR—Since you took it on notice on 5 July, have you done the analysis on a state-by-state basis?

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Mr Parker—We are still working on that matter.

7. You would have seen the WA Treasury estimate, which is that up to 65 per cent of the MRRT revenue over the forward estimates would come from Western Australia. They published their assumptions, they published their detailed methodology and they invited people like you to look at it, criticise it and tell them where they were wrong, if they were wrong, complemented with additional information to the extent that it could be shared. Have you reviewed the WA Treasury estimate that 65 per cent of the mining tax would come from Western Australia?

Mr Parker—I have not personally reviewed that.

CHAIR—So you are not aware as to whether it is an accurate estimate or whether it is not an accurate estimate?

Mr Parker—Some of my people may have looked at it. They are not here at the moment, so if you like we can take the question on notice as to whether we have reviewed it.

8. CHAIR—When do you expect that not difficult but large piece of work to be finalised?

Mr Parker—I would have to take the precise date on notice.

CHAIR—Before the end of the year? Early next year? By 1 July 2011?

9. CHAIR—Let me ask a question in a general sense then. You have done the breakdown; you are not going to share the specifics with us, but is it fair to say that most of the revenue from the MRRT will come from iron ore?

Mr Parker—Yes, I think that is the case.

CHAIR—And can you give us a sense of the proportions?

Mr Parker—Not off the top of my head.

CHAIR—Is it like 70-30? Is it 60-40 or 55-45 or is it like 80-20?

Mr Parker—Not off the top of my head.

CHAIR—Can you provide us on notice with the proportion?

10. CHAIR—What I want to know is the proportion of state royalty credits as a part of the revenue, the overall MRRT liability, for coal.

11. CHAIR—I asked Dr Henry about whether or not the MRRT was constitutional and he said yes it was. I asked whether any new advice had been obtained since the RSPT and the answer was no. So the question I have now is whether, since that time, since July, Treasury has sought any further advice on that.

12. Did the Treasurer ever write a letter to the ASX about the ‘Fortescue travesty’ and how it misleads shareholders?

13. Does it remain a best estimate that around 320 companies would be subject to the MRRT? Can you also tell us how many of the 320 companies you expect to end up paying the MRRT and expanded PRRT?

14. CHAIR—I am wondering whether there is further transfer of income from the state to the Commonwealth because the value of the consideration for mining right will

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reduce as a result of the Commonwealth imposing a national resource rent tax, and of course the states are currently receiving the benefit from those auctions.

Mr Parker—Presently they do not auction—maybe the best way would be to take that question on notice.

Answer:

1. Treasury drafted the response.
2. The total variation in the net MRRT revenue between PEFO 2010-11 and MYEFO 2010-11 was \$3.1 billion over the forward estimates and was almost entirely due to the appreciation of the Australian dollar. The exchange rate accounted for an estimated \$2.7 billion of the change while price movements accounted for around \$400 million.
3. The initial draft was provided by the Treasurer's Office. However, the development of the final press release was an iterative process involving input from Treasury and the Treasurer's Office. The final version of the press release was finalised and approved by the Treasurer's Office.
4. The press release was drafted via an iterative process involving input from both Treasury and the Treasurer's Office. As a result, it is difficult to ascertain the identity of the individual that removed the words in question.
5. See the answer to Question 4.
6. Iron ore is expected to account for around 80% of the revenue. Coal is expected to account for 20% of the revenue.
7. Based on an examination of ABS data on the distribution of production of iron ore and coal by State, the WA Treasury estimates of the proportion of MRRT revenue that would be attributable to projects in that State are not unreasonable.
8. Refer to the answer to question 7.
9. Refer to question 6.
10. State royalties for coal are around 74% of the gross MRRT (i.e. MRRT before deducting royalties) for coal.
11. No.
12. No.
13. This remains the best estimate of the number of businesses subject to the MRRT and expanded PRRT. An analysis of the number that will actually pay the tax has not been undertaken.
14. Currently, the States and Territories typically assess a prospective investor on a first-come first-served basis, with a nominal application processing fee. As a result, the introduction of the MRRT is not expected to affect the value of the consideration paid to States and Territories for the mining right.