THE TREASURY

Senate Economics References Committee

Submission to the inquiry into the development and operation of the Minerals Resource Rent Tax

28 March 2013

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Introduction

On 26 February 2013, the Senate referred the following matter to the Senate Economics References Committee's for inquiry and report back to the Senate by 6 May 2013.

> *The development and operation of the Minerals Resource Rent Tax (MRRT) in regard to the recently released revenue figures showing a massive shortfall in the revenue compared to government projections, in particular:*
>
> *a) the design of the MRRT and the extent to which the design of the tax as opposed to other factors such as commodity prices are responsible for actual revenue and revenue projections;*
>
> *b) the process by which the MRRT was designed, including the extent of the involvement of the Department of the Treasury and mining corporations who would pay the tax;*
>
> *c) the extent to which, if at all, the Government took account the views of communities affected or potentially affected by iron ore and coal mining when designing the tax;*
>
> *d) implications for the budget; and*
>
> *e) any other related matter.*

To assist the Committee, and consistent with its terms of reference, this submission is divided into four parts as follows:

- **Part 1** provides an overview of the key design features of the MRRT regime;
- **Part 2** explains the design and operation of the MRRT, and how a miner's MRRT liability is determined;
- **Part 3** outlines the stages in the process by which the MRRT was designed, including Treasury involvement and the public consultation processes undertaken; and
- **Part 4** discusses MRRT revenue forecasts, factors that may affect MRRT revenue outcomes, and the implications for the Budget.

1. Overview of the Minerals Resource Rent Tax

The Minerals Resource Rent Tax (MRRT) regime commenced operation on 1 July 2012. The MRRT is a tax on the 'economic rents', or above normal profits, miners derive from taxable resources (iron ore and coal) after they are extracted from the ground, but before they undergo any significant processing, transportation or other value add. It is a project-based tax, meaning that a liability is worked out separately for each project a miner has at the end of the MRRT year. The miner's total MRRT liability is the sum of those project liabilities.

Key features of the MRRT include:

- The MRRT applies to all iron ore and coal projects in Australia, at a rate of 30 per cent. An extraction allowance of 25 per cent reduces the effective rate of the MRRT to 22.5 per cent.
- Under the MRRT, the government taxes the positive cash flows, or 'mining profits' earned in an MRRT year, and allows miners to carry forward and uplift losses (unused deductions) at a rate of long term bond rate (LTBR) + 7 per cent for use in later years.
- The MRRT only applies to profits attributable to the resource close to the point of extraction (the 'valuation point'). In this way, it avoids taxing the value added through activities such as further downstream processing.
  - Miners with mining profits below $75 million have no MRRT liability.
- Most costs incurred by the miner in extracting the resource and getting it to the valuation point are deductible. Unlike income tax, both capital and operating expenditure are deductible in the year they are incurred. Royalties paid to the States and Territories are effectively credited against MRRT liabilities via a 'grossed-up' deduction.
- The MRRT provides for transferability of unused losses between commonly-owned mining project interests that produce the same commodity.
- Miners that had existing mining interests as at 2 May 2010 receive an additional starting base amount in recognition of investment incurred prior to the MRRT regime being introduced. The starting base amount is depreciated each year to provide a deductible starting base allowance. This reduces the MRRT payable for existing projects until the starting base is fully deducted.
- A miner may determine their starting base for a mining project interest using one of two methods – market value or book value.
  - The market value method uses the market value of the mining project interest's upstream assets (including rights to the resources) at 1 May 2010, and is depreciated over the shorter of the life of the asset, the life of the mine, or 25 years.
  - The book value method uses the most recent accounting book value of starting base assets (not including rights to the resources) available at that time, and is depreciated over five years.
- Special arrangements may be accessed by small miners to provide certainty and reduce their compliance costs. These include the use of a simplified MRRT method, as well as an alternative valuation method for determining assessable revenue.

2. Operation of the Minerals Resource Rent Tax

A miner's MRRT liability, for an MRRT year, is equal to the sum of its MRRT liabilities for each of its mining project interests for that year. A mining project interest is an entitlement to share in the output of a mining venture in which the miner participates.

The MRRT Act sets out four steps by which a miner's MRRT liability for a mining project interest in an MRRT year is determined. Those steps involve:

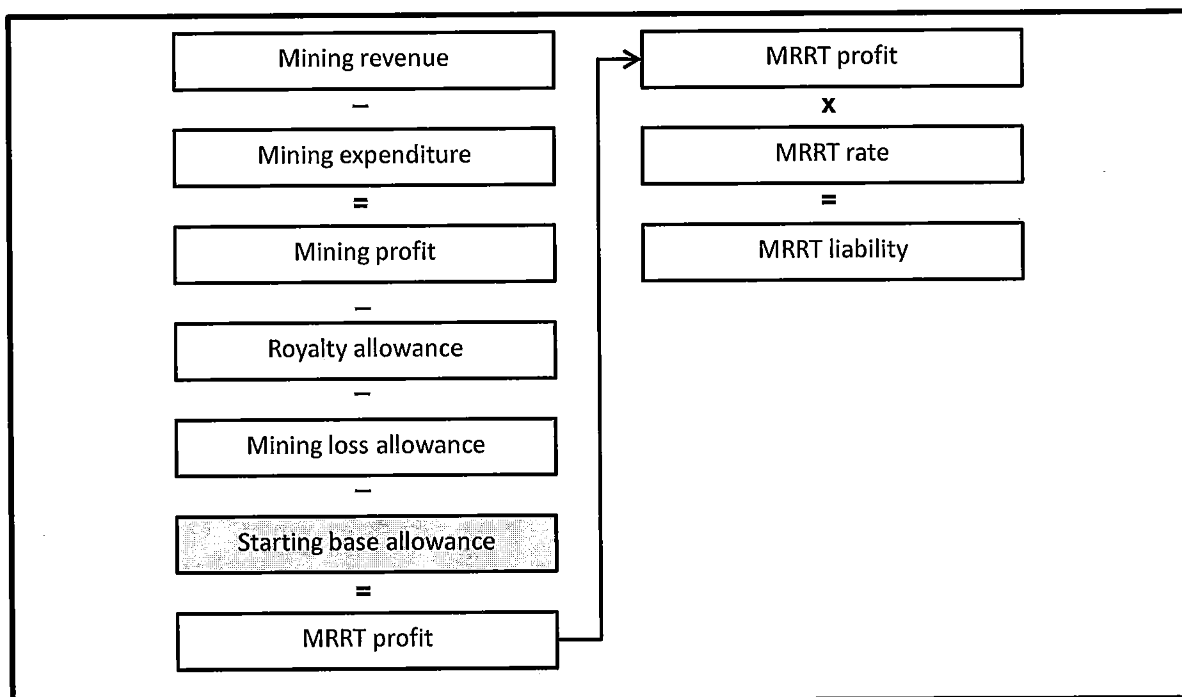
1. the calculation of a miner's **mining profit** for the mining project interest;
2. the calculation of a miner's **MRRT allowances** for the mining project interest;
3. the subtraction of MRRT allowances from mining profit; and
4. the application of the **MRRT rate** to the remaining amount of profit.

In other words, MRRT liability is determined by:

MRRT rate x [mining profit – MRRT allowances]

The framework for determining MRRT liability (ignoring allowance transfers and any offsets) is illustrated in Figure 1.

Figure 1. Determining MRRT liability



Mining profit

A mining profit for a mining project interest in an MRRT year is worked out by subtracting a mining project interest's mining expenditure from its mining revenue. If mining expenditure exceeds mining revenue, the miner's mining profit for the interest is zero.

Mining revenue for a mining project interest is that portion of the proceeds from the sale of a taxable resource that is attributable to its value at the valuation point (a point in the production chain just after extraction). That is, mining revenue excludes revenue attributable to operations

downstream of the valuation point, such as transportation. Mining revenue can be calculated by subtracting the costs incurred between the valuation point and the point of sale (sometimes called the 'net-back' method), or by using another arm's length method.

Mining expenditure for a mining project interest includes all expenditure necessarily incurred in the MRRT year in the carrying on of upstream mining operations for a mining project interest, whether it is of a capital or a revenue nature. Upstream mining operations are a subset of mining operations, being those that occur before a taxable resource leaves the valuation point. They will include, among other things, exploration for taxable resources, constructing the mine and associated facilities, extraction of the resources, preliminary crushing and weighing the taxable resources, and transportation of the resources to the valuation point.

MRRT allowances

An MRRT liability for a mining project interest is calculated by reducing the interest's mining profit by any MRRT allowances and multiplying the result by the MRRT rate.

MRRT allowances are taken into account in a specified order. The seven types of allowance available to miners, and the order in which they are applied in working out the MRRT liability for a mining project interest, are:

1. royalty allowances;
2. transferred royalty allowances;
3. pre-mining loss allowances;
4. mining loss allowances;
5. starting base allowances;
6. transferred pre-mining loss allowances; and
7. transferred mining loss allowances.

Royalty allowance

The royalty allowance permits a miner to reduce its MRRT liability to the extent that it has made payments of Commonwealth, State or Territory royalties in relation to taxable resources extracted from a mining project interest.

A miner's royalty allowance for a mining project interest is so much of the sum of available royalty credits as does not exceed the miner's mining profit. A royalty credit arises where a miner incurs a liability to pay a mining royalty in relation to a taxable resource extracted under the authority of a production right to which the interest relates. A mining royalty is a royalty payment made under Commonwealth, State or Territory law in relation to a taxable resource.

The amount of the royalty credit is determined by grossing-up the royalty payments by the MRRT rate. Grossing-up the royalty payment allows the royalty credit to be taken as a deductible royalty allowance, which is necessary for it to be applied ahead of other allowances (such as losses).[1]

In addition, royalty credits that have not been applied by a miner to reduce its mining profit in a particular year may be applied against profits in later years. In such circumstances, the amount of

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[1] For example, a miner that pays a State royalty of $22.5 million in an MRRT year receives a royalty credit of $100 million (being the royalty payment divided by the MRRT rate of 22.5%).

the royalty credit is uplifted by LTBR plus 7 per cent. This uplift is designed to compensate for both the time value of money and the risk involved.

Transferred royalty allowances

A royalty credit of one mining project interest can be transferred and used to offset a mining profit in another mining project interest only if the two interests are integrated at all times from when the royalty credit arose to the end of the year in which the royalty credit is transferred.[2]

Pre-mining loss allowances

An entity has a pre-mining loss allowance for a mining project interest for an MRRT year if it has an available pre-mining loss that relates to that interest and it has a remaining mining profit after deducting all higher ranked allowances. A pre-mining loss is an available pre-mining loss for that interest if it relates to a pre-mining project interest (e.g. an exploration permit from which the interest originated).

An entity has a pre-mining loss for an MRRT year if it holds a pre-mining project interest and its pre-mining expenditure for the interest exceeds its pre-mining revenue. This allows pre-mining project expenditure (for example, exploration expenditure) that is a necessary precursor to the development of a mining project interest to be recognised under the MRRT.

Any pre-mining loss remaining after a pre-mining loss allowance (and any transferred pre-mining loss allowance) is calculated for the MRRT year is then available for use in future years to reduce future mining profits for that mining project interest. It is uplifted at the LTBR + 7 per cent for the first 10 years and at the LTBR thereafter.

Mining loss allowances

A mining project interest has a mining loss allowance for an MRRT year if the interest has a mining profit remaining after all higher ranked allowances (royalty allowance, transferred royalty allowance and pre-mining loss allowance) have been applied and there is an available mining loss for the interest. The amount of a mining loss allowance is the lesser of the remaining mining profit and the available mining losses for the mining project interest.

A mining project interest has a mining loss for an MRRT year if its mining expenditure exceeds its mining revenue for the year. The mining loss for that year is the amount of the excess.

The amount of a mining loss available in a later year is the mining loss available for the previous year less the amount that was applied during that preceding year. The result is uplifted by the LTBR + 7 per cent.

Starting base allowances

Starting base allowances recognise investments in assets (starting base assets) relating to the upstream activities of a mining project interest that existed before the announcement of the

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[2] Two mining project interests will be integrated if the same miner has both interests; the interests relate to the same type of taxable resource (that is, both relate to iron ore or both relate to coal); and the interests either:

- relate to the same mine or proposed mine (upstream integration); or
- are integrated in their downstream mining operations.

resource tax reforms on 2 May 2010. They also recognise certain expenditure on such assets made by a miner between 2 May 2010 and 1 July 2012 (when the MRRT began to apply).

A mining project interest has a starting base allowance if it has profit remaining after using all other higher ranked allowances, and it has one or more starting base losses. Unlike other losses, starting base losses are never transferable to other mining project interests.

A starting base loss reflects the annual depreciation (decline in value) of the starting base assets. If there is insufficient profit to use a starting base loss, it is carried forward and uplifted.

A miner can choose to work out the starting base losses for a mining project interest based on either

- the market value of starting base assets (including rights to the resources) at 1 May 2010; or
- the most recent accounting book value of starting base assets (not including rights to the resources) available at that time.

Under the market value approach, a starting base asset is depreciated over the shorter of: the asset's remaining effective life; the life of the mine; and the period until 30 June 2037. The undepreciated value of a starting base asset is not uplifted, though the real value of any unused losses is preserved by uplifting them by the consumer price index (CPI).

Under the book value approach, a starting base asset is depreciated over five years: 36 per cent; 37.5 per cent; 37.5 per cent; 60 per cent; and 100 per cent (declining balance). The undepreciated value of a starting base asset is uplifted each year by the LTBR + 7 per cent. Any unused losses are also uplifted by the LTBR + 7 per cent.

Transferred pre-mining loss allowances

Because most mineral exploration in Australia is conducted by entities that do not themselves mine their successful discoveries, the transfer of pre-mining losses is dealt with differently from the transfer of mining losses. Pre-mining losses do not have to satisfy a common ownership test before they can be transferred. However, they do have to satisfy the requirements that transfers occur between interests related to the same type of taxable resource and held by the same entity or by a closely associated entity. The transfer of pre-mining losses is also capped if they are acquired for less than their tax value.

Transferred mining loss allowances

A mining loss of a mining project interest can be transferred to another mining project interest if the two mining project interests satisfy the common ownership test and both relate to iron ore or both relate to coal.

The common ownership test is satisfied if, at all times from the start of the year for which the mining loss arose to the end of the year in which the mining loss is to be applied, the two mining project interests were held by the same miner or by miners who are closely associated with each other.

A simple example of the MRRT calculation (with no transferred allowances) is shown in figure 2 below.

Figure 2. The MRRT Calculation

	Year 1	Year 2	Year 3	Year 4	Year 5
Step1. Determine Mining Profit					
Assessable Revenue [a]	$0	$450	$450	$450	$450
Deductible expenditure [b]	$100	$170	$120	$120	$120
Mining Profit [a] - [b]	-$100	$280	$330	$330	$330
Step2. Deduct allowances					
(i) *deduct* Royalty allowance [c]	$0	$100	$100	$100	$100
(ii)deduct mining loss allowance [d]	$100*	112*	$0	$0	$0
(iii)deduct starting base allowance [e]	$0	$30	$30	$30	$30
MRRT Profit [a] - [b] - [c] - [d] - [e]	$0	$38	$200	$200	$200
MRRT Payable	**$0**	**$9**	**$45**	**$45**	**$45**

* In this example, the $100 mining loss allowance in year 1 is unable to be deducted, and so, consistent with the operation of the MRRT, is carried forward and uplifted at LTBR + 7% (assumed here to be 12%) and deducted in year 2.

MRRT arrangements for Small Miners

The MRRT Act includes a number of provisions to reduce the potential tax burden on small miners, and which can be chosen by small miners to reduce compliance burdens.

The MRRT includes a full exemption for miners earning up to $75 million per year in mining profit, with a partial exemption applying for miners with up to $125 million per year in profit.

A simplified MRRT method may be chosen by miners whose group accounting profit in an MRRT year is less than $75 million, or alternatively by those whose group profits are less than $250 million and royalty liabilities are greater than 25 per cent of the accounting profit for all relevant mining interests. Where the simplified method is chosen, the miner is deemed to have no MRRT liability in that year. The simplified method effectively allows a miner whose profit is unlikely to exceed the $75 million per year MRRT exemption threshold to choose to effectively opt-out of the regime.

Miners with production of less than 10 million saleable tonnes of resource in a MRRT year can also choose to use an 'alternative valuation method' for determining MRRT assessable revenue (that is, the amount of revenue attributable to the resource at the valuation point). The alternative valuation method involves the application of a simple netback calculation and is intended to provide tax certainty and reduce compliance costs for small miners.

3. Design process of the Minerals Resource Rent Tax

The development and design of the Minerals Resource Rent Tax occurred over several stages, commencing with the recommendations of the Australia's Future Tax System Review and ending with the finalisation of the drafting of the MRRT legislation. Treasury was engaged throughout the process, consistent with its responsibilities as the Commonwealth agency with primary responsibility for providing advice to Government on taxation matters.

A timeline outlining the development of the MRRT is attached.

Recommendations of the Australia's Future Tax System Review

The Minerals Resource Rent Tax had its origins in the *Australia's Future Tax System* (AFTS) Review, the final report of which was provided to the Treasurer in December 2009, and publically released on 2 May 2010. The AFTS Review, which was chaired by then Treasury Secretary, Dr Ken Henry, operated over the period from May 2008 to December 2009 and was supported by a secretariat based within Treasury.

As part of the AFTS review process, consultation papers discussing resource tax arrangements were published, meetings with industry were held, and formal submissions were received both from the mining industry and other interested parties in relation to possible future tax arrangements.

The AFTS review recommended[3] that the current resource charging arrangements should be replaced by a uniform resource rent tax imposed and administered by the Australian Government. The recommendation was underpinned by the Review's findings that existing resource charging arrangements, primarily State royalties, were both inefficient and failed to collect an adequate return for the Australian people in exchange for their non-renewable resources.

Specifically, the Review found that royalty arrangements, which are typically applied on a volume or value basis, can distort investment and production decisions due to being levied irrespective of the cost of production. As a consequence, they can result in otherwise economically viable projects not proceeding, particularly during periods of low commodity prices, leading to lower industry output and the earlier closure of operational mining projects.

In addition, as royalties are relatively inflexible and need to balance the competing objectives of securing a return for the resource while not discouraging current and future production, rates tend to be set at levels low enough for the majority of industry to bear in periods of low to average commodity prices. As a result of this trade-off the return to the Australian community (particularly during periods of high commodity prices) may be less than under alternative arrangements.

The Review considered that, for non-renewable resources that are expected to generate significant amounts of economic rent, a rent-based tax (that is, one that taxes only those returns in excess of the minimum return needed for an investment to proceed) is the most suitable charging mechanism as the potential economic efficiency and revenue gains from such a tax are likely to outweigh the higher administration and compliance costs involved compared with royalties and income-based taxes. Notably, by taking into account the real costs involved in mining, a resource rent tax is less likely to make an otherwise economically viable project unviable, and less likely to create a bias toward less or more risky investments.

The Resource Super Profits Tax

On 2 May 2010, the Government, as part of the *Stronger, Fairer, Simpler* tax package, announced its intention to apply a Resource Super Profits Tax (RSPT) to the profits earned from resources owned by the Australian Community from 1 July 2012. The key features of the RSPT were as follows:

- Tax rate of 40 per cent on the profits made from non-renewable resources.

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[3] See Australia's Future Tax System, Report to the Treasurer, Volume 1, Recommendation 45 to 49, page 89.

- Unused project losses carried forward with an allowance applied at the Government Long Term Bond rate, or alternatively transferred to commonly-owned projects, with the tax value of any losses being refunded when a project is closed; and
- Royalty payments creditable against tax liability and transferable to other commonly owned projects, with unused royalty credits in a given year refunded.
- Existing projects would receive a starting base allowance based on their book value in recognition of past investment.

Consistent with its role as a Government Department, Treasury provided advice to the Treasurer during the development of the Government's response to the AFTS review and the tax package, including in relation to the RSPT. As part of this process, Treasury also undertook revenue estimates of the RSPT which were reported in the 2010-11 Budget.[4]

At the same time as announcing the key features of the RSPT, on 2 May 2010, the Government also announced the establishment of a Resource Tax Consultation Panel to consult extensively with stakeholders on the detailed design of the new resource tax arrangements.[5] The objective of the Panel's discussion was to communicate the design features of the RSPT, and to advise Government on issues regarding the proposed design of the RSPT.

The Resource Tax Consultation Panel (RTCP) conducted over 30 meetings with around 40 companies and industry associations in five cities throughout May 2010. The RTCP was supported in its role by a secretariat comprising Treasury officers, as well as officers seconded from the Australian Taxation Office and the Department of Resources, Energy and Tourism to Treasury. The Panel reported to Government on its findings from industry consultations in late May 2010.[6]

The key concerns raised by industry with the RTCP included the RSPT allowance rate and the related refundability feature; the use of accounting book value to determine the starting base for existing operations; the crediting of State royalties; and the application of the RSPT to low-value commodities.

Treasury provided advice to Ministers, including in relation to the RTCP's findings, throughout the period leading up to the Government's announcement of 2 July 2010. Following the Prime Minister's announcement of 24 June 2010 that Government would seek to reach a consensus with industry regarding appropriate resource tax arrangements,[7] Treasury also consulted with industry representatives in relation to the assumptions and modelling methodologies underpinning RSPT revenue estimates. As part of this process, information provided by industry was used to inform the development of a revised revenue model for the mining sector.

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[4] 2010-11 Budget, Budget Paper No 2, page 45.

[5] See Treasurer's media release, "Resource Tax Consultation Panel", of 2 May 2010, available at: http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/029.htm&pageID=003&min=wms&Year=&DocType=

[6] http://archive.treasury.gov.au/documents/1936/PDF/92_options_paper_minute_MR.pdf

[7] http://www.pm.gov.au/press-office/joint-press-conference-deputy-prime-minister-wayne-swan

The MRRT Heads of Agreement & the Policy Transition Group

On 2 July 2010, the Government announced that, following a process of consultation and negotiation with industry, it had reached an agreement with representatives of the mining industry on new resource tax arrangements involving the introduction of the Minerals Resource Rent Tax (MRRT) regime (together with an extension of the existing Petroleum Resource Rent Tax (PRRT)), from 1 July 2012. The MRRT would apply to iron ore and coal in Australia. The headline features of the MRRT were detailed in the Heads of Agreement between industry and Government,[8] as follows:

- Tax rate of 30 per cent on the assessable profits made from iron ore and coal extraction, with an applicable extraction allowance of 25 per cent.
- Small miners with resource profits below $50 million[9] have no MRRT liability.
- Unused project losses carried forward with an allowance applied at the Government Long Term Bond rate + 7 per cent, or alternatively transferred to commonly-owned projects.
- Royalty payments creditable against MRRT liabilities but not transferable or refundable.
- Miners with project interests existing as at 2 May 2010 may elect to use book value (deductible over 5 years) or market value (deductible over the life of project up to 25 years) to calculate a starting base.

At that time, the Government also established a Policy Transition Group (PTG) to undertake further consultation with industry and provide advice to Government on the detailed and technical design elements of the new tax arrangements.[10] The PTG was jointly led by the then Minister for Resources, Energy and Tourism and Mr Don Argus AC, and comprised representatives from industry and professional organisations, and the then Executive Director of Treasury's Revenue Group. The PTG was supported in its role by a secretariat comprising officers from Treasury, the Department of Resources, Energy and Tourism and the Australian Taxation Office, as well as a private sector consultant.

To inform its deliberations, the PTG undertook a comprehensive program of face-to-face consultations in Perth, Brisbane, Sydney, Adelaide and Melbourne. The PTG met with affected companies, relevant industry associations, major accounting firms and other tax professionals. The PTG received 88 written submissions and undertook follow-up discussions with individual stakeholders as required. All non-confidential submissions were published. The PTG delivered its reports to Government on 21 December 2010, and the reports were publically released at that time.[11]

As is usual practice, Treasury provided advice to the Treasurer on the PTG recommendations. On 24 March 2011, the Government announced its acceptance of all 98 recommendations made by the

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[8] The MRRT Heads of Agreement was tabled in the House of Representatives on 3 November 2011.

[9] The low profit threshold was increased to $75 million in the final MRRT design via parliamentary amendment.

[10] Joint media release, *"Breakthrough Agreement with Industry on Improvements to Resources Taxation"*, 2 July 2010, http://ministers.treasury.gov.au/wmsDisplayDocs.aspx?doc=pressreleases/2010/055.htm&pageID=003&min=wms&Year=2010&DocType=0

[11] Treasurer's media release, *"Government Welcomes Policy Transition Group Reports"*, 21 December 2010 - http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/096.htm&pageID=003&min=wms&Year=&DocType=

PTG, including the 67 recommendations regarding the design of the MRRT, which would inform the design of the relevant draft legislation.[12]

The legislative drafting process & the Resource Tax Implementation Group

Consistent with the recommendations of the Policy Transition Group, the Government established an implementation group to support the legislative drafting stage of the MRRT. The Resource Tax Implementation Group (RTIG) was chaired by Treasury, and comprised representatives from industry and the tax profession as well as officials from Treasury, the Department of Resources, Energy and Tourism, and the Australian Taxation Office.

Two rounds of public consultation on the draft legislation for the MRRT were conducted between 10 June and 14 July 2011, and 19 September and 5 October 2011. 28 submissions were received in the first consultation round and 18 submissions in the second. All non-confidential submissions were published.

The MRRT legislation was introduced into Parliament on 2 November 2012, passing through the Senate on 19 March 2012. The MRRT commenced operation on 1 July 2012.

4. MRRT revenue

MRRT Revenue forecasts

On 8 February 2012, the Treasurer released advice from the Tax Commissioner that the first two quarterly MRRT instalments totalled $126 million.[13] While it is difficult to draw conclusions regarding the overall performance of the MRRT on the basis of nine months of operation and data from the first two instalments, the collections to date do suggest that MRRT revenue collections for the 2012-13 year will be lower than that estimated in the 2012-13 MYEFO.

Resource rent taxes such as the MRRT are, by their nature, volatile and difficult to forecast due to the number of factors that may affect mining profitability.

Revenue forecasts for the MRRT were first published in the July 2010 Economic Statement,[14] and were calculated using an aggregate 'top-down' model which looks at the industry as a whole rather than on a project by project basis. As noted, the assumptions underpinning the model were, in part, informed by information provided by industry. The Treasury MRRT model was released under Freedom of Information on 14 February 2011.[15]

Treasury has revised the MRRT model on an ongoing basis to take account of the best available information at the time, with the outcomes reflected in the updated revenue estimates reported in subsequent Budgets and Mid-year Economic Forecast and Outlooks (MYEFOs).

Treasury and the Australian Taxation Office are examining the reasons for the apparent deviation between the revenue forecasts and collections to improve revenue forecasting outcomes going

[12] Treasurer's joint media release, *"Government Accepts Resource Tax Recommendations"*, 24 March 2011, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/024.htm&pageID=004&min=wms&Year=2011&doctype=0

[13] Treasurer's media release, *"Mineral Resource Rent Tax revenue"*, http://www.treasurer.gov.au/wmsDisplayDocs.aspx?doc=pressreleases/2013/019.htm&PageID=003&min=wms&Year=&DocType=0

[14] http://www.budget.gov.au/2010-11/content/economic_statement/download/ES_Consolidated.pdf

[15] See RSPT and MRRT revenue estimates, http://www.treasury.gov.au/Access-to-Information/DisclosureLog?page=9&ps=10

forward. Consistent with past practice, MRRT revenue estimates will be updated in the 2013-14 Budget.

Factors that may affect revenue outcomes

In broad terms, and as illustrated in figure 1, MRRT revenue collections will be affected by both the quantum of mining profit earned and the deductible allowances available to miners.

Mining profit is sensitive to movements in both the price of taxable commodities and the exchange rate. Notably, in the September quarter 2012 global commodity prices for both iron ore and coal declined significantly, with the price of iron ore falling more than 30 per cent, impacting on mining profitability. Prices of iron ore, while still volatile, have since recovered (see figure 3).

Figure 3. Iron Ore Price – US$ per dry metric tonne

Source: Bloomberg (TSIPO62 China Import Iron Ore Fine 62% Fe CFR)

It should be noted that the impact of the price falls on profitability and potential MRRT liability would have been particularly pronounced for those miners who report on a calendar year rather than a financial year basis, which may have affected the quantum of instalment collections to date. This is because the first MRRT year for such miners ended on 31 December 2012 and only comprised the first two instalment periods - the profit for which would have been negatively affected by the lower average realised prices during the period.

The level of mining profit will also be affected by the proportion of sales revenue that is attributable to the commodity at the valuation point (as opposed to the value added by downstream activities) which is not directly observable. The MRRT Act requires miners to use the most appropriate and reliable method for determining the value of the resource at the valuation point having regard to the

miners specific circumstances.[16] The appropriateness of the methods miners have used will be a matter for future consideration by the Commissioner of Taxation as part of the normal activities of the Australian Tax Office.

Mining allowances include both pre-mining and project expenditures that were unable to be deducted in previous years, as well as royalty allowances and starting base allowances. As this is the first year of the MRRT's operation, it is the royalty and starting base allowances which are of most relevance.

Information produced by the States and Territories regarding royalties payable on the taxable commodities, including changes to royalty arrangements where clearly specified, is taken into account in forecasting MRRT revenues. In relation to the incentive the MRRT may provide States and Territories to increase royalties, following the recommendations of the GST Distribution Review,[17] on 17 December 2012, the Standing Council for Federal Financial Relations tasked the Heads of Treasuries with investigating a cooperative approach to resolving this issue.

Finally, differences between the forecasting assumptions and the approach taken by miners regarding the value of starting base assets and the time over which those amounts are depreciated may also be a factor in the apparent variation between the revenue forecasts and outcomes. As outlined in Part 2, a miner may choose to determine its starting base amount in relation to a mining interest on the basis of either market or book value, with the time over which it can be deducted as a starting base allowance dependant on the method chosen. Miners are not required to submit their starting base returns to the ATO until after the end of their first MRRT year, with the appropriateness of the valuation approaches taken subject to ATO consideration at that time.

[16] See MRRT Act 2012, section 30-25

[17] GST Distribution Review, Final Report, October 2012. Recommendation 8.3, page 134.

Minerals Resource Rent Tax Timeline

2 May 2010

- Australia's Future Tax System (AFTS) Review recommends a resource rent tax and RSPT is announced with the release of the AFTS Review.

2 July 2010

- Heads of Agreement reached between Government and industry, which agreed RSPT be replaced with the MRRT (and extended PRRT), which outlined key features of the MRRT, including:
  - Application only to coal and iron;
  - Tax rate of 30 per cent with extraction allowance;
  - Crediting of royalties;
  - Taxing point to be at the mine gate, with transfer pricing methods to be used to determine value of resource at that point.

3 August 2010

- The Treasurer and then Minister Ferguson announced the membership and terms of reference of the policy transition group lead by Mr Don Argus and Minister Ferguson.

22 December 2010

- The Policy Transition Group (PTG) recommendations regarding the detailed technical design elements of the MRRT provided to Government.

24 March 2011

- Government accepts all 98 PTG recommendations.

10 June 2011

- Exposure draft of MRRT legislation released, with public consultation closing on 14 July 2011.

18 September 2011

- Second MRRT exposure draft was released on 18 September 2011, and public consultation closed on 5 October 2011.

2 November 2011

- MRRT legislation introduced to the House of Representatives.

24 November 2011

- MRRT Bill passes the House, following the Wilke amendment to increase the MRRT low profit threshold from $50 million to $75 million.

19 March 2012

- MRRT passes Senate.

29 March 2012

- Royal Assent.