
The Parliament of the Commonwealth of Australia

Advisory Report on the Minerals Resource Rent Tax Bill 2011 and related bills

House of Representatives
Standing Committee on Economics

November 2011
Canberra

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ISBN 978-0-642-79600-4 (Printed version)

ISBN 978-0-642-79601-1 (HTML version)

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Chair's foreword

Australia is experiencing an unprecedented mining boom with high levels of investment and profit. Mining companies generated profits of \$92.8 billion to June and plan to invest \$430 billion to expand their industry. In the last decade mining profits have jumped 262 per cent.

The Australian Government has taken the view that the massive profits of the mining sector should be more fairly taxed and the proceeds returned to all Australians. This is consistent with the evidence the committee received during the inquiry. United Voice stated, 'There is a substantial gulf between the perceived benefits of the mining boom and some of the actual impacts on our economy, environment, health and the day to day lives of Australians.'

The Mineral Resource Rent Tax (MRRT) will be a tax on mining profits. The proceeds of the tax will fund critical infrastructure, a cut in the company tax rate for small business, and make it possible to increase the superannuation guarantee from nine to 12 per cent.

Resource rent taxes are much more efficient than royalties. The Australia's Future Tax System Review found that royalty regimes were the most distorting taxes in the Federation.

The Minerals Resource Rent Tax Bill 2011 and the related bills implement important reforms to the Australian economy. They:

- apply a 22.5 per cent Mineral Resource Rent Tax (MRRT) on the profits that mining companies make on iron ore and coal on their mining activities only (excluding value adding activities such as transportation and concentration);
- extend the Petroleum Resource Rent Tax to the North West Shelf and the Australian mainland;

- increase the superannuation guarantee from 9 per cent to 12 per cent, remove the age limit of 70 for the superannuation guarantee, and implement a superannuation contribution for low income earners of up to \$500 annually; and
- give small businesses simplified and greater up-front tax deductions for assets.

Although not formally a part of the package, the Government has also announced that it will decrease the company tax rate for small businesses from 30 per cent to 29 per cent.

These reforms recognise that mineral resources belong to all Australians and it is only right that the profits from the mining boom be shared more widely.

During the inquiry there were differing views on how the tax would affect emerging miners, compared with established miners. Emerging miners believed that they would be paying a large amount of the revenue under the MRRT and that large miners would pay very little, due to the larger starting base that established miners have available to them as a deduction against the MRRT. However, Treasury advised the committee that:

The value of the resource, to the extent that it is reflected in the starting base, will be reflective of the expected future cash flows from the exploitation of the resource, so they will be proportional. If you have a large starting base you would expect to have large revenue flow, and if you have a small starting base you will have a smaller revenue flow.¹

The committee is confident that the MRRT will operate as intended.

Importantly, the other elements of the package deliver significant benefits to the Australian economy as a whole. Small business confirmed that the improved deductions will help them with their cash flow and make it easier for them to obtain finance to invest in their businesses during the two-speed economy. Business Enterprise Centres Australia said, 'we have small business, which is the backbone of the economy, struggling. There has to be a redistribution of that wealth.'

The MRRT will also fund substantial infrastructure investment in regional Australia through the Regional Infrastructure Fund.

The superannuation industry confirmed that Australians support compulsory saving for their retirement and that the Bills will help address the savings gap that currently exists for the great majority of Australians. The Financial Services Council stated, 'the current superannuation guarantee rate is at nine per cent and

1 Mr Patrick Sedgley, Treasury, *Committee Hansard*, Canberra, 9 November 2011, p. 40.

that will fail to provide people with their expectations of a comfortable retirement.'

Low income earners stand to significantly gain from the Bills. Unlike the majority of Australian workers, 3.5 million Australians on low incomes receive little or no tax benefit from contributing to super because their marginal income tax rate is equal to, or below, the 15 per cent tax applied to superannuation. The low income superannuation contribution in the legislation will distribute superannuation tax concessions more equitably.

The Bills implement important long run reforms to the Australian economy and ensure that all Australians will benefit from the mining boom. They should become law.

I would like to thank the organisations that assisted the committee during the inquiry through submissions or participating in the hearings in Canberra. I also thank my colleagues on the committee for their contribution to the report.

Julie Owens MP
Chair



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Coalition Members of the Committee




Membership of the Committee

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Terms of reference

On 2 November 2011 the Treasurer, the Hon Wayne Swann, MP, in accordance with Standing Order 215 (c) referred the following bills to the committee for inquiry and an advisory report by 21 November 2011:

Minerals Resource Rent Tax Bill 2011

Minerals Resource Rent Tax (Consequential Amendments and Transitional Provisions) Bill 2011

Minerals Resource Rent Tax (Imposition – General) Bill 2011

Minerals Resource Rent Tax (Imposition – Customs) Bill 2011

Minerals Resource Rent Tax (Imposition – Excise) Bill 2011

Petroleum Resource Rent Tax Assessment Amendment Bill 2011

Petroleum Resource Rent Tax (Imposition – General) Bill 2011

Petroleum Resource Rent Tax (Imposition – Customs) Bill 2011

Petroleum Resource Rent Tax (Imposition – Excise) Bill 2011

Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011

Superannuation Guarantee (Administration) Amendment Bill 2011



List of abbreviations

ACCI	Australian Chamber of Commerce and Industry
AFTS Review	Australia's Future Tax System Review
AIST	Australian Institute of Superannuation Trustees
AMEC	Association of Mining and Exploration Companies
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BECA	Business Enterprise Centres Australia
CME	Chamber of Minerals and Energy of Western Australia
COSBOA	Council of Small Business of Australia
EM	Explanatory Memorandum
FMG	Fortescue Metals Group
FOI	Freedom of information
ICAA	Institute of Chartered Accountants of Australia
MCA	Minerals Council of Australia
MRRT	Minerals Resource Rent Tax
OECD	Organisation for Economic Co-operation and Development

PRRT	Petroleum Resource Rent Tax
REIA	Real Estate Institute of Australia
RSA	Retirement savings account
RSPT	Resources Super Profits Tax
SG	Superannuation Guarantee



Recommendation

4 Sharing the benefits of the mining boom

Recommendation 1

That the House of Representatives pass all 11 Bills in the package, namely:

- the Minerals Resource Rent Tax Bill 2011 and the four related minerals Bills;
- the Petroleum Resource Rent Tax Assessment Amendment Bill 2011 and the three related petroleum Bills;
- the Superannuation Guarantee (Administration) Amendment Bill 2011; and
- the Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011.