Question: **BET 113**

Topic: **Revenue from Mineral Resource Rent Tax**

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Senator WATERS asked:

Senator WATERS: How much confidence do you have in the budget estimates for the revenue that the MRRT will raise?

Mr Heferen: I discussed this a little before the break.

Senator WATERS: Sorry if I am repeating questions.

Mr Heferen: It was not about the MRRT specifically; it was about revenue in general. When the budget was put together, the revenue estimates were the best we had at the time with the data that is available and the information that we have. They are the best estimates we can arrive at. But, as discussed, particularly with Senator Cormann, the tax does turn a lot on assumptions about the exchange rate and about the prices and volumes of coal and iron ore. They do fluctuate. As we get closer to the time, you expect there to be less of a fluctuation. Nonetheless, those things are quite varied. Given that it is a profits based tax, the profit is really a function of the prevailing price at the time. Those prices, as people are aware, can move. Given all the constraints, we think they are the best estimates that are available. But we acknowledge that there are both upside and downside risks around that.

Senator WATERS: You have mentioned some influences on revenue projections. There are a few other examples here which I want to ask you about that seem to indicate a fair amount of uncertainty in the range that is projected. In the tax expenditure statement, you have the cost of exempting the small miners as between $10 million and $100 million. The cost of the uplift factor exceeding the bond rate for losses in royalties is between $20 million and $200 million. The cost of a starting base is between $10 million and $100 million. Can you tell me why there is such a wide divergence there?

Mr Heferen: That is a function of the tax expenditure statement. I think when the tax expenditure is estimated, the nature of it is done in a very broad range. I think that is pretty typical of all the expenditures.

Senator WATERS: What impact does that have on revenue projections?

Mr Heferen: When we do the revenue projection or, in this case, the costing of the MRRT we have to make a judgment about where the best estimate would be.

Senator WATERS: Within those ranges. What factors guide that decision?

Mr Heferen: Take, for argument's sake, the exemption for the small miners that you mentioned. Bear in mind that these must be in general considered as broad ranges. For the purpose of constructing a budget, it is a bit hard to have a budget consisting of broad ranges. So you have to come to a point. We use whatever information is available—it would vary from measure to measure—to come up with a point estimate.

Senator WATERS: That did not shed an awful lot of light on the decision-making process. Can you give me a few more examples of how you would come to the particular choice of where to project in that large range?

Mr Heferen: Sometimes it may be as rough as a midpoint. Other times there may be particular information we have on hand that we can utilise to arrive at a figure with some greater degree of certainty.

Senator WATERS: There is nothing further to add there?

Mr Heferen: No.

Senator WATERS: Perhaps you could take that on notice. Specify the factors that you would have regard to in selecting the point.

Mr Heferen: I think you are really after the costing methodology for how we got to where we got to with the MRRT.

Senator WATERS: Yes. And in the forward estimates, how do you pick the midpoint or whatever point you choose? What do you look at to pick that point?

Mr Heferen: We will take that on notice.

Senator WATERS: That would be helpful.

Answer:

The model that estimates MRRT revenue uses as inputs the best available parameters including price, volume, exchange rates, capital expenditure, and general expenses; all of which are point estimates, which in turn delivers a point estimate for the MRRT.