

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 144

Topic: MRRT Threshold

Hansard Page: E 35

Senator Boswell asked:

Senator BOSWELL—Can you explain the operation of the MRRT threshold—specifically how the mechanism will work with those companies which are operating between the \$50 million and the \$100 million bracket?

Mr McCullough—No final decision has been taken by government about exactly how the threshold would work. Again, the policy transition group has made some recommendations. I can refer you to a particular page; I might even be able to give you a copy of the report. The government has not had an opportunity to consider that yet or announce precisely how that is going to work.

Senator BOSWELL—In relation to the method of managing deductions for mining companies' MRRT liability, can you explain the operation of the safe harbour? What are the methods available to go there?

Mr McCullough—Again, it is just a little bit early for some of those details to be fleshed out. We are still well before a process of any legislation having been finalised.

Senator BOSWELL—When is this legislation due to be put in place?

Mr McCullough—I think the Treasurer has made a commitment to an exposure draft around May. I think the plan then is to have further consultation on the exposure draft with a view towards introduction before the end of this year—so the end of 2011.

Senator BOSWELL—If the exposure draft is due in May, surely there must be some answers to the questions that I have proposed. You cannot just put out an exposure draft missing all those inquiries.

Mr McCullough—I am not suggesting that it will necessarily be missing all of that detail. Obviously, there is an iterative process. The high-level policy issues were settled with the heads of agreement in the middle of last year. Then the policy transition group made 90-odd recommendations on matters of what I would call lower level policy detail. The government is yet to announce its position on those. Once that happens, then, the way these things develop, a range of technical, compliance and administrative issues need to be worked through in the finalisation of the legislation. Then there is usually a process where the tax office makes known its position on things to do with compliance, administration and interpretation.

Senator BOSWELL—You said earlier that you would give me some information. What information can you give me?

Mr McCullough—It is not in a very digestible form. There is, for example, the policy transition group's report, which covers those 94 recommendations. I do not think we have time to go through each one of those in detail.

Senator BOSWELL—No, I do not expect you to.

Mr McCullough—I think we have a spare copy of the report we can give you. It is publicly available. It is on the website, if we do not have a hard copy

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Answer:

In its report to the Australian government, the PTG recommended a phased MRRT threshold. According to the PTG report, the \$50 million threshold should apply annually at an aggregate taxpayer level to a taxpayer's MRRT profit.

To address industry concerns associated with the potential distortionary effect of the threshold on companies with profits marginally greater than \$50 million, the PTG recommended a taxpayer's MRRT liability be phased in from an annual MRRT profit of \$50 million by reducing the maximum possible tax concession provided by \$0.2225 for every \$1 of MRRT profit above \$50 million.

To ensure a smooth transition from the \$50 million threshold offset, the PTG recommended that the maximum offset should be reduced by any unused royalty credits, starting base deductions and carried forward losses. The concession available to the taxpayer would be the lesser of the reduced offset and the taxpayer's MRRT liability that would be otherwise payable.

The PTG also recommended that the \$50 million threshold not be indexed.

For more information, please see page 75 of the PTG report.