

# Senate Standing Committee on Economics

## ANSWERS TO QUESTIONS ON NOTICE

### Treasury Portfolio

### Additional Estimates

23 – 24 February 2011

Question: AET 176

Topic: Tax on LPG

Hansard Page: E117

Senator Cormann asked:

**Senator CORMANN**—Mr Ray, there were suggestions before Christmas that the Prime Minister and the government would take the mining tax to COAG. That did not happen of course. Can you explain to us why not?

**Mr Ray**—I think you are in the wrong group.

**Senator CORMANN**—I thought you would say that because I went to Prime Minister and Cabinet and they said, ‘You have got to ask Treasury because they are responsible for federal financial relations and they know all about what happens in relation to the mining tax and COAG.’ I specifically asked them and they specifically said to me, ‘No, not us.’ I raised it before and I was told to raise it with you. ‘Fiscal’ is what I was told.

**Mr Ray**—I was not at COAG so I cannot answer your question.

**Senator CORMANN**—Is there somebody here who has got anything to do with preparations for COAG?

**Mr Ray**—The Department of the Prime Minister and Cabinet is responsible.

**Senator CORMANN**—But Treasury is involved in COAG preparations, and in fact in the program it talks about the fact that you are part of the administration of federal financial relations. I specifically asked the questions in macro when I was referred by your colleagues to you.

**Mr Ray**—I will thank them for that when I see them.

**Senator CORMANN**—I think the chair can confirm, because the chair was there when I raised it.

**CHAIR**—Yes, I think it was more in the nature of federal financial relations than the actual administration of it.

**Senator Wong**—If you had said the preparation for COAG, people’s response might have been different, because ‘federal financial relations’ covers more than just COAG. If we are not able to answer them we can simply take them on notice and if needed refer them.

**Senator CORMANN**—It is very hard to explore them on notice. I have got to say that it is pretty unsatisfactory. I have been going all week and it has been handed around like a hot potato. Nobody wants to take them. In fiscal group, outcome 1, you are ‘providing support through the provision of advice to government and the efficient administration of federal financial relations’.

**Mr Ray**—Correct, we do.

**Senator CORMANN**—This is part of that.

**Senator Wong**—That does not mean that they know everything about COAG.

**Senator CORMANN**—I am not saying that you know everything. Are you aware if there has ever been a suggestion that the mining tax proposal would go to COAG?

**Mr Ray**—I thought you were quoting the Prime Minister.

**Senator CORMANN**—The Treasury has been quoted in here as well. The headlines are: ‘Gillard to take mining tax to COAG’ and ‘Gillard seeks COAG backing for mine tax’. It was on the front page in the *Australian* before Christmas.

**Senator CAMERON**—It is part of the *Australian*.

**Senator Wong**—I think the difficulty we have unless—

**Senator CORMANN**—I think they were actually trying to give a bit of a hand here, Senator Cameron.

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**Senator Wong**—The difficulty we have, unless somebody wants to tap me on the shoulder or wave at me and say that they can answer, is that the COAG agenda is not set by us.

**Senator CORMANN**—Let me ask the question a different way. I have got to say, though, that I am pretty unimpressed. I have raised it everywhere and everybody has pointed to you and now I am being told, ‘You should have raised it with all these other people.’

**Senator Wong**—That is the problem with being on Thursday night. It is the last man and woman standing.

**Senator CORMANN**—Yes, you can understand why that is frustrating for me.

**Senator Wong**—I actually do understand. I have been in your position before. We are not actually trying to

**Senator CORMANN**—I will remember this when you are sitting here. If you are ever back here, I will remember this and send you from outcome to outcome.

**Senator Wong**—I was not in PM&C estimates.

**Senator CAMERON**—You may not be up there. It depends what your leader has for you.

**Senator CORMANN**—You never know; that is right. But there is a serious question here, and tell me if you can assist me. We have a proposal for a new tax. The original proposal was for it to replace state and territory royalties, but the current proposal is for there to be credit arrangements. The federal government is concerned that state and territory governments might increase royalties into the future, because that will undermine the revenue base from the Commonwealth’s point of view. As far as I am aware, unless you tell me otherwise, so far there have not been any formal government-to-government discussions between the federal, state and territory governments about the implications of all of that for state and territory governments. When are these discussions proposed to start between the federal, state and territory governments about the implications for them of your expectation that they will not increase royalties into the future so as to not undermine you revenue base?

**Mr Ray**—I see where you are going. I cannot answer that off the top of my head because I am not privy to every conversation that goes on between governments. Maybe I can take it on notice to see what I can provide.

**Senator CORMANN**—If you are going to take it on notice, I am also interested to know whether any state or territory government has indeed given a commitment to the Commonwealth not to increase royalties on iron ore or coal into the future, and whether, in your assessment, the federal government has the constitutional capacity—which I do not believe they do but you might have a different view—to prevent the states and territories from increasing royalties in the future against their will.

**Mr Ray**—That is a constitutional law question, which we are not expert on.

**Senator CORMANN**—But in terms of the fiscal impact of the tax I think it is highly relevant, and I suspect that you would seek advice on these sorts of things. This article is quoting extensively the Prime Minister and the Treasurer about wanting to prevent states and territories from increasing royalties into the future. I would like to know whether, in your judgment or on the basis of advice that you may have obtained, that is actually a constitutional possibility. Take it on notice and see what you can do. As I said, it is quite frustrating to have raised this exact point with—

**Mr Ray**—This particular issue is one actually that should go to my colleagues in the Revenue Group, but I will take it on notice and see what they can provide.

**Senator CORMANN**—Thank you very much. I have waited all day for this and now I get that.

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#### Answer:

Recommendation 40 of the PTG report states that:

It is important to ensure that the taxation of Australia's resources preserves our international competitiveness and ensures Australians receive a greater benefit from mineral resources and that this is reflected in the treatment of royalties under the MRRT.

The MRRT should not be used as a mechanism to enable States and Territories to increase inefficient royalties on MRRT taxable commodities. All current and future State and Territory royalties on coal and iron ore should, therefore, be credited and it is imperative that the Australian, State and Territory Governments put in place arrangements to ensure that the States and Territories do not have an incentive to increase royalties.

The Australian Government has accepted all the recommendations of the PTG report.