Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 230

Topic: Royalty Revenue

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Senator Cormann asked:

Senator CORMANN: The thing is that in the context of it this is not just an example. This is in the context of the mining tax revenue estimates. I am not asking you whether you have just picked an example. I am asking you whether the revenue assumption in the budget, which is the $11.1 billion over the forward estimates, is based on an assumption that state royalties on iron ore production are at 7.5 per cent, or whether it is based on a differentiated assumption that some are at 7.5 per cent and some are at the lower rate.
Mr Brown: The estimates of state royalties that we used in the modelling of the MRRT have been based on ABS data for royalties, which were then calculated as a rate and applied. So it is basically looking at actual royalty collections on particular minerals and then applying that and updating it for subsequent changes in state budgets. So it does not use a 7.5 per cent rate; it actually looked at an empirical calculation of what the royalty rate as a proportion of basically mineral revenues was.
Senator CORMANN: Can you explain that? You looked at the royalty revenue—and in relation to iron ore 99 per cent of it of course comes out of Western Australia; that is what the Commonwealth Grants Commission is saying. Then you extrapolate this somehow. How do you get from the royalty revenue to what the expected revenue is going to be from the mining tax? How do you make that leap?
Mr Brown: You cannot just take a 7.5 per cent rate and apply it to the revenues from particular minerals that you have. You need to actually work out what an average rate of tax for that mineral actually is that takes into account what the royalty regimes are. As a starting point we had a look at ABS data which gives us the royalties as an expense. Then we updated that royalty expense information by changes that we saw in state budgets. So we are using some state budget information and some ABS data and we calculate the royalty as a rate over time.

Senator CORMANN: Okay, we are getting somewhere. Are you looking at the royalty revenue and dividing it by the production volume and coming up with a cost per tonne?
Mr Brown: No. The royalties are ad valorem royalties. They are based on the value. So you have to calculate the royalty rate as a proportion of the value of iron ore production.
Senator CORMANN: Indeed. So what rate you use?
Mr Brown: We use the rate that we calculated based on the ABS data in the first place and then updated by announced changes in state budgets.
Senator CORMANN: And what rate did you come up with?
Mr Brown: Off the top of my head I cannot tell you. It would be a little less than the 7.5 per cent. But I cannot tell you the exact rate.
Senator CORMANN: So it is somewhere between 5.625 per cent and the 7.5 per cent, essentially?
Mr Brown: I cannot tell you the exact rate at the moment. I do not have that information available to me.
Senator CORMANN: But on notice you will be able to tell us the rate that you have ended up assuming, based on that calculation you have gone through?
Mr Brown: We will take that on notice.

Senator CORMANN: Thank you. So if Western Australia or any other state increased their royalties on iron ore or on coal above whatever rate you have come up, which is less than 7.5 per cent, the revenue would in fact then be reduced as a result of this, wouldn't it?
Mr Brown: The state royalties are creditable against the MRRT. A consequence of that, everything else being equal, is that if the state royalties increase then the Commonwealth take from the tax would decrease.
Senator CORMANN: Okay. And your current assumption is not, as is in the fact sheet, 7.5 per cent; it is a bit less than 7.5 per cent and you will give us that on notice?
Mr Brown: The fact sheet chose 7.5 per cent because it is an illustrative example and it is an actual rate that applies for a particular type of ore.
Senator CORMANN: Okay. If the revenue reduces, would government expenditure related to that revenue also be reduced? That would be a policy issue for the government.
Mr Brown: That goes to a policy issue.
Senator CORMANN: And that is of course as far as we can take that part of it here.

Answer:

Treasury's MRRT model does not use the statutory royalty rates that apply in each State. The model divides total Australian royalty revenue by total Australian mining revenue to calculate an average effective royalty rate across all States for coal and iron ore. Calculations are updated for announced changes to policy in State budgets.