

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 1

Topic: Resource tax - heads of agreement between the Government and three major mining companies

The CHAIR asked:

CHAIR—If the essence was released and there is nothing that has been kept private, can the committee get a copy of that contract that was signed between the government and the three majors?

Dr Henry—That is a matter we will refer to the minister.

....

CHAIR—But you have taken on notice the question of providing us with a copy of the contract, and, given that, as you say, supposedly all elements of the deal are public, I suspect the government will not have any problems in following through with that request from the committee. When did you perform the analysis around the costings of the MRRT-PRRT arrangements?

Answer:

A copy of the heads of agreement that was signed by the Government is attached.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

ATTACHMENT

MINERAL RESOURCE RENT TAX HEADS OF AGREEMENT

The Design of the Minerals Resource Rent Tax

The new resource tax will apply from 1 July 2012 only to mined iron ore and coal. All other minerals are excluded.

The rate of tax will be 30% applied to the taxable profit at the resource.

Taxable profit is to be calculated by reference to:

- The value of the commodity, determined at its first saleable form (at mine gate) less all costs to that point.
- An extraction allowance equal to 25% of the otherwise taxable profit will be deductible to recognise the profit attributable to the extraction process. (i.e. this to only tax the resource profit)
- Arms length principles on all transactions pre and post first saleable form.

MRRT is to be calculated on an individual taxpayer's direct ownership interest in the project.

There will be no MRRT liability for taxpayers with low levels of resource profits (i.e. \$50m per annum).

All post 1 July 2012 expenditure is to be immediately deductible for MRRT on an incurred basis. Non-deductible expenditure will be broadly consistent with PRRT.

MRRT losses will be transferable to offset MRRT profits the taxpayer has on other iron ore and coal operations.

Carried-forward MRRT losses are to be indexed at the allowance rate equal to the LTBR plus 7 percent.

The MRRT will be an allowable deduction for income tax.

All State and Territory royalties will be creditable against the resources tax liability but not transferable or refundable. Any royalties paid and not claimed as a credit will be carried forward at the uplift rate of LTBR plus 7 percent.

Starting Base

The starting base for project assets is, at the election of the taxpayer, either:

- Book value (excluding the value of the resource) or

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

- **Market value (as at 1 May 2010).**

All capital expenditure incurred post 1 May 2010 will be added to the starting base and depreciated against mining operations from 1 July 2012.

“Project assets” for the purpose of the MRRT will be defined to include tangible assets, improvements to land and mining rights (using the Income Tax definition).

Where book value is used to calculate starting base, depreciation will be accelerated over the first 5 years. The undepreciated value will be uplifted at LTBR plus 7 percent.

Where market value is used to calculate starting base, there will be no uplift and depreciation will be based on an appropriate effective life of assets, not exceeding 25 years.

Any undepreciated starting base and carry forward MRRT losses are to be transferred to a new owner if the project interest is sold.

Implementation Committee

A mutually acceptable Committee comprising credible, respected industry leaders will oversee the development of more detailed technical design to ensure the agreed design principles become effective legislation. This will have the objective of ensuring the agreed principles are effected in line with their intent in a commercial, practical manner.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 2

Topic: MRRT/PRRT – revenue in 2012-13 and 2013-14

The CHAIR asked:

CHAIR—Are you able to provide us with exactly how much revenue the proposed MRRT and changes to the PRRT are expected to raise in net terms in 2012-13 and 2013-14?

Mr Parker—Do you mean in the individual years?

CHAIR—Yes. The RSPT was \$3 billion, in 2012-13, and then it was \$9 billion; what is it now?

Dr Henry—We will take that question on notice.

Answer:

A document outlining the revenue in 2012-13 and 2013-14 from the revised resource tax arrangements was tabled during the hearing. The revised arrangements raise \$4 billion in 2012-13 and \$6.5 billion in 2013-14.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 3

Topic: MRRT/PRRT – revenue by geographic region

The CHAIR asked:

CHAIR—Are you able to identify for us where the expected revenue, the \$10½ billion, will come from geographically? How much is expected to come from Western Australia, how much from Queensland and how much from any of the other states and territories?

Mr Parker—We would have to take that question on notice.

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 4

Topic: MRRT/PRRT – revenue impact to 2020

The CHAIR asked:

CHAIR—Any forecast is a forecast. What I would like to know on behalf of the committee is: what is your best guess at this point on the basis of the work that you have done in Treasury about the impact of revenue projections beyond forward estimates will be between now and 2020?

Dr Henry—Again, we will have to take that question on notice because I think it is, at least in the first instance, for the Treasurer to indicate to me whether he would like to see any such numbers in the public domain.

Answer:

It is not the usual practice of governments to release the medium and long term revenue impacts of individual measures. The Government is committed to its fiscal strategy to: return the Budget to surplus by 2012-13; achieve budget surpluses, on average, over the medium term; keep taxation as a share of GDP, on average, below the level for 2007-08; and improve the Government's net financial worth over the medium term.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 5

Topic: MRRT/PRRT – exchange rate forecast

The CHAIR asked:

CHAIR—Has Treasury made any adjustments to its forecast exchange rate in estimating revenues from the MRRT-PRRT changes compared to the assumptions used to estimate the revenues from the RSPT?

Dr Henry—I would need to take that on notice. I am not trying to be cute here; I just do not know. We probably have, because when we conduct new forecasts as far as the exchange rate is concerned we just take the current exchange rate, and the exchange rate has moved. I would expect so, but if you do not mind I would like to take that on notice just to be sure.

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 6

Topic: RSPT – revenue shares from iron ore and coal

The CHAIR asked:

CHAIR—Sure. In the modelling you did on the RSPT, can you recall whether the iron ore and coal sectors were expected to contribute the overwhelming majority of the revenue?

Dr Henry—I cannot recall and I was not personally involved in the revenue numbers, but I suspect it would be true.

CHAIR—I can see some people nodding. I just wonder whether somebody at the table knows. Hansard cannot pick up nods.

Dr Henry—Yes, it would be true.

CHAIR—Does anybody have an indication? You obviously seem to know. Do you know what the approximate share of iron ore and coal was going to be under the RSPT?

Mr Davis—No. I know they were important contributors to the revenue, but I do not know the shares.

CHAIR—Can you tell us that on notice.

Mr Davis—I will take that on notice.

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 7

Topic: MRRT/PRRT – revenue from existing coal mines

The CHAIR asked:

CHAIR—How much of the minerals resource rent tax revenue is expected to come from the profits of existing coal mines as they were valued at 1 May 2010?

Dr Henry—We would have to take that on notice as well, Senator, and we would need to bear in mind my earlier comment about the time profile of revenue as well, because of the treatment of the starting cost base for depreciation purposes.

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 8

Topic: MRRT/PRRT – oil price assumption

Senator IAN MACDONALD asked:

Senator IAN MACDONALD—Going right back to when we were talking about the \$10.5 billion, and forecasting commodity prices—which, again, you have just mentioned, and you say have been going well—the oil price seems to be heading southward. Was that taken into account in any work you did on the expanded—

Dr Henry—I presume so. I would need to check, but I would imagine that the work that we spoke about earlier utilised the most current forecasts for oil prices.

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 9

Topic: MRRT/PRRT – impact on electricity prices

The CHAIR asked:

CHAIR—I was not talking about iron ore so much. I am focused, in particular, on the application of the PRRT to the coal seam gas sector. Would that be expected to put upward pressure on prices?

Dr Henry—I do not think so. I think that in respect of those commodities we are pretty much a price taker on world markets.

CHAIR—Even though 80 per cent of our power generation is coal fired and much of the rest is gas sourced, you do not expect this tax to raise domestic, commercial and industrial power costs?

Dr Henry—I do not want to claim to be an expert in this particular area, and I would want to take some advice before being conclusive on this point, but as a general proposition, no, I would not expect price impacts.

Answer:

As indicated in Dr Henry's response at the hearing, the new resource tax arrangements are not expected to result in higher electricity prices. Projects falling within the scope of the PRRT, as a result of its expanded coverage, and the MRRT will only pay additional tax (additional to existing royalties and excise) where they are highly profitable. Consequently, supply and investment decisions for these commodities should not be adversely affected by the resource tax and therefore should not increase domestic prices. Oil and gas projects, including coal seam gas projects, will not be subject to additional tax until the value of the starting base, state and federal resource charges and any uplift allowances have been recovered.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 10

Topic: MRRT/PRRT – impact on electricity prices

The CHAIR asked:

CHAIR—Could we go back to where I started? I have conceptually conceded the point about the RSPT for the sake of argument. My question was about the changed arrangement towards MRRT/expanded PRRT as announced by the government. You made statements before that you did not expect an impact on price. Do you now expect an impact on price? I have gone through some of the thinking. The government essentially, by interposing themselves with the banks, are accessing cash flow. The PRRT is not as pure economically as what the RSPT was from an economist's point of view. I would have thought there was an argument that existing projects could be expected to have higher costs as banks would seek to reprice debt to reflect the higher risk profile to them. The questions, then, are whether there is capacity under contractual arrangements for costs—for example, under a change of government law clause—to be passed on and whether companies will require customers to pay these costs. Because we are talking coal and gas suppliers, would you expect them to seek to pass on increased costs to our electricity generators?

Dr Henry—I think I have already answered that question. No, I would not expect it. There may be some peculiarities of the market. I said I am not an expert in this area, and I would want to take further advice before answering the question conclusively, but I would not expect there to be an impact on prices. The PRRT is not a pure profits-based tax in comparison with the RSPT, but it is nevertheless a profits-based tax. Its intention is to tax pure profit. Whether it does so or does not depends critically upon the uplift rate, as I indicated earlier. Under the PRRT, the uplift rates are pretty generous—in fact, they are very generous—and under the proposed MRRT the uplift rate of 700 basis points is also very generous. In assessing the economic incidence of this profits tax, I think we can be reasonably confident that it would not have significant economic effects.

Answer:

See response to Question 9 above.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 11

Topic: MRRT/PRRT – average tax rates by rate of return

The CHAIR asked:

CHAIR—In the Treasurer's economic note of 9 May there was a table comparing the average tax rise of mining projects with differing rates of returns under existing arrangements and the proposed RSPT. Has the Treasury done similar analysis of the effects on average taxpayers under the MRRT expanded PRRT? I see you nod, but *Hansard* cannot pick up a nod.

Mr Davis—We have done some internal work to calculate those, yes.

CHAIR—So you have done some work. Can you share the results of that work with the committee?

Mr Davis—I will take that on notice.

Answer:

Comparable tax rate analysis to that in the Treasurer's Economic Note of 9 May has not been conducted for the MRRT or PRRT as announced on 2 July 2010. An example of the MRRT is included in the Government's fact sheet: *A New Resource Taxation Regime*.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 12

Topic: MRRT/PRRT – revenue estimates

The CHAIR asked:

CHAIR—Now that we have this table, which you have just tabled, can I just go back to an issue that we discussed earlier: the headline ‘Tax rate for the MRRT has been cut by a quarter’. There have been many other changes that would be expected to reduce revenue like the 25 per cent extraction allowance, market valuation for existing assets et cetera. Can you just explain to the committee why revenues in the forward estimates only fall by 12½ per cent? Where is that \$10½ billion coming from?

Dr Henry—We have had this discussion, and there are a number of elements to it. As we discussed earlier, one is a change to the commodity price forecasts in the last couple of months. That is one issue.

CHAIR—Have you also revised volumes?

Dr Henry—Yes.

CHAIR—Upwards or downwards?

Dr Henry—We would have revised volumes, but I would have to take on notice the direction of those changes to particular commodities.

Senator IAN MACDONALD—It would have to be upwards, wouldn’t it?

Dr Henry—It depends.

CHAIR—Can we perhaps get on notice—I would like to think it would not take too long—advice on the specific assumptions: how much is the change in commodity prices, how much is the change in volumes, how much is the change in the exchange rate? Can you explain any of the variables that have changed from the budget six weeks ago to when the announcement was made of the revised MRRT-expanded PRRT arrangements. Very specifically, what we are interested in is where the \$10½ billion is expected to come from by way of both sector and geographically. Given the revisions in commodity prices and the like, would it have been conceivable that you could have raised \$30 billion a year through your RSPT?

Answer:

The Government has not released this level of detail, in line with usual budget practice.

Senate Select Committee on Fuel and Energy

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into Fuel and Energy

5 July 2010

Question: 13

Topic: Change in growth dividend

The CHAIR asked:

CHAIR—The budget reported that the resource tax reforms would increase GDP by 0.3 per cent. How has the estimate been affected by the change from an RSPT to an MRRT-expanded PRRT?

Dr Henry—My understanding is that the numbers for the so-called growth dividend, against the 2 July heading, are driven by the cut in the company tax rate by one percentage point and by nothing else.

CHAIR—So there are no impacts on the growth dividend from the changes from RSPT to an MRRT-expanded PRRT, other than less of a reduction in company tax rate?

Dr Henry—No. I should have been clearer. Let me put it this way. Those numbers in the 2 May row reflect a combination of the effects of a cut in the company tax rate. But bear in mind that the second step down in the company tax rate—that is, from 29 per cent to 28 per cent—in the 2 May row takes effect from, I think, 2013-14. That is one impact. Another impact that is reflected in that row relates to the RSPT refund of royalties. When you move from 2 May to 2 July, two things happen. Firstly, instead of having a two percentage point cut in the company tax rate there is a one percentage point cut in the company tax rate. That explains part of the difference in those numbers. But another part of the difference in the numbers comes from the redesign of the RSPT, the fact that it is an MRRT without royalties now being refunded.

CHAIR—Can you disaggregate that for us, maybe on notice?

Dr Henry—I will have to take it on notice.

Answer:

The reductions in the growth dividend in 2012-13 and 2013-14 reflect the changed arrangements for cutting the company tax rate.