Statement

The following economists support the introduction of a resource rent tax to replace existing royalties. Although it is appropriate to debate modifications to the design of the proposed Resource Super Profits Tax (RSPT), the current public criticism of the proposed tax has been dominated by misinformation.

Mining is different to other industries in that it uses and depletes natural resources, Some return on those resources should flow to the Australian public. The existing royalty system reflects the fact that it is desirable to levy a charge for access to publicly owned mineral resources, in addition to normal corporate income tax.

There is no reason to expect a net contraction in mining over the longer term as a result of replacing royalties with the proposed resource rent tax. This is because a tax on economic rent of non-renewable resources is a more efficient way of raising revenue than taxing mining production (royalties).

Royalties tax production no matter how profitable. A resource rent tax only taxes production when it is profitable and only after all costs have been deducted. If the project does not make a profit, some of its costs are potentially refundable or otherwise claimable. This means the Government shares the risk associated with exploitation of our minerals resources. So, the proposed design for the RSPT effectively only taxes those profits over and above the hurdle rate of return for a mine (that is, its risk-adjusted cost of capital), after allowance is made for the proposed 40% rebate of the cost of developing each mine.

Given the Government's commitment to bearing some of the risk by refunding losses, uplifting undeducted capital and losses by anything above a risk free rate would create potential distortions. Any increase in the uplift rate would require a corresponding modification of the risk shared with government. Any modifications in the design of the RSPT should be underpinned with evidence about the relative shares of returns for natural resources as well as returns on other factors of capital.

Moving from taxing mobile capital towards less mobile tax bases in this way is consistent with economic theory and recent work of the OECD and IMF on the application of economic principles to guide taxation policy. Australia has a long history of resource taxation and resource economics. The Petroleum Resource Rent Tax that started almost 24 years ago only applies to some sites offshore and represented a significant practical and conceptual advance in our thinking and tax practice. Applying this principle more broadly to other minerals represents the next measured but difficult step.

The RSPT will reduce the profitability of mining companies and the value of the exploration and mining rights allocated to them by Australian governments on behalf of the public. The current high profitability of these companies means that this is an appropriate time for them to adjust to a more efficient and equitable system of sharing the value of those rights.

The RSPT has been criticised on the basis that revenues are dependent on cyclical fluctuations in mining sector profitability. In reality, this is a substantial advantage of this aspect of the tax. The counter-cyclical nature of tax revenues will help to stabilise both the macro-economy and the level of activity of the mining sector.

Signed

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