Parliamentary Budget Office

Coal Export Levies	
Party:	Australian Greens

Summary of proposal:

The proposal has two components that would introduce levies, in the form of purchasable permits, on thermal and metallurgical coal. The proposal would also introduce a declining annual cap on the export of thermal coal. The export of metallurgical coal would not be capped.

Component 1: Thermal coal

- Component 1 would require coal exporters to purchase permits in order to export thermal coal. The number of available thermal coal permits would be capped each year, with the cap declining over time as per the following table.
  - This would result in a complete ban of thermal coal exports by 1 July 2030. The amount coal exporters spend on permits would be tax deductible for company tax purposes. Permits would only be available for purchase by coal exporters.
- The following table shows the yearly coal permit cap and permit price to 2029-30.:

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Permit price ($/t)	1	2	3	4	5	6	7	8
Export permit cap (Mt)	262.9	230.0	197.1	164.3	131.4	98.6	65.7	32.9

Component 2: Metallurgical coal

- Component 2 would require coal exporters to purchase permits in order to export metallurgical coal. The number of available metallurgical coal permits would be uncapped. The amount spent on permits would be tax deductible for company tax purposes. Permits would only be available for purchase by coal exporters.
- The following table shows the yearly metallurgical coal export permit price over the medium term.

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Permit price ($/t)	3	6	9	12	15	18	21	24	27	30	33

The proposal is ongoing and would be in effect from 1 July 2022.

Costing overview

This proposal is estimated to increase the fiscal balance by around $4,617 million and the underlying cash balance by around $4,394 million over the 2022-23 Budget forward estimates period. On a fiscal balance basis, this impact reflects an increase in revenue of around $4,634 million and an increase in departmental expenses of around $17 million over this period.

Departmental expenses to implement this proposal are estimated to be around $4 million per annum from 2022-23, based on the cost of implementing similar previous measures.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate PDI tables) over the period to 2032-33 is provided at Attachment A.

Revenue financial implications are comprised of:

- Permit revenue paid to the government by coal exporters in order to export thermal and metallurgical coal.
- Reduced company tax revenue due to reduced profitability of coal exporters whose exports are capped or who have to purchase export permits.
- Reduced personal income tax revenue due to lower dividend payments being made to shareholders by coal exporters whose exports are capped or who have to purchase export permits.

The financial implications are highly sensitive to several factors, including changes in projected commodity export volumes and prices over the period to 2032-33:

- Metallurgical coal permit revenue is expected to vary in line with changes in export quantities, which creates significant financial uncertainty.
  - Thermal coal permit revenue is expected to vary in line with the cap on export quantities which is expected to be reached in most years.
- Company tax and personal tax reductions, which arise due to the metallurgical coal permit levy reducing company profits, are also sensitive to changes in the metallurgical coal price. The impact of this uncertainty on the costing is estimated to be relatively small because the company tax and personal tax implications of metallurgical coal exports themselves are relatively small.
- Company tax and personal tax reductions, which arise due to the thermal coal export cap and permit levy reducing company profits, are also sensitive to changes in the thermal coal price. These impacts could be significant because the company tax and personal tax impacts of thermal coal exports are relatively large.

There is also some uncertainty underlying the data, methodology, and taxation assumptions that were used in the costing model.

The financial implications are also highly uncertain due to a range of flow-on impacts from the policy that cannot be reliably estimated and have hence not been included in the costing.

- The introduction of coal export permits and the capping of thermal coal exports could have other broader macroeconomic effects, such as adverse effects on businesses that support coal mining companies, reduced mining industry employment and downward pressure on the exchange rate which would also have flow-on effects on government revenue and payments. Reflecting the Parliamentary Budget Office’s (PBO) normal practices, the financial implications of such broader macroeconomic effects have not been included in the costing.
- The PBO has not included any industry-specific responses to the proposal (such as any substitution of mining activity from thermal coal to metallurgical coal) in this analysis.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	519.0	1,002.3	1,426.4	1,669.6	**4,617.3**
Underlying cash balance	452.0	945.3	1,372.4	1,624.6	**4,394.3**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

General

- All companies that export thermal or metallurgical coal have an aggregate annual turnover greater than $50 million and hence are subject to the 30% company tax rate.
- All affected companies are in a taxable financial position.
- The date of announcement for this proposal would not give affected companies sufficient time to bring forward production.

Commodities

- Based on the latest available projections as at 2022-23 Budget, export volumes of thermal coal would equal the specified cap from 2024-25. Prior to that year, export volumes of thermal coal are projected to be less than the specified cap amount.
- Export volumes of metallurgical coal would not be affected by the proposal and would remain consistent with 2022-23 Budget projections.
- The proposal would have no material impact on global commodity prices. The market price for thermal coal is based on the latest available projections as at the 2022-23 Budget.
- Growth in thermal and metallurgical coal export volumes and prices over the medium term is based on expected export volumes and prices published by the Department of Industry, Science, Energy and Resources (March 2022 update).

Company taxes

- The thermal coal export cap would reduce exporter profits and therefore lower company tax revenue. The reduction in tax payable by affected companies was calculated based on the ratio of tax payable to total income for mining companies in the *2018-19 Taxation Statistics*, which was 5%.

Individual taxes

- The reduction in exporter profits would lower dividend distributions made to company shareholders and therefore lower individual income tax revenue. It is assumed that:
  - 70% of company profits are distributed to shareholders as dividend payments
  - 30% of shareholders are domestic shareholders who are eligible for franking credits
  - domestic shareholders have an average marginal tax rate of 32%
  - all foreign investors pay 15% withholding tax on unfranked dividends.

Methodology

Export permit revenue

Permit revenue was calculated by multiplying the commodity export volume allowed (for thermal coal) or projected (for metallurgical coal) under the proposal by the permit price.

Company tax revenue forgone

The tax-deductible permits purchased by coal exporters would be expected to reduce their taxable income and decrease company tax revenue. The reduction in company tax revenue due to the tax deductibility of permits purchased by coal exporters was calculated by multiplying the estimated permit revenue by the general company tax rate (30%).

The reduction in company tax revenue due to the cap on thermal coal exports was calculated by multiplying the average baseline tax-to-income ratio of mining companies by the reduction in company income due to the cap on exports. The change in company income was calculated as the volume of thermal coal not exported multiplied by the market price of thermal coal.

Individual tax revenue forgone

The reduction in dividends paid to shareholders was calculated based on the amount companies are required to pay to purchase export permits and the reduced profits from the cap on exports.

The individual tax revenue foregone was estimated by multiplying the expected reduction in dividends by the average marginal tax rate of shareholders (assuming investors comprise a mix of domestic and foreign shareholders and a mix of franked and unfranked dividends). This calculation takes into account the modelling assumptions outlined above.

Departmental

The departmental impact of this proposal was estimated based on the cost of previous similar measures.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

Office of the Chief Economist, *Resources and Energy Quarterly March 2022*, Canberra: Department of Industry, Science, Energy and Resources.

Australian Taxation Office, *Taxation Statistics 2018-19*, Canberra: Australian Taxation Office.

Australian Government, *2022-23 Budget,* Canberra: Australian Government.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Coal Export Levies – financial implications

Table A1: Coal Export Levies – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax revenue													
Permit revenue (Thermal coal)	*204.0*	*413.0*	*591.0*	*657.0*	*657.0*	*591.0*	*460.0*	*263.0*	-	-	-	***1,865.0***	***3,836.0***
Company tax (Thermal coal)	*-61.0*	*-124.0*	*-213.0*	*-370.0*	*-513.0*	*-635.0*	*-737.0*	*-819.0*	*-881.0*	*-894.0*	*-896.0*	***-768.0***	***-6,143.0***
Personal income tax (Thermal coal)	-	*-8.5*	*-17.4*	*-28.0*	*-42.5*	*-54.0*	*-62.7*	*-68.5*	*-71.6*	*-71.9*	*-72.0*	***-53.9***	***-497.1***
Permit revenue (Metallurgical coal)	*540.0*	*1,080.0*	*1,630.0*	*2,180.0*	*2,740.0*	*3,300.0*	*3,870.0*	*4,440.0*	*5,010.0*	*5,590.0*	*6,180.0*	***5,430.0***	***36,560.0***
Company tax (Metallurgical coal)	*-160.0*	*-320.0*	*-490.0*	*-660.0*	*-820.0*	*-990.0*	*-1,160.0*	*-1,330.0*	*-1,500.0*	*-1,680.0*	*-1,850.0*	***-1,630.0***	***-10,960.0***
Personal income tax (Metallurgical coal)	-	*-34.0*	*-70.0*	*-105.0*	*-141.0*	*-177.0*	*-213.0*	*-249.0*	*-286.0*	*-323.0*	*-360.0*	***-209.0***	***-1,958.0***
Total – revenue	**523.0**	**1,006.5**	**1,430.6**	**1,674.0**	**1,880.5**	**2,035.0**	**2,157.3**	**2,236.5**	**2,271.4**	**2,621.1**	**3,002.0**	**4,634.1**	**20,837.9**
Expenses													
Departmental													
Australian Taxation Office	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.5*	***-8.4***	***-25.0***
Department of Industry, Science, Energy and Resources	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.5*	***-8.4***	***-25.0***
Total – expenses	**-4.0**	**-4.2**	**-4.2**	**-4.4**	**-4.4**	**-4.6**	**-4.6**	**-4.8**	**-4.8**	**-5.0**	**-5.0**	**-16.8**	**-50.0**
Total (excluding PDI)	**519.0**	**1,002.3**	**1,426.4**	**1,669.6**	**1,876.1**	**2,030.4**	**2,152.7**	**2,231.7**	**2,266.6**	**2,616.1**	**2,997.0**	**4,617.3**	**20,787.9**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Coal Export Levies – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax receipts													
Permit revenue (Thermal coal)	*187.0*	*396.0*	*577.0*	*652.0*	*657.0*	*597.0*	*471.0*	*279.0*	*22.0*	*-*	*-*	***1,812.0***	***3,838.0***
Company tax (Thermal coal)	*-61.0*	*-124.0*	*-213.0*	*-370.0*	*-513.0*	*-635.0*	*-737.0*	*-819.0*	*-881.0*	*-894.0*	*-896.0*	***-768.0***	***-6,143.0***
Personal income tax (Thermal coal)	*-*	*-8.5*	*-17.4*	*-28.0*	*-42.5*	*-54.0*	*-62.7*	*-68.5*	*-71.6*	*-71.9*	*-72.0*	***-53.9***	***-497.1***
Permit revenue (Metallurgical coal)	*490.0*	*1,040.0*	*1,590.0*	*2,140.0*	*2,700.0*	*3,260.0*	*3,820.0*	*4,390.0*	*4,970.0*	*5,550.0*	*6,130.0*	***5,260.0***	***36,080.0***
Company tax (Metallurgical coal)	*-160.0*	*-320.0*	*-490.0*	*-660.0*	*-820.0*	*-990.0*	*-1,160.0*	*-1,330.0*	*-1,500.0*	*-1,680.0*	*-1,850.0*	***-1,630.0***	***-10,960.0***
Personal income tax (Metallurgical coal)	*-*	*-34.0*	*-70.0*	*-105.0*	*-141.0*	*-177.0*	*-213.0*	*-249.0*	*-286.0*	*-323.0*	*-360.0*	***-209.0***	***-1,958.0***
Total – receipts	**456.0**	**949.5**	**1,376.6**	**1,629.0**	**1,840.5**	**2,001.0**	**2,118.3**	**2,202.5**	**2,253.4**	**2,581.1**	**2,952.0**	**4,411.1**	**20,359.9**
Payments													
Departmental													
Australian Taxation Office	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.5*	***-8.4***	***-25.0***
Department of Industry, Science, Energy and Resources	*-2.0*	*-2.1*	*-2.1*	*-2.2*	*-2.2*	*-2.3*	*-2.3*	*-2.4*	*-2.4*	*-2.5*	*-2.5*	***-8.4***	***-25.0***
Total – payments	**-4.0**	**-4.2**	**-4.2**	**-4.4**	**-4.4**	**-4.6**	**-4.6**	**-4.8**	**-4.8**	**-5.0**	**-5.0**	**-16.8**	**-50.0**
Total (excluding PDI)	**452.0**	**945.3**	**1,372.4**	**1,624.6**	**1,836.1**	**1,996.4**	**2,113.7**	**2,197.7**	**2,248.6**	**2,576.1**	**2,947.0**	**4,394.3**	**20,309.9**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Coal Export Levies – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Fiscal balance	*5.0*	*21.0*	*48.0*	*83.0*	*126.0*	*178.0*	*240.0*	*311.0*	*391.0*	*485.0*	*604.0*	***157.0***	***2,492.0***
Underlying cash balance	*5.0*	*19.0*	*44.0*	*78.0*	*120.0*	*172.0*	*232.0*	*302.0*	*381.0*	*474.0*	*589.0*	***146.0***	***2,416.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in any tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

[2] Online budget glossary – Parliament of Australia (aph.gov.au)