Executive Summary

The mining sector has generated enormous wealth over the last half a dozen years. International commodity prices have surged. Profits in the mining sector have jumped 262 per cent over the last decade. However, this wealth has been shared unevenly through the economy.

It was against this background that in December 2009 the review of Australia's Future Tax System recommended that the Australian government introduce a uniform resource rent tax aimed at the above-normal profits being made by the industry.

As resource rent taxes are based on profits, only the most highly profitable mining operations will be taxed. They are more responsive to changes in the industry than output-based royalties; as conditions change and profits drop, so will the tax liability. Deductions built into the tax also recognise the significant investments mining companies can make.

Illustrating this point, 20 years after the introduction of the Petroleum Resource Rent Tax (PRRT) it is clear that investment in Australia's offshore oil and gas sector has not been discouraged.

The Minerals Resource Rent Tax legislative package

The first version of a resource rent tax was the Resources Super Profits Tax (RSPT), announced in May 2010. After extensive consultation with the mining industry, the government ultimately pursued a revised policy—the Minerals Resource Rent Tax (MRRT). As part of its reforms to resource taxation arrangements, the government also intends to extend the existing PRRT to all offshore and onshore petroleum projects.

The MRRT has many advantages over the RSPT in that it focuses on the most profitable resources and significantly reduces the number of companies that would be affected by the new taxation arrangements. The final design of the MRRT is based on extended consultation with industry, including the Heads of Agreement between the government and the three largest mining companies—BHP Billiton, Rio Tinto and Xstrata. Importantly, this thorough consultation means that the Minerals Council of Australia, the peak organisation for the minerals exploration and mining industry, agrees that the bills should be passed.[1]

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1 Mr Mitch Hooke, Chief Executive Officer, Minerals Council of Australia, *Proof Committee Hansard*, 21 February 2012, p. 29.

Sharing the benefits of the mining boom

The key policy intent underpinning the MRRT is that the wider community should share in the above-normal profits being made from the sale of their non-renewable mineral resources. To bring this about, the government has announced a number of additional reforms as part of the MRRT package.

The MRRT bills include a number of measures aimed at increasing the level of retirement savings of millions of Australians. Most notably, employees will benefit from the mining boom through an increase in the superannuation guarantee from 9 to 12 per cent. This is an important measure which will not only help meet the challenges Australia will inevitably face with an ageing population, but will address some inequality evident in the system. The increase in the superannuation guarantee, and the low income superannuation contribution also being introduced, will help ensure women, whose superannuation balances on average lag behind those of male employees, have a higher standard of living in retirement.

Of most advantage to businesses will be the government's decision to cut the company tax rate from 30 to 29 per cent from 2013–14, made possible by the revenue from the MRRT. Included in the MRRT package, however, are other measures aimed at assisting small businesses. The increase in the small business asset write-off threshold and simplified depreciation arrangements proposed by the bills will offer direct assistance to small businesses, many of which are subject to challenging operating conditions within the two-speed economy. Millions of small businesses could potentially benefit from these changes.

These policies and programs linked to the MRRT will ensure that long-term benefits from the mining boom are captured, without investment and growth in the resource sector being threatened.

The committee, therefore, has recommended that the legislative package introducing the MRRT should be passed.

During the inquiry, however, a number of specific issues were raised which the committee wishes to comment on or respond to. The committee's view on these issues, are summarised below.

The future of the mining industry

The committee has received evidence that, notwithstanding some global challenges, the current outlook for investment in the sector is strong; the ABS estimate that capital expenditure in mining will total $87 billion in 2011–12, over 50 per cent higher than the level estimated for 2010–11.[2]

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2 Australian Bureau of Statistics, *Private new capital expenditure and expected expenditure*, cat. 5625.0, September 2011, p. 9.

The committee has also heard claims that the introduction of the MRRT will lead to a reduction in investment in Australia's mining sector. It has received no solid evidence that this will be the case—only speculation. The evidence available suggests that any reduction in investment is more likely to be attributable to external economic factors than the MRRT.

Treasury's modelling of the MRRT

Treasury's modelling of the MRRT indicates that it will raise $10.6 billion over the first three years of its operation. That modelling is based on confidential information provided to it by industry participants and Treasury's own modelling of growth projections for the industry and the Australian economy.

Modelling is not an exact science; the revenue from resource taxes in particular is difficult to forecast as it is subject to many variables such as international commodity prices, exchange rates and the level of investment in the industry. Overall, the committee believes that Treasury's modelling of the revenue generated by the MRRT should be accepted for the following reasons:

- information provided by the major industry players places it in the best position to allow for expected changes to commodity prices and mining production rates;
- Treasury is the body best placed to assess movements in the exchange rate and developments in the economy generally;
- attacks on its accuracy have not been convincing or undermined its findings in any significant way; and
- until the GST Distribution Review has completed its work, any assessment of the effect of increases to state royalties is purely speculative.

Competitive neutrality and discrimination against small miners

A number of small and emerging miners raised concerns that the design of the MRRT did not reflect the principles of competitive neutrality and contained inherent discrimination or inequity against smaller miners.

The committee carefully considered the concerns that were raised. It noted that the low profit offset and simplified obligations have been specifically incorporated to reduce administrative and compliance burdens for small miners. While it is possible that the starting base allowance provisions will give established miners significant deductions, it must be remembered that the MRRT is a tax directed at profits. Failing to make allowances for recent expenditure would render it a tax on past investment. The committee notes that smaller miners will also be able to deduct the investments they make.

Special issues relating to the magnetite industry have been raised with the committee. While it seems likely magnetite producers will not pay significant amounts of MRRT in the first few years of its operation, mining for magnetite is, in essence, mining for iron ore, though in a different form. Accordingly, the committee does not agree with the proposal for amendments to the bills that would, in effect, give it a permanent exemption from the MRRT.

Review

The committee recognises that while the recommendations for changes to the MRRT made in submissions are from bodies with industry experience, they are also unproven. Accordingly, in the committee's opinion the most appropriate time to consider amendments to the operation of the MRRT is after it has been in place for a number of years and the first MRRT returns have been assessed, as recommended by the Policy Transition Group.

The committee is of the view that when this review takes place, consideration should be given to particular aspects of the design of the MRRT, including the low profit threshold; the operation of the simplified MRRT and alternative valuation methods; and the compliance burden on small miners arising from the MRRT.

Also in line with the recommendations of the Policy Transition Group, the committee is of the opinion that a review of the operation of the extended PRRT be undertaken after it has been in place for an appropriate length of time. Such a review will help ensure the original policy intent of the PRRT is still being met and that the different characteristics of the offshore and onshore industry are accounted for.

Recommendation 1

The committee recommends that the Senate pass the:

- **Minerals Resource Rent Tax Bill 2011;**
- **Minerals Resource Rent Tax (Consequential Amendments and Transitional Provisions) Bill 2011;**
- **Minerals Resource Rent Tax (Imposition—Customs) Bill 2011;**
- **Minerals Resource Rent Tax (Imposition—Excise) Bill 2011;**
- **Minerals Resource Rent Tax (Imposition—General) Bill 2011;**
- **Petroleum Resource Rent Tax Assessment Amendment Bill 2011;**
- **Petroleum Resource Rent Tax (Imposition—Customs) Bill 2011;**
- **Petroleum Resource Rent Tax (Imposition—Excise) Bill 2011;**
- **Petroleum Resource Rent Tax (Imposition—General) Bill 2011;**
- **Superannuation Guarantee (Administration) Amendment Bill 2011; and**
- **Tax Laws Amendment (Stronger, Fairer, Simpler and Other Measures) Bill 2011.**