

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 60

Topic: MRRT

Hansard Page: Wednesday 5 June 2013, Page 84-86

Senator WATERS asked:

Senator WATERS: I have some questions about the MRRT, now that we have some figures. First of all, can you please give me some figures—just in aggregate, not for individual companies—on the impact on reducing revenue, first of all of the rebating of royalties?

Mr Heferen: Because the ATO does not have any tax returns yet, and we do not have any material to analyse, we do not have a number for that.

Senator WATERS: You cannot work it out from the data that you have already?

Mr Heferen: We have projections of revenue in the budget. As to a figure that would be as accurate as possible with regard to the treatment of royalties, I think it would be prudent to wait until the ATO has returns and to do that analysis correctly.

Senator WATERS: Could you folk take on notice to provide that information once it becomes available? And are you able to give me an estimate based on the information that we have currently as to the amount, roughly, of reduced revenue from the royalty rebate?

Mr Heferen: We would have to take that on notice.

Senator WATERS: Thank you. Likewise, I am interested to know how much revenue has been reduced as a result of using the market value as the starting base rather than the book value. Can you shed any light on that at this point?

Mr Heferen: The MRRT has the market value it has had since its inception.

Senator WATERS: Have you factored in what it would have been had you used the book value?

Mr Heferen: Not that I am aware of. That is a design feature of the system. We would not be in the practice of estimating what a different system would have, so that would not have been something we would have calculated.

Senator WATERS: Is that something you could calculate on notice for me?

Mr Heferen: Yes, we will take that on notice.

Senator WATERS: And likewise the net-back arrangements—do we know the impact of those using that—

Mr Heferen: Again, we will take that on notice.

Senator WATERS: Thank you. Lastly, the low-profit offset—that \$75 million threshold: I am interested to know how much reduction in revenue has flowed as a result of that and how many folk are actually availing themselves of that threshold.

Mr Heferen: From the \$50 million to \$75 million?

Senator WATERS: Both.

Mr Heferen: We would have a number from 50 to 75—that changed—because that was an explicit change of policy. The amount that is, if you like, forgone from a base of having it all is something we will take on notice.

Senator WATERS: Yes, I am interested in both of those aspects. I think last time I asked you the proportion of mining companies that were using the market value approach rather than the book

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value approach to calculate the starting base. I think at the time you said you could not answer that yet. Are you now in a position to answer that?

Mr Heferen: No.

Senator WATERS: Are you waiting on tax receipts?

Mr Heferen: It would be on the returns of the taxpayers. And those returns have not been lodged yet—although some may have been lodged for early balances, but to have an overall assessment we would need to wait until the returns are lodged.

Senator WATERS: For the ones that have been lodged, is everybody using that market value approach? Ms Martin: We do not have lodgements yet. The lodgements for early balances will be coming in from 1 September this year if they are taxable and 1 December if they are not. The majority will be lodging on 1 March next year, or 1 June. It is not until they lodge that they have to make that choice, so it is not until we see the lodgement—

Senator WATERS: So those early submissions do not go to that point. Okay. I shall wait patiently for that. Does the MRRT represent the standard tax treatment of minerals?

Mr Heferen: Standard tax treatment?

Senator WATERS: Well, is this the new standard for how we are going to approach taxing minerals? Would you describe it as a standard approach.

Mr Heferen: How anything is taxed is really a matter for the government and the parliament of the day. You could think about corporate income tax—

Senator Ludwig: It could be a government approach that could be characterised as—and I am not saying it is, but for instance—the usual norm, or whatever you would like to call it. But it is not for the public servant to say what might be the usual way. You could ask me, and I would say that I would take it on notice.

Senator WATERS: Thanks, Minister—very helpful!

Senator Ludwig: I am not familiar with how the Treasurer would regard these things. I am happy to do that.

Senator WATERS: Thanks, Minister; I shall await that also. I guess what I am getting it is: when it comes to the tax expenditure statement, should we treat the fact that the MRRT does not cover all minerals as concessions for those minerals?

Mr Heferen: The tax expenditure statement needs to adopt a benchmark for the various expenditures that are there. Those benchmarks are inherently arbitrary. The nature of tax is such that there is no one benchmark that is appropriate across the board. So the government has to choose a particular benchmark in respect of each tax, and any departure from that benchmark we attempt to measure through the tax expenditure statement. It is not to make any judgement that the benchmark is actually the appropriate tax treatment. That is a very important point, because some people misinterpret the TES as saying that the benchmark is what ought to be taxed, and the benchmark is definitely not a statement of what ought to be taxed.

Senator WATERS: It is just a statement of what is taxed; sure. Are you treating the MRRT as the benchmark for minerals?

Mr Brake: The tax expenditure statement, on page 228, talks about the natural resources benchmark for periods 1 July 2012 onwards, and it says that the natural resources benchmark only applies to the extraction of petroleum, coalseam gas, iron ore and coal.

Senator WATERS: Does the statement make any comment about uranium, gold or other minerals? Does it consider that the absence of a resource tax on those minerals is a concession?

Mr Brake: No. It specifically says that the benchmark does not apply to the extraction of other natural resources.

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Senator WATERS: Given your categorisation of it not being a tax expenditure on those other minerals, you have not costed how much they are saving as a result of not being covered by a resource tax?

Mr Heferen: No.

Senator WATERS: Is it something that you would be able to do?

Mr Heferen: Again, we can take that on notice and see if the Treasurer wants to provide a response.

Senator WATERS: I am interested in any reasoning behind why you would not consider—

CHAIR: What is your question, Senator? It seems to me that you are asking the officer to speculate about the tax implications of a tax that is not levied on minerals and is expressly excluded from the comments he addressed.

Senator WATERS: I am asking whether or not that is considered a concession, precisely for the reasons you outlined.

Senator Ludwig: It is a policy question to government. Similarly, I can find out whether the Treasurer wants to add anything useful to that in answer to that question.

Senator WATERS: I am interested in the reasoning, from a departmental perspective, behind not classing that as a concession.

Senator Ludwig: The department would not have a view about a reasoning as to whether it was in or out. That would be a policy question to government.

Mr Heferen: When I said I would take those on notice, in the process of taking on notice we go to the Treasurer to see whether the Treasurer wants to provide that information. That is not something within our judgement or capacity to provide.

Senator Ludwig: I would be surprised if you had a view.

Mr Heferen: No, we have no view—absolutely no view whatsoever.

Senator WATERS: It is just that the absence of a tax on other things is treated as a tax expenditure. It is not as if this is a novel concept. You take this approach in other areas; hence my question as to why you are not taking a consistent approach in this instance.

Mr Heferen: The benchmark is articulated in our tax expenditure statement. That is the benchmark which the government wants to use.

Senator WATERS: There is an interesting comment in the ABS publication called *Completing the Picture - Environmental Accounting in Practice*. It talks about the value of resource rents from subsoil assets and it puts the figure at \$44 billion. Obviously that is nowhere near what the MRRT applies to, or is able to raise, under the various exemptions and levels that it has set. Why is there a difference in approach in calculating the potential revenue that could be raised? What is the difference between how the ABS got to their figure and how the MRRT gets to its figure? Adding in the minerals and increasing it up to the 40 per cent does not account for the difference in the figures. I am interested in what does account for that.

Mr Heferen: We will have to take that on notice.

Answer:

MRRT revenue estimates have been published regularly since its announcement by the former Government in 2010. These estimates have regard to all elements of the MRRT's design, including the treatment of royalties, the availability of the 'net-back' method to calculate a company's MRRT revenue, and the \$75 million threshold for the low-profit offset.

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The decision to increase the low profit offset threshold from \$50 million to \$75 million was estimated to reduce revenue by \$20 million a year (see 2011-12 Mid-Year Economic and Fiscal Outlook, page 167).

There is no information publicly available to respond to the question about the ABS' publication, *Completing the Picture – Environmental Accounting in Practice*.