Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry Portfolio
Budget Estimates 2014-15
2-3 June 2014

AGENCY/DEPARTMENT: DEPARTMENT OF INDUSTRY

TOPIC: Exploration Development Incentive

REFERENCE: Written Question – Senator Bishop

QUESTION No.: BI-84

Under the proposed program, a tax credit will be provided to Australian resident shareholders for eligible 'green fields' exploration expenditure incurred in Australia. A 'no taxable income' test will ensure that the program is only available to junior minerals explorers. An exploration tax credit scheme was first promised by the Rudd Labor Government in 2007 and subsequently dropped upon development of the Mineral Resources Rent Tax.

1. This exploration Development Incentive seeks to encourage greenfields exploration – Can you tell us what impact the cuts to Geoscience Australia will have on necessary geological surveys and geological mapping?

2. Exploration for what minerals will be eligible under this program?

3. What probity measures are in place to ensure the tax is not taken advantage of?

4. Can you tell us about previous tax incentives for exploration?

5. Why were they removed?

6. How will you measure the success of this program?

ANSWER

1. The Geoscience Australia (GA) staff reduction strategy has been undertaken in a way to retain the agency's capability across the board in the areas that GA works in. Whilst capability will be preserved, some projects will be deferred.

2. Only expenditure on exploration for minerals will be eligible for the Exploration Development Incentive. The Incentive will not apply to exploration for:
    - quarry materials;
    - shale oil;
    - petroleum, including coal seam gas, and any naturally occurring hydrocarbon or naturally occurring mixture of hydrocarbons, whether in a gaseous, liquid or solid state; or
    - geothermal energy resources.

3. Operational details for the Exploration Development Incentive are available on the Department of Industry website (www.industry.gov.au/EDI).

To ensure the integrity of the scheme and keep compliance costs to a minimum:

- the cost of the scheme is capped at $100 million;
- the Incentive will only be available to disclosing entities under section 111AC of the Corporations Act 2001;
- exploration will include geological mapping, geophysical surveys, systematic search for areas containing minerals, except petroleum or quarry materials, and search for minerals by drilling or other means for such minerals within those areas;
- expenditure on studies to evaluate the economic feasibility of mining minerals once they have been discovered will be excluded;
- exploration expenditure will exclude any expense related to a mineralisation that has been classified as an Inferred Mineral Resource or higher under the Joint Ore Reserves Committee Code 2012 edition, or to a potential or actual extension of a mine;
- exploration credits will flow through trusts and partnerships in a manner consistent with the rules applying to franking credits; and
- corporate shareholders will receive similar benefits to those they obtain under the rules that apply to franking credits.

4 and 5. In Australia, a flow through share (FTS) scheme, or variants, has operated for the resources sector over the periods 1958 to 1973 and 1978 to 1985. The scheme operating in the period 1958 to 1973 was based on providing tax deductions on funds invested in petroleum and mining companies for the purposes of exploration. This scheme was abolished in 1973 because it was used for tax avoidance and inquiries found it contributed little towards mineral exploration.

The FTS scheme operating in the period 1978 to 1985 was based on providing a rebate of 27 cents in the dollar of share capital subscribed to a petroleum or mining company. The concession applied initially to offshore exploration and was later extended to onshore exploration. It was abolished in 1985, reflecting a preference to remove taxation concessions and broaden the income tax base.

6. The Department of Industry will monitor greenfields mineral exploration and the scheme from its commencement and will review the scheme, with the assistance of Treasury, in 2016. Key performance indicators for the review will be finalised in conjunction with the legislative drafting.