

Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Innovation and Science Portfolio
2016-17 Supplementary Budget Estimates
20 October 2016

DEPARTMENT: DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE

TOPIC: Exploration Development Incentive

REFERENCE: Written Question – Senator Ketter

QUESTION No.: SI-134

1. What minerals are eligible under the Exploration Development Incentive (EDI) program?
2. Is exploration for Coal Seam Gas in NSW, Queensland and Victoria included under the scheme?
3. How many exploration companies have participated in the EDI scheme?
4. I refer to the Former Resource Minister's Media Release dated 12 February 2016, that states that the "EDI permits small mineral companies with no taxable income to provide exploration credits to their Australian resident shareholders for greenfields mineral exploration."

How does the Department define a small mineral company?

- a) Dollar value?
 - b) Revenue?
 - c) Number of employees?
5. How will the requirements around Australian resident shareholders be implemented given foreign shareholdings of exploration companies?
 6. What probity measures are in place to ensure the measure has integrity?

ANSWER

The Department of the Treasury has policy responsibility for the Exploration Development Incentive (EDI). The Australian Taxation Office (ATO) administers the EDI.

1. Expenditure on exploration for 'minerals', as defined by the *Income Tax Assessment Act 1997*, is eligible for the Exploration Development Incentive (EDI). However, eligibility does not extend 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.
2. Exploration for petroleum, including coal seam gas, is not eligible for the EDI.

3. 84 companies applied to participate in the EDI in 2014-15, its first year of operation. Questions regarding the level of participation in the EDI in 2015-16 should be directed to the ATO.
4. Information on eligibility for the EDI can be found on the ATO's website:
<https://www.ato.gov.au/Business/Exploration-Development-Incentive/Eligible-exploration-companies/>
5. Consistent with the rules for the tax offset for franking credits, the EDI tax offset is only available to taxpayers that are resident in Australia for the whole of the relevant income year. This addresses integrity concerns around providing offsets to foreign residents who may have no other association with the Australian tax system and who generally do not interact with the Australian tax system on the same basis as Australian resident taxpayers.
6. The general anti-avoidance rules, as set out in the *Income Tax Assessment Act 1936*, apply to the EDI. This ensures that taxpayers who enter into tax avoidance schemes with the predominant purpose of accessing the EDI will not benefit from the incentive.

A greenfields minerals explorer accessing the EDI must also be a disclosing entity (within the meaning of section 111AC of the *Corporations Act 2001*) and a constitutional corporation.

A company may also be liable to pay an excess exploration credit tax should it issue exploration credits in excess of its cap for an income year.