

DPC09/03233



Senator Mathias Cormann
Chair, Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 2600

1 JUL 2010

Dear Senator

I refer to your invitation on behalf of the Senate Select Committee on Fuel and Energy (the Committee) to provide feedback on recommendations in *Australia's future tax system: report to the Treasurer* (the Henry Tax Review) and the Commonwealth Government's response. Your request focuses in particular on the impact of the proposed 'Resource Super Profits Tax' (RSPT) on fuel and energy security and jobs in New South Wales.

The NSW Government makes the following comments in response to your questions.

1. What is your assessment of the impact of the proposed 'Resource Super Profits Tax' on New South Wales?

NSW is still examining the details of the RSPT and is consulting with key stakeholders. NSW is yet to take a definitive position on this reform, however supports the Commonwealth's decision to share the wealth generated by the booming mining sector across the community. Revenue from the RSPT will be used to reduce the company tax rate, support small business by funding asset write-offs and simplified depreciation, and boost retirement incomes.

The impact of the RSPT on NSW therefore needs to be assessed in the context of the totality of the Commonwealth's reform package, and not in isolation. The detailed design of the RSPT needs to be settled following a consultation process before its impact can be assessed with more certainty.

The NSW Government believes the RSPT is, in-principle, a highly efficient tax. Compared to a no-tax situation, the RSPT would theoretically have a neutral influence on investment and production decisions. It follows that the RSPT should enhance growth and productivity in the State's economy by more equitably and efficiently taxing mineral resources.

Under the proposed RSPT arrangements mining companies will be rebated the State minerals royalties they pay. The NSW Government does not anticipate any direct effect on its mineral royalty revenue. Minerals royalties provide approximately two per cent of the NSW Government's total revenue, and are stable and autonomous. If mining investment increases as forecast by the KPMG Econtech report *CGE Analysis of part of the Government's AFTS Response*, commissioned by the Commonwealth Government, both private sector returns and State royalties should also increase.

2. Specifically, what is your assessment of the impact of the 'Resource Super Profits Tax' on fuel and energy security in New South Wales?

The tax in-principle should not adversely affect fuel and energy security in NSW, however this is contingent on final design details. Initial advice from the electricity generation sector is that the tax is unlikely to affect fuel costs for existing contracts.

In the longer term, the KPMG Econtech modelling suggests that the RSPT, combined with a reduction in the company tax rate, should increase Australian coal production by 14.4 per cent. Increased coal supply may improve fuel security.

3. Specifically, what is your assessment of the impact of the 'Resource Super Profits Tax' on jobs in New South Wales?

Independent modelling commissioned by the Henry Tax Review shows that the policy of introducing the RSPT in conjunction with a reduction in the company tax rate is estimated to increase employment in the total economy by 0.1 per cent. The cut to company tax that is associated with the introduction of the RSPT should increase productivity and long term growth in the economy thereby driving jobs growth.

4. How do you foresee the proposed resource exploration rebate impacting on New South Wales?

The resource exploration rebate will support the development of the minerals sector in NSW by providing a stronger incentive to carry out exploration. Compared to the current high degree of risk to investors that is inherent in mining exploration, the proposed tax rebate should reduce the level of risk exposure and increase their incentive to invest.

The proposed tax rebate will particularly benefit exploration companies that are in a tax loss position. Those companies will be able to obtain the tax benefit associated with exploration expenditure sooner rather than having to wait to become profitable because they will receive an immediate cash rebate.

The establishment of a Resource Tax Consultation panel to consult with industry and other stakeholders indicates the significance of the proposed changes, and the need to finalise the design and implementation details. The NSW Government welcomes the opportunity to continue discussions with the Commonwealth Government on the impact and implementation of the RSPT.

Yours sincerely

Kristina Keneally MP
Premier

