



Request for budget analysis

Lost revenue from the original mining tax	
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens
Date costing completed:	23 February 2021
Expiry date of the costing:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period <input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
Summary of proposal: <p>This request sought the amount of revenue that may have been raised from 2012-13 to 2019-20 if the original Resource Super Profits Tax (RSPT) was introduced by the Rudd Government from 1 July 2012.</p> <p>The request specified that the design features of the RSPT should reflect the Rudd Government's announcement paper <i>The Resource Super Profits Tax: a fair return to the nation</i> released in May 2010 and the Parliamentary Library Brief's description of the tax¹. The key steps in calculating the RSPT are provided at <u>Attachment B</u>.</p>	

Overview

Policy background

In May 2010, the Rudd Government announced its intention to introduce the RSPT in its response to the *Australia's Future Tax System* (Henry Tax Review) report and commenced the initial consultation on the RSPT.

The Rudd Government's 2010-11 Budget included a measure to introduce the RSPT from 1 July 2012.

As specified in the announcement paper, the RSPT would be charged at a rate of 40 per cent on the 'super' profits made from 'the exploitation of Australia's non-renewable resources'. The 'super' profits are assessable resource revenue less deductible expenses (including an allowance for capital expenditure). The paper also outlined how the Commonwealth Government would provide a refundable credit to mining companies for the royalties they pay to state and territory governments after the commencement of the RSPT.

In July 2010, the Gillard Government announced the Minerals Resource Rent Tax (MRRT) as a replacement for the RSPT.

¹ Parliamentary Library, 2010. *Budget Review 2010-11: Resource super profits tax*, Canberra: Parliament of Australia (available at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201011/TaxationRSPTax)

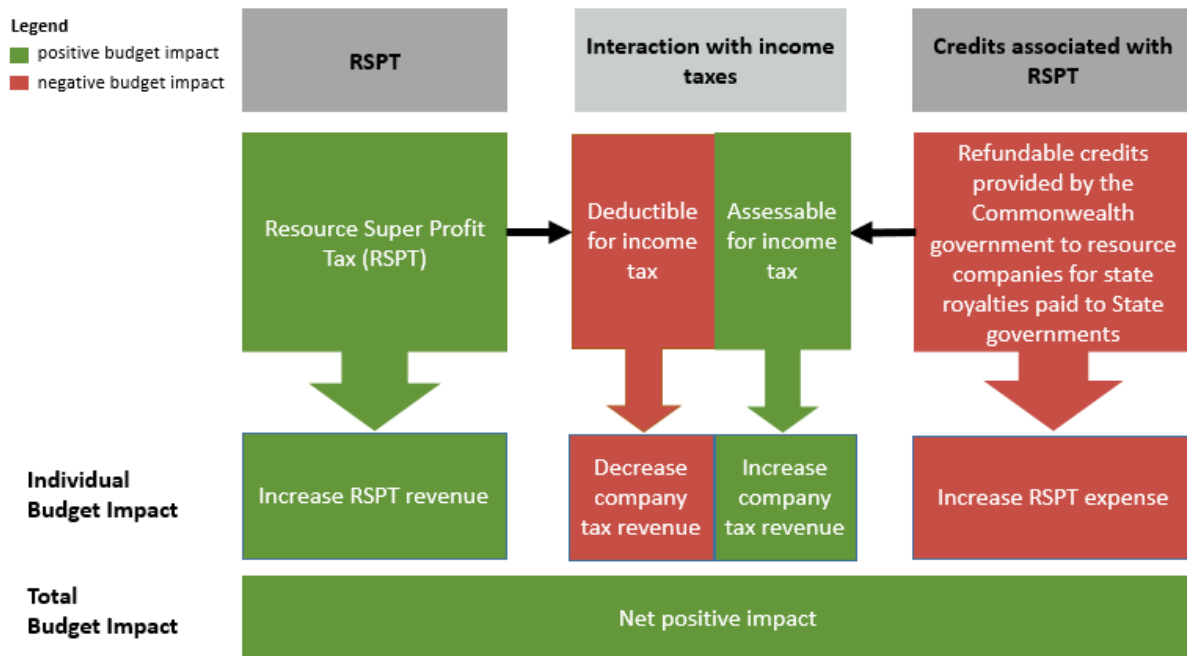
Financial implications

Had the original RSPT been implemented from 1 July 2012 it is estimated that it would have increased the fiscal balance by \$33.0 billion and increased the underlying cash balance by \$34.6 billion over the period from 1 July 2012 to 30 June 2020. On a fiscal balance basis this impact reflects increased revenue of \$75.3 billion, partially offset by increased administered expenses of \$42.1 billion, for the refundable credits provided to mining companies for state royalties, and increased Australian Taxation Office (ATO) departmental expenses of \$0.2 billion over this period.

As specified in the announcement paper, RSPT payments would have been deductible for income tax purposes. Refundable credits provided to mining companies for the royalties they would have paid to state and territory governments would have added to assessable income for the mining companies.

Diagram 1 shows the high level interactions between the components of the request and their effect on the budget balances.

Diagram 1: Summary of policy impact on budget



A breakdown of the estimated financial implications is provided at Attachment A. Note that the net estimated impact for 2013-14 is relatively high reflecting a peak in the iron ore price in that year. There is a significant increase in RSPT revenue in 2017-18 because the five-year accelerated depreciation of the starting base would have ended by 2016-17.

ATO departmental expenses reflect the upfront cost of updating systems and procedures, and the ongoing administrative costs of collecting the RSPT.

The differences between the fiscal and underlying cash balance impacts reflect timing differences between when the RSPT is recognised and when it is paid.

It is worth noting that the RSPT was not legislated with an agreed operating mechanism as it was replaced by the MRRT during the initial consultation stage.

Key assumptions

The PBO has made the following assumptions in estimating how much revenue the RSPT may have raised had it been implemented from 1 July 2012.

- Consistent with resource rent tax specifications in the Henry Tax Review report (page 237), the RSPT covers most non-renewable resources (other than those expected to generate low rent) including iron ore, metallurgical coal, thermal coal, gold, copper, nickel, and alumina.
- All the production of these non-renewable minerals would be sold and liable for the RSPT.
- New assets purchased by mining companies after the start date (1 July 2012) would be depreciated on a straight-line basis over 10 years, based on the book value of investment.
- The RSPT would be calculated and paid quarterly.
- The refundable credit for state royalties would be assessed and paid in the year following the payment of the RSPT.
- Mining companies liable for the RSPT would be subject to the 30 per cent company tax rate over the period from 2012-13 to 2019-20.
- Companies investing in the mineral extraction projects would have a majority foreign shareholding over the period from 2012-13 to 2019-20.
- Adopting the RSPT would not have changed mining company behaviour regarding the level of resource production and investment or mineral prices from 2012-13 to 2019-20.

Methodology

RSPT

RSPT liability was calculated at the aggregate level for each identified mineral by multiplying taxable RSPT profits by 40 per cent. Taxable RSPT profits comprise assessable revenue from the mineral extraction projects less deductible expenses. The assessable revenue and deductible expenses are derived using data from The Treasury, the Department of Industry, Science, Energy and Resources, and the Australian Bureau of Statistics (ABS).

Deductible expenses include operating expenses incurred in mineral production process, exploration expenses, depreciation of starting base, depreciation of new assets acquired after the start date, the RSPT allowance and any prior year RSPT losses.

The RSPT allowance was calculated by multiplying the sum of mining assets' current value and unutilised RSPT losses by the 10-year government bond rate.

Where the mining project does not earn sufficient RSPT profit before the depreciation of starting base to fully utilise this deduction, there would be a loss carried forward to offset future taxable profit.

Refundable credits for state royalties

The refundable credits were estimated using ABS mining royalty expense data.

Company tax

The company tax impact was calculated by multiplying the net amount of the estimated RSPT collected and the estimated credits paid for state royalties by 30 per cent.

Departmental expense

ATO departmental expenses are based on the original departmental profile of the 2010-11 Budget measure *Stronger, fairer, simpler tax reform – resource super profits tax*.

Revenue estimates have been rounded to the nearest \$100 million.

Departmental expense estimates have been rounded to the nearest \$100,000.

Data sources

Australian Bureau of Statistics, 2018. *Australian Industry, 2016-17*, ABS Cat. No. 8155.0.

Australian Bureau of Statistics, 2020. *Australian Industry, 2018-19*, ABS Cat. No. 8155.0.

Australian Bureau of Statistics, 2018. *Australian System of National Accounts, 2017-18*, ABS Cat. No. 5204.0.

Australian Bureau of Statistics, 2016. *Mining Operations, Australia, 2014-15*, ABS Cat. No. 8415.0.

Australian Government, 2010. *The resource super profits tax: a fair return to the nation*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2011. *Budget 2010-11*, Canberra: Commonwealth of Australia.

Department of Industry, Science, Energy and Resources, 2021. *Resources and Energy Quarterly – December 2020*, forecast data and historical data (available at <https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/index.html>)

Parliamentary Library, 2010. *Budget Review 2010-11: Resource super profits tax*, Canberra: Parliament of Australia (available at https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201011/TaxationRSPTax)

Reserve Bank of Australia, 2021. *F2.1 CAPITAL MARKET YIELDS – GOVERNMENT BONDS (Commonwealth Government 10 year bond)*, Series ID FCMYGBAG10.

The Treasury, 2013, *Resource Super Profits and the Minerals Resource Rent Tax: FOI Document 47*, Canberra: Commonwealth of Australia (available at <https://treasury.gov.au/sites/default/files/2019-03/Document-47-1.pdf>).

The Treasury provided the commodity price for iron ore, metallurgical coal and thermal coal as at 2020-21 Mid-Year Economic Fiscal Outlook.

Attachment A – Lost revenue from the original mining tax – financial implications

Table A1: Lost revenue from the original mining tax – Fiscal balance (\$m)^{(a)(b)}

	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Revenue									
<i>RSPT</i>	1,700.0	9,300.0	2,400.0	1,700.0	8,500.0	13,300.0	27,700.0	24,900.0	89,600.0
<i>Company tax</i>	-360.0	-1,600.0	420.0	200.0	-1,410.0	-2,060.0	-4,640.0	-4,880.0	-14,310.0
Total – revenue	1,340.0	7,700.0	2,820.0	1,900.0	7,090.0	11,240.0	23,060.0	20,020.0	75,290.0
Expenses									
<i>Administered</i>									
<i>Refundable credits for state royalties</i>	-1,700.0	-6,200.0	-2,400.0	-1,700.0	-5,100.0	-7,900.0	-9,300.0	-7,800.0	-42,100.0
<i>Departmental</i>									
<i>Australian Taxation Office</i>	-37.8	-27.3	-27.3	-27.3	-27.3	-27.3	-27.3	-27.3	-228.9
Total – expenses	-1,737.8	-6,227.3	-2,427.3	-1,727.3	-5,127.3	-7,927.3	-9,327.3	-7,827.3	-42,328.9
Total	-397.8	1,472.7	392.7	172.7	1,962.7	3,312.7	13,732.7	12,192.7	32,961.1

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

Table A2: Lost revenue from the original mining tax– Underlying cash balance (\$m)^{(a)(b)}

	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Receipts									
<i>RSPT</i>	1,300.0	7,400.0	4,100.0	1,800.0	6,800.0	12,100.0	24,100.0	25,600.0	83,400.0
<i>Company tax</i>	-360.0	-1,600.0	420.0	200.0	-1,410.0	-2,060.0	-4,640.0	-4,880.0	-14,310.0
Total – receipts	940.0	5,800.0	4,520.0	2,000.0	5,390.0	10,040.0	19,460.0	20,720.0	69,090.0
Payments									
<i>Administered</i>									
<i>Refundable credits for state royalties</i>	-	-1,700.0	-6,200.0	-2,400.0	-1,700.0	-5,100.0	-7,900.0	-9,300.0	-34,300.0
<i>Departmental</i>									
<i>Australian Taxation Office</i>	-37.8	-27.3	-27.3	-27.3	-27.3	-27.3	-27.3	-27.3	-228.9
Total – payments	-37.8	-1,727.3	-6,227.3	-2,427.3	-1,727.3	-5,127.3	-7,927.3	-9,327.3	-34,528.9
Total	902.2	4,072.7	-1,707.3	-427.3	3,662.7	4,912.7	11,532.7	11,392.7	34,561.1

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Attachment B – Lost revenue from the original mining tax – RSPT calculation

The RSPT calculation is illustrated in [Table B1](#).

Table B1: Resource Super Profits Tax calculation

Assessable revenue	
<i>less</i> Operating expenses	
<i>less</i> Exploration expenses	
<i>less</i> Depreciation of new capital	
<i>less</i> Annual RSPT allowance	Annual RSPT allowance =
<i>less</i> Prior year RSPT loss (if any)	(current value of mining assets + unutilised RSPT losses) x 10-year government bond rate
<i>less</i> Depreciation of starting base	
= RSPT net profit or loss	If net loss, loss is carried forward
RSPT liability = 40 per cent of RSPT net profit	

- As specified in the announcement paper, the starting base was depreciated on an accelerated basis over five years at the following rate while new assets purchased after the start date was depreciated under the general provision (i.e. assumed the straight-line method over 10 years).
 - Year 1 (2012-13) – 36 per cent
 - Year 2 (2013-14) – 24 per cent
 - Year 3 (2014-15) – 15 per cent
 - Year 4 (2015-16) – 15 per cent
 - Year 5 (2016-17) – 10 per cent
- The provision of refundable credits for state royalties to the mining companies was decoupled from the calculation of the RSPT liabilities. A refundable credit to mining companies for state royalties would be limited to the amount of the RSPT where state royalties exceed the RSPT assessed.
- Petroleum and gas producers would remain taxable under the Petroleum Resource Rent Tax.