Parliamentary
Budget Office

# Policy costing

| **Mining Super Profits Tax** | | |
|---|---|---|
| Person/party requesting the costing: | Mr Adam Bandt MP, Australian Greens | |
| Date costing completed: | 3 September 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 | |
| | ☒ Confidential | ☐ Not confidential |

Summary of proposal:

This proposal would introduce a new 40 per cent mining super profits tax on the super profits of individual Australian mining projects, where the super profits would be calculated at the project level as revenue less expenses.

- Project expenses would comprise of:
  - general project operating expenses
  - a deduction that recognises the book value of the project's capital expenditure base just before the introduction of the super profits tax. The deduction would be equal to the project's starting capital base depreciated on a straight-line basis over the first five years of the proposal. The starting capital base amount would be the book value of all capital expenditure as of 1 July 2021, uplifted each year at the 10-year government bond rate plus 2 per cent. The starting capital base amount would step down over the first five years of the proposal as the depreciation deduction amounts are subtracted.
- Project expenses would not be transferrable between projects owned by the same company.
- Royalty expenses and decommissioning costs would not be deductible against the super profits tax.

The mining super profits tax would be deductible for company tax purposes but not frankable for personal income tax.

The proposal would have effect from 1 July 2022.

## Costing overview

This proposal would be expected to increase the fiscal balance by $26.8 billion and the underlying cash balance by around $23.8 billion over the 2021-22 Budget forward estimates period. On a fiscal balance basis this impact reflects an increase in net revenue of $26.9 billion, partially offset by an increase in Australian Taxation Office (ATO) departmental expenses of around $105 million.

The proposal would be expected to have an ongoing impact that extends beyond the 2021-22 Budget forward estimates period. In particular, the super profits tax revenue is estimated to increase significantly in 2027-28 because the starting capital base deductions cease at this time, having been fully depreciated over the first five years of the proposal. A breakdown of the financial implications over the period to 2031-32 is provided at Attachment A.

ATO departmental costs to collect and ensure compliance with the super profits tax are estimated to be $30 million per year with an additional set up cost of $15 million in the first year of the proposal.

The fiscal balance and underlying cash balance impacts are different due to differences between the timing of when mining companies become liable for the super profits tax and when it is paid.

Revenue raised from the super profits tax would be partially offset by a reduction in company tax revenue due to the super profits tax being deductible for company tax purposes.

There is considerable uncertainty associated with this costing. This uncertainty arises due to potential changes in mining activity in response to the new tax, mineral production, mineral prices and exchange rates. Variations in these factors would significantly affect the revenue raised. Changes in the revenue collected would be expected to vary proportionally with any changes to these parameters.

**Table 1: Financial implications ($m)[(a)]**

| | 2021–22 | 2022–23 | 2023–24 | 2024–25 | **Total to 2024–25** |
|---|---|---|---|---|---|
| Fiscal balance | - | 11,825 | 6,590 | 8,420 | **26,835** |
| Underlying cash balance | - | 8,525 | 6,990 | 8,320 | **23,835** |

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
\- Indicates nil.

## Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Iron ore production volume, prices and production costs over the period to 2031-32 are assumed to be unaffected by the implementation of the proposal and remain at levels forecast by Wood Mackenzie as of February 2021.
- Production volume, prices and production costs for all other mineral types over the period to 2031-32 were estimated by the PBO using an aggregate model. These projections are also assumed to be unaffected by the implementation of the proposal.
- The super profits tax would be calculated and paid quarterly.
- Mining companies liable for the super profits tax would pay the 30 per cent company tax rate.

## Methodology

### Super profits tax - iron ore

The PBO used detailed mine-level data to estimate the financial implications for iron ore as it is the most significant mineral that would be covered by this proposal. Each mining project's super profits were estimated by calculating total revenue and subtracting general production costs and the depreciation allowance for starting base capital. Each project's annual super profits tax liability was then calculated by multiplying its super profit by the 40 per cent super profits tax rate. Finally, the super profits tax liability was timed according to the assumed cash timing profile.

### Super profits tax - other minerals

The expected super profits tax for metallurgical coal, gold and alumina were calculated using a model that is based on aggregate price and volume data for each mineral.

Super profits for each of the other minerals were estimated by calculating total revenue and subtracting general production costs and the depreciation allowance for starting base capital. Each mineral's annual super profits tax liability was then calculated by multiplying its super profit by the 40 per cent super profits tax rate. Finally, the super profits tax liability was timed according to the assumed cash timing profile.

Note that the aggregate model is less precise compared to the project level iron ore model because it does not consider different levels of profitability across particular mining projects.

### Interaction with company tax

The super profits tax would be a deductible expense for company tax purposes. The loss of company tax resulting from this deduction was estimated by multiplying the super profits tax impact by the assumed company tax rate.

### Interaction with personal income tax

Mining company dividend payments to shareholders are expected to decrease due to the super profits tax. This means individual mining company shareholders would have less taxable income and so pay less personal income tax. The reduction in personal income tax was calculated by multiplying the amount of super profits tax by proportion of shareholders who are Australian residents, the estimated average marginal tax rate for resident shareholders and the average proportion of after-tax profits distributed by mining companies as dividends

### Departmental expense

Departmental costs were estimated based on the overall departmental costs of the 2010-11 Budget measure *Stronger, fairer, simpler tax reform – resource super profits tax.*

### Rounding

The financial implications have been rounded consistent with the PBO's rounding rules as outlined on the PBO costings and budget information webpage.[1]

## 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.

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

Department of Industry, Innovation and Science, 2021. *Resources and Energy Quarterly – December 2020*, forecast data and historical data available at

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

https://publications.industry.gov.au/publications/resourcesandenergyquarterlydecember2020/index.html [Accessed 5 Feburary 2021].

Grenville, S 2018. *Foreign Investment: Let's talk about mining, not agriculture*, [online] available at https://www.lowyinstitute.org/the-interpreter/foreign-investment-lets-talk-about-mining-not-agriculture [Accessed 29 January 2021].

Treasury provided projections for the long-term bond rate and exchange rate forecast as of 2021-22 Budget.

Wood Mackenzie provided mine-level data on iron ore mining operations.

# Attachment A – Mining Super Profits Tax – financial implications

## Table A1: Mining Super Profits Tax – Fiscal balance ($m)[(a)]

| | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 | 2031–32 | **Total to 2024–25** | **Total to 2031–32** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | | | | |
| *Mining super profits tax* | - | *13,200* | *11,600* | *12,100* | *12,000* | *12,400* | *22,300* | *22,400* | *23,300* | *23,200* | *23,200* | ***36,900*** | ***175,700*** |
| *Income taxes[(b)]* | - | *-1,330* | *-4,980* | *-3,650* | *-3,660* | *-3,740* | *-5,820* | *-6,700* | *-6,960* | *-7,040* | *-7,040* | ***-9,960*** | ***-50,920*** |
| **Total – revenue** | - | **11,870** | **6,620** | **8,450** | **8,340** | **8,660** | **16,480** | **15,700** | **16,340** | **16,160** | **16,160** | **26,940** | **124,780** |
| **Expenses** | | | | | | | | | | | | | |
| ***Departmental*** | | | | | | | | | | | | | |
| *Australian Taxation Office* | - | *-45* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | ***-105*** | ***-315*** |
| **Total – expenses** | - | **-45** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-105** | **-315** |
| **Total** | - | **11,825** | **6,590** | **8,420** | **8,310** | **8,630** | **16,450** | **15,670** | **16,310** | **16,130** | **16,130** | **26,835** | **124,465** |

(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) Income taxes include personal income tax and company tax, with company tax making up 99 per cent of income taxes collected.

\- Indicates nil.

## Table A2: Mining Super Profits Tax – Underlying cash balance ($m)[(a)]

| | 2021–22 | 2022–23 | 2023–24 | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | 2030–31 | 2031–32 | **Total to 2024–25** | **Total to 2031–32** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Receipts** | | | | | | | | | | | | | |
| *Mining super profits tax* | - | *9,900* | *12,000* | *12,000* | *12,000* | *12,300* | *19,800* | *22,300* | *23,000* | *23,300* | *23,200* | ***33,900*** | ***169,800*** |
| *Income taxes[(b)]* | - | *-1,330* | *-4,980* | *-3,650* | *-3,660* | *-3,740* | *-5,820* | *-6,700* | *-6,960* | *-7,040* | *-7,040* | ***-9,960*** | ***-50,920*** |
| **Total – receipts** | - | **8,570** | **7,020** | **8,350** | **8,340** | **8,560** | **13,980** | **15,600** | **16,040** | **16,260** | **16,160** | **23,940** | **118,880** |
| **Payments** | | | | | | | | | | | | | |
| ***Departmental*** | | | | | | | | | | | | | |
| *Australian Taxation Office* | - | *-45* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | *-30* | ***-105*** | ***-315*** |
| **Total – payments** | - | **-45** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-30** | **-105** | **-315** |
| **Total** | - | **8,525** | **6,990** | **8,320** | **8,310** | **8,530** | **13,950** | **15,570** | **16,010** | **16,230** | **16,130** | **23,835** | **118,565** |

(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) Income taxes include personal income tax and company tax, with company tax making up 99 per cent of income taxes collected.

\- Indicates nil.