Parliamentary Budget Office

Policy costing

Big corporations tax (Coal and mining)		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	15 August 2024	
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~~ – *Authorised for public release on 2 September 2024*	☐ Not confidential

Summary of proposal:

The proposal would introduce a new 40% Coal and mining tax (CMT) 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 CMT.
    - 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 (Opening Capex).
    - The starting capital base amount would be the book value of all capital expenditure as of 1 July 2024 uplifted each year at the 10-year government bond rate plus 2%. The starting capital base amount would step down over the first five years of the proposal as the depreciation deduction amounts are subtracted.
    - Any of the unused Opening Capex deduction in any of those first 5 years is carried forward and uplifted at the 10-year government bond rate plus 2%, and used in the following year.
- Project expenses would not be transferrable between projects owned by the same company.
- Royalty expenses and decommissioning costs would not be deductible against the CMT.

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

The proposal includes a CMT on coal and other specified mining projects (iron ore, metallurgical coal, thermal coal, gold, alumina, and copper ore). Other mining would be excluded.

The proposal would have effect from 1 July 2025.

Overview

The proposal would be expected to increase the fiscal balance by around $26.0 billion and the underlying cash balance by around $22.7 billion over the 2024-25 Budget forward estimates period (see Table 1). This impact reflects an increase in net revenue of around $26.0 billion partially offset by increases in Australian Taxation Office (ATO) departmental expenses of around $105.0 million.

The proposal would have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 is provided at Attachment A.

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

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

There is considerable uncertainty associated with this costing as the proposal is extremely sensitive to forecasts of mineral prices. The estimates of CMT revenue are consistent with the forecasts for commodity prices in the 2024-25 Budget. The financial implications of the proposal would also be sensitive to any changes in:

- behaviour in response to the new tax
- mineral production
- capital expenditure
- economic conditions and global economic outlook
- exchange rates.

Variations in these factors would significantly affect the revenue raised by the proposal. In practice, a CMT would be a highly variable tax and changes in the revenue collected would be expected to vary more than proportionally with any changes to these parameters.

Table 1: Big corporations tax (Coal and mining) – Financial implications ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	**Total to 2027-28**
Fiscal balance	-	8,865.0	8,100.0	9,110.0	**26,075.0**
Underlying cash balance	-	5,765.0	8,200.0	8,810.0	**22,775.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Production volume and production costs over the period to 2034-35 for all minerals, including iron ore, would be unaffected by the implementation of the proposal and would remain consistent with current forecasts by Wood Mackenzie and Treasury.
- The CMT would be calculated and paid quarterly.
    - 75% would be paid in year of economic activity, and 25% in the following year.
- Mining companies liable for the CMT would pay the 30% company tax rate (monthly instalments).

  - Around 92% would be paid in the year of economic activity, and around 8% in the following year.

- Dividend payout ratio of liable companies is 75% of profits.
- Average marginal tax rate of associated Australian shareholders is 28.8%.
  - Australian ownership of non-Iron Ore mining is around 27%

Methodology

Big corporations tax (Coal and mining) - iron ore

The PBO used detailed mine-level data to estimate the financial implications for iron ore as it is the most significant mineral (around two thirds of revenue in the forward estimates period) that would be covered by the proposal. Each mining project's super profits were estimated by calculating total revenue and subtracting general production costs, the depreciation for starting base, and new capital investments.

The stock of un-deducted capital was sourced from industry mine level data provided by Wood Mackenzie. The starting capital base was calculated by uplifting the stock of un-deducted capital as specified in the request and depreciated over the first 5 years of the proposal on a straight-line basis. Unused prior year losses were uplifted as specified in the request and carried forward as an expense in the following year.

Expenses associated with new capital expenditure were depreciated over 10 years on a straight-line basis. Unused prior year losses carried forward as an expense in the following year. Operating expenses were deducted from revenue, excluding expenses associated with royalty expenses and decommissioning costs as specified. Each project's annual CMT liability was then calculated by multiplying its super profit by the 40% super profits tax rate. Finally, the underlying cash balance impact was calculated by timing the CMT liability in accordance with the assumption that it would be paid quarterly.

Big corporations tax (Coal and mining) - other minerals

The expected CMT for metallurgical coal, thermal coal, gold, alumina, and copper ore were calculated using a model that is based on aggregate price and volume data for each mineral.

Super profits for each of these minerals were estimated by calculating total revenue and subtracting general production costs, the depreciation for starting base, and new capital investments (including the uplift effect).

The net stock of un-deducted capital was sourced from the *Australian System of National Accounts* published by the Australian Bureau of Statistics (ABS), and apportioned between each category of mining based on the relative depreciation and amortisation expense reported in the Australian Industry report published by the ABS.

The starting capital base was calculated by uplifting the stock of un-deducted capital as specified in the request and depreciated over the first 5 years of the proposal on a straight-line basis. Unused prior year losses were uplifted as specified in the request and carried forward as an expense in the following year.

Expenses associated with new capital expenditure were depreciated over 10 years on a straight-line basis. Unused prior year losses carried forward as an expense in the following year. Operating

expenses were deducted from revenue, excluding expenses associated with royalty expenses and decommissioning costs as specified.

Each mineral's annual CMT liability was then calculated by multiplying its super profits by the 40% super profits tax rate. Finally, the underlying cash balance impact was calculated by timing the CMT liability in accordance with the assumption that it would be paid quarterly.

It should be noted 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 different mining projects.

Interaction with company tax

As specified, the CMT would be a deductible expense for company tax purposes. The reduction in company tax resulting from this additional expense was estimated by multiplying the CMT impact by the company tax rate. This interaction also includes a very small impact on personal income tax revenue due to an estimated reduction in dividends paid to domestic shareholders, following lower company profitability.

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.*

Financial implications were rounded consistent with the PBO's rounding rules[1].

Data sources

ABS (Australian Bureau of Statistics) (2018) *Australian Industry,* reference period *2016-17,* Australian Government.

ABS (Australian Bureau of Statistics) (2020) *Australian Industry,* reference period *2018-19,* Australian Government.

ABS (Australian Bureau of Statistics) (2021) *Australian Industry,* reference period *2019-20,* Australian Government.

ABS (Australian Bureau of Statistics) (2022) *Australian Industry,* reference period *2020-21,* Australian Government.

ABS (Australian Bureau of Statistics) (2023) *Australian Industry,* reference period *2021-22,* Australian Government.

ABS (Australian Bureau of Statistics) (2024) *Australian Industry,* reference period *2022-23,* Australian Government.

ABS (Australian Bureau of Statistics) (2014) *Australian System of National Accounts*, reference period 2022-23 financial year, Australian Government.

ABS (Australian Bureau of Statistics) (2016) *Mining Operations, Australia, 2014-15,* Australian Government.

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

Commonwealth of Australia, 2022, *2022-23 Budget,* Canberra: Commonwealth of Australia.

[1] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Commonwealth of Australia, 2023, *2023-24 Budget,* Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2024, *2024-25 Budget,* Canberra: Commonwealth of Australia.

DISR (Department of Industry, Science and Resources) (2023) Resources and energy quarterly | Department of Industry, Science and Resources, forecast data and historical data, DISER, accessed 1 August 2024.

The Treasury provided projections for the long-term bond rate and the commodity price for iron ore, metallurgical coal, and thermal coal as at the 2024-25 Budget.

Wood Mackenzie provided mine-level data on iron ore mining operations as at Q2 2024.

Attachment A – Big corporations tax (Coal and mining) – Financial implications

Table A1: Big corporations tax (Coal and mining) – Fiscal balance ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Revenue													
Mining Super Profits Tax	-	*12,300.0*	*11,600.0*	*13,000.0*	*10,400.0*	*12,600.0*	*20,200.0*	*19,900.0*	*20,000.0*	*20,000.0*	*18,900.0*	***36,900.0***	***158,900.0***
Income Taxes	-	*-3,390.0*	*-3,470.0*	*-3,860.0*	*-3,190.0*	*-3,720.0*	*-5,870.0*	*-5,960.0*	*-5,960.0*	*-5,990.0*	*-5,670.0*	***-10,720.0***	***-47,080.0***
Total – revenue	**-**	**8,910.0**	**8,130.0**	**9,140.0**	**7,210.0**	**8,880.0**	**14,330.0**	**13,940.0**	**14,040.0**	**14,010.0**	**13,230.0**	**26,180.0**	**111,820.0**
Expenses													
Departmental													
Australian Taxation Office	-	*-45.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	***-105.0***	***-315.0***
Total – expenses	**-**	**-45.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-105.0**	**-315.0**
Total (excluding PDI)	**-**	**8,865.0**	**8,100.0**	**9,110.0**	**7,180.0**	**8,850.0**	**14,300.0**	**13,910.0**	**14,010.0**	**13,980.0**	**13,200.0**	**26,075.0**	**111,505.0**

(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 company tax and personal income tax, with company tax accounting for around 99% of income taxes collected.

\- Indicates nil.

Table A2: Big corporations tax (Coal and mining) – Underlying cash balance ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Receipts													
Mining Super Profits Tax	-	*9,200.0*	*11,700.0*	*12,700.0*	*11,100.0*	*12,100.0*	*18,300.0*	*20,000.0*	*20,000.0*	*20,000.0*	*19,200.0*	***33,600.0***	***154,300.0***
Income taxes	-	*-3,390.0*	*-3,470.0*	*-3,860.0*	*-3,190.0*	*-3,720.0*	*-5,870.0*	*-5,960.0*	*-5,960.0*	*-5,990.0*	*-5,670.0*	***-10,720.0***	***-47,080.0***
Total – receipts	**-**	**5,810.0**	**8,230.0**	**8,840.0**	**7,910.0**	**8,380.0**	**12,430.0**	**14,040.0**	**14,040.0**	**14,010.0**	**13,530.0**	**22,880.0**	**107,220.0**
Payments													
Departmental													
Australian Taxation Office	-	*-45.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	*-30.0*	***-105.0***	***-315.0***
Total – payments	**-**	**-45.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-30.0**	**-105.0**	**-315.0**
Total (excluding PDI)	**-**	**5,765.0**	**8,200.0**	**8,810.0**	**7,880.0**	**8,350.0**	**12,400.0**	**14,010.0**	**14,010.0**	**13,980.0**	**13,500.0**	**22,775.0**	**106,905.0**

(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 company tax and personal income tax, with company tax accounting for around 99% of income taxes collected.

- Indicates nil.

Table A3: Big corporations tax (Coal and mining) – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Fiscal balance	-	*120.0*	*420.0*	*800.0*	*1,190.0*	*1,580.0*	*2,100.0*	*2,770.0*	*3,510.0*	*4,280.0*	*5,090.0*	***1,340.0***	***21,860.0***
Underlying cash balance	-	*90.0*	*350.0*	*710.0*	*1,090.0*	*1,490.0*	*1,980.0*	*2,610.0*	*3,330.0*	*4,100.0*	*4,890.0*	***1,150.0***	***20,640.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

(b) 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. 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.

\- Indicates nil.

[2] Online budget glossary – Parliament of Australia (aph.gov.au)