

The truth about the super tax – the myths and the facts

25 May 2010

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Is mining paying its fair share?

Myths

- The Government says mining doesn't pay its fair share

- The Government says miners paid 'one in three' dollars of profit in royalties and resource charges a decade ago and only 'one in seven' today

Facts

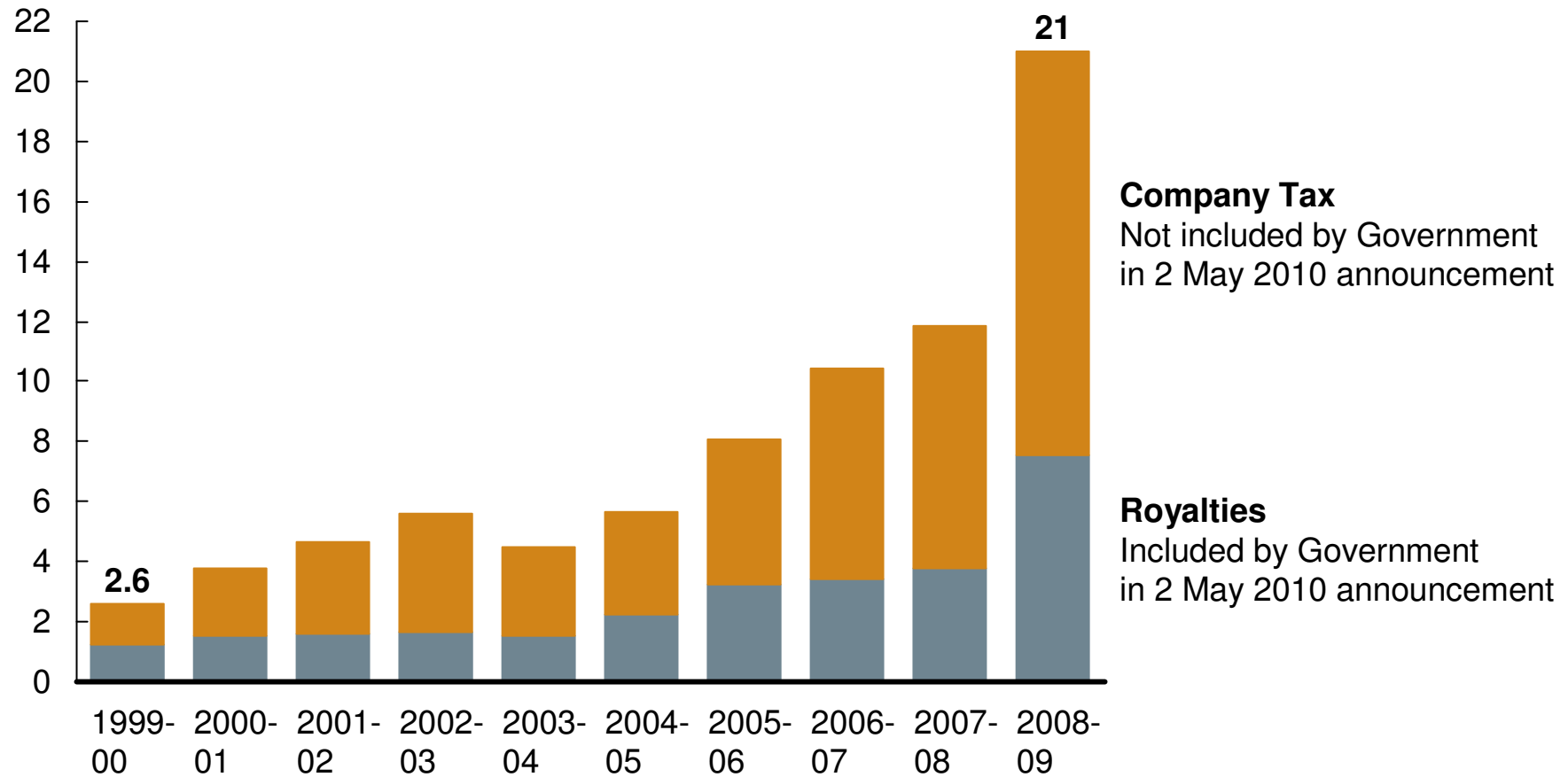
- Mining paid **\$80 billion in tax** over the last decade
- Mining pays a **higher effective tax rate** than any other industry
- Mining paid **eight times more tax** last year than a decade ago

- In fact, last year mining paid **more than one in three** dollars of profit in tax
- Government figures **exclude company tax**, which represented more than half of the tax and royalty contribution of the mineral resources industry in 2008-09

- How can the Government reconcile their figure of 'one in seven' dollars in tax when the ATO and Access Economics suggest the figure is more like one in three?
- If mining has the highest effective tax rate of any in Australia, how is that not a fair share?

Government figures on mining taxes excluded company tax, which was more than 60% of tax paid by mining last year

Total company tax and royalties paid from mineral resources
\$ Billions



Is the effective tax rate of miners 13-17%?

Myths

- The Government says “wholly-domestic mining companies paid an effective tax rate of only 17 per cent and multinational mining companies paid an effective tax rate of only 13 per cent – both dramatically below the headline company tax rate of 30 per cent”.
—Treasurer’s Economic Note, 23 May 2010

Facts

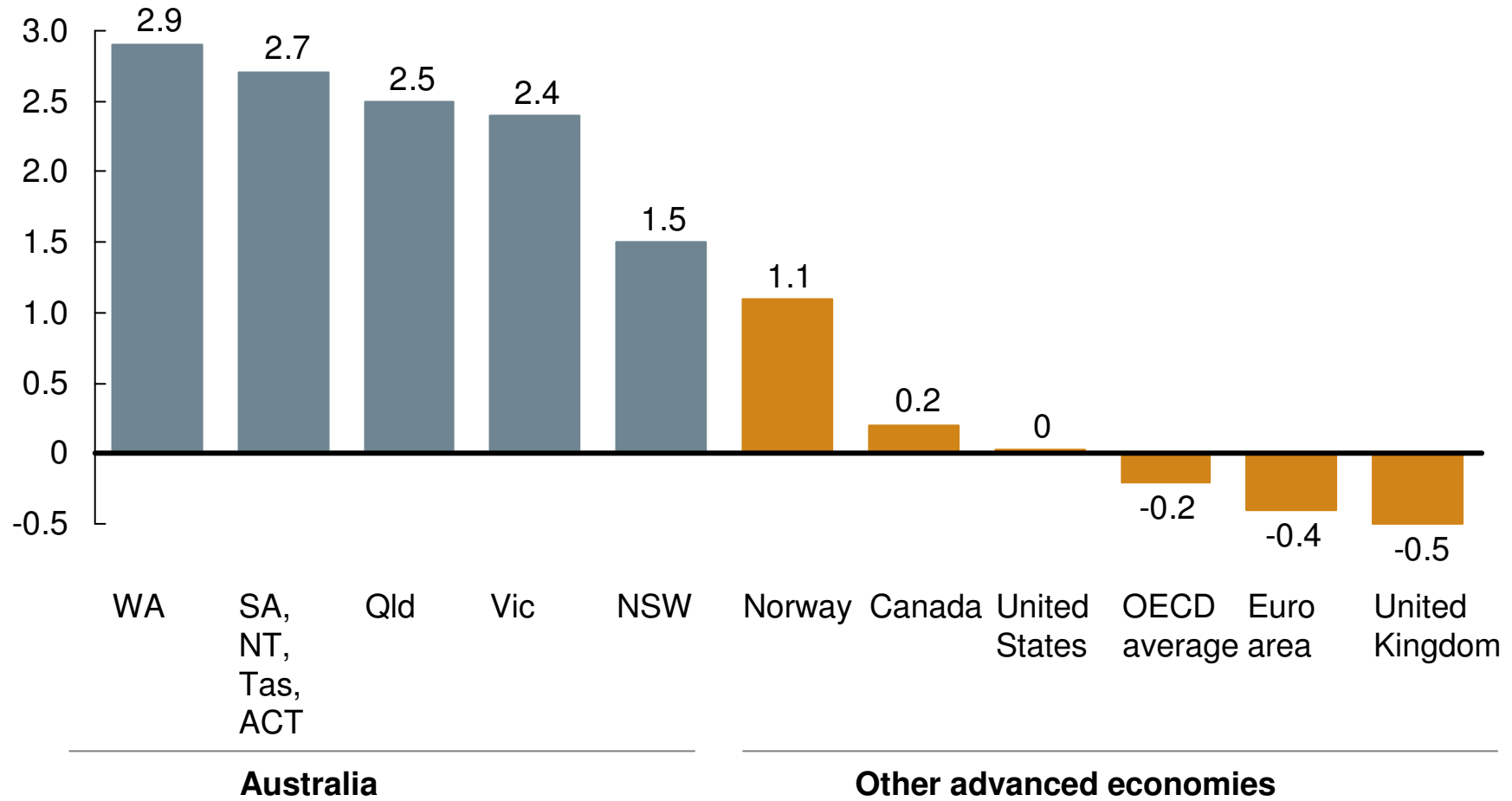
- Mining companies pay company tax on their profits – and like every other company, the higher their profits, the more tax they pay. On top of company tax, mining companies pay royalties and other production taxes because they are extracting natural resources
 - For the industry as a whole in 2007-2008, **ATO statistics show mining companies paid 27.8% effective corporate tax rate**, which rises to 41.3% when royalties are included
 - BHP Billiton had an effective tax rate inclusive of royalties of 43% for financial year ended June 2009, and an average of 42% for financial years 2004 – 2009 inclusive
 - Between 2004 and 2009 inclusive, **BHP Billiton’s Australian operations paid total taxes of over \$24 billion**
 - The **Government is misrepresenting the industry’s tax payments. Instead of using publicly available ATO data**, it uses an academic paper which:
 - does not directly calculate effective tax rates
 - uses a sample of companies – not the whole industry
 - includes New Zealand as part of Australia
- Why is the Government using an academic study instead of comprehensive, publicly available ATO data?
 - Did the Government check the paper’s accuracy with the ATO?

Does mining create a 'two-speed' economy?

Myths	Facts
<ul style="list-style-type: none">▪ Australia's mining industry creates a 'two-speed' economy	<ul style="list-style-type: none">▪ If anything, the two speeds are 'fast' and 'faster'. During the GFC all Australian states grew much faster than the US, UK, and Europe▪ Research by Deloitte shows that there is no 'two speed' economy driven by mining. Disparities in recent state growth rates are low by historical standards▪ From 2005 to 2009, out of 18 industries, mining was only the 8th fastest growing, and 10th over the last decade. Examples of industries experiencing fast growth rates are construction, financial services and retail trade
<ul style="list-style-type: none">▪ Slowing mining growth would 'help' Australia's economy	<ul style="list-style-type: none">▪ But, as Kevin Rudd stated in his 2007 Budget Reply Speech: <i>"... we have prospered from the rise of China, the rise of India and the global resources boom. The benefits of this are washing through the economy, creating jobs, generating new businesses and boosting government revenues to an all time high"</i>
<ul style="list-style-type: none">▪ Why is this new tax so focused on the 'two-speed' economy when all states are growing much more quickly than the rest of the developed world?▪ Does the Government believe that tax policy should be used to slow economic growth?	

Australia's two-speed economy: Fast and faster

Annual real GSP/GDP growth from 2006–07 to 2008–09
Percent



SOURCE: ABS 5220.0 Table 1 2010; IMF World Economic Database 2010

Is the Government's proposed tax a 'super profits' tax?

Myths

- The Government's new tax is a 'super profits' tax

Facts

- Since 1973, mining in Australia returned 14.7% to shareholders per year vs. 13.6% in all industries.
- Profits above 6% on the book value of assets are **not 'super profits' — they are normal profits.**
 - The Government's Minister for Finance and Deregulation recently described returns of 6 to 7 per cent as 'modest'—not 'super'—in connection with the Government's NBN project

- By the Government definition, virtually all industries have 'super profits'. Will 'super profits' tax be applied to other industries in Australia?

Is the Government's proposed tax in line with taxes levied by competing countries?

Myths

- The tax will not harm the international competitiveness of Australian mining

Facts

- **No other country has imposed such a high tax rate** on its mining industry
- The precedent is countries that damaged their mining sectors and economies. PNG had a resource rent tax which it cancelled in 2003. Greg Anderson, Executive Director of the PNG Chamber of Mines and Petroleum, says:

*"I'm **delighted the Australian government is driving companies offshore**, because we are going to pick some of them up... [PNG's resource rent tax] was a complex tax, which looked very bad on paper because no one could understand it overseas. So the **government at last got rid of it**, simplified tax and made it internationally competitive."*

- Why is Australia levying the highest tax in the world on its mining industry? How does this affect our international competitiveness?
- How can the Government explain why other countries, such as Canada and PNG, see the new tax as an opportunity to draw investment away from Australia?

Is the Government putting in place a fair transition for existing mines?

Myths

- The Government plans to pay a 'fair' price for moving existing mines into the new system

Facts

- The super tax is, in effect, a **Government-mandated sale of 40% of Australia's resources industry at a Government-mandated price**
- It is a price —the accounting value of existing operations — that is much lower than the true market value
- It is similar to the **Government seizing a share of a house at its construction costs of many years earlier**, not its value today
- In effect, the Government is **expropriating assets that belong to a lot of Australians** — because many Australians own shares in mining companies (either directly or through super funds)

- Why does the new tax apply to existing mines when those investment decisions have already been made?
- How can Australians be better off through this tax when their superannuation returns may be negatively affected through their investment in mining companies?

Is the Government's proposed tax the same as the PRRT?

Myths

- The PRRT has worked for Australia's oil and gas industry, so the super tax will work for Australia's mineral resources

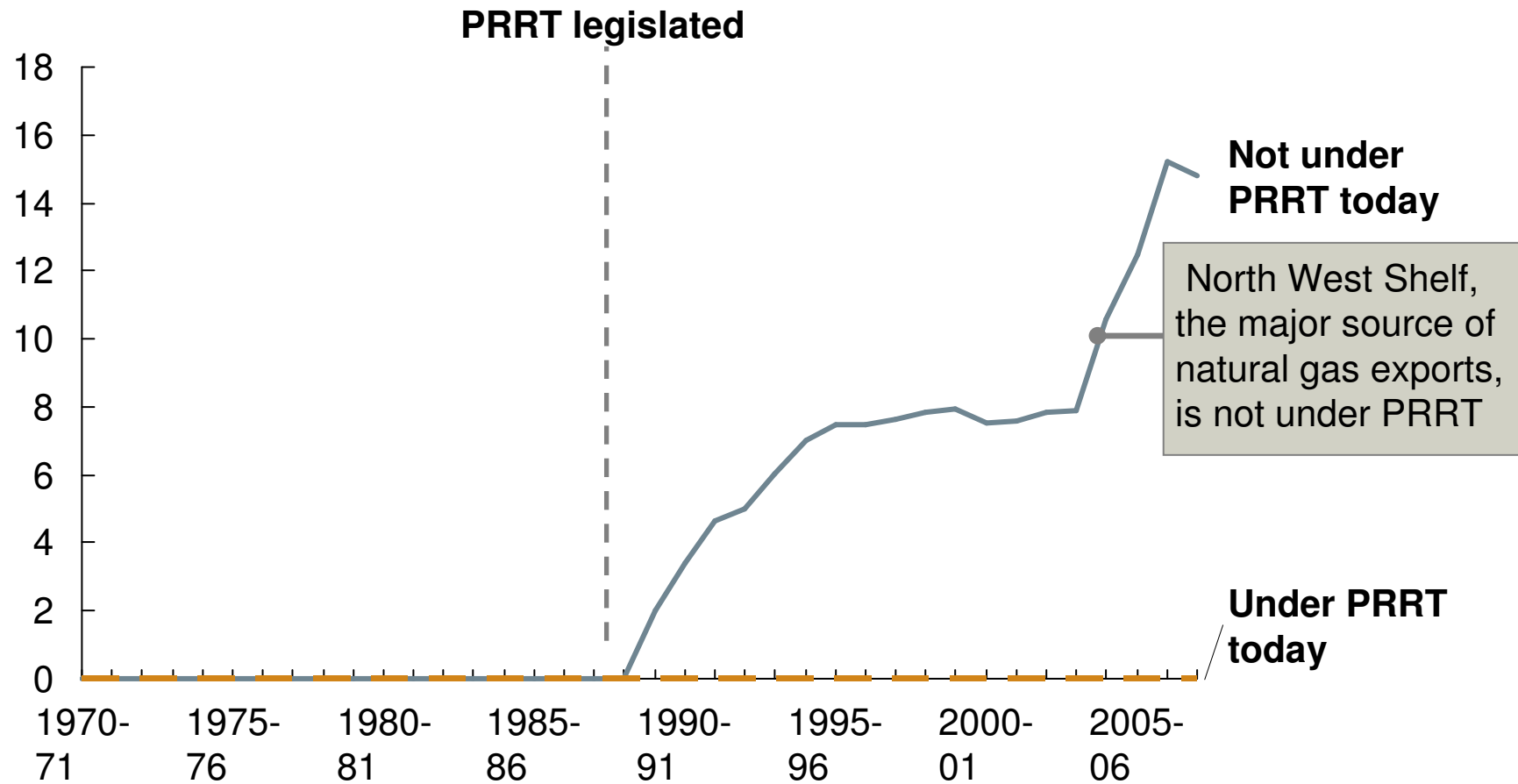
Facts

- Government evidence that PRRT led to growth is misleading—**Australia has not exported any LNG under PRRT to date**
- If the PRRT did work, it was because **it was prospective and competitive**. The Government's new tax is **neither**.
- Tax rates that are competitive in oil are not in mining, because other countries tax oil more highly than mining. The Government's new tax will make **Australia one of the only countries that puts a higher tax burden on mining than oil**.

- Why did the Government choose a 40% tax rate for Australia's mining industry?
- Does the Government recognise that other countries levy a higher tax rate on oil and gas compared to minerals?
- Why did the Government depart from convention and make this tax retrospective, not prospective like the PRRT?

Australian natural gas exports have grown since the late 1980s—but these exports are not subject to the PRRT

Natural gas exports Mt



Will the new tax increase investment in Australian mining?

Myths

- The new tax will increase investment in Australian mining

Facts

- Government modelling **assumes** the RSPT won't affect investment, because minerals cannot be moved from Australia. In reality, **Australian projects compete with other projects in other countries for scarce capital**. Making them less profitable will mean other projects are prioritised ahead of those in Australia.
 - Other areas that Australian miners compete with for investment include Guinea for iron ore
- The modelling **assumes** there is “**no change** to the perceived level of **sovereign risk** with the change in mining tax regime”
 - Initial reactions from capital and currency markets suggest perceived sovereign risk in Australia increased post the introduction of a large retrospective tax
- The Government's modelling, reported by Econtech, is a hypothetical “**long run**” – it leaves out transition. But in the real world, **the short term matters**. Fortescue has put \$17.5 billion of its projects on hold

- Wouldn't the Government's modelling show 'no impact' even if the super tax rate was 99%? Is this credible?
- Has the Government modelled the short-term and medium-term impacts of the tax?
- How long is the 'long run' in the Government's model?
- Hasn't the tax already raised international perceptions of Australia's sovereign risk?

Will the new tax help small miners?

Myths

- The new tax will help small miners

Facts

- The **'benefits' of the tax are smaller than the Government claims:**
 - JP Morgan states that the new tax is better than royalties only at low rates of return well below what it takes to actually invest in a mining project
- Small miners have consistently come out against this tax. The Association of Mining and Exploration Companies stated: *"We have been inundated by our members who are the smaller scale mining and junior explorers providing confidential information that confirms:*
 - *new and planned projects and plans are already being deferred;*
 - *purchases / sales being deferred or cancelled;*
 - *joint venture and investment negotiations being put on hold or cancelled;*
 - *company re-structuring being contemplated; and*
 - *offshore projects being reviewed"*

- How does a tax that provides a small incentive for exploration and a big tax on profits increase exploration?
- If this tax is really good for small miners, why haven't more small miners said so? Specifically, what mining companies support this proposal in its current form?

How will the tax affect Australia's reputation as an investment destination?

Myths	Facts
<ul style="list-style-type: none">Australia's reputation as a stable investment destination will survive this new tax unscathed	<ul style="list-style-type: none">There is plenty of evidence that the mere proposal of the super tax has damaged Australia's reputation for investment:<ul style="list-style-type: none">According to <i>The Australian</i>, Macquarie Bank advised clients Australia was 'now seen as being a high sovereign risk destination to invest' and there was a 'significant risk of major capital flight out of Australia'.A survey by Radar Group of Australian institutional investors with assets over \$125 billion revealed that '71% of respondents feel increasingly nervous about regulatory or sovereign risk in Australia as a result of the 40% tax on profits.'Graham Bradley, President of the Business Council of Australia stated, 'If market reaction is a reasonable barometer of confidence then it is clear confidence in the prospects of our resources sector has been severely tarnished. The broader perception of policy risk, or sovereign risk as it is known, could end up extending well beyond this sector'BHP Billiton CEO Marius Kloppers warned that Australia was in danger of 'tarnishing' its reputation as the 'gold standard' of investment destinations for mining companies. According to Kloppers, '...it would be extremely unlikely to think that we can approve a major investment while this uncertainty hangs over us...'

- Has any modelling been done to quantify any reduced investment due to this mining tax? Are the assumptions based on no change to investment?
- Has the Government factored in uncertainty caused by this tax into estimates of investment impacts?
- How will the Government reassure investors in Australian projects that their capital investments are, in fact, safe?

Sources (1/3)

Is mining paying its fair share?

Fact

- Mining paid
 - \$80 billion in tax over the last decade.
 - Eight times more tax last year than a decade ago
 - More than one in three dollars of profit in tax
- Mining pays a higher tax rate than any other industry.

Source

- Access Economics estimates, 2010
- Australian Taxation Office, *Taxation Statistics 2007-2008*; MCA analysis
- Deloitte 'The Importance of the Minerals Industry to Australia's Current and Future Prosperity' 2010

Is the effective tax rate of miners 13-17%?

- BHP Billiton's tax payments
- Industry tax payments
- Markle and Shackelford paper

- BHP Billiton Media Release, 24 May 2010
- Australian Taxation Office, *Taxation Statistics 2007-2008*; MCA analysis
- <http://www.nber.org/papers/w15091.pdf>

Does mining create a 'two-speed' economy?

- During the GFC all Australian states grew much faster than the US, UK, and Europe.
- A paper by Deloitte shows that there is no 'two speed' economy driven by mining
- But, as Kevin Rudd stated in his 2007 Budget Reply Speech: '... we have prospered from the rise of China, the rise of India and the global resources boom....'

- ABS 5220.0 Table 1 2010, IMF World Economic Database 2010
- Deloitte 'Clouds in the Silver Lining? The Two Speed Economy and Dutch Disease' 14 May 2010
- Kevin Rudd, Prime Minister in '2007 Budget Reply Speech' australianpolitics.com, 10 May 2007

Is the Government's proposed tax a 'super profits' tax?

- Since 1973, mining in Australia returned 14.7 percent to shareholders per year vs 13.6 percent in all industries
- The Government's Minister for Finance and Deregulation recently described returns of 6 to 7 per cent as 'modest'—not 'super'—in connection with the Government's NBN project

- Datastream. Compound annual growth rate of total return to shareholders index from year-end 1973 to year-end 2009.
- Minister for Finance and Deregulation Lindsay Tanner on 6 May 2010

Sources (2/3)

Is the Government's proposed tax in line with taxes levied by competing countries?

Fact

- Outside of oil and gas, no other country has imposed such a high tax rate on its mining industry.
- Quote from Greg Anderson, Executive Director of the PNG Chamber of Mines and Petroleum

Source

- Citi 'Metals and Mining' 12 May 2010
- Greg Anderson, PNG Chamber of Mines and Petroleum Executive Director in "We love resources tax, says PNG" *The Australian*, 17 May 2010

Is the Government's proposed tax the same as the PRRT?

- Government evidence that PRRT led to growth is misleading—Australia has not exported any LNG under PRRT to date
- Tax rates that are competitive in oil are not in mining, because other countries tax oil more highly than mining. The Government's new tax will make Australia the only country that puts a higher tax burden on mining than oil.

- APPEA Production Statistics
- KPMG 'Minerals taxation paper' for the MCA
- Citi 'Metals and Mining' 12 May 2010

The new tax will increase investment in Australian mining

- Modelling assumptions
- Sovereign risk comments

- KPMG Econtech:CGE analysis of Part of the Government's AFTSR response 30 April 2010 (extended 4 May 2010)
- 'Labor states back big mining companies on resources profits tax', *The Australian*, 11 May 2010
- 'Calm down, Swan tells investors', *The Sydney Morning Herald*, 10 May 2010
- Graham Bradley, 'This is no time to undermine corporate confidence', *The Australian*, 17 May 2010

Sources (3/3)

Will the new tax help small miners?

Fact

- The exploration credit is only \$0.6 billion—while the tax is expected to raise an additional \$9 billion revenue in 13/14.
- The new tax is better than royalties—but only at low rates of return well below what it takes to actually invest in a mining project.
- Association of Mining and Exploration Companies statement

Source

- Australian Government 'Resource Super Profits Tax' 2010
- JP Morgan Analyst Report, 'Devil in the detail - Misconceptions and Misperceptions' 17 May 2010
- AMEC Media Release 'Hundreds of Smaller Mining and Junior Exploration Companies Forgotten or Ignored' 14 May 2010

How will the tax affect Australia's reputation as an investment destination?

- Marius Kloppers quotation
- Macquarie Bank quotation
- Radar Group quotation
- Graham Bradley quotation

- 'BHP chief puts tax in new light,' *Australian Financial Review*, 19 May 2010
- 'Labor states back big mining companies on resources profits tax', *The Australian*, 11 May 2010
- 'Calm down, Swan tells investors', *The Sydney Morning Herald*, 10 May 2010
- Graham Bradley, 'This is no time to undermine corporate confidence', *The Australian*, 17 May 2010