NATURAL RESOURCE TAXATION IN THE ASIA-PACIFIC REGION

OUTLINE OF THE AUSTRALIAN MINING TAXATION REGIME

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Jakarta, August 11-13, 2015

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Content of this talk

In this talk I will:

- Outline the Australian federal and states/territories fiscal frameworks as they apply to mining,
- Consider some conflicting fiscal objectives and
- How different States/Territories address them.

Australia is rich in mineral resources

FIGURE 11-5

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Value of Australian Mineral Production 2013-14

COMMODITY	2013-14 A$
Coal	47,677
Oil and Gas	38,436
Iron Ore	78,289
Copper	5,433
Gold	13,069
Mineral Sands	2,081
Silver-Lead-Zinc	4,240
Bauxite, Nickel and Other Metals	5,068
Non-metallic Minerals	6,418
TOTAL MINING	**200,711**

Major Australian Producers States 2013-14

STATE/TERRITORY	PERCENTAGE OF TOTAL PRODUCTION VALUE (%)	VALUE OF PRODUCTION A$ Billion
Western Australia	60.7%	121.9
Queensland	18.4%	36.9
New South Wales	11.6%	23.3
Other States/Territories, i.e.: SA,T, NT	9.3%	18.6
TOTAL	**100%**	**200.7**

Australia's Political Structure

Australia is a Federation of 6 States:

- Western Australia (WA),
- Queensland (Q),
- New South Wales (NSW),
- Victoria (V),
- South Australia (SA)
- Tasmania (T)

and 2 territories:

- Northern Territory (NT) and
- Australian Capital* Territory (ACT)

* Australian federal capital is in Canberra

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Australian Mining Tax Package

- **States/territories Governments**:
  - Different mineral and petroleum royalties and
  - A range of other taxes, e.g. payroll tax, stamp duty, land tax etc.
  - Good and Services Tax (@ 10%) (GST=VAT)*
- **Federal** (Commonwealth) **Government**:
  - Corporate income tax (@30%), CGT,
  - Dividends and other withholding taxes (WHT),
  - Petroleum resource rent tax (PRRT)
  - Customs duties and excises

*GST collected by the states but then remitted to and redistributed by the Federal Government

Australian Mining Tax Package

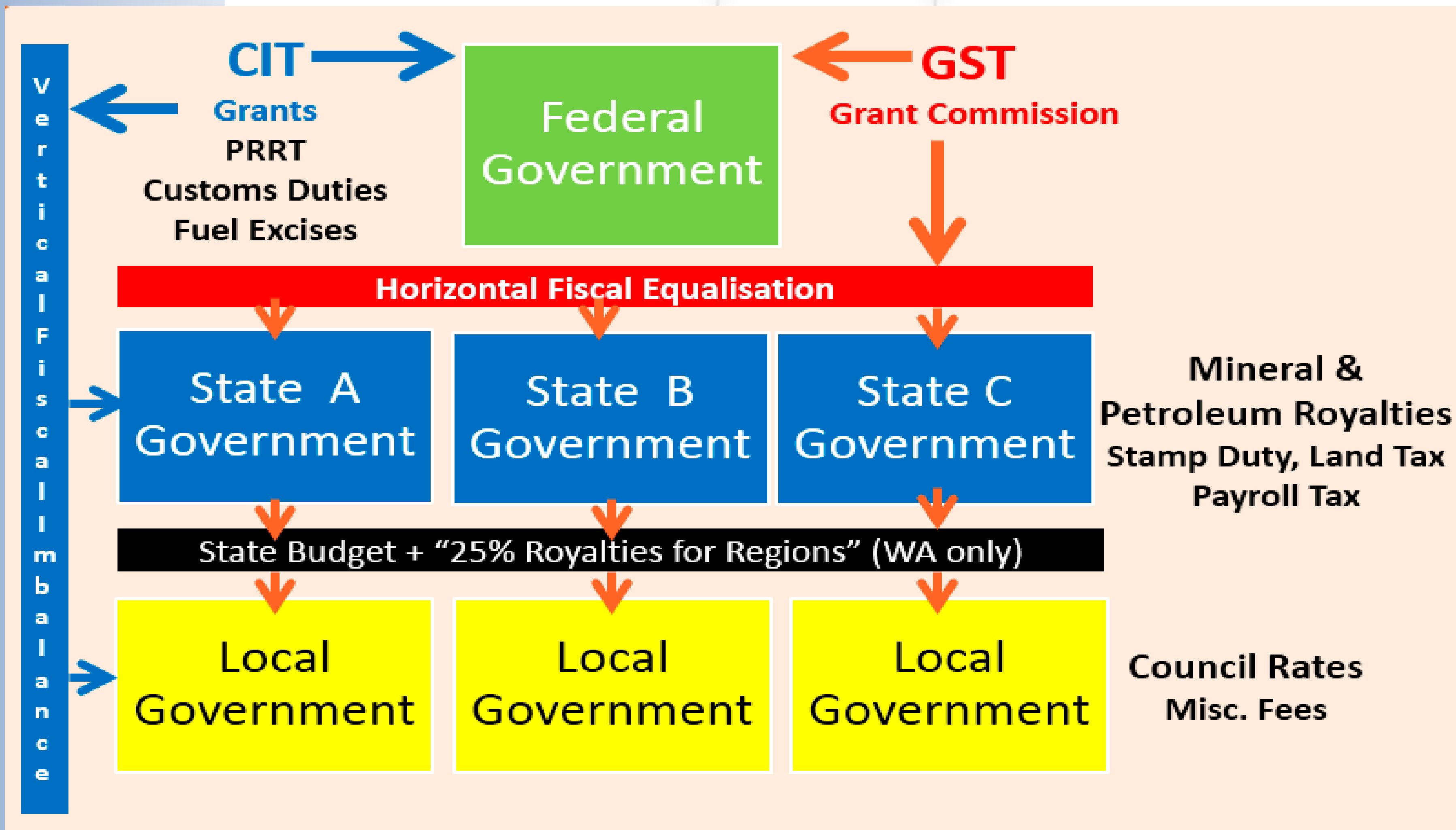
Does not include:

- Free government equity,
- Mineral resource rent tax (Ended in 2014),
- Production sharing

and has no tax holidays and limited fiscal incentives:

  - – Accelerated depreciation, R&D deductions
  - – Federal and state exploration development Incentives
  - – Free geoscientific information

Australian Taxation System



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Horizontal Fiscal Equalisation

- To the extent that resources are not homogenously distributed, some states collecting high levels of royalties are wealthier than others,
- To maintain reasonably comparable standards of living GST receipts are re-distributed through the Grant Commission
- Because of averaging and time-lags in the process resources-rich states may:
  - be allocated a small percentage of their GST collections even when royalty collections are down if commodity prices fall and
  - large proportion of any royalty collection increase may also be foregone in future redistributions
- The process creates resentment in resource-rich states and needs urgent review

Competing Fiscal Objectives

OBJECTIVE	TRADEOFF/DISADVANTAGE
Maximising revenue	Discourages investors
Encouraging investment	Fiscal incentives reduce tax revenue and make it unpredictable
Optimal tax base	Few mines heavily taxed versus more mines lightly taxed?
Economic efficiency and Equity	More complex administration and lower revenue stability
Revenue predictability and stability	Economic inefficiency
Fiscal regime stability/transparency and investor certainty	Multiple tax systems, inequity among projects, lower revenue
Administrative simplicity	Economic inefficiency

Examples of Australian States with Different Royalty Regimes

Western Australia

- **Value based, product-related royalty rates**
- Specific for low-value minerals

Queensland

- **Hybrid value based, commodity price-related royalty rates**
- Specific for low-value minerals

Northern Territory

- **Profit based royalties**
- Specific for low-value minerals

\+ **Increasing economic efficiency and equity**

\- **Increasing administrative complexity and decreasing revenue stability**

Western Australian Value-based Royalty System

(Different rates for different mineral products of various commodities)

- **Objective**: royalty collection equivalent to 10% of the ex-mine value of minerals while creating incentives for investment in downstream processing.
- A balance of economic efficiency with revenue stability and administrative simplicity achieved by applying different royalty rates to the value realised on the first arm's-length sale of different mineral products of various commodities, as follows:
  - 7.5% for bulk crushed and screened **ore**
  - 5% for **concentrates**
  - *(3.75% has been recommended by a recent review but not yet implemented for intermediate products*)* and
  - 2.5% for refined **metal**

*Gold, alumina, uranium oxide, titanium slag, vanadium pentoxide and lithium carbonate

Queensland Value-based Royalty System

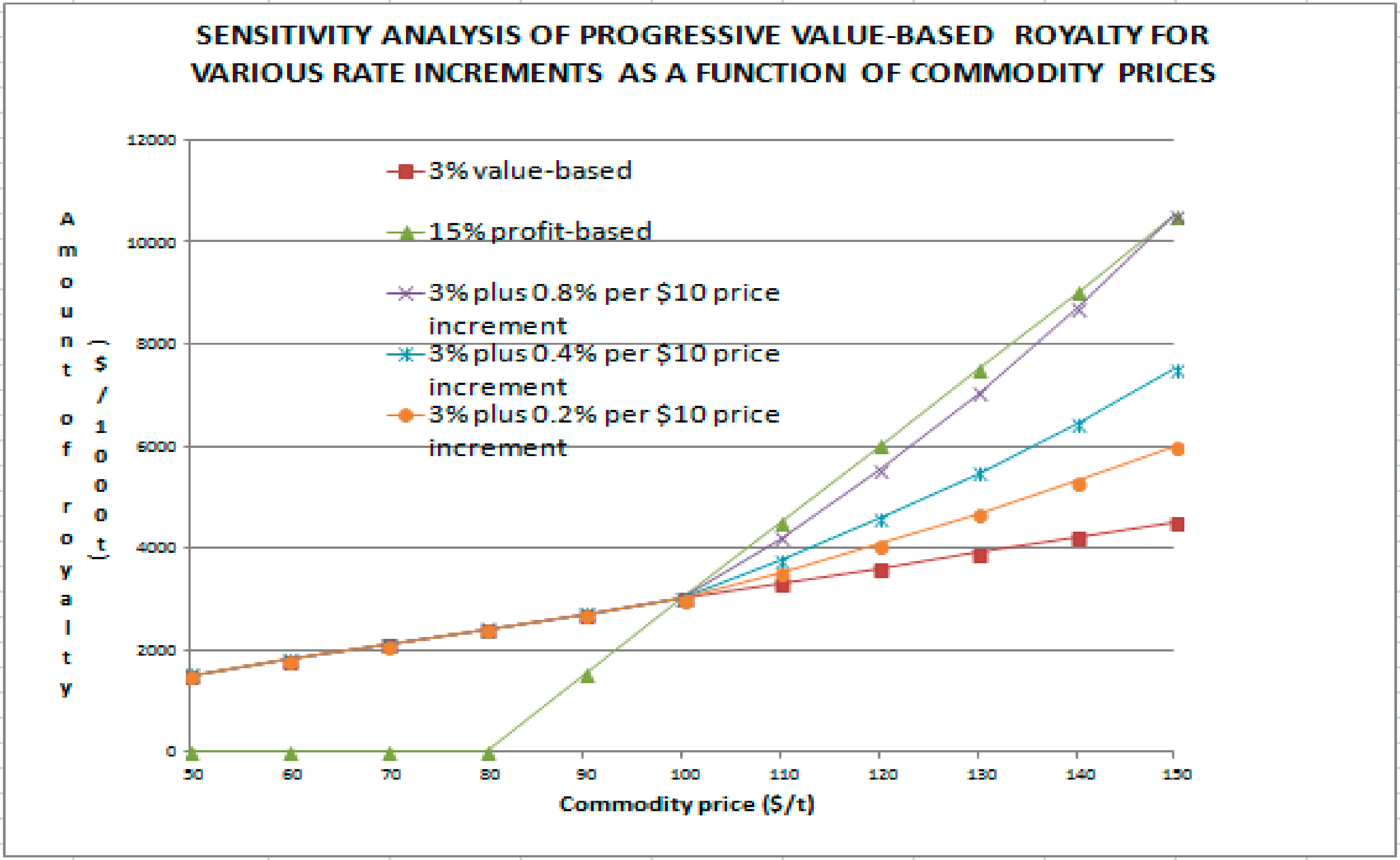
(Progressive rates as a function of commodity prices)

- **Objective**: Maintain Government's share of before tax profit rising with commodity prices, which would otherwise fall if a single-rate royalty system applied.
- Queensland applies a progressive value-based royalty with rates rising progressively with the price of various commodities, e.g.:
  - Coal: 7% for prices of up to $100/t, 12.5% between $100 and $150/t and 15% above $150/t
  - Base metals: 2.5% to 5% in steps of 0.2% for commodity prices as regularly listed by the Department of Mines
- This approach provides some of the efficiency benefits of profit-based royalties but at much lower administrative complexity.
- Minimum rate ensures some revenue stability.

Northern Territory Royalty System
(Profit-based royalties)

- Rate of 20% of "profit"
- "Profit" base for royalty purposes different from taxable income for CIT primarily in terms of treatment of:
  - capital recovery (including eligible exploration expenditure) and
  - finance costs
- Efficient but highly variable revenue (even nil) and complex administration

Hybrid value-based royalty with rates increasing as a function of commodity prices



Royalties are a Major Source of Revenue in Western Australia

COMMODITY	2014-15 Total A$
ALUMINA	71,724,531
DIAMONDS	19,137,696
GOLD	216,559,360
HEAVY MINERAL SANDS	13,867,439
IRON ORE	5,226,596,516
NICKEL	84,339,057
PETROLEUM *	11,123,224
OTHER	143,148,683
TOTAL ROYALTY RECEIPTS	5,786,496,506
NORTH WEST SHELF GRANTS	1,079,461,374
TOTAL REVENUE	6,865,957,880

Sensitivity of Western Australian 2015-16 Royalty Estimates to Commodity Prices

Revenue stability is a major issue for a mineral economy such as Western Australia where royalty receipts in 2014-15 represented 25.4% of the State Budget. Government must be very conscious of the degree to which commodity price and exchange rates variability may affect its budget.

	VARIABILITY A$ Million	SENSITIVITY
Iron Ore Royalties	±70	For each $US1 per tonne increase/decrease in the price of iron ore
Petroleum Royalties and North West Shelf Grant	±10	For each $US1 increase/decrease in the price of a barrel of oil
Royalty Income and NWS Grant	±58	For each US1 cent decrease/increase in the $US/$A exchange rate

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Conclusions

- The Australian mining taxation system is complex, with the federal government collecting corporate income tax centrally and each state/territory enforcing different mineral royalty regimes in their territories
- Revenue is highly sensitive to commodity price variations hence unstable
- There are no tax holidays and relatively few fiscal incentives for mining
- Most royalties are levied on realised sales value with rates differentiated either on the basis of mineral products or as a function of commodity prices
- One jurisdiction (NT) applies profit–based royalties
- The Grant Commission process redistributing GST among the states is biased against the resource-rich ones and needs reviewing