



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	17 November 2011
<b>From:</b>	<b>Nikole Gyles</b>	<b>Agenda Item:</b>	6.1
<b>Subject:</b>	<b>Proposed Minerals Resource Rent Tax – Potential Accounting Issues</b>	<b>File:</b>	

## Action

Consider staff analysis of potential accounting issues relating to the proposed Minerals Resource Rent Tax (MRRT), including deliberation of a letter received by the AASB and feedback from targeted outreach performed and provide staff with directions on how to proceed.

## Attachments

<b>Agenda Paper</b>	<b>Title</b>
6.2	<i>Proposed Minerals Resource Rent Tax Issues Paper – Scope of AASB 112 and AASB Interpretation 1003</i>
6.3	<i>Proposed Minerals Resource Rent Tax Issues Paper - Potential issues in applying AASB 112 to the proposed MRRT and extended PRRT</i>
6.4	<i>Letter from Ross Jerrard and Tim Richards (Deloitte) Re: Accounting for the proposed Minerals Resource Rent Tax (MRRT) and Petroleum Resource Rent Tax (PRRT)</i>

## Overview

In June 2011 the Australian Government released a draft Exposure Draft (ED) of proposed MRRT legislation<sup>1</sup>. The proposed MRRT would apply to the mining of iron ore and coal in Australia and is expected to be applicable from 1 July 2012.

At its September 2011 meeting the AASB received an education session on the proposed MRRT, including a draft project plan for considering any accounting issues that may arise.<sup>2</sup>

<sup>1</sup> The draft ED is available at: <http://www.treasury.gov.au/contentitem.asp?ContentID=2070&NavID=066> (accessed 4 November 2011).

<sup>2</sup> [http://www.aasb.gov.au/admin/file/content102/c3/Sept\\_2011\\_AP\\_4.1\\_MRRT\\_education\\_session.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Sept_2011_AP_4.1_MRRT_education_session.pdf) (accessed 4 November 2011).

# Memorandum

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Two potential accounting issues were raised by AASB staff as part of the education session:

- (a) Is the proposed MRRT an income tax within the scope of AASB 112 *Income Taxes*?
- (b) Does the proposed MRRT fall within the scope of AASB Interpretation 1003 *Petroleum Resource Rent Tax* by analogy?

No decisions were made in relation to these potential accounting issues, and staff were requested to undertake targeted outreach to determine if the introduction of the MRRT would be likely to result in any diversity in accounting practice in Australia.

Based on further analysis, and feedback received from the targeted outreach conducted, staff identified three options for how the AASB could address the accounting for the proposed MRRT in light of the requirements of AASB 112 and AASB Interpretation 1003:

- (a) Make no modification to the requirements of AASB Interpretation 1003.
- (b) Modify the requirements of AASB Interpretation 1003 to incorporate the proposed MRRT.
- (c) Withdraw AASB Interpretation 1003.

Staff analysis and results of the targeted outreach conducted by staff are outlined in Agenda Paper 6.2.

In addition to the above issues, in November 2011 the AASB received comments about the clarity of AASB 112 and its application to the proposed MRRT and extended Petroleum Resource Rent Tax (PRRT)<sup>3</sup>. The submission raised three key issues<sup>4</sup>:

- (a) Issue 1: Accounting for the 'market value' uplift.
- (b) Issue 2: Accounting for royalties.
- (c) Issue 3: Timing of substantive enactment of the enabling legislation.

Staff analysis of the issues raised in the letter is outlined in Agenda Paper 6.3.

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<sup>3</sup> The PRRT is proposed to be extended to apply to petroleum production, including coal seam gas and shale oil, sourced from petroleum projects located onshore and in territorial waters, as well as from the North West Shelf Project area from 1 July 2012. For the purposes of this memorandum and Agenda Paper 6.3 the issues will be discussed in terms of MRRT, however, the issues are also equally applicable to the extended PRRT.

<sup>4</sup> The submission also raised two further issues relating to specific aspects of the proposed MRRT legislation. These issues will be considered at a later point in time, depending on the outcome of the Board's discussion at its December 2011 meeting.

## Summary of staff recommendations

In relation to the scope of AASB 112 and AASB Interpretation 1003 (Agenda Paper 6.2) staff are of the opinion that it is clear that the proposed MRRT is an income tax within the scope of AASB 112 and recommend:

- (a) that the AASB makes no modification to the requirements of AASB Interpretation 1003.
- (b) not to refer the issue of whether the proposed MRRT is within the scope of AASB 112 to the IFRS Interpretations Committee.
- (c) Proposed Agenda Decision wording outlined in Appendix A to Agenda Paper 6.2 on the assumption the issue is within the scope of the AASB Interpretations Model.

In relation to the application of the requirements of AASB 112 (Agenda Paper 6.3) to royalties and enactment, staff are of the opinion that AASB 112 (together with AASB Interpretation 1003 and AASB Interpretation 1039) adequately addresses the issue relating to enactment, but not royalties. Accordingly, staff recommends the following:

- (a) to raise the issue of how to account for royalties paid that are permitted to be offset against other taxable income to the IFRS Interpretations Committee for consideration.
- (b) not to add the issue of whether substantive enactment of the proposed MRRT has occurred at 31 December 2011 to the AASB work program.
- (c) Proposed Agenda Decision wording outlined in Appendix B to Agenda Paper 6.3.

<b>Question to Board members:</b>
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Do you agree with staff's recommendations?
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In relation to the application of the requirements of AASB 112 (Agenda Paper 6.3) to the accounting for the market value uplift (starting base allowance) staff also asked the following questions to the Board:

- (a) Does the Board want to raise the issue of how to apply AASB 112 to the market value uplift (starting base allowance) to the IFRS Interpretations Committee for consideration?
- (b) If not, does the Board agree with the Proposed Agenda Decision wording outlined in Appendix A to Agenda Paper 6.3?