



# Proposed Minerals Resource Rent Tax (MRRT)

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# Agenda

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*“The new resource rent tax arrangements focus on our biggest and most profitable commodities: iron ore, coal, oil and gas. These represent nearly two-thirds of the value of our exports and resource operating profits and account for an even greater share of resource rents in the mining industry.”*

Source: A New Resource Taxation Regime: Improved resource tax arrangements ([www.treasury.gov.au](http://www.treasury.gov.au))



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# Resource taxation in Australia and background to the MRRT



# Resource taxation in Australia

Two main types of resource taxes:

## Royalties

Generally applied on the basis of **volume or value**.  
Tax generally does not vary with profits made.

## Resource rent taxes

A percentage of the resource project's economic rent.  
Takes into account the **profitability** of a resource operation.

Economic rent is a return to a factor of production greater than is necessary to attract the factor into the production process



## Resource taxation in Australia (cont.)

Why not apply a royalty regime?

Royalty rates generally set low enough for mining to operate in periods of low to average commodity prices



Often fails to provide an adequate return to the community when commodity prices are high

MRRT solution:

Reduce the company tax rate

Assist in attracting international capital investment

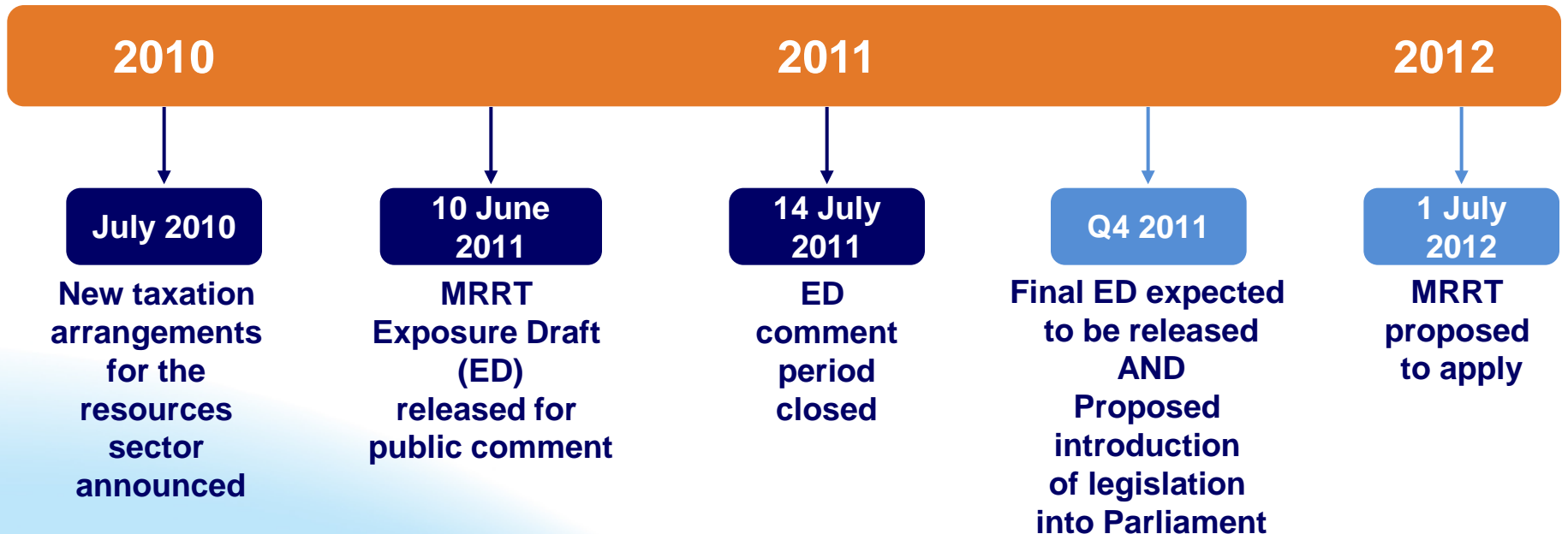
Introduce profit-based tax to mining operations (MRRT)

To ensure sufficient return to community in period of high commodity prices



## Background - MRRT

Originated from the recommendations of the Australia's Future Tax System (AFTS) Review.





## Scope of the MRRT

- MRRT will apply to the “profits” from coal and iron ore mining in Australia
- \$50 million per year threshold
  - taxpayers with MRRT assessable profits of less than \$50 million per annum excluded from MRRT
- The Petroleum Resource Rent Tax (PRRT) regime will also be extended to all Australian onshore and offshore oil and gas projects, including the North West Shelf.



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# Overview of the Government's MRRT Exposure Draft



## Calculation of MRRT liability

MRRT is calculated by applying the following formula:

$$\left( \begin{array}{c} \text{Mining profit} \\ \text{mining revenue} \\ \text{less mining} \\ \text{expenditure} \end{array} - \begin{array}{c} \text{MRRT allowances} \\ \text{royalty allowances*}, \text{ transferable} \\ \text{royalty allowances}, \text{ pre-mining} \\ \text{loss allowances}, \text{ mining loss} \\ \text{allowances*}, \text{ starting base} \\ \text{allowances*}, \text{ transferred pre-} \\ \text{mining loss allowances and} \\ \text{transferred mining loss} \\ \text{allowances} \end{array} \right) \times \begin{array}{c} \text{MRRT rate} \\ 22.5\%^{\wedge} \end{array}$$

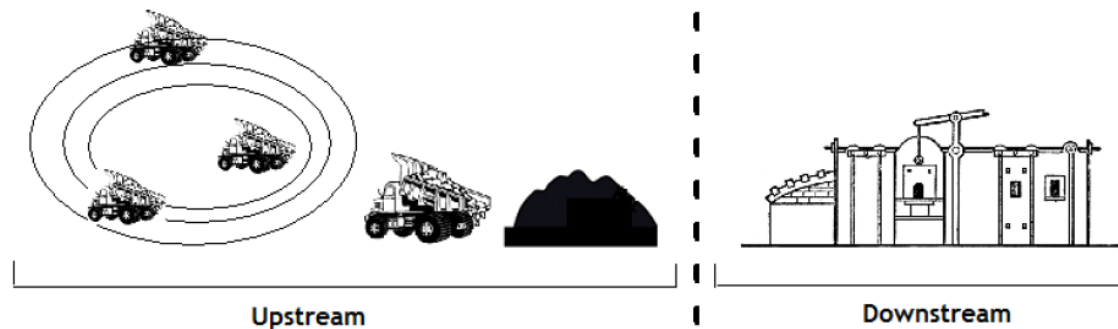
*^30% MRRT less  
25% extraction  
allowance*

*\*discussed in more detail later in this  
education session*



# Mining profit

- Mining profit = mining revenue *less* mining expenditure
- If this is negative = mining loss (carried forward)
- Upstream capital expenditure is immediately deductible
- Mining revenue is measured at the ‘taxing point’



In this diagram, the dashed line represents the taxing point at the ROM stockpile. Upstream and downstream are illustrated.



# MRRT allowances

## Royalty allowances

- Royalty payable on volume or value of resource
- MRRT liability reduced by amount of royalty
- MRRT payable in addition to royalties when resource rent is high
- If unused → uplifted at long-term bond rate (LTBR) + 7% and carried forward to the following year

## Mining loss allowances

- Prior year losses uplifted at LTBR +7%
- Applied to reduce mining profit



## MRRT allowances (cont.)

### Starting base allowance

- Applies to an existing mining project interest at 1 May 2010
- May be calculated using one of two methods (miner's choice)

Book value method



Most recent **audited accounting value** of those assets at  
1 May 2010

Market value method



**Market value** of the mining project  
interest's upstream assets at  
1 May 2010



## Example: Application of MRRT to a project commenced after 1 May 2010

Midcap Mining Co. receives \$500m of mining revenue from its mining project interest. It incurs \$120m in upstream expenditure and pays a royalty of \$37.5m to a state. It has \$50m of losses carried forward from the previous year. The LTBR is 6 per cent.

Mining revenue	\$500m	
Mining expenditure	(\$120m)	
Mining profit		\$380m
Royalty allowance [royalty payable/0.225]	(\$166.7m)	
Mining loss allowance [earlier loss x (LTBR + 7%)]	(\$56.5m)	
Total allowances		<u>(223.2m)</u>
MRRT profit		<u>\$156.8m</u>
MRRT liability [MRRT profit x 0.225]		\$35.3m

**Midcap Mining Co. is liable to pay \$35.3m in MRRT.**



## Example: Application of MRRT to a project that existed at 1 May 2010

Eisenfluss mining receives \$600m of mining revenue from its mining project interest. It incurs \$120m in upstream expenditure, pays a royalty of \$37.5m to a state, and has a market value starting base of \$3b, which it writes off over 25 years at \$120m a year. It has \$50m of losses carried forward from the previous year. The LTBR is 6 per cent

Mining revenue	\$600m	
Mining expenditure	(\$120m)	
Mining profit		\$480m
Royalty allowance [royalty payable/0.225]	(\$166.7m)	
Mining loss allowance [earlier loss x (LTBR + 7%)]	(\$56.5m)	
Starting base allowance	(\$120m)	
Total allowances		(343.2m)
MRRT profit		\$136.8m
MRRT liability [MRRT profit x 0.225]		\$30.8m

Eisenfluss Mining is liable to pay \$30.8m in MRRT (its existing investment has reduced its MRRT liability by \$27m [ $120m \times 22.5\%$ ]).



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# Potential accounting issues



## Potential accounting issues

- AASB 112 *Income Taxes* applies to income taxes
  - Based on taxable profits
- AASB Interpretation 1003 *Australian Petroleum Resource Rent Tax*
  - Addresses only the question of whether Australian PRRT falls within the scope of AASB 112 *Income Taxes*
  - Australian PRRT is an income tax within the scope of AASB 112
- Potential questions in relation to MRRT include:
  - Is MRRT an income tax?
  - Does MRRT fall within the scope of AASB Interpretation 1003 by analogy?



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# Draft AASB staff work plan



## Draft AASB staff work plan

- Continue to monitor exposure draft legislation (more aspects of the legislation expected in the coming months)
- Undertake targeted outreach to determine if the introduction of the MRRT is likely to result in any diversity in accounting practice in Australia
- Research similar taxes in other jurisdictions
- Once the draft legislation is near final (expected late 2011) draft an issues paper for the Board to consider
- Expected next discussion: January 2012 AASB meeting



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# Questions?