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# The Resource Super Profits Tax: Managing impacts on mining communities

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# Background

- Governments normally put additional charges on the use of non-renewable resources
- Mining in Australia has typically had to pay royalties to the State governments.
- Most royalties are based on the quantity or value of production

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# Resource rents

- Natural resources are a key factor of production, like labour and capital
- Sometimes the owner of a resource can be paid for its use or access without incurring any costs
  - Income just from having a resource is known as Rent
  - People with better resources can receive higher rents

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# Resource Rent Tax

- Governments tax rents from resources for several reasons

1. As non-renewable resources are used up, the rents should help to invest in other capital
   - Maintain productivity in the longer term
   - Gives some return back to Australian people
2. Some resource uses require high levels of infrastructure and services to be funded
3. Resources can be taxed with limited side impacts on production

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# The problems with royalty payments

- State Governments typically charge per unit of resource output (tonnes of ore)
  - Large cost on mining when returns are low
  - Doesn't capture the benefits of higher prices
- It is difficult for a state government to move to a taxation system
- Some attempts to capture rents in other ways
  - Rail freight charges in Qld
  - Two tier coal royalty system

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# The proposal for a Resource Super Profits Tax (RSPT)

- The key changes in the RSPT can be summarised into three elements
  1. The move from a royalty system to a tax system
  2. The rate of taxation at 40%
  3. The sharing of profits and costs

# 1. Changing from a royalty to a tax system

- If this was the only change, and revenue was unaffected, it would be generally welcomed by mining companies
- Improvements because
  - Matches payments to income better
  - Avoids disincentive during loss making times
- Disadvantages
  - Limits cash flow to governments during project start up phase
  - May encourage more low profit projects

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# 2. Setting the taxation rate at 40%

- Very difficult to set an appropriate tax rate
- Only some of the mining profits relates to resource rent
  - Profit also relates to capital, labour, entrepreneurship
  - Varies between projects, difficult to apportion
- Higher tax rates reduce returns to mining ventures and future levels of investment
- Differences in payments for existing projects can create problems of sovereign risk
  - Government has not given credit for startup costs of existing projects

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# 3. Taking a share of profits and losses

- Taxes by themselves are often distorting
  - Reduce incentives to have higher profits
- Brown tax suggested in the 1940s
  - Reduced distortions by treating government more like an equity partner
  - Paid X share of the capital and costs and received X share of the revenues
  - Ended up with X share of profits

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# Issues with the Brown Tax format

- Not a proper application
  - government does not pay up for costs
  - Rate of normal profit set far too low
- Efficiency gains have to be weighed against several disadvantages
  - Not clear that capital and risks are fully considered
  - There are sovereign risks in changing arrangements for existing projects
  - Arrangements are difficult to explain and understand
  - Effectively transfers risks from low risk projects to high risk ones

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# Evaluating the RSPT

1. The move from a royalty system to a tax system
   – YES
2. The rate of taxation at 40%
   – PROBLEMATIC
3. The sharing of profits and costs
   – NO

# The RSPT and communities

- There are risks that the design and rate of a RSPT will cause a slowdown in future mining activity
- Slowdown would be minimised if:
  - Income came back into regions to lower production costs (better infrastructure and services) OR
  - Income was invested into other opportunities to build capital and productivity

# Problems with current expenditure model

- The core logic of the RSPT is to capture rent from non-renewable resource depletion and invest in other capital
  - Allows future productivity to be maintained
  - Should expend in areas such as infrastructure, education, training, resource regions
- Superannuation increases should not come from the RSPT

# Recommending changes

## Key issues where changes needed

1. The rate: Better to start with a lower rate and increase over time
2. Abandon the Brown Tax format of offsetting costs in favour of a simple profits tax
3. Proceeds from a RSPT should change from a rewards and handouts logic to an investment logic