

The Guide to the Australian Government's New Super Tax

A simplified example of calculating the new super tax

On 2 May 2010, the Australian Government announced its proposal for a new 40 percent super tax for the Australian resources sector. This adds a super tax of 40 percent on top of the existing royalty and company tax that resource companies pay. It leads to a total effective statutory tax rate of 57 percent on Australian resource profits. A simplified calculation for an example mine with \$100 profit before tax is:

Total tax = \$40 super tax
(40% of \$100)
+ \$17 company tax
(28% of \$60, or \$100 profit less \$40 super tax)
= \$57 total tax

Exhibit 1: Comparison of the Government's proposed super tax on resources and the Petroleum Resource Rent Tax (PRRT)

	PRRT	Super tax (compared to PRRT)
Application to existing projects	▪ When introduced, applied only to new stand-alone projects (i.e., known at time of investment)	✗ ▪ Applies to existing projects (i.e., not known at time of investment)
Rate	▪ 40 percent	▬ ▪ 40 percent
Return permitted to investors before taxing 'super profit'	▪ Government long-term bond rate plus a minimum of five percent	✗ ▪ Government long-term bond rate
Depreciation schedule for capex	▪ Capex 100 percent deductible in year spent	✗ ▪ Capex deductible over time, not immediately
Royalties	▪ PRRT replaced original crude excise and royalties	✗ ▪ Existing and currently scheduled state royalties must still be paid ▪ These payments are refundable credits against super tax
Transfer and recognition of losses and expenditure	▪ Only exploration costs are transferrable ▪ Companies do not receive refunds if losses remain at end of project life	✓ ▪ Group companies can transfer losses including exploration ▪ Where not transferrable, companies receive partial refunds for losses remaining at end of project life (tax loss multiplied by 40 percent)

Frequently asked questions

The Government announcement states that the super tax is a tax on profits after returns to investors.

Q: How does it allow for returns on existing investments?

A: It doesn't fully. To transition existing projects into the super tax regime, the Government values them at accounting book value—typically much lower than their actual market values.

This under-compensates resource companies with an unfavourable bias against older, more depreciated assets and against companies that own their assets rather than lease.

Q: How does this resulting effective tax rate of 57 percent compare with other countries?

A: It will make Australia's taxes on its mineral resources industry the highest in the world.

Q: What return on capital does it permit investors to receive before taxing a 'super profit'?

A: Investors will receive the government long-term bond rate, which is well below the cost of capital for Australian resource companies.

Q: What projects does the super tax apply to?

A: The super tax applies to all Australian resource projects not under the Petroleum Resource Rent Tax (PRRT). Currently under the PRRT are Bass Strait, Gorgon, and Pluto among others. Projects such as North West Shelf and coal seam gas will be transitioned to the new tax system. The super tax will apply to all minerals projects. Unlike the rest of the world, under the super tax Australia will levy a higher tax burden on minerals than on oil.

Q: How does the new super tax compare to the PRRT?

A: It's worse. Exhibit 1 explains why.