

Deloitte Access Economics

Estimated company  
tax, MRRT, carbon  
tax and royalties  
expenses for the  
minerals sector

Report prepared for the  
Minerals Council of  
Australia

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Forrest ACT 2603

30 July 2014

Dear John,

**Estimated company tax, MRRT, carbon tax and royalties expenses for the minerals sector**

Please find attached our report presenting and analysing elements of the tax paid by the minerals sector.

We hope this analysis proves useful to the MCA.

Please do not hesitate to contact me should you have any queries.

Yours sincerely,



Chris Richardson  
Director  
Deloitte Access Economics Pty Ltd

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## Glossary

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ABS	Australian Bureau of Statistics
ATO	Australian Taxation Office
BP	Budget Paper
BREE	Bureau of Resources and Energy Economics
CER	Clean Energy Regulator
DAE	Deloitte Access Economics
GFC	Global Financial Crisis
MCA	Minerals Council of Australia
MRRT	Minerals Resource Rent Tax
TI	Taxable Income

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# 1 Introduction

Deloitte Access Economics was commissioned by the MCA to provide estimates of the likely tax expense (including company tax, royalties payments, MRRT and carbon permit revenues) borne by the minerals sector. Table 1.1 provides a summary of our estimates.

**Table 1.1: Estimated tax payments, minerals sector**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Royalties	4,054	7,471	5,742	8,644	9,090	8,338	9,977
Company tax	8,120	13,205	6,135	14,005	15,380	10,003	11,989
MRRT	-	-	-	-	-	310	170
Carbon pricing <sup>i</sup>	-	-	-	-	-	512	573
<b>Total minerals<sup>ii</sup></b>	<b>12,174</b>	<b>20,676</b>	<b>11,878</b>	<b>22,648</b>	<b>24,471</b>	<b>19,163</b>	<b>22,709</b>

Source: State and Federal Budget papers; ATO *Taxation Statistics*; ABS 5676, BREE, DAE estimates

<sup>i</sup> Does not include indirect emissions liabilities (scope 2 costs) or the cost associated with reduced fuel tax credits under the carbon pricing regime

<sup>ii</sup> Includes carbon tax and MRRT payments in 2012-13 and 2013-14

The figures highlighted in blue in the above table are a mix of official forecasts and Deloitte Access Economics estimates. All other figures are taken from official sources.

Note that all the estimates in this report are on an accrual basis.

In brief:

- Deloitte Access Economics estimates the total tax burden on the minerals sector at \$22.7 billion in the financial year just ended. That is the second highest level on record, behind only 2011-12, with 2011-12 being the financial year which benefited from the peak in commodity prices.
- Note that all the estimates in this report are on an accrual basis. An additional \$1.6 billion of company tax may have been paid in cash terms in 2013-14 due to the bringforward of the timing of company tax payments in 2013-14.

A description of our forecast methodology for royalties, company tax, MRRT and carbon pricing follows.

## 2 Methodology for royalties estimates

The royalties estimates are essentially as estimated by State and Territory Governments, with the exception that Deloitte Access Economics has reduced estimated iron ore royalties in 2013-14 by some \$200 million below the projections in the WA Budget. This latter adjustment has been adopted in light of the recent sharp falls in spot iron ore prices.

**Table 2.1: Estimated royalties, by commodity and State**

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	actual	actual	actual	actual	actual	estimate	Budget
Coal	1,561	4,290	2,678	3,541	3,786	3,198	3,130
Iron ore	1,196	1,988	1,857	3,701	3,833	3,910	5,242
Gold	152	193	244	253	303	295	300
Other minerals	1,145	1,001	964	1,149	1,169	934	1,306
<b>Total minerals</b>	<b>4,054</b>	<b>7,471</b>	<b>5,742</b>	<b>8,644</b>	<b>9,090</b>	<b>8,338</b>	<b>9,977</b>
WA	1,704	2,327	2,299	4,193	4,325	4,407	5,701
Qld	1,308	3,410	2,101	2,816	2,881	2,243	2,382
NSW	595	1,279	985	1,240	1,464	1,318	1,360
Other States	447	455	357	395	420	370	534

Source: State Budget papers; DAE estimates

All the data included in the above table are from published State and Territory Treasury sources (except as noted above with respect to iron ore royalties in 2013-14, and below where gaps have been filled by estimates made by Deloitte Access Economics ("DAE")).

As such, the royalty estimates and projections mostly reflect assumptions made by various State Treasuries:

- For **Western Australia** for the years 2012-13 and 2013-14, data are as reported in the 2014-15 Budget Paper No.3 (BP3) published on 8 May 2014, except for a \$200 million reduction in iron ore royalties in 2013-14. The data for 2011-12 were sourced from the 2013-14 BP3, those for 2010-11 were sourced from the 2012-13 BP2, while those for 2009-10 were sourced from the 2011-12 BP3, and those for 2008-09 from the 2010-11 BP3.
- For **Queensland** for the years 2012-13 and 2013-14, all data are as reported in the 2014-15 Budget Paper No.2 (BP2) published on 3 June 2014. The data for 2010-11 and 2011-12 were sourced from the 2013-14 BP2, while the data for 2009-10 were sourced from the 2011-12 BP2. The data for 2008-09 were sourced from the Queensland Department of Minerals and Energy website.
- For **NSW** for the years 2012-13 and 2013-14, all data on total royalties are as reported in the 2014-15 Budget Paper No.2 (BP2) published on 17 June 2014. The

2010-11 and 2011-12 figures were sourced from the 2013-14 BP2. The data for 2009-10 were sourced from the 2011-12 BP2, and those for 2008-09 from the 2009-10 BP2. The coal component of total royalties for 2012-13 and 2013-14 were sourced from the 2014-15 BP2, and for 2010-11 and 2011-12 were sourced from the 2013-14 BP2. The coal component of royalties has been 'backcast' prior to that by DAE.

- The data for **Tasmania** for 2013-14 are consistent with the post-election *Report to the Treasurer: Analysis of Budget Risks April 2014* published on 28 April 2014 (and incorporates the initial estimate for 2013-14 from its 2013-14 Budget adjusted for revisions in the 2013-14 *Revised Estimates Report* and the post-election *Report*). The data for Tasmania for 2011-12 and 2012-13 are as reported in the 2012-13 Annual Financial Report published on 31 October 2013, and prior to that are as in its earlier year Annual Financial Reports.
- For the "**Other**" States, the data for **Victoria**, **South Australia** and the **Northern Territory** for 2012-13 and 2013-14 are as reported in their 2014-15 Budget Papers, and for 2010-11 and 2011-12 are as reported in their respective 2012-13 Budget Papers and their Annual Financial Reports for 2008-09. For South Australia, the commodity breakdown is as reported in the SA Department for Manufacturing, Innovation, Trade, Resources and Energy's MESA Journal issues 64 and 68 published in March 2013, March 2012 and in prior year editions.

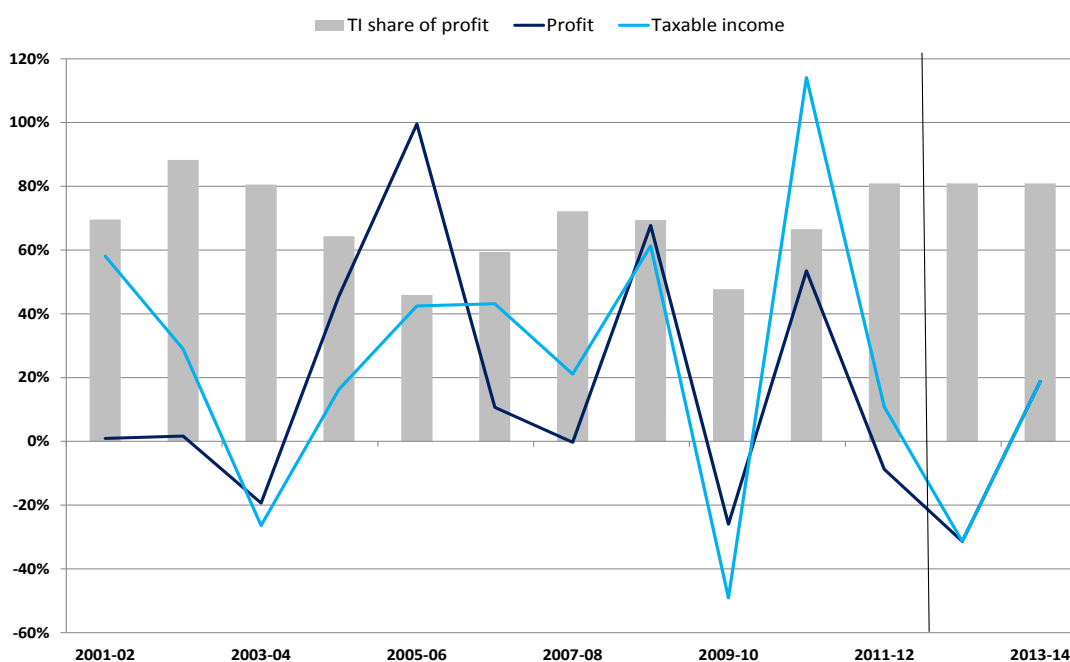
## 3 Methodology for company tax estimates

In brief, the company tax estimates are derived from Australian Taxation Office data available through to 2011-12, with DAE estimates based on ABS numbers for profits before tax thereafter.

The most recent available profit data before tax from the official sector is from the Australian Bureau of Statistics' (ABS) *Business Indicators* publication (cat. 5676.0). This provides quarterly profits for the mining industry through to the March quarter 2014 (and hence covers all of 2012-13 and three quarters of 2013-14).

DAE has applied judgement to assume that profits for the final quarter of 2013-14 will be 5% lower than in its trend level in the March quarter, so as to reflect falls in some commodity prices in recent months.

**Chart 3.1: Profit/taxable income growth, taxable income (TI) share of profit**



Taxable income data are available from the Australian Taxation Office to 2011-12. By comparing the growth in both profit and taxable income, as well as the 'taxable income share of profit' (see Chart 3.1), three observations are worth making:

- On average taxable income tends to account for about 66% of the ABS measure of profit. Hence in 'normal' times this is an appropriate share to expect.
- When times are good, taxable income tends to grow more slowly than profit.



- When times are bad and profit is falling, taxable income tends to fall quicker than profit, as companies use past tax losses to reduce their tax liability.

As Chart 3.1 shows, these are broad tendencies rather than hard-and-fast rules, and a consistent pattern is not seen every year:

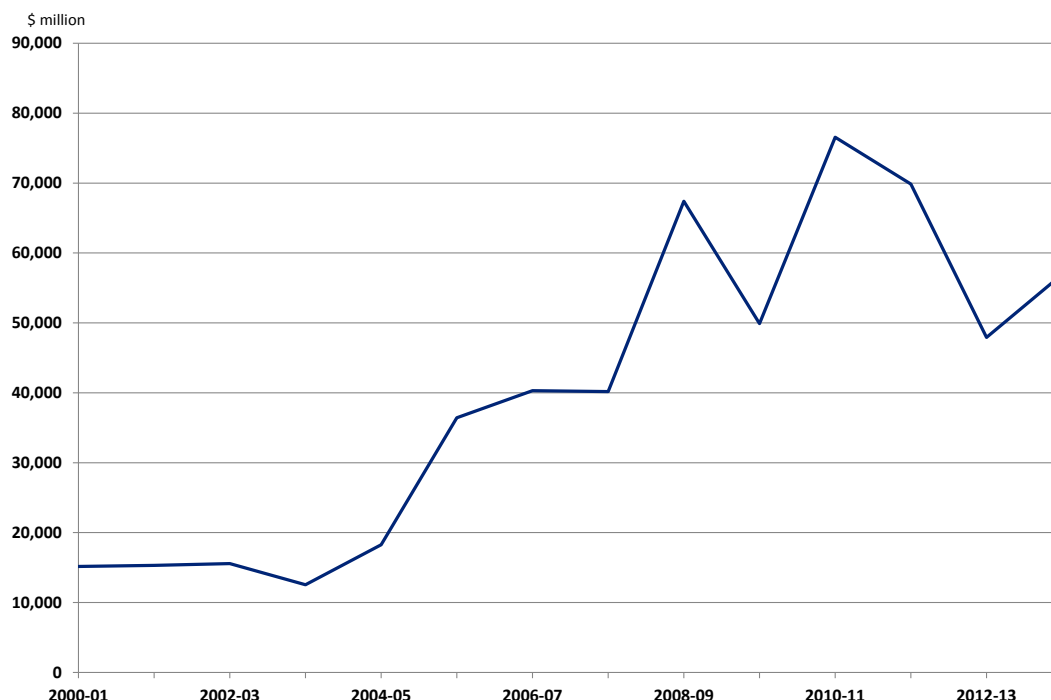
- In 2010-11, profit rebounded strongly after the global financial crisis (GFC), increasing by 53% in that year, while taxable income grew by 114%, 61 percentage points faster than profit. This gap occurred because net deductions grew less than profit. In other words, miners made relatively more tax deductions in 2009-10 than they did in 2010-11, and hence the gap between profit and taxable income narrowed between 2009-10 and 2010-11. That makes sense from an intuitive point of view – with taxable income falling more rapidly than profit during a downturn, next year's figures are starting from a lower base.
- In 2011-12, profit fell by 9% while taxable income grew by 11%. This outcome reflects a break in the general pattern observed that taxable income falls more quickly than profit in bad times, and is also inconsistent with the survey evidence showing a faster than normal drawdown of prior year tax losses. As such, 2011-12 represents an anomaly compared to earlier years. In part, this may reflect companies having used up the majority of their prior year tax losses, and this in combination with a decline in capital expenditure and related deductions may have caused a correction in taxable income relative to accounting profit.
- Given the outcome for 2011-12, taxable income is assumed to move in line with profits in both 2012-13 (a fall of 31%) and in 2013-14 (a rise of 19%).

Note that these estimates therefore imply 2012-13 and 2013-14 taxable income is 81% of the minerals sector's profit. That is well above the 48% low seen in the latest official data for 2009-10, and above the historical average of 66% noted in the observations listed above, but is consistent with the last available actual data for 2011-12, when the ratio was also 81%.

To derive separate growth taxable income estimates for oil and gas and minerals for 2012-13 and 2013-14 (official data from the ATO is used for 2011-12 and earlier years), DAE has increased taxable income for oil and gas by the rate of increase in the value of production for oil and gas implied by the latest BREE forecasts of export volumes and unit export prices. The remaining growth in mining taxable income is then attributed to minerals.

Gross tax for minerals and oil and gas is calculated as 30% of taxable income, with total mining tax being the sum of the two.

**Chart 3.2: Estimated annual profits before income tax, total mining**



Finally, it should be noted that **PAYG instalments** are in the process of being moved to being paid from a quarterly basis to a monthly basis for large corporate taxpayers. In 2013-14, companies with turnover of \$1 billion or more commenced paying PAYG instalments monthly from 1 January 2014. As such, these companies can be expected to have paid PAYG instalments for April and May 2014 in the 2013-14 financial year, instead of in the 2014-15 financial year.

Indicatively, based on this report's estimates of gross tax and taxable income for 2013-14, that could result in an additional amount of around \$1.9 billion in cash being paid by the mining sector in 2013-14 instead of in 2014-15 (comprising of around \$1.6 billion from the minerals sector and \$0.3 billion from the oil and gas sector).

The estimates of company tax in this report are presented on an accrual basis and so are not impacted by this bring forward of company tax payments in 2013-14.

## 4 Methodology for carbon price estimates

The Clean Energy Regulator (CER) has data showing the number of carbon permits surrendered by liable entities in the 2012-13 and 2013-14 financial years, as well as the number of free carbon permits allocated to each entity (whether a liable entity or not).

Using these datasets, DAE estimates that the minerals sector in Australia generated net emissions liabilities (that is, net of free permit allocations) of some \$512 million in 2012-13 and \$573 million in 2013-14.

- By commodity, some 94% of net emissions liabilities (\$482 million) are estimated to have come from coal mining, with iron ore and gold mining operations together making up the remaining 6% of net emissions liability in 2012-13.
- In 2013-14, around 93% (\$535 million) is estimated to have come from coal mining, with iron ore and gold mining operations together making up the remaining 7% of net emissions liability.

Although other mining operations, in particular alumina (bauxite) mining, surrendered a significant amount of permits, sufficient free permits were allocated so as to give these mining operations a net emissions liability of zero.

Where the 'free permits share' in the table below exceeds 100%, it is assumed that miners completely discharged their scope 1 emission liabilities and then either handed excess permits to related parties (such as their energy supplier), sold them back to the CER, or sold them on the secondary market.

Note that the numbers presented here represent miners' direct costs under the carbon tax. Miners also face indirect costs in the form of higher energy costs passed on by their energy suppliers, and some of the free permits issued to the sector are designed to partially offset these costs. It is not possible from the data available to identify the indirect carbon liabilities of miners, nor can the free permits allocated to offset indirect costs be identified.

As a result, the figures in Table 4.1 include only direct emissions liabilities and the permits used to discharge those liabilities. It should be noted however that, to the extent that some bauxite and other miners have excess free permits after completely discharging their direct emissions liabilities, those permits might be used to reduce or even eliminate their indirect costs.

In essence, the figures presented here measure the number of paid-for permits surrendered by the sector – a measure of the direct carbon price liability faced by miners (which is in keeping with the concept of 'tax payable' applied elsewhere in this analysis).

Note that the estimates have been made based on data published by the CER as at 20 June 2014. As such, while the estimates for 2012-13 represent the final emissions liability for that year, for 2013-14 the estimates are preliminary estimates of the emissions liability

based on the data available with estimates also made to fill in data gaps. Specifically, for 2013-14, data on the number of permits surrendered as at 20 June 2014 are available, but unit shortfalls are not yet available. Similarly, the number of free permits issued in the first allocation is available, but not the second allocation.

Note also that data are provided at a company level and are not broken up by industry. As a result, the dividing line between mining, refining and manufacturing activities is unclear in some cases. DAE has attempted to include only those companies undertaking significant mining activities, but it is possible that some under or overestimation exists with regard to both carbon liabilities and free permits. For example, OneSteel undertakes some mining but is mostly a manufacturing company, and it has been excluded from this analysis.

**Table 4.1: Estimated direct emissions liability, 2012-13**

	Emissions (t)	Emissions liability (\$)	Gross emissions liability (\$)	Free permits (no)	Free permits (\$)	Free permits share	Net emissions liability (\$)
Coal	20,938,462	\$481,584,626	\$481,584,626	-	\$0	0%	\$481,584,626
Alumina	15,783,726	\$363,025,698	\$363,025,698	17,938,665	\$412,589,295	114%	\$0
Nickel	1,712,589	\$39,389,547	\$39,389,547	2,908,499	\$66,895,477	170%	\$0
Iron ore	769,802	\$17,705,446	\$17,705,446	-	\$0	0%	\$17,705,446
Gold	573,379	\$13,187,717	\$13,187,717	-	\$0	0%	\$13,187,717
Other	563,351	\$12,957,073	\$12,957,073	1,639,495	\$37,708,385	291%	\$0
Uranium	268,988	\$6,186,724	\$6,186,724	402,546	\$9,258,558	150%	\$0
Copper	102,985	\$2,368,655	\$2,368,655	877,388	\$20,179,924	852%	\$0
Lead	-	\$0	\$0	386,856	\$8,897,688	-	\$0
Zinc	-	\$0	\$0	-	\$0	-	\$0
<b>Total</b>	<b>40,713,282</b>	<b>\$936,405,486</b>	<b>\$936,405,486</b>	<b>24,153,449</b>			<b>\$512,477,789</b>

Source: DAE estimates from Clean Energy Regulator emission databases.

**Table 4.2: Estimated direct emissions liability, 2013-14**

	Emissions (t)	Emissions liability (\$)	Gross emissions liability (\$)	Free permits (no)	Free permits (\$)	Free permits share	Net emissions liability (\$)
Coal	16,628,475	\$401,577,671	\$535,436,895	-	\$0	0%	\$535,436,895
Alumina	11,843,088	\$286,010,575	\$381,347,434	16,461,726	\$397,550,672	104%	\$0
Nickel	1,371,182	\$33,114,045	\$44,152,060	3,130,465	\$75,600,722	171%	\$0
Iron ore	707,848	\$17,094,529	\$22,792,706	-	\$0	0%	\$22,792,706
Gold	469,953	\$11,349,365	\$15,132,487	-	\$0	0%	\$15,132,487
Other	362,503	\$8,754,447	\$11,672,597	2,143,874	\$51,774,550	444%	\$0
Uranium	-	\$0	\$0	-	\$0	-	\$0
Copper	56,004	\$1,352,497	\$1,803,329	596,841	\$14,413,715	799%	\$0
Lead	-	\$0	\$0	326,380	\$7,882,082	-	\$0
Zinc	-	\$0	\$0	-	\$0	-	\$0
<b>Total</b>	<b>31,439,053</b>	<b>\$759,253,130</b>	<b>\$1,012,337,507</b>	<b>22,659,285</b>			<b>\$573,362,087</b>

Source: DAE estimates from Clean Energy Regulator emission databases.

## 5 Methodology for MRRT estimates

This report uses updated estimates from the Federal Treasury of the gross minerals resource rent tax (MRRT) for both 2012-13 and 2013-14, as published in the 2014-15 Budget.

Specifically, the 2014-15 Federal Budget papers indicated that gross MRRT cash revenue was \$310 million for 2012-13 (Table 10, Budget Paper No. 1 Statement 5, page 5-10).

The 2012-13 Final Budget Outcome indicated that the net revenue from the MRRT was \$200 million in 2012-13 on both a cash (Table 3, page 6) and accrual basis (Table 4, page 10).

On that basis, gross MRRT (accrual) revenue has been estimated in this report at \$310 million for 2012-13.

For 2013-14, gross MRRT (accrual) revenue was estimated in the 2014-15 Budget at \$170 million (Table 10, Budget Paper No. 1 Statement 5, page 5-10). This estimate for MRRT revenue in 2013-14 has been used in this report.

## 6 Comparison with the 2012 MCA tax survey results

Care is required when comparing the gross company tax figures provided by the ATO (the “ATO series”) and by the MCA survey (the “MCA survey series”). In particular, the ATO series (such as the government-sourced royalty series) is based on a collection which aggregates annual data from companies with a tax year ending 30 June and those with a tax year ending the previous 31 December.

The ATO (and ABS alike) does not make any adjustment on account of differences in tax years, whereas the MCA survey apportions the (estimated) two six-monthly subtotals from companies with tax years ending 31 December to the relevant years ending 30 June.

Nevertheless, Table 6.1 below compares the company tax figures based on ATO data with the results of the MCA survey.

**Table 6.1: Comparison with MCA survey results**

<b>Gross tax</b>		<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>4 yr total</b>
MCA survey (DAE basis) <sup>(a)</sup>	\$M	8,733	7,751	12,848	12,170	<b>41,503</b>
	ann % chg	n.a.	-11%	66%	-5%	<b>n.a.</b>
ATO <sup>(b)</sup>	\$M	13,205	6,135	14,005	15,380	<b>48,725</b>
	ann % chg	n.a.	-54%	128%	10%	<b>n.a.</b>
MCA survey/ATO	%	66%	126%	92%	79%	<b>85%</b>

(a) DAE estimate.

(b) Gross company tax as reported in ATO *Taxation Statistics*.

Note that the estimates from the MCA survey are not directly comparable with ATO data.

The year-to-year pattern shows a similar volatility between the two series. In aggregate, the MCA survey is around the 85% proportion – a result that is broadly as expected.

## 7 Comparison with the matching results from last year

The MCA also commissioned DAE to derive similar estimates in prior years. Comparing the current estimates versus those in last year's matching report:

- **Royalties** have been revised marginally higher in 2011-12 following the incorporation of some additional commodity level data for one State for that year, but are unchanged in earlier years. Royalty estimates are slightly lower in 2012-13. That reflects downgraded estimates by State and Territory Governments for 2012-13 in their 2014-15 Budgets relative to estimates made in their 2013-14 Budgets.
- **Company tax** expenses have been revised, reflecting the latest data and economic developments. Company tax expenses were higher than expected in 2011-12, which largely reflects the incorporation of actual tax data for 2011-12 from the ATO. Company tax estimates are also higher in 2012-13, which reflects the flow through of the higher base level of taxable income for 2011-12 on the company tax expense estimate for 2012-13.

## **Limitation of our work**

This report is prepared solely for the Minerals Council of Australia. This report is not intended to and should not be used or relied upon by anyone else, and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of considering company tax, MRRT, carbon tax and royalties expenses in the minerals sector. You should not refer to or use our name or the advice for any other purpose.



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