

## RSPT is dead - long live MRRT!

July 2010

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### Federal Government announces compromise on resource taxation

On 2 July 2010, in an amazing policy “back flip”, the Federal Government issued a Media Release regarding revised arrangements for the taxation of Australia’s mineral resources.

Instead of a Resource Super Profits Tax (**RSPT**), the Government now proposes to:

- introduce a new Minerals Resource Rent Tax (**MRRT**) regime applying only to iron ore and coal in Australia, and
- extend the current Petroleum Resource Rent Tax (**PRRT**) regime to all Australian onshore and offshore oil & gas projects, including the North West Shelf.

The new proposal appears to address the mining industry’s main concerns by:

- imposing MRRT at the rate of 30% (rather than 40% under the RSPT),
- giving miners the ability to use book or market value as the starting base for existing project assets (dealing, to some extent, with the industry’s concerns regarding retrospectivity), and
- providing a higher uplift factor (10-year Commonwealth bond yield plus 7%) and faster depreciation of new investment (rather than the previous guaranteed refundability of unused tax deductions).

At the same time:

- the company tax rate will be reduced to 29% (from 30%) from 2013-14 but will not be further reduced to 28% (as previously proposed), and
- the Resource Exploration Rebate will not be pursued (note: this may have substantial implications for junior miners).

The Media Release summarizes the agreed principles for the arrangements as follows:

This Alert is intended as an alert only. It does not purport to be a comprehensive advice. Readers should seek professional advice before acting in relation to these matters.

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### MRRT – Bulk commodity resource tax arrangements

- Iron ore and coal will be subject to a new profits-based Minerals Resource Rent Tax (MRRT) at a rate of 30 per cent.
  - MRRT assessable profits are calculated on the value of the commodity, determined at its first saleable form (at mine gate), less all costs to that point.
  - Projects will be entitled to a 25 per cent extraction allowance that reduces taxable profits subject to the MRRT. This allowance recognises the contribution of the miner's expertise to profits at the mine gate.
  - Small miners with resource profits below \$50 million per annum will not have an MRRT liability.
  - Miners may elect to use the book or market value as the starting base for project assets, with depreciation accelerated over 5 years when book value, excluding mining rights, is used; or effective life (up to 25 years) when market value at 1 May 2010, including mining rights, is used. All post 1 May 2010 capital expenditure will be added to the starting base.
  - A book value starting base will be uplifted with the long term bond rate plus 7 per cent. However, a market value starting base will not be uplifted.
  - Investment post 1 July 2012 will be able to be written off immediately, rather than depreciated over a number of years. This allows mining projects to access the deductions immediately, and means a project will not pay any MRRT until it has made enough profit to pay off its up front investment.
  - The deductibility of expenditure under MRRT will be broadly based on the categories used in the PRRT regime.
  - MRRT losses will be transferable to other iron ore and coal projects in Australia. This supports mine development because it means a company can use the deductions that flow from investments in the construction phase of a project to offset the MRRT liability from another of its projects that is in the production phase.
  - Unutilised MRRT losses will be carried forward at the government long term bond rate plus 7 per cent.

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- Unused credits for royalties paid will be uplifted at the government long term bond rate plus 7 per cent, as per other expenses. Unutilised royalty credits will not be transferrable or refundable.

### **PRRT – A national taxation system for all oil and gas, onshore and offshore Australia**

- The Petroleum Resource Rent Tax (PRRT) regime, which currently only applies to offshore petroleum projects will be extended to cover all oil, gas and coal seam methane projects, onshore and offshore Australia. The PRRT will apply at a rate of 40 per cent.
  - Companies may elect to use market value as the starting base for project assets, including oil and gas rights.
  - All state and federal resource taxes will be creditable against current and future PRRT liabilities from a project.
  - The standard features of the current PRRT will otherwise apply, including the range of uplift allowances for unutilised losses and capital write-offs; immediate expensing for expenditure and limited transfer of the tax value of losses.

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A Policy Transition Group, led by Resources Minister Martin Ferguson AM and Mr Don Argus AC will oversee the development of more detailed technical design to ensure the agreed design principles become effective legislation.

The Government's response to the campaign that has been waged against the RSPT demonstrates the effectiveness of targeted lobbying.

All mining companies should now carefully review the above proposed principles and determine how they may affect their operations.

If we can assist in that process, please contact:

**Michael Butler**, Tax & Revenue Partner  
Phone +618 8235 7407  
Email: michael.butler@finlaysons.com.au