MRRT AND PRRT

Statement for Senate Economics References Committee

Inquiry into the development and operation of the Minerals Resource Rent Tax

29 April 2013

I appear before the Committee as an independent economist working at The University of Melbourne. I was once deeply expert in the economic analysis and administration of resource taxes. I am the author with Anthony Clunies Ross of the original article introducing the concept of the Resource Rent Tax, "Risk, Uncertainty and the Taxation of Natural Resource Projects" (The Economic Journal, 1975), and of the well known book *The Taxation of Mineral Rent* (The Clarendon Press, Oxford, 1983). The form of taxation proposed by Anthony Clunies Ross and me is embodied in the Australian PRRT and a version of it in the MRRT. Over the past couple of decades I have followed these matters at a distance, and consider myself to be an expert neither on recent global developments nor on the legislation related to the MRRT and the changes in PRRT which were associated with the introduction of the MRRT. So I am more useful to this Committee on general questions of taxation principle related to resources than on the details of the newly legislated Australian arrangements.

The discussion following the Australian Government's proposal in 2010 for a Resources Super Profits Tax has had two legislative consequences.

One is the extension to onshore gas projects of the PRRT, which originally was applied only to offshore petroleum projects within Commonwealth jurisdiction. This is a favourable development for economic efficiency and equity in Australia. The PRRT tax rate of 40 percent and uplift factor on development expenditure of 5% plus the long term bond rate (with higher uplift for exploration expenditure) seem to be broadly suitable. The structure of the PRRT is widely understood and accepted within the oil and gas industry. The timing is propitious, in the early days of major onshore investment in Australia in unconventional gas production for export. The structure of the tax will provide marginal projects (those at some risk of not advancing when there may be economic justification for them) with fiscal advantages over their competitors in most major potential suppliers of gas onto world markets. The rate of tax will collect for the public revenue a considerable but by international standards not unusually large proportion of the economic value from highly profitable projects. There are some important issues of Federal financial relations that require attention, but there is time to do this within a comprehensive review of Federal financial relations that I regard as an urgent matter for the Australian polity.

The second is the MRRT. Unlike the extension of the PRRT, this is problematic.

In contemporary circumstances, it is not obvious why the tax rate is lower and the uplift rate higher than for the PRRT.

The retention of State royalties means that the advantages of the PRRT for encouragement of complete economic utilisation of marginal ore and projects are not available.

The shielding of liability for MRRT through credits for new State royalties invites instability in the overall mineral taxation regime and can be expected to remove the tax's capacity to raise revenue.

Transitional arrangements for past expenditures on what became profitable projects are always matters of complexity requiring deft judgement about the relative importance of a number of considerations. The transitional arrangements for the MRRT are extreme in their generosity to highly profitable established mines.

There is no prospect of dealing with the full range of the MRRT problems except in the context of a new framework of Federal financial relations. I note in passing that the system for distributing the GST amongst States and Territories creates large disincentives for the States and Territories to introduce on their own account fiscal regimes for resource development that are economically efficient and equitable for the residents of their jurisdictions. Thus efficiency-raising and equitable reform of resource taxation in Australia requires comprehensive revision of fundamental aspects of Federal financial relations.

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