

Reading *Between the lines* this week:

1. Making sense of the Resource Super Profits Tax
2. \$38 million in ads to convince you it makes sense
3. But no ads for making sense of Centrelink forms

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1. Making sense of the Resource Super Profits Tax

Why have a Resource Super Profits Tax?

Australia is well-endowed with a number of very high-quality and low-cost mineral deposits, which traditionally belong to the 'crown', otherwise the Australian people as a whole. High commodity prices over recent years have enabled the companies operating those deposits to make enormous profits, not because the companies are particularly clever but because they have access to deposits that are cheap to mine.

Mining-company profits (before tax and royalties) were around \$8 billion on the eve of the mining boom in 2004–05; they increased to just under \$50 billion in 2008–09. Now, they would be higher still and most of the additional profit would be classed as 'super profit'.

Currently, state and territory governments levy royalties on minerals but these have not kept pace with commodity prices.

What is a super profit?

Super profits comprise the amount companies earn over and above the normal rate of return on capital. No Resource Super Profits Tax (RSPT) is paid until the project's profits have covered the initial outlay plus a return on investment compounded at the normal rate. To impose the RSPT, the government has to determine what the normal rate would be and it has decided to use the bond rate as the threshold—that is, any profit above the bond rate is deemed to be super profit. Presently, the 10-year government bond rate is well below six per cent and one of the miners' main complaints is that the RSPT cuts in at too low a rate of return.

How would the RSPT work?

The RSPT, which the government plans to introduce from July 2012, is a tax of 40 per cent on the super profits earned by mining companies. In addition, the remaining profit would still attract the company tax.

State governments will continue to collect royalties but it is intended that the RSPT would incorporate the existing royalty schemes by making them deductible against a mining company's RSPT assessments.

Why is the RSPT better than the current royalty regime?

At present, some miners pay 'royalties' based on the amount of minerals they take from the ground. These royalties are inherently distorting as they are paid whether or not the mining company makes a profit.

Clive Palmer says that the 40 per cent RSPT plus company tax means that companies will pay 70 per cent. Is that true?

No. Every \$100 of super profit will attract the RSPT of \$40 and company tax at 30 per cent of the remaining \$60. That gives a total tax of \$58 or 58 per cent. However, this total will fall as the company tax rate is reduced from 30 per cent to 29 per cent in 2013–14 and 28 per cent in 2014–15. By then the total tax on super profits will be 56.8 per cent. So in a few years time, a company like BHP Billiton or Rio Tinto can expect to pay 56.8 per cent on those projects generating super profits and 28 per cent on the rest of its Australian profit. In practice, the actual tax paid will be a mixture of the two rates, 56.8 and the 28 per cent, less of course the tax concessions that companies now claim.

Why does the mining industry object?

From the mining industry's perspective there are likely to be tens of billions of dollars payable if the RSPT is introduced. The government estimates the RSPT will raise \$9 billion in its first full year of operation—that's enough incentive for the miners to make a lot of noise. On top of that, the miners fear that other countries will follow the Australian example.

How does the RSPT compare with traditional royalties?

Traditional royalties are payable by the mining company whether or not it actually makes a profit. The RSPT is less of a drain on the cash flow of a mining project in early years but takes more in later years when the project has proved viable and has more than covered the initial outlay.

What about the mining industry arguments that companies will move offshore to where taxes are more competitive?

There has been a lot of bluff on the part of the mining companies and some of them may be prepared to defer projects to make a political point. However, if the RSPT is working properly, governments can tax super profits quite heavily without sending mining companies away. The miners may not like the tax but they will still receive 60 per cent of all super profits, which is a lot better than no super profit at all.

Is the tax retrospective?

If the tax were truly retrospective it would apply to profits the miners have earned in the past. But since it will apply only to some profits to be earned from July 2012, it can hardly be called retrospective. What the miners really mean is that they did not expect that the tax rate would change. On that basis all changes that governments ever make would have to be called retrospective.

\$38 million in ads to convince you it makes sense

The whole point of the Rudd Government's RSPT is to take some of the surplus billions the miners have been making from selling Australia's resources and share them around. So it shouldn't come as a total surprise that the big mining companies are willing to spend a fair chunk of these 'super profits' trying to hang on to them.

What has come as a big surprise, however, is the political pain that the government has suffered by exempting itself from its own guidelines that were designed to prevent governments from spending taxpayers' money on political advertisements.

Rather than explaining why the new mining tax is both necessary and fair, the government has found itself explaining why its advertisements are necessary and fair. Given the strong rhetoric by the Prime Minister in the lead-up to the last election, it seems the government is having even more trouble selling its \$38-million-advertising campaign than it is selling the tax. Of even greater concern, however, is the simple fact that every minute spent defending the advertisements is a minute spent not prosecuting the case for the tax.

But no ads for making sense of Centrelink forms

The RSPT debate makes it clear that when the government wants to sell something it will find the means to do so. Newspaper ads—check. TV ads—check. Yet, where is the \$38-million-dollar advertising campaign to alert people to the fact they may be missing out on government assistance they're entitled to?

Missing out: Unclaimed government assistance and concessions benefits, contains an analysis by The Australia Institute of four Centrelink payments, the Parenting Payment, the Carer Allowance, the Disability Support Pension and the Bereavement Allowance. The analysis found that more than 168,000 people are estimated to have missed out on \$623 million in welfare assistance payments in 2008.

A survey of concession-card holders also found that many people who are receiving assistance payments are missing out on associated benefits. The government has claimed that a Pension Concession Card is worth \$1,600 in benefits annually and a Commonwealth Seniors Health Card \$1,280. Thirty per cent of card holders surveyed by the Institute, however, reported accessing benefits of less than \$520 a year.

Three factors appear to be at play: lack of awareness, complexity and stigma.

How many of you were aware that in the unfortunate event of the death of your partner, you might qualify for a government bereavement allowance to assist you through the difficult

time? Many people do not know about the types of assistance offered by government to help them cope with life-changing difficulties, but unlike the Tax Office, which will pursue unpaid tax, or Centrelink, which will seek to recover any money that may have been incorrectly paid because of a change in personal circumstances, there is no obligation on any government agency to find people who are eligible for payments but may not be aware of them.

Complex paperwork and eligibility criteria are a further barrier for many people. Obtaining the help of an accountant to help complete a complex tax return form is tax deductible but there is no similar incentive for potential claimants to seek professional assistance to complete their welfare application forms. Poor literacy or English as a second language can make this task even more difficult.

And then the perceived stigma around government assistance is a further factor that dissuades people from claiming assistance or concession benefits. One in four concession card holders surveyed for the report stated that they either did not like using their card or felt embarrassed using it.

There are options available to the government to help the thousands of Australians who are eligible for support but do not receive it.

- Data matching is currently used by Centrelink to find those people who receive over-payments or are no longer entitled to receive support. This capacity could be applied in reverse to find those people who appear to be missing out and a letter sent to raise awareness of the availability of this support.
- The government could simplify the welfare system, which would reduce the barrier of complexity. The Henry Tax Review included recommendations designed to simplify the categories and forms of assistance.
- Finally, an independent Entitlements Commission could be established to ensure the adequacy of welfare assistance and access to this assistance. Such a commission would validate the role of welfare assistance to help reduce the stigma associated with welfare and those who receive it.

Missing out on government support is a significant social issue and one which the government could readily address if it were inclined to do so.

Recent publications

- *Missing out: Unclaimed government assistance and concession benefits*. Available here <https://www.tai.org.au/index.php?q=node%2F19&pubid=760&act=display>

Recent media

- Listen to Research Fellow David Baker on *Life Matters* discuss his paper on the number of Australians missing out on government assistance, 1 June. Available here <http://www.abc.net.au/rn/lifematters/stories/2010/2914114.htm>
- 'Top insulators breached safety', *The Australian*, 12 June. Available here <http://www.theaustralian.com.au/politics/top-insulators-breached-safety/story-e6frgczf-1225878690610>

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