



Media Release

Senator Mathias Cormann

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Chair of the Senate Mining Tax Inquiry

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LABOR'S MINING TAX A FISCAL TRAIN WRECK IN THE MAKING

Release of Senate Mining Tax Inquiry Report

Recurrent costs of commitments linked to Labor's complex, unfair and ill-conceived mining tax are set to create a giant \$19 billion black hole in the federal budget over the next decade, Shadow Assistant Treasurer Mathias Cormann said.

The revelation came on the day of the release of a damning Senate Committee report following an inquiry into Labor's Minerals Resource Rent Tax and comes on top of the \$2 billion budget black hole created by the WA government's decision to remove its royalty concession on iron ore fines.

The inquiry found this distorting multi-billion dollar new tax would damage Australia's international competitiveness and was developed through a deeply flawed and improper process.

The inquiry also found the tax gives an unfair competitive advantage to the three biggest miners who were given "exclusive access" to negotiate the design of the new tax.

It makes the federal budget hostage to future decisions by state and territory governments over royalty increases which could further worsen the federal budget black hole and poses serious unresolved constitutional issues.

Senator Cormann who chaired the mining tax inquiry said it was clear the tax should be abandoned.

"This tax is against the national interest and should be scrapped. The government should start afresh and embark on genuine tax reform through an open, transparent and inclusive process," he said.

"Most disturbingly, new analysis shows the mining tax will not produce sufficient revenues outside the forward estimates to fund the initiatives Labor has linked to it.

The proposed increase in compulsory superannuation alone will cost more every year, once fully implemented, than the MRRT would raise according to Treasury modelling of the mining tax deal.

"WA's recent decision to remove a royalty concession from iron ore fines already cost the federal budget \$2 billion over the current forward estimates.

"Labor's mining tax deal and related measures is simply not sustainable and will lead to a further deterioration in the budget's underlying structural deficit," Senator Cormann said.

"The decision to link a highly volatile and downward trending revenue stream to budget measures which increase in cost over time is yet another example of Labor's fiscal incompetence," Senator Cormann said.

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SHORT SUMMARY OF REPORT

The Gillard mining tax is divisive, complex, unfair, fiscally irresponsible and distorting, reduces our international competitiveness and was developed through a highly flawed and improper process.

It gives an unfair competitive advantage to the three largest miners who were given exclusive access to secret negotiations on the new tax design, makes federal budget outcomes hostage to decisions about royalties by state and territory governments and raises serious and unresolved constitutional issues.

The proposed mining tax is bad for Australia, comes out of a deeply flawed process and should be opposed by the Parliament. The government should start from scratch and pursue genuine tax reform to achieve lower, fairer and simpler taxes through an open, transparent and inclusive process.

Alarmingly, the mining tax package would significantly worsen Australia's structural budget deficit over time, with Labor's related proposals under-funded beyond the forward estimates.

The decision to link a highly volatile and downward trending revenue stream to the increasing cost of a number of related proposals is a recipe for another Labor Party fiscal policy disaster.

The proposed increase in compulsory super alone will cost more every year, once fully implemented, than the MRRT would raise according to Treasury modelling conducted at the time of the mining tax deal.

These were the conclusions of a Senate Committee, which has inquired into the proposed new national mining tax since the last election and released its report today.

Adding a new tax on profits from iron ore and coal production, on top of the existing royalty and company tax arrangements is more distorting than the status quo and should not be supported. That was also the clear view expressed by a broad cross section of eminent economists who gave evidence before the Committee, including two who previously signed a letter in favour of a resource rent tax.

Moreover, these new taxes would impose substantial compliance costs, even on sectors which may not necessarily have a large liability, such as the onshore oil and gas sector.

The Gillard mining tax not only creates distortions it divides Australia.

The government has divided the mining industry by giving the three biggest miners the exclusive opportunity to help design the tax while all their competitors were locked out of that process. Smaller and mid-tier mining companies feel understandably aggrieved that the proposed mining tax will make it harder for them to compete with those big multi-national, multi-commodity companies.

They also divided Australia by exclusively targeting resource rich states with a new Canberra tax grab. Resource rich states rely to a larger degree on revenue from mining royalties to help fund important services like health, law and order, education and transport where other states rely to a larger degree on revenue from gambling taxes.

The Gillard government signed the mining tax deal expecting to raise a massive \$25 billion in mining tax revenue from iron ore production in Western Australia over the next decade. That's 65 percent of the total \$38.5 billion in revenue Treasury expected the MRRT to raise over that time.

The government made a mess of its attempts to reform our tax system. It should cut its losses and start again. Genuine tax reform can only be achieved through an open, transparent and inclusive process involving all stakeholders, including state and territory governments.

COST OF INITIATIVES LINKED TO THE MINING TAX (2012-13 to 2020-21)

Increase in compulsory super to 12 percent (from 1 July 2013)	\$16.8 billion
Company tax cut	\$13.2 billion
Regional Infrastructure Fund	\$6 billion
Small business instant write-off & simplified depreciaton	\$8.2 billion
Refund of super contributions for low income earners	\$6.6 billion
\$50,000 concessional contribution cap/balances under \$500k	\$6.8 billion
Total	\$57.6 billion

These are conservative estimates based on best available information, drawn from a range of sources including the government's RSPT announcement, Budget papers and Parliamentary Library analysis.

REVENUE FROM MRRT ACCORDING TO TREASURY MODELLING

Year	Total MRRT
2012/13	\$4bn
2013/14	\$6.5bn
2014/15	\$6.5bn
2015/16	\$5.5bn
2016/17	\$4bn
2017/18	\$3bn
2018/19	\$3bn
2019/20	\$3bn
2020/21	\$3bn
Total	\$38.5bn

Source: http://www.treasury.gov.au/documents/1962/PDF/MRRT_Model.pdf

Since the original Treasury modelling of MRRT revenue at the time of the mining tax deal, MRRT revenue estimates over the forward estimates have in fact been downgraded as a result of exchange rate changes. Current MRRT revenue estimates are \$3.7 billion, \$4 billion and \$3.4 billion between 2012/13 and 2014/15.

SHORTFALL

MRRT Revenue over period of 2012/13 to 2020/21 of \$38.5 billion minus cost of related initiatives of \$57.6 billion equals a deficit of about \$19 billion.

Plus \$2 billion shortfall as a result of WA decision to remove royalty concessions brings shortfall to \$21 billion.