

Estimates of royalties and company tax accrued in 2017-18

Minerals Council of Australia

26 March 2019

Contents

1	Royalties and company tax estimates	3
1.2	Royalties	3
1.3	Company tax	4
1.4	Summary	7
	Limitation of our work	8
	General use restriction	8

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

Liability limited by a scheme approved under Professional Standards Legislation.

1 Royalties and company tax estimates

Deloitte Access Economics (DAE) was commissioned by the Minerals Council of Australia (MCA) to provide estimates of the company tax and royalty payments borne by the minerals sector.

Table 1.1 provides a summary of our estimates.

It draws on a combination of official figures (such as data from the Australian Taxation Office (ATO) and various State treasuries), as well as on Deloitte Access Economics' own estimates.

Table 1.1: Estimated royalties and company tax payments, minerals sector

\$ million	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total (FY08-18)
Royalties	4,054	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	12,002	93,521
Company tax	8,120	13,205	6,135	14,005	15,380	11,589	11,427	7,887	10,409	14,491	18,595	131,243
Total	12,174	20,676	11,878	22,648	24,471	19,926	21,797	16,399	18,458	25,740	30,597	224,764

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

In brief, Deloitte Access Economics estimates the total royalties plus company tax burden on the minerals sector at \$31 billion in the 2017-18 financial year. The estimated increase in tax paid in recent years reflects a significant increase in revenue, due to both production increases and higher commodity prices amid sound global economic growth and, in particular, strong demand from China.

1.2 Royalties

The royalty data shown in the table below reflects collections from State and Territory Governments.

Table 1.2: Current estimated royalties¹

\$ million	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
This year's estimates	4,054	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	12,002
Last year's estimates	4,054	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,222	-

Table 1.3: Current estimated royalties, by state

\$ million	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
WA	1,704	2,327	2,299	4,193	4,325	4,407	6,014	4,593	4,121	5,268	5,215
QLD	1,308	3,410	2,101	2,816	2,881	2,243	2,468	2,172	2,248	3,903	4,296
NSW	595	1,279	985	1,240	1,464	1,318	1,338	1,254	1,189	1,580	1,776
Other States	447	455	357	395	420	370	550	493	492	498	715
Total	4,054	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	12,002

All the data included in the above table are from published State and Territory Treasury sources, except where gaps have been filled by estimates made by Deloitte Access Economics:

- For **Western Australia** for the years to 2017-18, data are as reported in the 2018-19 Budget Paper No.3 (BP3).
- For **Queensland** for the years to 2017-18, data are as reported in the 2018-19 Budget Paper No.2 (BP2).
- For **New South Wales** for the years to 2017-18, royalties are reported in aggregate in 2018-19 Budget Paper No.1 (BP1).
- For the "other" States, the data for **Victoria, South Australia, Tasmania** and the **Northern Territory** for 2017-18 are as reported in the respective 2018-19 Budget Papers.

¹ Last year's estimates were provided by Deloitte Access Economics to the MCA in April 2018.

Overall, mineral royalties paid were estimated to be \$11,249 million in 2016-17 and \$12,002 million in 2017-18.

1.3 Company tax

The company tax figures in this report reflect Australian Taxation Office (ATO) data available through to 2015-16. Figures for 2016-17 and 2017-18 are Deloitte Access Economics' estimates based on ABS estimates for profits before income tax.

The most recent available profits 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 December quarter of 2018.

Taxable income data for the two 'missing' years – that is, for 2016-17 and 2017-18 – are derived by applying an estimated adjustment factor between accounting profits (which are available from the ABS) and taxable income. This adjustment factor accounts for the various addition and subtraction items which make taxable income rise and fall relative to accounting profits.

Chart 1.1: ABS mining profits before tax, ATO/DAE minerals co tax accrued



Source: Australian Tax Office, Australian Bureau of Statistics, Deloitte Access Economics

As the above chart shows, the dominant driver of company tax remains profits – an unsurprising result, given that company tax is a profits tax. Note that the ABS measure used in the above chart covers the mining sector as a whole.

In 2015-16, despite the ABS profit series for mining deteriorating sharply, minerals sector company tax increased – a divergence that is unusual, but not unheard of. This reflects resilience in taxable income for the minerals sector in 2015-16 according to ATO data, despite weakness in commodity prices and profits as reported by the ABS.

This divergence may also partly reflect an uneven profit performance across minerals companies, with some companies recording a tax loss which is carried forward, while other companies were recording a positive result which is taxed in that financial year. This finds support in an increase in

'tax losses carried forward to later income years', which increased from \$82.6 billion in 2014-15 to \$98.6 billion in 2015-16 for the mining industry, excluding oil and gas extraction.

Chart 1.2 shows mining operating profits before income tax as a share of total operating profits before income tax in the economy. Unsurprisingly, this share fell with commodity prices, before staging a sharp rebound in 2016-17, with further strength in 2017-18.

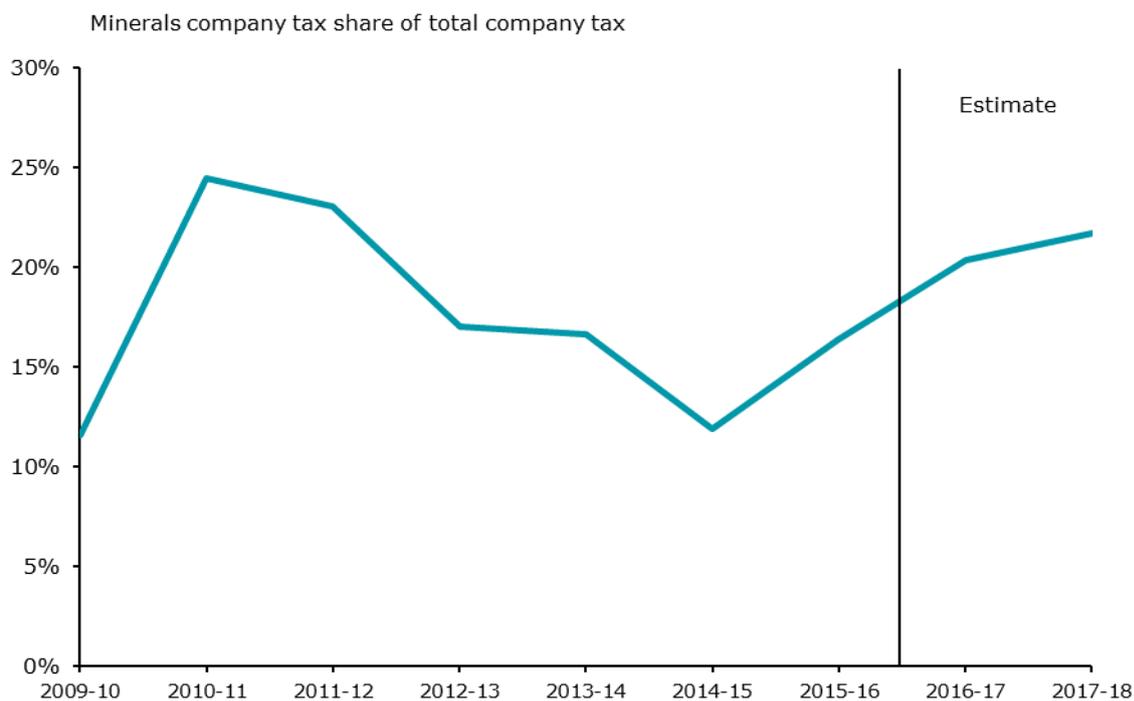
Chart 1.2: Mining operating profits as a share of total



Source: Australian Bureau of Statistics, Deloitte Access Economics

Chart 1.3 shows company tax paid by minerals companies as a share of total company tax received by the Australian Government, with the last two financial years being Deloitte Access Economics' estimates. This chart shows a similar trajectory as Chart 1.2, but with the share rebounding a year earlier (with a nadir in 2014-15 rather than 2015-16), due to the aforementioned resilience in taxable income in 2015-16 according to the ATO.

Chart 1.3: Minerals company tax paid as a share of total company tax



Source: Federal Treasury, Deloitte Access Economics

Chart 1.4 shows Deloitte Access Economics' estimate of company tax paid by minerals companies as a share of mining operating profits before income tax. The series is estimated to have normalised in 2016-17 after the spike in 2015-16 caused by the aforementioned divergence between the ABS mining operating profits before tax series and the minerals company tax paid series.

Chart 1.4: Minerals company tax paid as a share of total mining operating profits before tax



Source: Australian Bureau of Statistics, Australian Tax Office, Deloitte Access Economics

Table 1.4 sets out our estimates and provides a comparison with our equivalent estimates made in a matching report provided to the Minerals Council of Australia last year. Company tax payments for the minerals sector are expected to lift from \$10,409 million in 2015-16 to \$14,491 million in 2016-17 and then to \$18,595 million in 2017-18. These consecutive increases are consistent with increasing commodity prices over that period, as well as the improvement recorded in the ABS mining profit before income tax series in these two financial years. More broadly, it is also consistent with the increase in total company tax revenue for the Federal Government in both 2016-17 and 2017-18.

Table 1.4: Current estimated company tax payments²

\$ million	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
This year's estimates	8,120	13,205	6,135	14,005	15,380	11,589	11,427	7,887	10,409	14,491	18,595
Last year's estimates	8,120	13,205	6,135	14,005	15,380	11,589	11,427	7,887	3,650	12,091	-

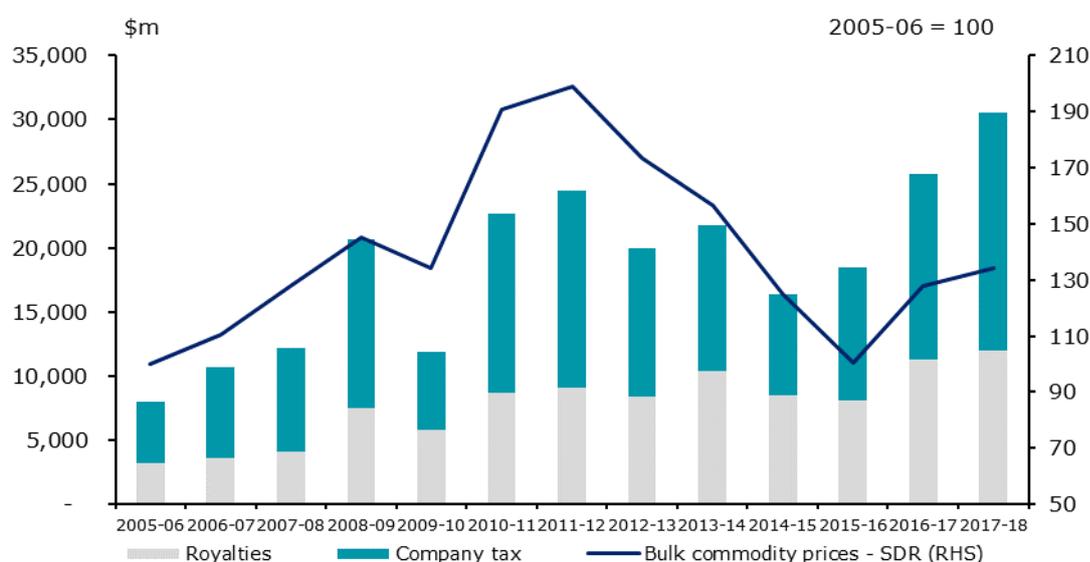
The company tax estimates here are also broadly consistent with those released by the Australian Taxation Office on 14 December 2018 in its 2016-17 *Report of Entity Tax Information* (found at: <https://data.gov.au/dataset/corporate-transparency>). This data source indicated that taxable income and tax payable for major minerals companies increased noticeably from 2015-16 to 2016-17.

Note that some major miners are involved in oil and gas operations as well as in the minerals sector. The estimates in this report relate solely to the latter.

1.4 Summary

Chart 1.5 summarises company tax and royalties paid by the minerals sector and the link to commodity prices. The most recent year, 2017-18, saw a continued revival in both commodity prices and in estimates of taxes paid. The increase in 2017-18 from 2016-17 is expected to come more from an increase in company taxes than royalties, reflecting the effect of higher commodity prices on the more volatile base that company income tax is levied on compared to mineral royalties. Higher company taxes also reflect the success of minerals companies in cutting their operating costs in recent years while also adding to production volumes.

Chart 1.5: Minerals industry company tax and royalties, bulk commodity prices



Source: Reserve Bank of Australia, Australian Tax Office, State Budgets, Deloitte Access Economics

² Last year's estimates were provided by Deloitte Access Economics to MCA in April 2018.

Limitation of our work

General use restriction

This report is prepared solely for the use of 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 set out in our engagement letter dated 1 March 2019. As noted in our engagement letter, the Minerals Council of Australia may choose to release specific elements or all of the report. You should not refer to or use our name or the advice for any other purpose.



Deloitte Access Economics Pty Ltd
ACN 149 633 116
8 Brindabella Circuit
Brindabella Business Park
Canberra Airport
Canberra, ACT, 2609
Australia

Phone: +61 2 6263 7000
+61 2 6263 7004+61 2 6263 7004
www.deloitte.com.au

Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website

www.deloitte.com/au/deloitte-access-economics

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

The entity named herein is a legally separate and independent entity. In providing this document, the author only acts in the named capacity and does not act in any other capacity. Nothing in this document, nor any related attachments or communications or services, have any capacity to bind any other entity under the 'Deloitte' network of member firms (including those operating in Australia).

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 244,000 professionals are committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 7,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2019 Deloitte Access Economics Pty Ltd