

**Estimates of royalties and company
tax accrued in 2018-19**

Minerals Council of Australia

1 May 2020

Contents

1	Royalties and company tax estimates	3
1.1	Royalties	3
1.2	Company tax	4
1.3	Summary	8
	Limitation of our work	9
	General use restriction	9

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.

Member of Deloitte Touche Tohmatsu Limited

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

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

\$ million	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total (FY10-19)
Royalties	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	11,968	14,067	96,030
Company tax	13,205	6,135	14,005	15,380	11,589	11,427	7,887	10,409	12,646	19,068	25,269	133,814
Total	20,676	11,878	22,648	24,471	19,926	21,797	16,399	18,458	23,895	31,036	39,335	229,843

In brief, Deloitte Access Economics estimates the total royalties plus company tax payments from the minerals sector at \$39.3 billion in the 2018-19 financial year. The sector's tax contribution has increased in line with strong revenue growth, reflecting continued increase in both production and commodity prices, particularly iron ore prices which climbed for the first half of 2019 on the back of strong Chinese demand and reduced global supply following the Brazilian tailings dam tragedy.

1.1 Royalties

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

Table 1.2: Current estimated royalties¹

\$ million	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
This year's estimates	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	11,969	14,067
Last year's estimates	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	12,002	-

Table 1.3: Current estimated royalties, by state

\$ million	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
WA	2,327	2,299	4,193	4,325	4,407	6,014	4,593	4,121	5,268	5,224	6,220
QLD	3,410	2,101	2,816	2,881	2,243	2,468	2,172	2,248	3,903	4,271	4,915
NSW	1,279	985	1,240	1,464	1,318	1,338	1,254	1,189	1,580	1,763	2,074
Other States	455	357	395	420	370	550	493	492	498	711	858
Total	7,471	5,742	8,644	9,090	8,338	10,370	8,512	8,050	11,249	11,969	14,067

All the data included in the above table are from published State and Territory Treasury Budget Papers, either reported by the jurisdictions as 'actuals' or 'estimates'. For all States except Victoria and Northern Territory, the 2017-18 data reflects actual royalties published in the State Budget Papers. For South Australia, the 2018-19 data reflects actual royalties published in the South Australia Budget Paper. The remaining State' royalties are reported as estimates.

Overall, mineral royalties paid were estimated to be \$11,969 million in 2017-18 and \$14,067 million in 2018-19.

¹ Last year's estimates were provided by Deloitte Access Economics to the Minerals Council of Australia in March 2019.

1.2 Company tax

The company tax estimates in this report reflect Australian Taxation Office (ATO) data available through to 2016-17. Figures for 2017-18 and 2018-19 are Deloitte Access Economics' estimates based on ABS estimates for profits before income tax.

The most recent available Australian Bureau of Statistics' (ABS) data on profits data before tax is published in *Business Indicators* publication (cat. 5676.0). This provides estimates of quarterly profits for the mining industry through to the December quarter of 2019.

Taxable income data for the two 'missing' years – that is, for 2017-18 and 2018-19 – 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

Company tax is a profits tax and as a result, trends in mineral sector company tax are driven mostly by fluctuations in profit, as seen in the chart above. Strong growth in commodity prices (with bulk commodity prices rising by 9.6% in 2018-19) has contributed to higher profits (see Chart 1.5). Strong profit growth in recent years is expected to be associated with higher levels of company tax having been paid in 2018-19. Note that the ABS measure used in the above chart covers the whole of the mining sector.

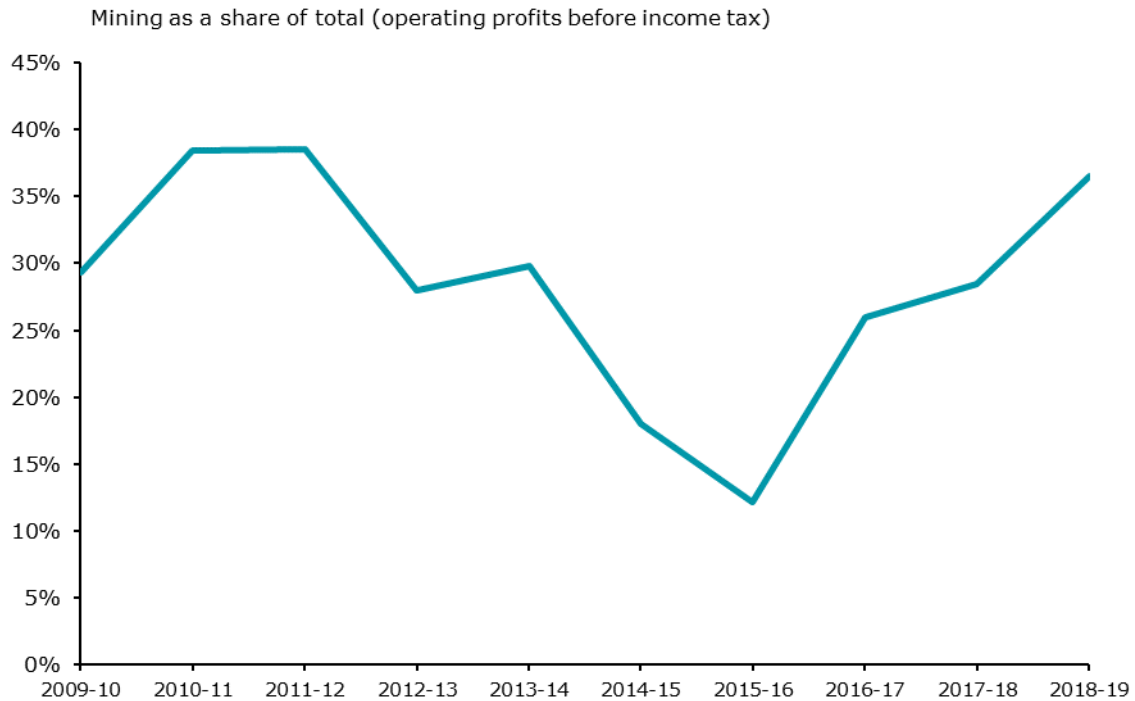
In 2015-16, despite the ABS profit series for mining deteriorating sharply, minerals sector company tax increased – a divergence that is unusual, but not unheard of. This reflects resilience in taxable income for the minerals sector in 2015-16 according to ATO data, despite weakness in commodity prices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

This divergence may also have partly reflected 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. This share has grown strongly in recent years alongside higher commodity prices, after a period of decline that ended in 2015-16.

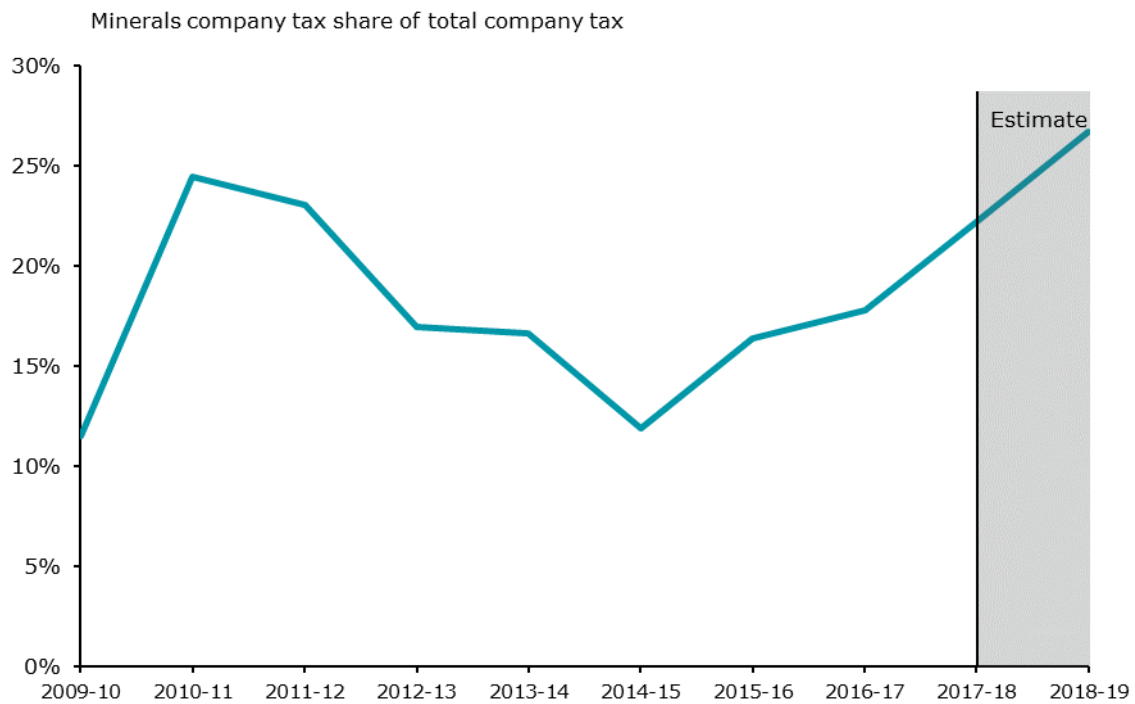
Chart 1.2: Mining operating profits as a share of total



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. With company tax closely aligned with profit, this chart shows a rising share in recent years, like in Chart 1.2. However, the share's recovery begins one year earlier (rising after 2014-15 rather than 2015-16) because of the 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. In 2016-17, the series normalised 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. The share is expected to have remained consistent throughout 2017-18 and 2018-19.

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 grow from \$12,646 million in 2016-17 to \$19,068 million in 2017-18 and then to \$25,269 million in 2018-19. 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 received by the Federal Government in both 2017-18 and 2018-19.

Table 1.4: Current estimated company tax payments²

\$ million	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
This year's estimates	13,205	6,135	14,005	15,380	11,589	11,427	7,887	10,409	12,646	19,068	25,269
Last year's estimates	13,205	6,135	14,005	15,380	11,589	11,427	7,887	10,409	14,491	18,595	-

The company tax estimates here are also broadly consistent with those released by the Australian Taxation Office on 12 December 2019 in its 2017-18 *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 2016-17 to 2017-18.

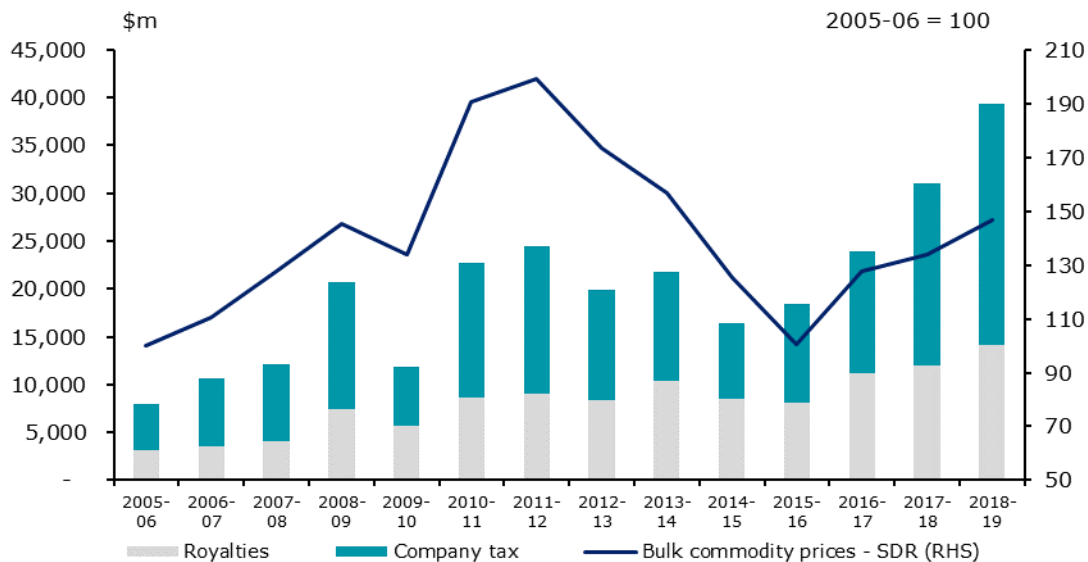
Note that some major miners are involved in oil and gas operations as well as in the minerals sector. The estimates in this report relate solely to the latter.

² Last year's estimates were provided by Deloitte Access Economics to Minerals Council of Australia in March 2019.

1.3 Summary

Chart 1.5 summarises company tax and royalties paid by the minerals sector and the link to commodity prices. The most recent year, 2018-19, saw continued strong growth in both commodity prices and in estimates of taxes paid. The significant increase in 2018-19 from 2017-18 is expected to come more from a substantial 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

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 16 March 2020. 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
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 ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at www.deloitte.com.

Deloitte Asia Pacific

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities provide services in Australia, Brunei Darussalam, Cambodia, East Timor, Federated States of Micronesia, Guam, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Palau, Papua New Guinea, Singapore, Thailand, The Marshall Islands, The Northern Mariana Islands, The People's Republic of China (incl. Hong Kong SAR and Macau SAR), The Philippines and Vietnam, in each of which operations are conducted by separate and independent legal entities.

Deloitte Australia

In Australia, the Deloitte Network member 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 8000 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 <https://www2.deloitte.com/au/en.html>.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte Network.

©2020 Deloitte Access Economics. Deloitte Touche Tohmatsu