Royalty and Company Tax Payments

Minerals Council of Australia

June 2022

Building a better working world

Table of contents

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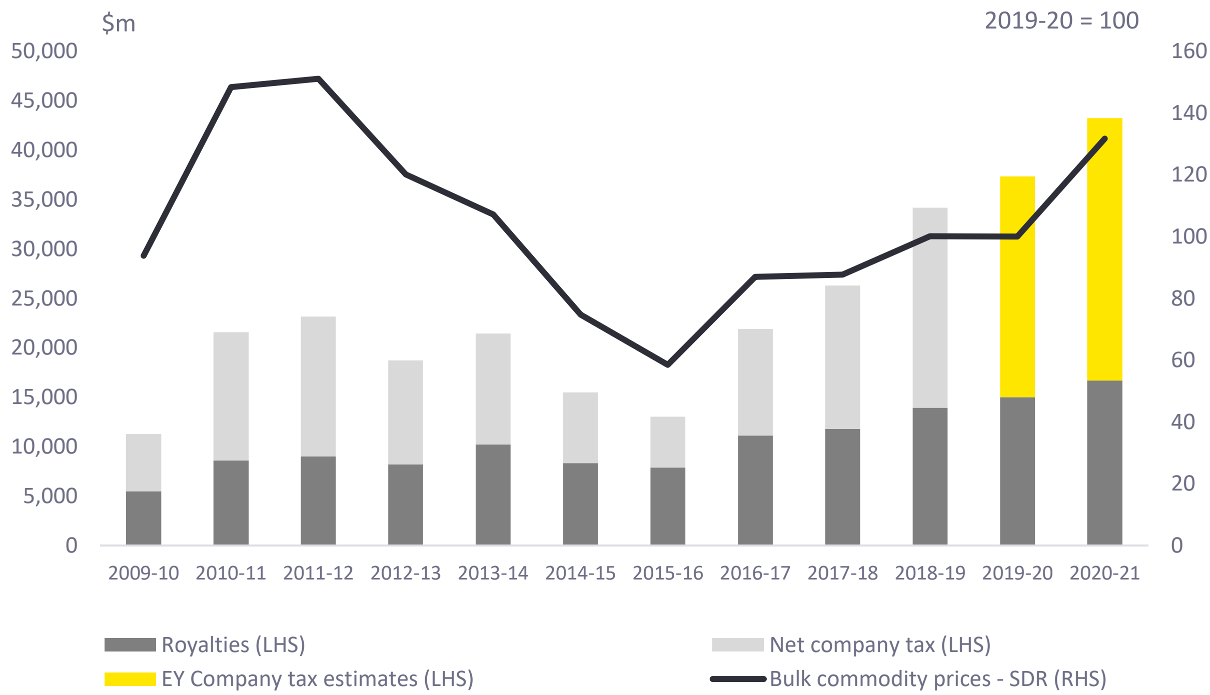
1. Royalties and company tax estimates

Ernst & Young (EY) was engaged by the Minerals Council of Australia (MCA) to provide a report calculating the royalty and company tax payments for the minerals sector in 2020-21 for the Minerals Council of Australia (MCA).

The net company tax and royalties paid by the minerals sector is shown in Figure 1, below, with royalties reaching a high of $16.7 billion in 2020-21, while net company taxes are expected to reach $26.5 billion in the same year. In total, mining company tax payments plus royalty payments are estimated at $43.2 billion in 2020-21, a 26.5 per cent increase from the $34.2 billion recorded in 2018-19. The data in the table was drawn from a combination of government departments and reports, such as the Australian Taxation Office (ATO) database and State/Territory budget statements. Included is EY's estimate of company tax payments for the minerals sector for years 2019-20 and 2020-21. Note that all the estimates in this report are on an accrual basis.

Figure 1: Minerals industry company tax and royalties compared with bulk commodity prices



Source: Reserve Bank of Australia, Australian Taxation Office, State/Territory budget papers, EY estimates

EY's estimates of company tax payments for 2019-20 and 2020-21 reflect the positive earnings outlook for the minerals sector. The tax contributions and royalties of the sector are expected to increase in line with strong revenue growth, particularly for the iron ore industry. Domestic iron ore production increased as Western Australia opened and expanded mines, and iron ore prices increased due to strong Chinese demand combined with reduced supply from Australia's major competitor, Brazil. These results come despite the political and economic challenges brought on by the COVID-19 pandemic. Beyond this period, however, and looking further to 2021-22, royalties and company tax payments are expected to continue increasing in line with increases in export earnings, driven by a positive outlook in the price and quantity produced of coal.

1.1 Royalties

Royalties paid on minerals are collected by State and Territory governments, with payments over the past ten years shown in the table below. The data has been collected from State and Territory Treasury Budget Papers. Overall, mineral royalties paid were $15.02 billion in 2019-20, rising to $16.68 billion in 2020-21.

Table 1: Royalty payments, by State/Territory, minerals

$ million	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
WA	4,193	4,325	4,407	6,014	4,593	4,121	5,268	5,224	6,226	8,443	12,143
QLD[1]	2,772	2,795	2,085	2,310	2,007	2,086	3,780	4,108	4,765	4,066	2,223
NSW	1,240	1,464	1,318	1,338	1,254	1,189	1,580	1,763	2,093	1,683	1,426
Other States	396	439	396	550	495	492	498	715	847	822	892
Total	8,601	9,023	8,206	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,684

Source: State/Territory budget papers

Western Australia's share of royalty payments increased significantly from 2018-19 to 2020-21, rising from 56% in 2019-20 to 73% in 2020-21, topping the six-year high established in 2019-20. Royalties are calculated differently in each state, but these are generally based as a percentage of the mineral's value, which is typically the amount for which it is sold, and so either increases in production volumes or commodity prices result in higher royalty payments.[2] One of the main drivers behind Western Australia's increase in share of royalty payments is the rise in Australian iron ore exports. Because Western Australia accounts for 99% of Australia's iron ore production, with the remaining 1% being produced by South Australia and Tasmania,[3] this change has greatly increased royalty payments from mining companies in the state. Also, the growing iron ore demand in China and the disruptions to iron ore production in Brazil have resulted in higher prices, further benefiting iron ore producers in Australia. The value of Australian iron ore exports thus rose from $103 billion in 2019-20 to $153 billion in 2020-21, with export volumes increasing during the year and prices also peaking at a decade high at the end of 2020-21.[4]

In contrast, metallurgical coal export values fell from $34 billion to $23 billion and thermal coal dropped from $20 billion to $16 billion between 2019-20 and 2020-21. This was driven by the disruptions caused by COVID-19 and the redirection of exports to other Asian markets after the informal import restrictions imposed by China. This helps to explain the decrease in royalties from New South Wales and Queensland, as both states are major coal producers. However, with metallurgical and thermal coal experiencing substantial price increases in the 2021-22 financial year to date, and export values projected to increase to $50 billion and $35 billion respectively for this period, a growth in taxes are likely.[5]

1.2 Company Taxes

The company tax figures in this report reflect data from the Australian Tax Office (ATO) available through to 2018-19. Data for 2019-20 and 2020-21 are EY's estimates, which are based on ABS data for mineral sector profits before income tax and ATO data for minerals sector company tax.

The most recent available Australian Bureau of Statistics' (ABS) Business Indicators publication produces data on mining profits. This provides estimates of quarterly profits for the mining industry through to the December quarter of 2021.[6]

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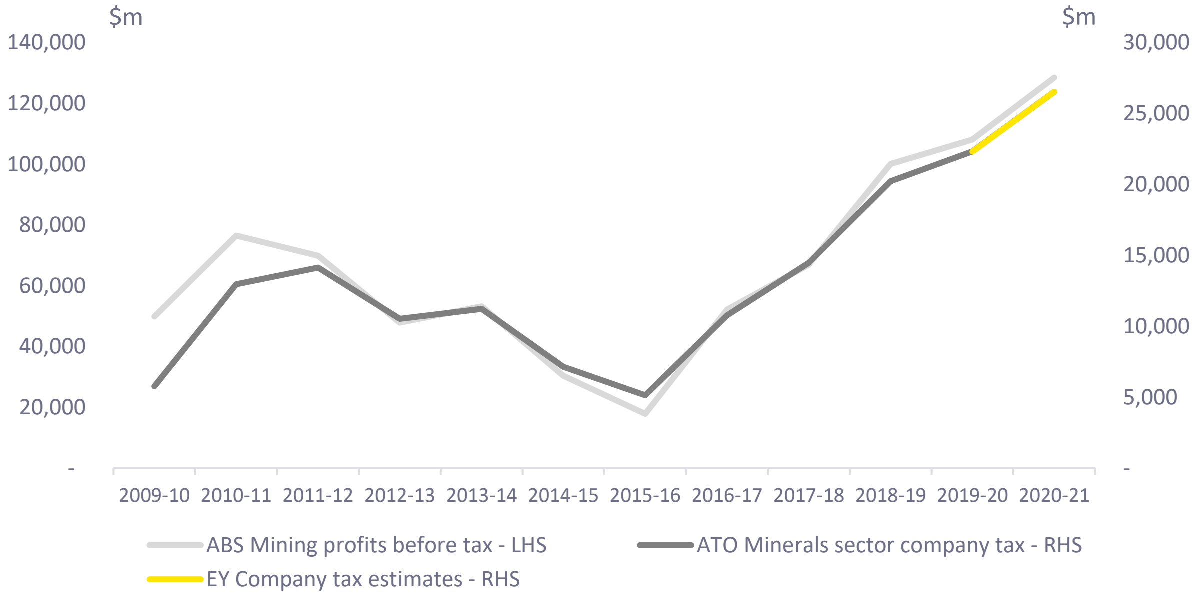
[1] Petroleum royalties and land rents have been excluded from Queensland royalty calculations where data is available (years 2012-13 to 2020-21).
[2] Queensland Government, Mineral royalty rates, Business Queensland, 2021.
[3] Geoscience Australia, Australian Resource Reviews: Iron Ore, 2019.
[4] Department of Industry, Innovation and Science, Resource and Energy Quarterly, Dec 2021.
[5] Lbid.
[6] Australian Bureau of Statistics, Business Indicators Australia, cat. 5676.0, Dec 2021.

Taxable income data for 2019-20 and 2020-21 are derived by first calculating an average net tax rate using historical data. Using ABS estimates on mining profits before tax and ATO data on the net minerals sector company tax, the tax rate was estimated annually between 2009-10 and 2018-19. Using the average of these tax rates and the ABS data on profits before tax for 2019-20 and 2020-21, mining company taxes are estimated for these periods.

Figure 2 shows these estimates alongside ATO data on mining sector company tax payments between 2009-10 and 2018-19, as well as ABS data on mining profits before tax. Note that the ABS measure used in the chart below covers the whole of the mining sector.

Figure 2: Comparison of mining profits and minerals sector company tax



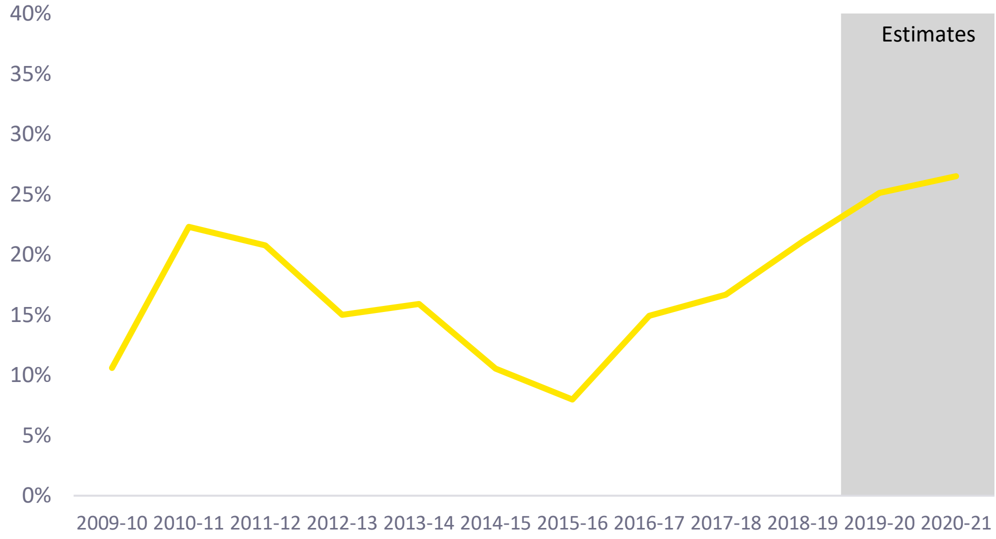
Source: Australian Taxation Office, Australian Bureau of Statistics, EY estimates

Because company taxes are levied on profits, trends in mineral sector company tax are driven mostly by fluctuations in commodity prices, meaning that the robust commodity prices seen recently (especially in iron ore) have contributed to higher profits for the sector. The commodity price index, published by the Reserve Bank of Australia (RBA), is a composite of prices for major commodities exported by Australia, with each commodity given a weight based on their export values.[7] This relationship between commodity prices and iron ore profits is especially evident in 2020-21, where commodity prices increased significantly.

Figure 3 shows net company tax for minerals companies as a share of total company tax received by the Australian Government. This strong profit growth is reflected in the estimates for higher levels of company tax being paid by the minerals sector in 2020-21.

[7] Reserve Bank of Australia, Weights for the Index of Commodity Prices, 2022.

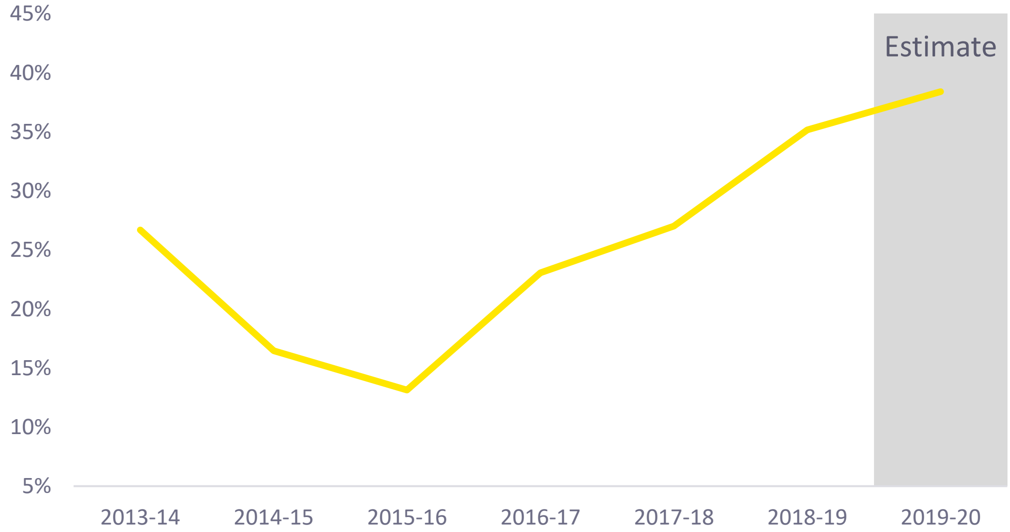
Figure 3: Minerals company tax paid as a share of total company tax



Source: Australian Bureau of Statistics, Australian Taxation Office, EY estimates

Similarly, figure 4 shows the mineral sector's share of tax payable for large and international businesses. Data for tax payable for large and international business is compiled by the Australian Taxation Office in its Report of Entity Tax Information releases. This data source provides the taxable income and tax payable for public and foreign-owned corporations with total income of $100 million or more, as well as Australian-owned resident private corporations with total income of $200 million or more, which makes this a comparable peer group to the minerals sector.[8] The minerals sector's share of tax payable for large and international businesses has been on an upward trend since 2015, with BHP and RIO Tinto being consistently among the highest five tax payers among the group of businesses, with one or the other being the top contributor most years.

Figure 4: Minerals sector company tax as a share of tax payable for large and international businesses



Source: Australian Bureau of Statistics, Australian Taxation Office, EY estimates

[8] Australian Taxation Office, 2019-20 Report of Entity Tax Information, Corporate Tax Transparency, 2022.

Looking toward the next period of 2021-22, profits in the minerals sector are expected to continue increasing, in line with the predicted increase in export earnings. As stated earlier, export earnings are forecast to lift by 33% to a record $425 billion in 2021-22.[9] This will be due mostly to the strong demand and price growth of both metallurgical and thermal coal, coupled with a positive outlook for base metals and lithium.[10]

Table 2 shows company tax paid by the minerals sector, including the estimates for 2019-20 and 2020-21, which has been calculated on the basis of mining profits. The table reports both gross company tax (or tax on taxable income), and net company tax, after the allowance of tax offsets.

These offsets are part of the design of the Australian tax system. Notable examples include:

- The tax incentive for research and development, which allows mining companies to tax offset in respect of eligible expenditure on research and development.[11]

- The foreign income tax offset, which is a mechanism to avoid double taxation of certain profits earned overseas. This reduces the Australian tax liability to account for foreign taxes paid on income which is also subject to Australia tax. This offset reflects tax paid in other jurisdictions, rather than a reduction in the total tax paid by the company. Many entities will also have additional foreign tax paid which is not reflected in an Australian tax offset.[12]

- The franking offset, which entitles corporate tax entities to a tax offset when they are in receipt of franked dividends. The entity is entitled to a franking tax offset for the franking credit attached to the dividend. The offset generally matches the tax liability of the dividend income derived.[13]

Not all Australian mining companies are eligible for tax offsets. Many mining companies pay income tax that is equal to their gross income tax liability. However, for the minerals sector as a whole, gross tax will always be higher than net tax due to the tax offsets which can be claimed by some mining companies, with some years, such as 2015-16, showing a large divergence between net and gross tax.[14]

Table 2: Company tax payments, minerals sector

$ million	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross company tax	14,004	15,346	11,590	15,315	7,887	10,403	12,641	16,531	22,994	28,257	33,592
Net company tax	12,975	14,144	10,534	11,228	7,149	5,141	10,774	14,480	20,245	22,324	26,539

Source: Australian Taxation Office, EY estimates

The total amount of net company tax within the minerals sector is expected to have grown from $20.25 billion in 2018-19 to $22.32 billion in 2019-20 and then further to $26.54 billion in 2020-21. These increases are in line with increasing commodity prices and export volumes, and come despite a general downturn in economy-wide company tax collections in 2019-20.[15]

The company tax estimates here are also consistent with those released by the Australian Taxation Office in its 2019-20 Report of Entity Tax Information.[16] This data source provides the taxable income and tax payable for public and foreign-owned corporations with total income of $100 million or more, as well as Australian-owned resident private corporations with total income of $200 million or more. The ATO confirms that taxable income and tax payable for major minerals

[9] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2022.
[10] Lbid.
[11] Australian Taxation Office, Research and development tax incentive, 2020.
[12] Australian Taxation Office, Guide to foreign income tax offset rules 2021, 2021.
[13] Australian Taxation Office, Utilising franking tax offsets and effect on losses – corporate tax entities, 2016.
[14] Australian Taxation Office, Tax Statistics 2015-16, Company – Table 4, 2017
[15] Australian Bureau of Statistics, Tax Revenue Australia, 2021.
[16] Australian Taxation Office, 2019-20 Report of Entity Tax Information, Corporate Tax Transparency, 2022.

companies increased substantially from 2018-19 to 2019-20. Interestingly, there was not much growth in the grand total of taxable income and tax payable for all the corporations listed in the data source between the 2018-19 and 2019-20 period. This highlights the unique position of the mining sector in the Australian economy and its strong performance compared to other sectors. However, due to some major miners also being involved in oil and gas operations, care should be taken when comparing company tax information with information in this report, which relies solely on the minerals sector. For example, Rio Tinto, a large mining company which operates in Australia, is not involved in oil or gas operations,[17] whereas BHP, another large mining company, does have oil and gas operations.[18]

1.3 Summary

Table 3 provides a summary of royalty and company tax payments, including estimated taxes. 2019-20 saw continued growth in royalties and estimates of company taxes, despite stagnation in commodity prices during that period, while the large lift in commodity prices in 2020-21 is expected to result in substantial increases in company tax payments

Table 3: Royalty and company tax payments, mineral sector

$ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total (FY12-21)
Royalties	9,023	8,206	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,684	112,241
Net company tax	14,144	10,534	11,228	7149	5141	10,774	14,480	20,245	22,324	26,539	**142,558**
Total	23,167	18,741	21,441	15,498	13,029	21,900	26,289	34,170	37,344	43,222	**254,800**

Source: Australian Taxation Office, State/Territory budget papers, EY estimates

In both periods, the largest gains are from company taxes rather than royalties. This is due to the strong connection between commodity prices and profits. As commodity prices have increased, so have profits, and thus company taxes are expected to increase too. Mineral royalties are generally more stable, typically calculated as a percentage of the mineral's value, which is typically the amount for which it is sold. Although royalty payments do increase as the price of minerals increases, the percentage of the value of the mineral to be paid as royalties is significantly lower than the company tax rate. Therefore, the increase in production volumes and commodity prices have increased both royalty and tax payments, but company tax payments make up the larger share.

Looking forward, export earnings are expected to rise from $310 billion in 2020-21 to $425 billion in 2021-22, before declining to $370 billion in 2022-23.[19] However, earnings from iron ore are expected to decline in 2021-22, as iron ore prices fell by more the 60% through the second half of 2021. Conversely, a stronger outlook exists for coal as exports for both metallurgical and thermal coal are expected to increase in 2021-22, accompanied by further increases in price. In line with the increase in export earnings and volumes, these results suggest that royalties from the mineral sector will continue to increase in the 2021-22 period.[20]

[17] Rio Tinto, Annual Report 2021, 2021.
[18] BHP, Annual Report 2021, 2021.
[19] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2022.
[20] Lbid.

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