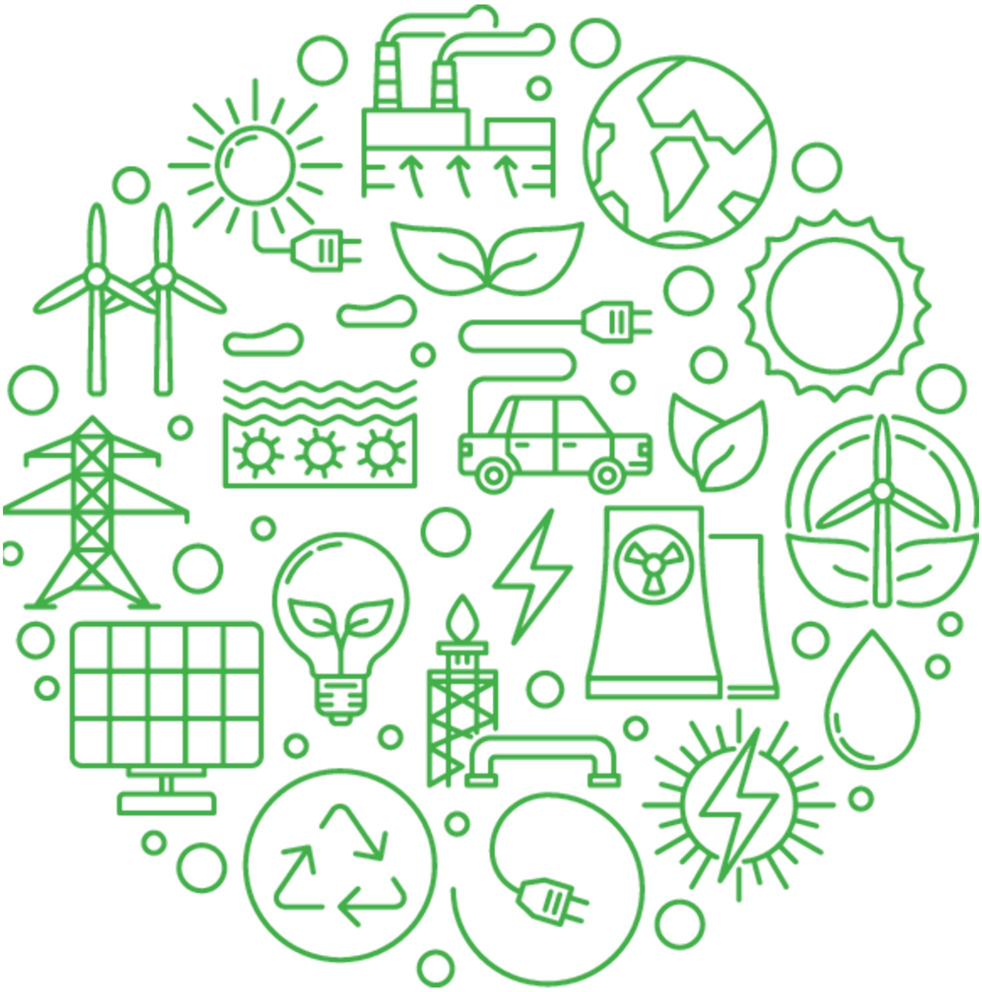


Estimates of royalties and company tax paid by the minerals sector

Minerals Council of Australia

11 May 2021

Deloitte Access Economics

Contents

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 royalty and company tax payments, including Deloitte Access Economics' 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 Deloitte Access Economics' estimates for the most recent years. Note that all the estimates in this report are on an accrual basis.

Table 1.1: Royalty and company tax payments, minerals sector

$ million	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19E	2019-20E	Total (FY11-20)
Royalties	8,644	9,090	8,338	10,370	8,512	8,050	11,249	11,968	14,582	15,173	**105,975**
Net company tax	12,975	14,144	10,534	11,228	7,149	5,141	10,774	14,480	22,292	24,114	**132,833**
Total	21,619	23,234	18,872	21,598	15,662	13,191	22,023	26,448	36,874	39,287	**238,808**

Source: Australian Taxation Office, State/Territory budget papers, Deloitte Access Economics

In brief, Deloitte Access Economics estimates the total royalties plus company tax payments from the minerals sector at $39.3 billion in the 2019-20 financial year.

The sector's tax contribution has increased in line with strong revenue growth, despite a challenging period across the broader Australian economy. Strong production and commodity prices, particularly for iron ore amid strong Chinese demand and continued weakness in supply from our global competitors, have boosted earnings from Australia's mineral exports and hence increased estimates of company tax paid.

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.

Table 1.2: 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
WA	4,193	4,325	4,407	6,014	4,593	4,121	5,268	5,224	6,707	8,443
QLD	2,816	2,881	2,243	2,468	2,172	2,248	3,903	4,271	4,924	4,220
NSW	1,240	1,464	1,318	1,338	1,254	1,189	1,580	1,763	2,093	1,683
Other States	395	420	370	550	493	492	498	710	858	827
Total	**8,644**	**9,090**	**8,338**	**10,370**	**8,512**	**8,050**	**11,249**	**11,968**	**14,582**	**15,173**

Source: State/Territory budget papers, Deloitte Access Economics

The data included in the above table is drawn from 'actuals' published in State and Territory Treasury Budget Papers. Overall, mineral royalties paid were $14,582 million in 2018-19 and $15,173 million in 2019-20.

Shares of royalty payments from each region (WA, Qld, NSW and other states) were broadly consistent across 2017-18 and 2018-19. By contrast, in 2019-20, royalty payments in Western Australia rose significantly while falling everywhere else. As a result, Western Australia's share of mineral royalty payments climbed from 46% in 2018-19 to a six-year high of 56% in 2019-20. Strong iron ore production has been the biggest driver of this change, although a fall in coal output, which especially hurt royalty payments in New South Wales and Queensland, also contributed.

Indeed, the value of Australian iron ore exports rose from $77 billion in 2018-19 to $102 billion in 2019-20, with both price and export volumes increasing during the year.[1] By contrast, over the same period, metallurgical coal exports fell from $44 billion to $30 billion and thermal coal dropped from $26 billion to $20 billion as prices plummeted 29% and 36% respectively.

Furthermore, the economic recoveries of Australia's key trading partners in 2020-21 has driven demand for Australia resources even higher, with total exports expected to climb by $38.9 billion in 2020-21.[2] Importantly, iron prices remain at a nine-year high since December 2020, with Brazilian supply limited by heavy rain, licensing issues and other production delays. Conversely, the value of both metallurgical and thermal coal exports is expected to decline in 2020-21.

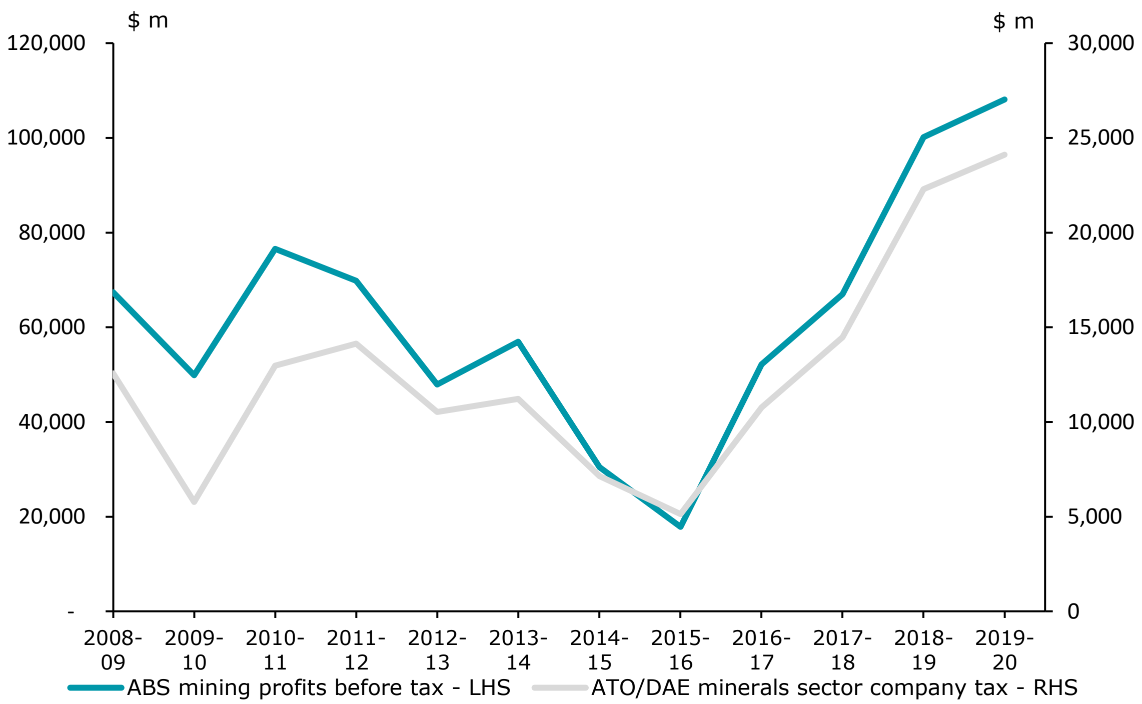
1.2 Company tax

The company tax figures in this report reflect Australian Taxation Office (ATO) data available through to 2017-18. Data for 2018-19 and 2019-20 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 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 2020.

Taxable income data for the two most recent years – that is, for 2018-19 and 2019-20 – 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: Comparison of mining profits and minerals sector company tax



Source: Australian Taxation 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 commodity prices have contributed to higher profits in recent years. While prices did soften marginally in 2019-20 (see Chart 1.3) they

[1] Resource and Energy Quarterly, Department of Industry, Innovation and Science.
[2] Resource and Energy Quarterly, Department of Industry, Innovation and Science.

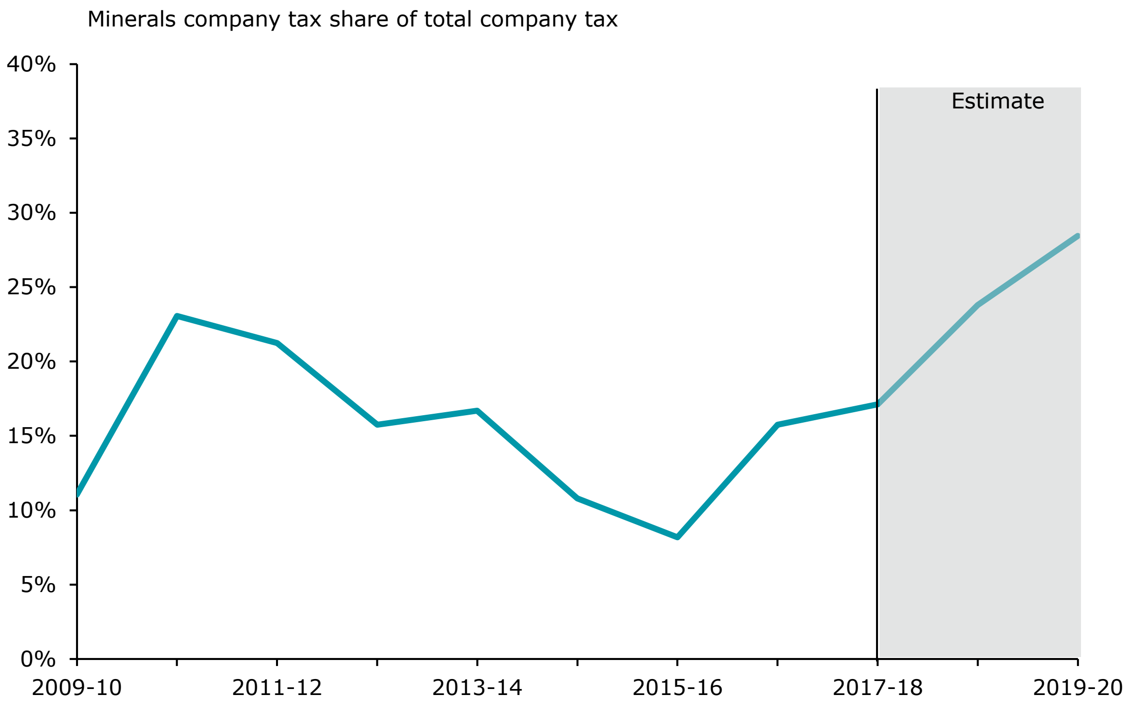
remain supportive of profits in the sector. Further strong profit growth is expected to be associated with higher levels of company tax having been paid on minerals production in 2019-20. Note that the ABS measure used in the above chart covers the whole of the mining sector.

Additionally, mining profits are expected to improve throughout 2020-21 in line with higher prices and export volumes for Australian resources, outweighing a decline in the value of coal exports. After a weak, COVID disrupted, September 2020 quarter, mining profits jumped in the December 2020 quarter as Australia's major trading partners forged ahead with their economic recoveries. Since then, demand for Australian mining exports has remained strong, particularly iron ore, indicating that 2020-21 profits, and therefore company tax, should exceed levels from 2019-20.

Chart 1.2 shows net company tax for 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.

The final two financial years show an acceleration in the share of company tax paid by miners, with 2018-19 seeing a substantial lift in the relative contribution of the mining industry, with a further significant rise in 2019-20.

Chart 1.2: Minerals company tax paid as a share of total company tax



Source: Federal Treasury, Australian Taxation Office, Deloitte Access Economics

Table 1.3 sets out company tax paid by the minerals sector, including Deloitte Access Economics' estimates for 2018-19 and 2019-20. 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 research and development tax incentive which offers a tax offset in respect of eligible expenditure on research and development. Companies in the minerals sector can be eligible for this offset.

- The foreign income tax offset which reduces the Australian tax liability to account for foreign taxes paid on income which is also subject to Australian tax. This offset is a mechanism to avoid 'double taxation' of certain profits earned overseas and so reflects tax paid in other jurisdictions, rather than a reduction in the total tax paid by the company. (Note that many entities will also have additional foreign tax paid which is not reflected in an Australian tax offset).

- The franking offset, which may be applicable for some companies in the minerals sector.

Not all Australian mining companies are eligible for tax offsets, and many pay income tax that is equal to their gross income tax liability.[3]

The total amount of net company tax within the minerals sector is expected to have grown from $14,480 million in 2017-18 to $22,292 million in 2018-19 and then further to $24,114 million in 2019-20. These consecutive increases are consistent with both increasing commodity prices and improving profits recorded in the ABS mining profit before income tax series in these financial years. It sees company taxes from the minerals sector outpacing broader receipts in 2018-19 before defying a downturn in general company tax revenue in 2019-20 to record further gains.

Table 1.3: Company tax payments, minerals sector

$ million	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19E	2019-20E
Gross company tax	14,004	15,346	11,590	15,315	7,887	10,403	12,641	16,531	24,998	26,567
Net company tax	12,975	14,144	10,534	11,228	7,149	5,141	10,774	14,480	22,292	24,114

Source: Australian Taxation Office Tax Statistics Company Table 4, Deloitte Access Economics estimates for 2018-19 and 2019-20

The company tax estimates here are also broadly consistent with those released by the Australian Taxation Office on 10 December 2020 in its 2018-19 *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 substantially from 2017-18 to 2018-19. That said, care should be taken in comparing company level information with figures in this report, as 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.

1.3 Summary

Chart 1.3 summarises net company tax and royalties paid by the minerals sector and the link to commodity prices.

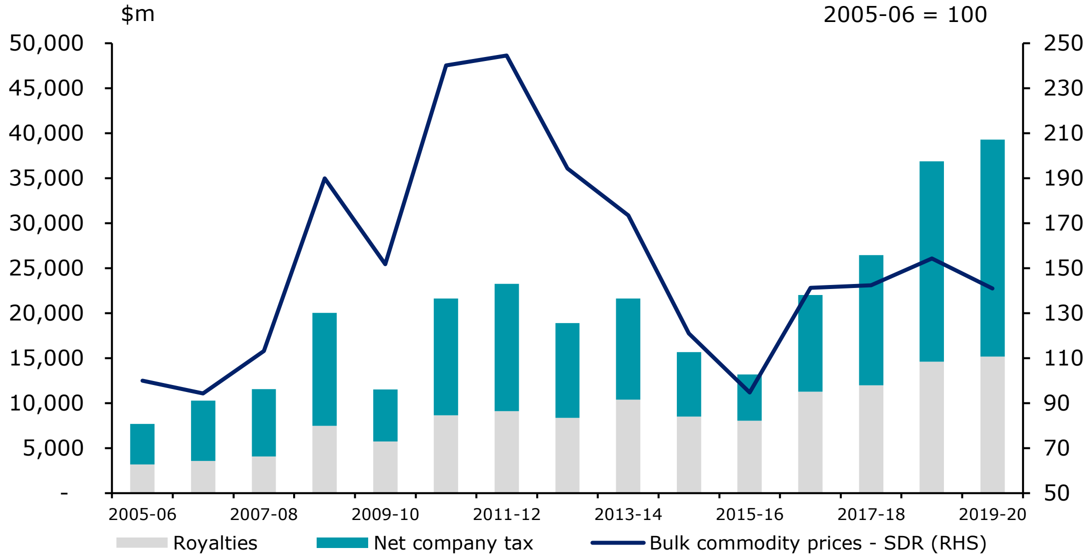
2018-19 saw continued strong growth in both commodity prices and in estimates of taxes, while 2019-20 is expected to provide a further modest lift in the total despite a pull back on commodity prices.

In both cases the largest gains are from company taxes rather than royalties, reflecting the effect of elevated commodity prices on the more volatile profit-based company tax compared to more stable 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.

Early indicators also suggest that company tax payments in 2020-21 will be higher again, on account of greater export volumes and even stronger prices, particularly iron ore, whose price has remained at a nine-year high since December 2020. Indeed, the Reserve Bank of Australia's bulk commodity price (SDR) index has increased in every month between June 2020 and March 2021, skyrocketing by 54% over that period.

[3] In some years gross and net tax diverge. For example, in 2015-16 a substantial increase in the "non-refundable non-carry forward offsets" item recorded by the ATO resulted in lower net tax relative to gross tax for the minerals sector.

Chart 1.3 Minerals industry company tax and royalties compared with bulk commodity prices



Source: Reserve Bank of Australia, Australian Taxation Office, State/Territory budget papers, Deloitte Access Economics

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