9 June 2026

Committee Secretary
Senate Economics Legislation Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600
AUSTRALIA

By email: economics.sen@aph.gov.au.

Dear Dr Turner

Inquiry into Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 and Income Tax Rates Amendment (Tax Reform No. 1) Bill 2026

Thank you for the opportunity to make a submission to the Senate Economics Legislation Committee's inquiry on the 'Tax Reform bills package'.

The Minerals Council of Australia (MCA) has concerns about the adverse effect of the proposed capital gains tax reforms on junior minerals exploration in Australia. The main points the MCA would like to make to the inquiry are:

- Retention of the 50 per cent discount is required to incentivise investment in junior exploration companies so they can undertake greenfield mineral exploration in Australia
- Investment in eligible early-stage exploration shares similar characteristics to investment in venture capital and start-ups and therefore should receive comparable treatment regarding capital gains tax
- If the current capital gains tax arrangements are no longer available to investors in junior exploration companies, alternative mechanisms are required to preserve incentives for high-risk capital formation.

The Australian minerals industry's strong economic contribution begins with exploration

The extraction and sale of mineral resources make a significant contribution to the Australian economy. Ongoing exploration and the discovery of new mineral resources is vital to securing a strong pipeline of projects necessary to underpin the economic contribution from the resources sector.

The resource sector's contribution to the Australian economy is massive. In 2023-24, the direct impact of the sector was $275.5 billion, comprising $34 billion in wages, $161 billion in purchases from local businesses, $79.8 billion in local, state and federal government payments and $661 million in contributions to community groups and organisations.[1] Of the government payments, royalties and company tax payments alone were estimated to be $59.4 billion.[2]

Nothing carries more investment risk than setting out to build a mine. Greenfields exploration is the search for new mineral deposits in areas where no deposits have previously been discovered or developed. As a rule of thumb, for every 500 to 1,000 exploration projects, on average 100 progress to targets for advanced exploration, and only ten of these is expected to proceed to successfully passing a final investment decision and becoming a development project.[3] In Australia, greenfields exploration as a share of total mineral exploration spending has declined from roughly one-third over recent years to a quarter in the last financial year.[4]

For successful greenfields mining projects, the exploration and evaluation stages typically span around a decade or more, often accounting for the majority of the 15 to 20 year timeline from discovery to production for a successful development project.

Junior minerals exploration requires financial returns through capital gains

Junior minerals exploration companies are businesses whose sole purpose is exploring greenfields mining leases and account for around three quarters of western world discoveries. These companies, almost without exception, have no revenue generating operations. Unlike larger mining companies, they are unable to offset exploration expenditures against income generated from mining and sales activities. They pursue high risk ventures and are formed to undertake minerals exploration activities with the objective of discovering minerals resources suitable for future mining developments.

Exploration is a scientific process which adds to Australia’s geological knowledge and if successful has large benefits to the public through future income tax and royalty payments, which occur as part of the significant economic contribution from a high wage, productive capital-intensive mining sector.

Furthermore, investors in junior explorer companies that have made a successful discovery will often sell exploration rights or the company that owns those rights to larger miners who have capacity to develop the assets into a producing mine.

Junior minerals exploration requires high risk, potentially high return equity investors

The proposed CGT changes are highly likely to reduce investment in junior minerals exploration by weakening after-tax returns for high-risk, equity-financed projects. This risk has not been explicitly addressed in the current policy design.

Junior explorers do not have regular income to deduct their outgoings and losses and often lack the financial capacity and know-how to develop successful exploration prospects into operating mines. Investors may make multiple investments and although losses arise from unsuccessful ventures, they are in pursuit of occasional gains on successful ventures. The 50 per cent discount on capital gains is aligned with their entrepreneurial purpose and attracts funding for these high-risk, potentially high return investments which are critical to the success of the sector, much like the venture capital activities which have been recognised by the government and were expanded in the recent 2026-27 Federal Budget (see *Tax Reform – expanding venture capital incentives*).

Junior explorers will be adversely affected by the proposed capital gains tax changes

The capital gains tax changes in the Tax Reform bills package is primarily targeted at addressing housing-related distortions and high-wealth tax minimisation. The changes to the 50 per cent capital gains tax (CGT) discount are designed to reduce distortions that divert capital into housing and

---

1 Lawrence Consulting, *Australian Resource Sector Economic Contribution Study 2023-24*, released July 2025.

2 EY, *Royalty and Company Tax Payments*, Minerals Council of Australia. Table 3. Royalty and company tax payments, minerals sector, released 20 May 2025.

3 Minerals Council of Australia, *Future Critical – Meeting the investment challenge*. September 2023.

4 ABS*, Mineral and Petroleum Exploration, Australia,* table 3b. Mineral Exploration, (Other than for petroleum) - Expenditure by type of deposit, cat No. 8412, released 02 June 2026.

improve the fairness and efficiency of the tax system. The Tax Reform bills package replaces the 50 per cent CGT discount with cost base indexation and introduces a minimum 30 per cent tax rate on capital gains for assets held by individuals, trusts and partnerships for more than 12 months. The extension of the proposed changes to cover assets in addition to housing will affect businesses in sectors that rely on capital gains to attract funding for high-risk investment.

These changes risk significantly shifting individual investor preferences toward income over capital growth and thereby having implications for companies preferencing dividends as opposed to the reinvestment of profits into new capital projects. Raising capital taxes on high-risk, low cash-flow investments runs counter to the government's objective of increasing capital formation in the economy and its role in lifting the nation's economic productivity through capital deepening.

Australian junior explorers of minerals have limited access to capital markets, relying on retail investors through equity raisings as the primary source of funding. The proposed changes to CGT will adversely impact the ability of these companies to raise funds from individual investors for much needed mineral exploration in Australia. A retail investor in a junior explorer typically receives no income over many years (often 10 years or more), is subject to high failure rates and hence no return on investment and relies entirely on capital gains if a discovery is made. Under current settings, the 50 per cent CGT discount allows only half of that gain to be taxed, materially improving after-tax returns and partially compensating for this high-risk, long-duration investment profile.

For example, a shareholder on a marginal tax rate of 37 per cent invests $10,000 in shares and holds 5 years without receiving any dividends or other cashflow. The junior explorer discovers a deposit and is acquired by a larger mining company returning to the shareholder $30,000 on sale of the shares and a capital gain of $20,000. Assuming an annual inflation rate of 3 per cent, the capital gain would generate around $16,300 after tax with the 50 per cent discount, but only about $13,064 under the proposed CGT changes - a reduction in the return on investment of 19 per cent. This materially changes investor returns and, in turn, the price and availability of capital for junior explorers, which rely heavily on equity funding from retail investors.

The current CGT arrangements provide potential upside return to investors to compensate for risk through concessional capital gains treatment, which is important in exploration attracting patient capital because the tax treatment is aligned with the speculative nature of the investment. In contrast, the proposed change to CGT exposes an investor to a lower after-tax payoff from a successful project. This weakens the incentive to invest in exploration, where expected returns from an investment must compensate for a high probability of failure.

Junior explorers no longer have access to the Junior Minerals Exploration Incentive

The proposed change to CGT comes as a double hit to the exploration sector because it follows the termination of the Junior Minerals Exploration Incentive (JMEI) on 30 June 2025.

The JMEI had successfully facilitated additional capital raising by small, specialised mineral exploration companies undertaking high social value, high-risk greenfield exploration activities in Australia. It was an important measure to level the playing field between junior explorers who accumulate losses and larger companies, who can deduct exploration expenditures from income earned from mining activities. Without a targeted exploration incentive, the proposed CGT changes will tighten the availability of capital to exploration activities.

Retention of the 50 per cent discount is required to encourage junior exploration companies to undertake greenfield mineral exploration in Australia. There are early signs that junior explorers are looking at opportunities in other countries in response to the proposed CGT changes.[5]

[5] Thompson, B. 2026, 'Junior explorer turns its attention to Canada after Chalmers' tax changes spook investors', *The Australian* viewed 8 June 2026,< Gold Mines Australia shelves ASX listing, eyes Canada over CGT changes | The Australian>

Junior mineral exploration companies should be treated similar to venture capital and start-ups

There is a strong policy rationale for treating junior minerals exploration companies the same as venture capital and start-ups for the purpose of CGT. Early-stage exploration supports innovation, is a high-risk, long duration investment and a productivity enhancing activity. Exploration also shares similar economic characteristics – the returns on investment are negatively skewed and therefore dependent on a small number of successful outcomes, which deliver positive spillovers to the broader economy.

Mineral exploration activities do not qualify for the venture capital tax concessions contained in Subdivisions 118-F and 118-G of the *Income Tax Assessment Act 1997* (ITAA97), but the nature of the activities is equally speculative and the benefits that flow from successful exploration are significant for the Australian economy. Exploration companies require similar recognition in the tax system to maintain the ongoing attraction of investors.

Treasury Laws Amendment (Tax Reform No. 1) Bill 2026 contains a draft provision – section 115-102(3) – which allows the Minister, by legislative instrument, to determine one or more additional kinds of CGT assets that will be covered by section 115-102 - discounted capital gains from CGT events after 1 July 2027. The **Attachment** to this submission identifies the typical attributes of junior explorers and proposes a definition of Australian listed and unlisted entities who are principally engaged in exploration and prospecting for minerals. We strongly recommend that entities with these features qualify for continued access to the 50 per cent CGT discount after 30 June 2027.

The profile and approach adopted by junior explorers may vary but their need for capital is common

The approach to exploration and prospecting for minerals adopted by junior explorer companies can vary significantly as does the time it takes to make a commercial discovery. The cost of exploration and scale also vary by mineral type and proposed operations. The following are short descriptions of the activities of two junior explorers targeting gold and associated minerals in Australia:

Prodigy Gold NL is a junior exploration company which is exploring gold mining prospects in the Northern Territory. The company was incorporated in 1985 and operated under different names until in was named Prodigy Gold NL in 2018. At 30 June 2016 the company's contributed equity was $166.3 million but after accumulated losses from past exploration its value was only $21.6 million. Additional capital was raised between 2018 to 2025 to fund a gold exploration program in the Northern Territory. The company's strategic focus is now on gold exploration, with a particular focus on the Tanami North Project area. At 30 June 2025 the company had raised capital of $201.1 million but capitalised exploration and evaluation was only $2.1 million indicating that most prior exploration activities had been written off with no future carrying value. Despite this, after completing drilling at its Tregony and Hyperion Deposits, the company updated its Mineral Resource estimations, reporting a combined half a million ounces of gold. The company still had no operating mines.

Australian Gold and Copper Limited has had a much shorter history being listed on the ASX in January 2021. The company has three gold projects which include four granted exploration licences covering approximately 1000km2 in the Central Lachlan Fold Belt of New South Wales. The combined project portfolio offers near-term discovery opportunities for 'Fosterville-style' orogenic gold, McPhillamys-style gold and 'Cobar-Hera-style' gold-polymetallic mineralisation. Each of the prospects have *drill ready* gold and polymetal targets. The company had existing drilling results for its Moorefield project. By 31 December 2025 the company had raised $41.5 million in capital, and its exploration and evaluation assets had a carrying value of $28.2 million. The company has also issued Minerals Resource estimates for some of its gold prospects during 2025.

The position of either company demonstrates that while they are able to provide mineral resource estimates for completed exploration and evaluation activities, they remain junior explorers as mine developments or potential disposals to other miners are not pending.

Conclusion

Australia has a world leading exploration sector with world class geologists and engineers who have the specialist capability in initiating and facilitating successful exploration ventures. Australian based junior explorers not only identify potential mineral prospects in Australia but also in other countries in all continents and equity markets are aware of their capability and track record in initiating successful exploration ventures. It is not in Australia’s interest to see these companies relocate to other jurisdictions particularly as the world is embarking on a step-change in the search for minerals and energy commodities that are needed to satisfy growing demand.

Greenfields exploration is the foundation of Australia’s future mining pipeline but is inherently high-risk, capital-intensive and dominated by junior firms with limited access to funding. The proposed changes to CGT risk further suppressing exploration activity at a time when greenfields spending as a share of total exploration spending is declining in Australia. The MCA supports measures that de-risk early-stage exploration, maintain investor confidence, and sustain the discovery pipeline needed to underpin future resource projects and national economic growth.

The MCA strongly recommends that investments in early-stage exploration companies qualify for continued access to the 50 per cent CGT discount after 30 June 2027 to ensure a more coherent and economically balanced outcome.

The MCA welcomes the opportunity to provide further input to this consultation. Should you have any questions, please do not hesitate to contact Ross Lambie – Chief Economist on 0499 477 876 or via email ross.lambie@minerals.org.au.

Yours sincerely

Tania Constable

TANIA CONSTABLE
CHIEF EXECUTIVE OFFICER

Attachment

Identifying qualifying exploration and prospecting entities

Mineral and petroleum *exploration and prospecting* is defined in section 40-730(4) of the *Income Tax Assessment Act 1997* (ITAA97).

Our proposal is for shares companies engaged principally in qualifying *exploration and prospecting* to remain eligible for the 50 per cent CGT discount beyond 30 June 2027. Like most listed companies, exploration companies need to attend administrative and regulatory matters necessary to maintain stock exchange listing, ASIC requirements, preparation and auditing of financial statements and so some funds must be directed towards meeting these overhead type activities.

Despite this, cumulative expenditure should principally be directed towards:

- exploration and prospecting activities (as defined in the provision noted above) and
- acquisition and maintenance of exploration or mining rights (noting that exploration and prospecting activities can be undertaken on existing mining leases).

When does an exploration company cease to qualify?

Some companies might commence activities principally within the scope of exploration and prospecting but may later decide to develop a mineral prospect into an operating mine. At this point the entity will no longer qualify as an exploration and prospecting entity and capital gains arising from *CGT events involving interests in the entity will not qualify for the discount.

Existing case law precedent can be used to delineate between companies who conduct exploration and prospecting activities and those that have gone further to commence a business of producing, processing and selling oil, gas or other minerals. Taxation Ruling TR 2047/1 provides detailed guidance on the treatment of exploration and prospecting expenditure but also recognises a point at which a *decision to mine* (or commitment to mine) occurs even though this *does not act as a bright line for determining the nature or character of expenditure incurred*.

The definition of a *greenfield minerals explorer* in sections 418-75 and 418-80 of the ITAA97 applied entities who qualified for the Junior Minerals Exploration Incentive. The definition is considered too narrow as practical standard for identifying entities carrying out actual exploration and prospecting activities.

Firstly, exploring for *petroleum* and *oil shale* should not be excluded. These minerals are of critical importance to the Australian economy as was made clear from recent geopolitical events which constrained local fuel supplies and forced the government to move to introduce a mandatory gas reservation scheme to secure a supply for local industry.

Furthermore, feasibility studies undertaken *to identify the viability of a minerals resource rather than its existence* should be within the scope of qualifying activities. As with the coverage of the definition contained in section 40-730(4), the purpose of *exploration and prospecting* is to locate minerals that can be extracted, processed, transported and sold in commercially viable operations. Establishing the mere existence of a mineral is of little consequence in mining and falls short of the end point of activities ordinarily undertaken by junior explorers.

A discovery must be commercially minable to attract the interest of potential buyers who have capability to develop mining prospects. A *reasonable prospect for eventual economic extraction* obtains the JORC *resource* classification but may not be sufficient to convince potential developers to acquire an exploration prospect or to maximise the consideration payable to a junior explorer to acquire a mining prospect.

Preliminary economic assessments, pre-feasibility studies and feasibility studies are engineering and economic analyses conducted to determine the viability of developing and operating a profitable mining operation for a given mineral deposit.[6]

Finally, areas previously mined but have since been abandoned may be regarded as *brownfield* mining areas but may require analytical work of a junior explorer to renew interest for potential mining.

Notwithstanding, these aspects, other elements of the definition of a *greenfields minerals explorer* can be applied to identify companies for which the CGT discount should continue to apply.

The following extract is from the majority decision of the Federal Court of Australia in *Esso Australia Resources Ltd v FC of T* (1998) ATC 4768 and highlights the difference between a company engaged in a business of exploration (such as *Ampol*) as compared to the appellant in the case (Esso Australia Resources Ltd. the *appellant*) who had sought to participate in mining joint ventures for the production and sale of minerals but, at the relevant time, had not reached the point of being committed to that income producing activity. In each case the answer can be found in the activities of the company and the deployment of strategy.

> The appellant relied upon the majority in *Ampol* to contend that likewise, in the present case, the exploration expenses incurred by the appellant were a necessary and integral cost of carrying on the business of exploring for profit the minerals that may be discovered. In our view the reliance placed on *Ampol* by the appellant is misconceived. It was critical to the majority's findings in favour of the taxpayer in *Ampol* that the taxpayer was engaged for reward in the exploration business. In other words, it was an exploration company which incurred the relevant expenditure with a view to turning to account for profit or reward the benefits it obtained from its exploration activities. That may be contrasted with the position in the present case. His Honour found that the appellant was not an exploration company and that it did not incur the relevant expenditure with a view to turning to account for profit or reward the benefits it obtained from its exploration activities. Rather, his Honour found (at ATC 4381; ALR 469) that the activities were:
>
> "... of a preliminary nature, aimed at ascertaining whether it was commercially worthwhile to enter into mining joint ventures."

The following is the proposed legislative basis for maintaining CGT discounts for capital gains arising the disposal of membership interests in qualifying exploration and prospecting entities:

Legislative Instrument

Section 115-102(3) of the *Income Tax Assessment Act 1997* the Minister may, by legislative instrument, determine one or more kinds of *CGT assets to be covered by subsection 115-102(2).

[Draft] Legislative Instrument

Income Tax Assessment Act 1997 – Exploration Development Incentive Modulation Factor – Declaration Instrument (No. 2) 2016

I, _____________, Acting Deputy Commissioner of Taxation, make this instrument as a delegate of the Commissioner of Taxation under subsection 115-102() of the *Income Tax Assessment Act 1997*.

Signed by ______________

Acting Deputy Commissioner of Taxation

---

[6] Robert Stevens, *Mineral exploration and mining essentials*, 2024, Packawau GeoManagement Inc. Port Coquitlam, B.C. Canada

Dated: XX XXXXXXXX 2026

1. Name of Determination

This instrument is the *Income Tax Assessment Act 1997 – Exploration and Prospecting Entity – Declaration Instrument (No. X) 2026.*

2. Commencement

This instrument commences on the day after its registration.

3. Repealing of existing instrument

This instrument does not replace an existing instrument.

4. Application

A discount capital gain from a *CGT happening on or after 1 July 2026 continues to be available to a qualifying *membership interest in an *exploration and prospecting entity* continues to qualify for a discount capital gain from a *CGT event happening on or after 1 July 2027.

5. Determination (Who is covered by this Determination)

This instrument applies to an individual, a *complying superannuation entity, a trust, or a * life insurance company in relation to a * discount capital gain from a * CGT event in respect of a *CGT asset that is a * complying superannuation asset that holds a *CGT asset that is a *membership interest in an entity that qualifies as an *exploration and prospecting entity* under this determination. A membership interest in a qualifying *exploration and prospecting entity* continues to qualify for a discount capital gain from a *CGT event happening on or after 1 July 2027, a discount of at least 50% continues to be available if the CGT event relates to an interest in an *exploration and prospecting company* in accordance with section 115-102(3) of the *Income Tax Assessment Act 1997*.

6. Definitions

(1) **Exploration and prospecting entity**

A *membership interest held by an entity (the *holding entity*) in another entity (the *test entity*) passes the principal expenditure test if the sum of accumulated expenditure incurred by the test entity on:

(a) **exploration and prospecting;* and

(b) the cost of acquiring and maintaining **mining, quarrying or prospecting rights;*

exceeds the sum of any other expenditure and the entity is not carrying on a *business of, or a business that included, mining or quarrying operations.

Other terms used in this instrument have the same meaning as defined in the *Income Tax Assessment Act 1997*.