Minerals Council of Australia: Tax Forum – Statement of Priorities

Economic backdrop

- Globally competitive mineral taxation and royalty arrangements are critical if Australia is to take full advantage of Asian industrialisation.
- The minerals sector is already among the highest taxed industries in Australia with higher taxes in prospect.
- Consistent with the "reform era" of policy-making in Australia, taxation policies should facilitate rather than impede growth in sectors of comparative advantage in the economy.

Australia's economy is benefiting from a major upswing in mining industry activity as the world's economic centre of gravity shifts towards developing Asia. Securing the full benefits of the nation's comparative advantage in mineral commodities requires a policy framework (including a taxation system) conducive to further investment and growth.

Tax settings are central to economic decision-making and the allocation of resources in the economy. Mineral resource companies make multi-decade investment decisions based on risk-weighted, after-tax returns. There is no shortage of opportunity for the strategic deployment of capital in an industry that is increasingly globally integrated. Policies that drive Australian projects up the global cost curve and increase sovereign risk impede investment and result in lost national income. Against this backdrop, globally competitive mineral taxation and royalty arrangements are critical if Australia is to take full advantage of Asian industrialisation.

The minerals sector is already among the highest taxed industries in Australia. A recent tax survey report prepared for the Minerals Council of Australia (MCA) by Deloitte Access Economics found that the total tax take (royalties and company tax) from larger miners has been relatively stable in recent years, averaging 41.5% between 2007-08 and 2009-10 (document attached). The minerals industry revenue contribution from these two sources has exceeded $80 billion over the last decade and is expected to reach a record $23.4 billion just in 2010-11. Imposts on the minerals industry are set to increase further if proposed legislation on carbon pricing and the Minerals Resource Rent Tax are passed by the Australian Parliament.

Australian policy makers must heed the lessons of the "reform era" of the 1980s and 1990s when economic policies were geared to removing impediments to the growth of Australia's globally efficient industries. Taxation reforms should be guided by this experience and not look to impede structural adjustment in the economy.

Priority reform directions

- Any proposed taxation reforms should be consistent with a long-term policy focus on fiscal sustainability, raising productivity, maintaining international competitiveness and addressing imbalances in Federal-State financial relations.
- Taxation proposals with the greatest return are likely to be those that facilitate the movement of factors of production to where they are used most productively. Conversely, measures that stymie structural adjustment in the economy are likely to be both costly and ineffective.

- The complexity of the Australian taxation system continues to impose significant administrative and compliance burdens on Australian business.
- Meaningful consultation must be at the heart of taxation reform, not an after-thought.

The minerals industry has played an active role in taxation reform debates in Australia. It remains committed to taxation reform principles that promote efficient economic activity, while recognising the need to balance efficiency imperatives with objectives such as fairness and simplicity. The MCA considers the Tax Forum provides an opportunity to recast the national policy conversation based on the following long-term, strategic policy objectives:

1. ensuring fiscal sustainability, but with a stronger emphasis on disciplined, higher quality spending decisions (rather than ever higher taxation revenues)
2. lifting the nation's productivity performance, with a greater focus on reforms that facilitate the flow of factors of production (capital and labour) to where they are used most productively
3. maintaining Australia's international competitiveness, recognising that global capital is increasingly mobile
4. addressing persistent imbalances in Commonwealth-State financial relations in a way that more closely reflects the spending responsibilities of each level of government and that provides incentive for further economic reform.

These strategic objectives provide a basis for assessing the merits or otherwise of taxation reform proposals, including likely policy trade-offs. They provide a framework appropriate to an economy undergoing major structural change driven by historically high terms of trade but also facing the challenge of reversing a decade of mediocre productivity performance.

Taxation proposals with the greatest return are likely to be those that facilitate the movement of factors of production to where they are used most productively. Conversely, measures that stymie structural adjustment of the Australian economy are likely to be both costly and ineffective. It is well established that a range of transaction-based State taxes (such as stamp duties on conveyancing, where the incidence is dependent on how often people move) distort decisions and are inequitable.

While removing some inefficient State taxes was a key aspect of the GST tax reform, many of the remaining taxes still impede efficient decision-making and economic competitiveness. As fiscal circumstances permit, and as part of a wider consideration of Commonwealth-State financial relations, this reform agenda should be revisited. Better alignment of tax and spending responsibilities across the Federation is also important in an economy undergoing structural adjustment with growth sectors like mining in certain States and regions subject to renewed capacity constraints.

Rates of personal and business taxation should be subject to further examination in light of global competitiveness trends. Reform of the taxation of business inputs is also unfinished business, especially as new sectoral distortions have been proposed in fuel taxation in the context of proposed carbon pricing legislation.

The complexity of the Australian taxation system continues to impose significant administrative and compliance burdens on Australian business. The 2009-10 World Economic Forum Global Competitiveness Report found that "tax rates" and "tax regulation" were among the top four problematic factors for doing business in Australia. In its submission to the *Review of Australia's Future Tax System* (the Henry Review), the MCA indicated possible ways of reducing tax complexity, including increased use of audited financial statements to prepare tax returns, further consolidation of tax legislation into one main Act and harmonisation of a range of State Tax Acts. A practical reform agenda geared towards reducing tax complexity continues to offer real economic dividends.

The minerals industry was disappointed by the lack of consultation that characterised the Henry Review. The industry was willing to devote considerable resources and personnel to a genuine two-way consultation on new resource taxation arrangements, but these offers were rejected. The MCA would reiterate strongly the point made by former Treasury Secretary Ted Evans in advance of the Henry Review's release: "Canberra does not have practical hands-on experience of commercial operations and such knowledge is critical to good tax system design". Future taxation reform initiatives must be grounded in meaningful consultation if they are to be successful, as the history of taxation reform initiatives in the last three decades has shown.

Financing future reforms

- Taxation reform should not be considered in isolation from a comprehensive review of government expenditure programs and priorities.
- There is considerable scope to improve the quality of Commonwealth Budget expenditure and this would increase the scope for productivity enhancing taxation reform.

The minerals industry recognises the competing demands on government and the ongoing need to finance public services in a sustainable way. At the same time, the industry considers that piecemeal taxation reform in isolation from the potential for improved government expenditure limits considerably the scope for long-term, productivity enhancing initiatives. For this reason, the MCA has consistently supported a comprehensive review of expenditure programs, especially as the last such review at the Commonwealth level was 15 years ago.

As the OECD stated in its 2010 survey of the Australian economy, there is "considerable scope" to rationalise government programs and to improve the quality of national government expenditure. A number of areas present themselves as candidates for increased fiscal scrutiny, as outlined for example by Productivity Commission Chairman Gary Banks. They include: areas of industry assistance; defence procurement; infrastructure projects "that do not demonstrably yield a net social benefit", and those human services programs "where benchmark data suggest scope for more cost effective delivery". Governments should also further rationalise the proliferation of climate-related expenditures and programs which are inefficient and which have a negative budgetary impact.

The scale of fiscal easing in the Commonwealth Budget continues to be masked by the upswing in the terms of trade. Despite the Australian Government's fiscal strategy and commitment to return the Budget to surplus in 2012-13, the Commonwealth Budget is expected to remain in *structural* deficit (taking account of movements in the commodity cycle) for many years to come. The means by which fiscal consolidation is achieved has a major bearing on incentives for growth and investment. Relying on increased tax revenues to close Australia's long-term fiscal gap is neither a viable nor efficient policy strategy.