

COMPANY TAX RATES AND DISTRIBUTION AMONG STATES

Effective Tax Rates for Mining Companies in Australia

- Company taxes represent part of the producer surplus benefit of mining projects that accrue to Australia.
- The current Australian Tax Office (ATO) corporate tax rate is 30% of taxable income but this is expected to be reduced to 28.5% as of 1 July 2015.
- NSW Treasury (2007) *Commercial Policy Framework: Guidelines for Financial Appraisal* requires the use of the prevailing corporate tax rate for government agencies and businesses.
- Financial Appraisal text books such as Mott (1997) *Investment Appraisal*, recommend the use of the full corporate tax rate.
- An analysis of ATO data by Dr Sinclair Davidson¹, Professor of Institutional Economics at RMIT University and a Senior Fellow at the Institute of Public Affairs found that the Australian mining industry pays corporate tax at a rate close to 30% of its taxable income.
- Submissions to previous mining projects have questioned the use of the company tax rate when estimating the company tax generated from mining projects. One of the studies referred to in these submissions that purports to show an effective tax rate of less than 30% e.g. Richardson and Denniss (2011)² calculates the effective tax rate for the mining sector in relation to Gross Operating Surplus (GOS) not taxable income. GOS does not consider the costs of production such as consumption of fixed capital, interest, royalties, land rent payments and direct taxes payable on inputs.
- The Australian Treasury³ has rejected GOS as an appropriate denominator for estimating effective tax rates.
- The other study referred to in submissions to previous mining projects to support the claim for effective tax rates of less than 30% is Markle and Shackelford (2009⁴). In response to the inappropriate quoting of this working paper the authors have issued a press release that states, among other things, that:
 - The purpose of the study was not to precisely calculate rates of tax paid but to provide a broad comparison of effective tax rates across countries. All numbers are appropriately interpreted on a relative – rather than absolute basis.
 - The version of the paper cited is a draft that has not been through a peer review process;
 - It is possible that the data for Australia represents average data for as few as four companies over a five year period. As such we reach no conclusion nor make any comments about individual industries in individual countries. Our purpose in producing the table was to make relative comparisons only;

¹ Davidson, S. (2014) *Mining Taxes and Subsidies: Official evidence*, A Minerals Council of Australia Background Paper.

² Richardson, D. and Denniss, R. (2011) *Mining the truth: The rhetoric and reality of the commodities boom*, prepared for The Australia Institute.

³ Clark, J., B. Pridmore and N. Stoney. 2007. 'Trends in aggregate measures of Australia's corporate tax level', *Economic Roundup*, Winter, pp 1 – 28)

⁴ Markle, K. and Shackelford, D. (2009) Do Multinationals or Domestic Firms Face Higher Effective Tax Rates? National Bureau Of Economic Research, Working Paper Series.

- The most recent draft of the report uses a different data source which did not have enough observations to include a number for the mining industry in Australia;
- We have read the analysis of Professor Sinclair Davison and do not disagree with his conclusions.

Distribution of Company Tax to NSW

- In Australia the Commonwealth Government collects over 80% of tax revenue but it is responsible for only half of government direct expenditure (Abelson 2012, p. 598⁵).
- State and territory governments raise about 15% of tax revenue but account for some 45% of government direct expenditure (Abelson 2012, p. 598).
- This Vertical Fiscal Imbalance is addressed via intergovernmental grants.
- In 2014/15 Taxation revenue estimate was \$368,814M. The source of revenue is provided in Table 1.

Table 1 - Commonwealth Taxation Revenue by Source (\$M)

| Taxation Revenue Source | 2014/15 | % |
|--|----------------|---------------|
| Income and capital gains levied on individuals | 188,050 | 51.0% |
| Income and capital gains levied on enterprises (including company tax) | 83,140 | 22.5% |
| Taxes on employers payroll and labour | 738 | 0.2% |
| Sales/goods and services tax | 58,120 | 15.8% |
| Excises and levies | 26,939 | 7.3% |
| Taxes on international trade | 9,270 | 2.5% |
| Other sale of goods and services | 2,557 | 0.7% |
| Total | 368,814 | 100.0% |

Source: Australian Government (2014) Budget 2014-15, <http://www.budget.gov.au/2014-15/index.htm>.

- The category of Income and capital gains tax levied on enterprises (in Table 1) includes company tax, FBT, superannuation taxes, MRRT and the Petroleum resource rent tax. In 2012/13, when these items were reported separately in the Commonwealth Budget Papers, 84% of this category of revenue was from company tax. These proportions are relatively stable over time (refer to Figure 10 in 2012/13 Budget Papers).
- The Commonwealth provides funding to the States and Territories, in key sectors such as health, education, community services and affordable housing, and deliver productivity-enhancing projects and reforms in sectors including infrastructure, and skills and workforce development (Budget papers). In 2014-15, the Commonwealth proposed to provide the States and Territories with payments totalling \$101.1B comprising:
 - \$46.3B in payments for specific purposes; and
 - \$54.9 in general revenue assistance, comprising GST payments of \$53.7B and other general revenue assistance of \$1.2B.

⁵ Abelson, P. (2012) Public Economics: Principles and Practice, McGraw Hill, Australia.

Table 2 – Commonwealth Payments to the States (2014-15)

| \$million | NSW | VIC | QLD | WA | SA | TAS | ACT | NT | Total |
|-----------------------------------|--------|--------|--------|-------|-------|-------|-------|-------|---------|
| 2014-15 | | | | | | | | | |
| Payments for specific purposes(a) | 13,654 | 11,166 | 9,792 | 5,313 | 3,171 | 1,039 | 755 | 1,041 | 46,285 |
| General revenue assistance(b) | 16,808 | 11,853 | 11,736 | 2,310 | 4,956 | 1,911 | 1,137 | 3,166 | 54,861 |
| Total payments to the States | 30,462 | 23,019 | 21,527 | 7,623 | 8,128 | 2,950 | 1,892 | 4,207 | 101,147 |

(a) As State allocations for a small number of programmes have yet to be determined, these payments are not reflected in State totals. As such, total payments for specific purposes will not equal the sum of State totals.

(b) As State allocations for royalties are not published due to commercial sensitivities, these payments are not reflected in State totals. As such, total general revenue assistance will not equal the sum of the State totals.

Source: Australian Government (2014) Budget 2014-15, <http://www.budget.gov.au/2014-15/index.htm>.

- Payments for specific purposes are funded from revenue sources other than GST. Company tax makes up 22% of this remaining revenue. NSW share of total Commonwealth payments for specific purposes is $13,654/46,285 = 29\%$, so an estimate of company tax redistributed to NSW is $22\% * 29\%$ i.e. 7%.
- This is a conservative estimate. A higher proportion occurs if it is assumed that all payments for special purposes arise from company tax revenue alone rather than the pool of revenue after adjustment for GST.