



Resource Super Profits Tax

Posted by [Phil Hart](#) on May 7, 2010 - 8:32pm in [The Oil Drum: Australia/New Zealand](#)

Topic: [Policy/Politics](#)

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Finance Minister Lindsay Tanner wrote about the Federal Government's new **resource super profits tax** in [The Age](#) this week:

Throughout our European history, the question of how to share the benefits of this wealth has dominated politics. From the battles between squatters and selectors in the 1860s, to the introduction of tariff protection and industrial arbitration, to the internationalisation of the economy, distributing the proceeds of our resource endowment has been a central political theme. Governments have to ensure the benefits are more widely and equitably shared.

This is the central reason the Rudd government is introducing a resource super profits tax. The world is paying a lot more for our resources, but this isn't being fully reflected in returns to Australians. Sure, we are already benefiting from the resources boom, but as the owners of the resources being exploited, we should be benefiting a lot more. And the boom has adverse side-effects for other sectors of the economy which we need to offset. It sucks capital and labour away from other activity, and drives up the value of the Australian dollar, making other sectors less internationally competitive.

The key question is how we extract our dividend and what we do with it. The Howard government largely squandered the dividends it received from the earlier phase of the mining boom. The Rudd government doesn't intend to make the same mistake.

The proceeds of the resource super profits tax are dedicated to lifting wealth creation across the economy, overwhelmingly through reductions in other taxes.

Company tax will be cut to 28 per cent, with an earlier introduction date for small business. The amount of capital spending small businesses can write off immediately for tax purposes will jump from \$1000 to \$5000. A resource exploration rebate will improve the tax treatment of mineral exploration. The resource super profits tax will be

designed in such a way failed ventures can ultimately access a tax benefit, thus reducing the risk when companies decide whether or not to proceed with a project.

The government will also provide substantial extra infrastructure funding to help relieve the infrastructure pressures in resources states.

Resource companies have been loudly critical this week, but that doesn't mean the policy is bad.

From a fairly conventional point of view, good resource policy should help reduce risk for resource companies by lowering the tax take when resource prices are low and returns are poor or when exploration fails. Taxes should take the most when prices are high and companies are generating the highest profits. Resource companies will make their investment decisions with a large emphasis on what the outcome would be in low resource price scenarios, with much less emphasis on how a project looks at high resource prices.

Thus, if the tax is well designed, it may not actually result in many projects being cancelled as the low end outcome for the companies may not have changed significantly. You can still expect them to scream, as they would like the super profits they are used to when they are available, but the reality may be that decisions are not changed all that much. You can expect plenty of propaganda attributing any cancelled project in the next twelve months to be attributed to the new tax, regardless of whatever myriad other factors may have been the primary cause.

Of course, all this is only true if the tax has been well designed, which is not out of the question but would be a significant break with tradition. I'm hoping that's where you the reader will come in.. what do you know about the details of the new tax? Has the Government got it right this time, returning profits to the people while minimising the impact on company investment decisions?

Of course, there is a more radical view that we should tax resource companies much more highly and leave more of our resources in the ground for future generations, but you're not going to hear that as Labour or Liberal policy anytime soon.



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