



# Client Alert

## **Breakthrough Agreement – A New Minerals Resource Rent Tax**

The Government will take a projected \$1.5 billion cut in revenue after agreeing last night to reduce the resource super profits tax from 40 per cent to 30 per cent. The new tax – called the Minerals Resource Rent Tax (MRRT) – will apply from 1 July 2012 but will only be imposed on companies involved in mining iron ore and coal.

To offset the lost revenue from the new mining tax agreement, the following proposed reductions in the company tax rate will apply:

- The company tax rate for small business companies (ie: companies with less than \$2 million turnover) will be reduced to 29% from 1 July 2012 (rather than 28% as originally announced);
- The company tax rate for other companies will be reduced to 29% from 1 July 2013 but will not further reduce to 28% from 1 July 2014 (as was originally announced) ; and
- The resource exploration rebate will not be pursued although resource exploration costs will continue to be deductible in the normal way.

### **New MRRT Regime – The Details**

- Iron ore and coal will be subject to the new profits-based MRRT at a rate of 30 per cent but only where resource profits are \$50 million per annum or more.
- MRRT assessable profits will be calculated on the value of the commodity, determined at its first saleable form (at mine gate), less all costs to that point.
- Projects will be entitled to a 25 per cent extraction allowance that reduces taxable profits subject to the MRRT.
- Miners may elect to use the book or market value as the starting base for project assets, with depreciation accelerated over 5 years when book value, excluding mining rights, is used; or effective life (up to 25 years), when market value at 1 May 2010, including mining rights, is used. All post-1 May 2010 capital expenditure will be added to the starting base.
- A book value starting base will be uplifted with the long-term bond rate plus 7%. However, a market value starting base will not be uplifted.
- Investment post-1 July 2012 will be able to be written off immediately rather than depreciated over a number of years. This will allow mining projects to access the deductions immediately, and means a project will not pay MRRT until it has made enough profit to pay off its up-front investment.
- Under its previous name - Resource Super Profits Tax- the mining tax was tax deductible. Whilst unclear on this issue, the current literature does not suggest this will not be the case for the MRRT. This results in an effective tax rate (MRRT + company tax rate) of approximately 50%.

For more information on the new MRRT and how it may impact your business, please contact one of our Taxation Principals:

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