Royalty and Company Tax Payments

Minerals Council of Australia

21 May 2024

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Table of contents

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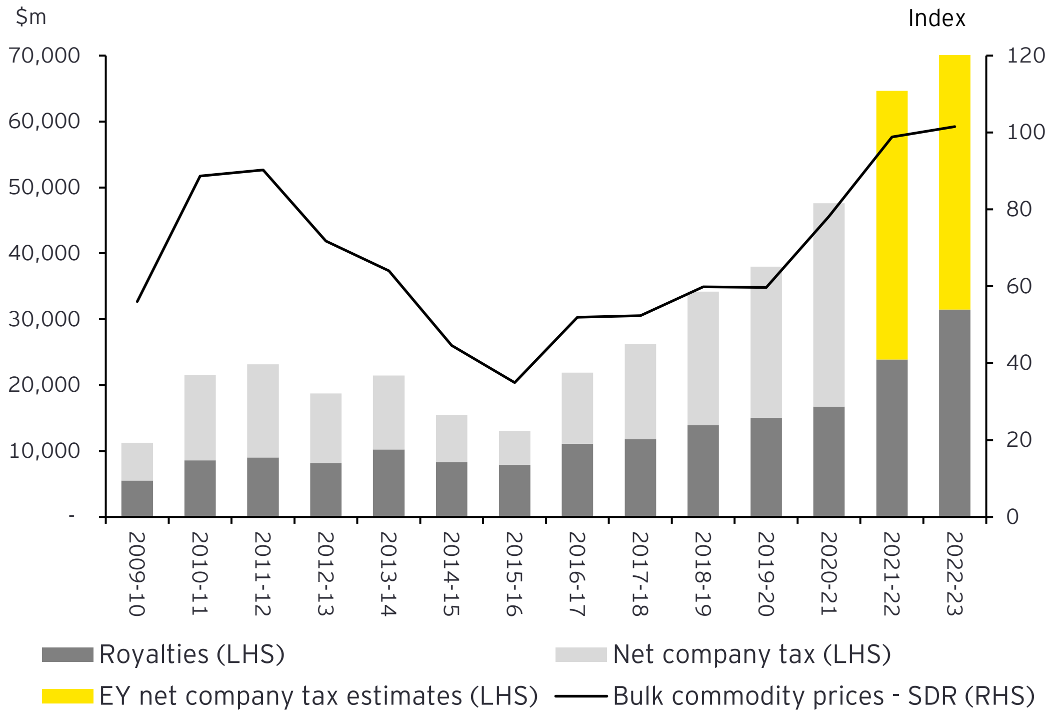
1. Royalties and Company Tax Estimates

Ernst & Young (EY) has been engaged by the Minerals Council of Australia (MCA) to provide a report calculating royalties paid and provide estimates of net company tax payments for the minerals sector in 2021-22 and 2022-23.

The report estimates net company tax for the minerals sector to be approximately $40.8 billion in 2021-22 and $42.5 billion in 2022-23, bringing total royalties and company taxes paid by the minerals sector to $64.7 billion in 2021-22 and $74.0 billion in 2022-23. The sum of estimated royalties and company taxes paid in 2022-23 has increased by 94.7% since 2019-20 due to a rise of 67.4% in commodity prices over that period, as measured by Reserve Bank of Australia's (RBA) bulk commodity price index[1], combined with higher royalty rates and rising minerals sector production.

Figure 1 shows a time series of the minerals sector's net company tax[2], including EY estimates for 2021-22 and 2022-23, in addition to their total royalties paid. The most notable trend in 2022-23 is the significant annual growth in royalties of 31.7% relative to the growth rate for net income tax of 4.3%. Mineral sector royalties reached a decade high of $31.5 billion, up from $23.9 billion in 2021-22 driven largely by changes to coal royalty rates in Queensland.[3] In contrast, net company tax increased by 4.3% from $40.8 billion in 2021-22 to $42.5 billion in 2022-23.

Figure 1. Minerals industry company tax and royalties compared with bulk commodity prices



Source: Australian Bureau of Statistics, Australian Taxation Office, RBA Commodity price index, EY estimates

[1]RBA Commodity Price Index 2023
[2] Net company tax is the amount of tax owed by a company for the income year. This does not include fringe benefits tax (FBT), goods and services tax (GST), excise tax, petroleum resource rent tax (PRRT), luxury car tax (LCT) or wine equalisation tax (WET). This definition of net company tax is taken from the ATO's taxation statistics dataset.
[3]The Queensland Cabinet and Ministerial Directory, 2022 stated "Three progressive coal tiers were introduced on 1 July 2022. The new rates will be 20 per cent for prices above A$175 per tonne, 30 per cent for prices above A$225 per tonne, and a 40 per cent tier that would apply when prices exceed A$300 per tonne."

Estimates of total company tax payments have been calculated for the minerals sector for 2021-22 and 2022-23 using mining profits before tax as reported by the Australian Bureau of Statistics (ABS) and minerals sector company tax as reported by the Australian Tax Office (ATO). These estimates are analysed in this report using historical data drawn from the ATO, ABS, RBA and historical estimates from state and territory budget statements.

The modest company tax growth was due to recent flattening of commodity prices off the back of a 32.2% increase in commodity prices in 2021-22. It is expected that royalty payments and net company tax payments peaked in 2022-23.[4]

1.1 Royalties

Royalties paid on minerals are collected and reported by state and territory governments and payments over the past ten years are shown in Table 1. Total mineral sector royalties reached approximately $31.5 billion in 2022-23, increasing by $7.6 billion from the previous year. The yearly growth in royalties was primarily due to an increase of $7.1 billion in royalty taxes paid in Queensland due to the introduction of progressive coal royalty rates. An increase in the royalty tax revenue from higher royalty rates results in a reduction in company tax payable to the Commonwealth Government, due to royalties being tax deductable.

Table 1. Royalty payments, by State/Territory, minerals

$ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
WA	4,407	6,014	4,593	4,121	5,268	5,224	6,220	8,443	12,178	11,477	11,045
QLD[5]	2,085	2,310	2,007	2,086	3,780	4,108	4,765	4,066	2,239	7,773	14,856
NSW	1,318	1,338	1,254	1,189	1,580	1,763	2,093	1,683	1,418	3,709	4,658
SA	187	295	253	222	226	237	289	312	315	369	379
NT	108	155	164	194	170	336	425	372	378	353	335
VIC	46	51	51	48	81	101	99	111	138	140	151
TAS	55	49	27	28	20	41	34	33	61	80	56
Total*	8,206	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,727	23,901	31,481

Source: State/Territory budget papers
*Totals may not add up to individually reported items due to rounding

Royalties are calculated differently in each state, but they are generally based on a percentage of the mineral's value, which is typically the amount for which it is sold, so increases in either production volumes or commodity prices result in higher royalty payments.[6] The exception to this is Northern Territory, which has a hybrid-based royalty payment scheme, although a new royalty scheme is now being developed to attract more mining investment in NT.[7]

Queensland's share of national royalty payments increased significantly in 2022-23 to 47.2%, from 32.5% in 2021-22. In 2022-23, coal production volumes in Queensland were similar to 2021-22, so changes in royalties paid were largely driven by changes to royalty rates, combined with high coal prices.[8] Additionally, while coal prices moderated in 2022-23, after peaking in 2021-22 due to the war in Ukraine, they remained higher than historical levels.[9]

New South Wales royalty payments increased from $3.7 billion in 2021-22 to $4.7 billion in 2022-23, largely due to rising commodity prices such as metallurgical coal. During this period, South Australia and Victoria also gained an increase in royalty payments, while Northern Territory and

[4]Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2024
[5] Petroleum royalties and land rents have been excluded from Queensland royalty calculations where data is available (years 2012-13 to 2022-23).
[6] Queensland Government, Mineral royalty rates, Business Queensland, 2023
[7] NT Government: Consultation-mineral-royalty-scheme-review 2023
[8] Department of Industry, Science and Resources and Energy Quarterly March 2024: Historical data
[9] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2024

Tasmania experienced a decrease. Tasmania's royalty payments decreased from $80 million in 2021-22 to $56 million in 2022-23, largely due to declining prices for copper, tin, and nickel.[10,11]

Western Australia's (WA) royalty income is largely attributed to iron ore.[12] In 2022-23, iron ore production volumes were similar to 2021-22, so changes in WA's royalties were largely driven by changes in iron ore prices[13]. Iron ore prices declined in the second quarter of 2022-23 and remained lower in early 2023 due to production restrictions in China.[14] The declining iron ore prices resulted in a shift of the proportion of royalty payments away from WA towards other states and territories that export a greater proportion of coal relative to iron ore. This shift resulted in the decline in WA's share of royalty payments from 48% in 2021-22 to 35.1% in 2022-23. The decline in WA's share would have been larger if it wasn't for rising lithium prices which increased lithium royalties.[15]

1.2 Company Tax

High company tax payments in recent years were due to rising average commodity prices in 2020-21 and 2021-22, however commodity prices started to stabilise in 2022-23 largely due to declining thermal coal prices.[16,17] As a result, company tax payments are estimated to plateau in 2022-23 due to limited growth in commodity prices from a high base and stable production volumes.

Table 2. Company tax, minerals sector

$ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Gross company tax	11,590	15,315	7,887	10,403	12,641	16,531	22,994	25,880	34,861	47,467	49,499
Net company tax	10,534	11,228	7,149	5,141	10,774	14,480	20,245	22,979	30,868	40,775	42,520

Source: Australian Taxation Office, EY estimates[18]

Table 2 shows actual company tax paid by the minerals sector from 2012-13 to 2020-21 and EY's estimates for 2021-22 and 2022-23 (an explanation of these estimates is provided on the following page). The table reports gross company tax (or tax on taxable income) and net company tax, after the allowance of tax offsets. Examples of tax offsets include tax incentive for research and development and the foreign income tax offset, which helps avoid double taxation of certain profits earnt overseas.[19, 20] For the minerals sector, gross tax will always be higher than net tax due to tax offsets that can be claimed by some companies.

These offsets are part of the design of the Australian tax system. Notable examples include:

- The tax incentive for research and development, which allows mining companies to a tax offset in respect of eligible expenditure on research and development.[21]

- The foreign income tax offset, which is a mechanism to avoid double taxation of certain profits earned overseas. This reduces the Australian tax liability to account for foreign taxes paid on income which is also subject to Australian tax. This offset reflects tax paid in other jurisdictions,

[10] Delivering Record Mining Royalties, Premier of Tasmania, 2022
[11] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2024
[12] Western Australia Budget, Economic and Fiscal Outlook, 2023
[13] Department of Industry, Science and Resources and Energy Quarterly March 2024: Historical data
[14] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2024
[15] Western Australia Budget, Economic and Fiscal Outlook, 2023
[16] Department of Industry, Innovation and Science, Resource and Energy Quarterly, March 2024
[17] Reserve Bank of Australia, Index of Commodity Prices, July 2023
[18] The estimate for company taxes in 2021-22 includes an additional downward adjustment to the minerals sector company tax estimates based on oil and gas and coal losses incurred in 2020-21, as reported by the Australian Bureau of Statistics in the Australian Industry, 81550DO005_202021, May 2022 release.
[19] Australian Taxation Office, Research and development tax incentive, 2021
[20] Australian Taxation Office, Guide to foreign income tax offset rules 2023
[21] Australian Taxation Office, Research and development tax incentive, 2020.

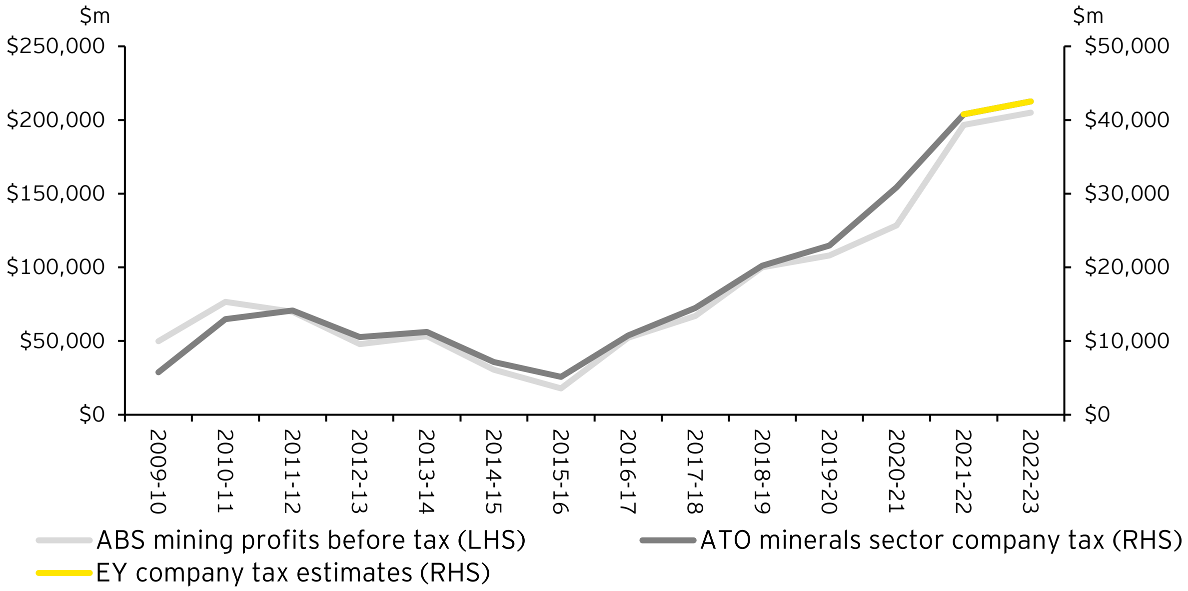
rather than a reduction in the total tax paid by the company. Many entities will also have additional foreign tax paid which is not reflected in an Australian tax offset.[22]

- The franking offset, which entitles corporate tax entities to a tax offset when they are in receipt of franked dividends. The entity is entitled to a franking tax offset for the franking credit attached to the dividend. The offset generally matches the tax liability of the dividend income derived.[23]

The mining company tax figures in this report reflect data from the ATO's Taxation Statistics dataset, available through to 2020-21. EY's company tax estimates for 2021-22 and 2022-23 are based on ABS data for mineral sector profits before income tax and ATO data for minerals sector company tax. The most recent available ABS Business Indicators publication produces data on mining profits. This provides estimates of quarterly profits for the mining industry through to December quarter 2023.[24] Taxable income data for 2021-22 and 2022-23 are derived by calculating the average gross and net tax rates using historical data between 2009-10 and 2020-21, based on ABS estimates of mining profits and ATO data on mineral sector company tax.[25] This is applied to the ABS data on profits before tax for 2021-22 and 2022-23, to estimate mining company taxes for these periods. In addition, as outlined in footnote 16, profit data for 2021-22 has been revised to account for the performance of oil and gas and coal mining sectors in 2020-21.

Figure 2 illustrates the relationship between company tax payments (which includes ATO mining sector company tax payments data to 2020-21 and company tax estimates) and mining profits before tax. As company tax is levied on profits, it is intuitive that EY's estimates of company tax payable for 2021-22 and 2022-23 are closely aligned with company profits.

Figure 2. Comparison of mining profits and minerals sector company tax



Source: Australian Bureau of Statistics, Australian Taxation Office, EY estimates

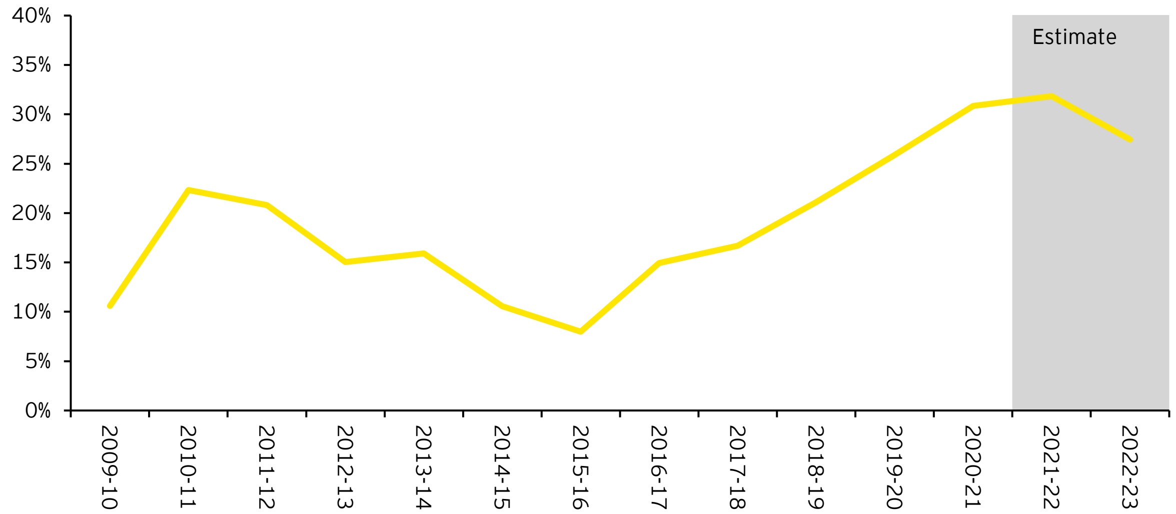
Trends in mineral sector company tax are driven by factors that influence profit which include fluctuations in commodity prices and production volumes. Production volumes in 2021-22 and 2022-23 remained relatively unchanged, so changes in company tax payments were mainly driven by changes in commodity prices.[26] In 2021-22, the RBA's commodity price index increased by 26.3%, predominantly due to rising coal and iron ore prices, which increased mineral sector profits.

[22] Australian Taxation Office, Guide to foreign income tax offset rules 2021, 2021.
[23] Australian Taxation Office, Utilising franking tax offsets and effect on losses – corporate tax entities, 2016.
[24] Australian Bureau of Statistics, Business Indicators Australia, cat. 5676.0, Dec 2023.
[25] Australia Taxation Office, Taxation Statistics, Table 4A, from 2009-10 to 2020-21.
[26] Department of Industry, Science and Resources and Energy Quarterly March 2024: Historical data

Mineral sector company tax payments are estimated to have increased by 32.1% from $30.8 billion in 2020-21 to $40.8 billion in 2021-22.[27] In 2022-23, RBA's index of commodity prices started to plateau due to declining thermal coal prices, resulting in smaller annual increases in profits and an increase in company tax payments of 4.3% from $40.8 billion in 2021-22 to $42.5 billion in 2022-23.

Figure 3 shows net company tax for mineral companies as a share of total company tax. In 2021-22, the share of minerals company tax rose slightly due to rising profits resulting from rising commodity prices. However, in 2022-23 the share of minerals company tax declined from 31.8% in 2021-22 to 27.4%. This is due to both a plateauing of mineral company tax and a rise in total company tax driven by non-mining sectors. In 2022-23, there was a relatively modest increase of 4.3% in minerals company tax due to the flattening of commodity prices, while at the same time, total company tax increased by 20.9% mainly due to the post pandemic recovery of other industries.[28]

Figure 3. Minerals company tax as a share of total company tax



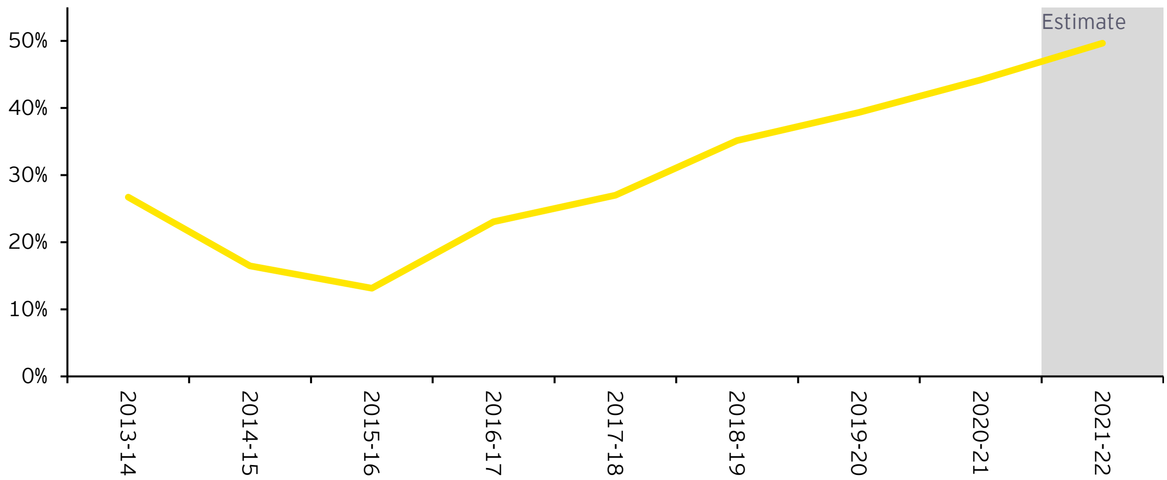
Source: Australian Bureau of Statistics, Australian Taxation Office, EY estimates

Data for tax payable for large and international businesses is compiled by the ATO in its 2023 Report of Entity Tax Information releases. This data source provides the taxable income and tax payable for public and foreign-owned corporations with total income of $100 million or more, as well as Australian-owned resident private corporations with total income of $200 million or more, which makes this a comparable peer group to the minerals sector.[29]

Figure 4 shows that since 2015, the minerals sector share of tax payable for large and international businesses has risen from 13% to an estimated 50% in 2021-22. In 2021-22 the Deputy ATO commissioner stated "'The 2022 income year was the first year that the mining sector paid more tax than all other sectors combined", implying that the sector pays more than half of total tax payable for large and international businesses.[30]

[27] Reserve Bank of Australia, Weights for the Index of Commodity Prices, 2024
[28] ABS, Australian Industry Statistics, 2023
[29] Australian Taxation Office, 2021-22 Report of Entity Tax Information, Corporate Tax Transparency, 2023.
[30] ATO, "Report reveals record tax paid by large corporates", 2023

Figure 4. Minerals sector company tax as a share of tax payable for large and international businesses*



Source: Australian Bureau of Statistics, Australian Taxation Office, EY estimates
*Large company tax Includes PRRT

1.3 Summary

In 2021-22 and 2022-23, royalties and estimates of company tax continued to grow, however, the growth in company tax payments is estimated to flatten in 2022-23.

Table 3. Royalty and company tax payments, minerals sector

$ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total* (FY13-22)
Royalties	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,727	23,901	31,481	150,437
Net company tax	11,228	7,149	5,141	10,774	14,480	20,245	22,979	30,868	40,775	42,520	206,160
Total*	21,441	15,498	13,029	21,900	26,289	34,170	37,999	47,595	64,676	74,001	356,597

Source: Australian Taxation Office, State/Territory budget papers, EY estimates
*Totals may not add up to individually reported items due to rounding

In 2022-23, the estimated growth in royalty payments (31.7%) significantly outpaced the estimated increase in net company tax (4.3%). The growth in royalties is driven by sustained high prices for coal and Queensland's new progressive coal royalty rates. In contrast, EY's estimates for company tax shows marginal growth in 2022-23 due to declining thermal coal prices and its impact on mineral sector profits.

According to the Department of Industry, Science and Resources, resource and export earnings are expected to decline from $466 billion in 2022-23 to $417 billion in 2023-24 due to weak growth in demand and rising world commodity supply. Iron ore export earnings are predicted to rise in 2023-24 due to rising prices and greater export volumes compared to 2022-23. However, iron ore prices and export volumes are expected to decline in 2024-25. Metallurgical coal and thermal coal export earnings are expected to decline due to falling prices outweighing the small rise in production volumes.[31] Overall, these results suggest that royalties and company tax paid by the minerals sector may start to decline in 2023-24 from the decade highs seen in 2022-23.

[31] Department of Industry, Science and Resources and Energy Quarterly March 2024

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