Royalty and Company Tax Payments

Minerals Council of Australia

17 May 2023

Building a better working world

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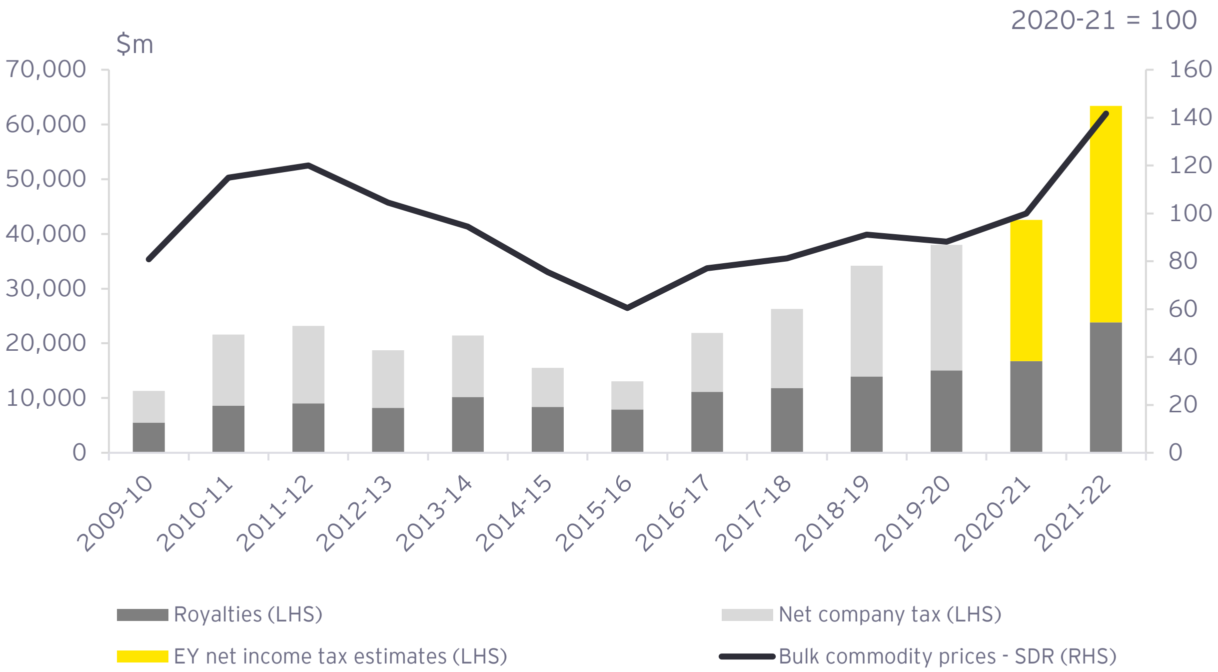
1. Royalties and company tax estimates

Ernst & Young (EY) was engaged by the Minerals Council of Australia (MCA) to provide a report calculating royalties paid and estimating company tax payments for the minerals sector in 2020-21 and 2021-22.

The net company tax and royalties paid by the minerals sector is shown in Figure 1, below, with royalties reaching a decade high of $24 billion in 2021-22, an increase of 42% from 2020-21. Ernst & Young (EY) estimates net company tax[1] for the minerals sector to be approximately $26 billion in 2020-21 and $40 billion in 2021-22, bringing total royalties and company taxes paid by the minerals sector to $63 billion in 2021-22, a 67% increase from 2019-2020.

The data used was drawn from a combination of government departments and reports, such as the Australian Taxation Office (ATO) database and State/Territory budget statements. EY estimated company tax payments for the minerals sector for years 2020-21 and 2021-22 based on mining earnings as reported by the Australian Bureau of Statistics (ABS). Note that all the estimates in this report are on an accrual basis.

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



Source: Reserve Bank of Australia, Australian Taxation Office, State/Territory budget papers, EY estimates

Earnings in the Australian minerals industry increased in both 2020-21 and 2021-22, primarily driven by rising commodity prices, while the industry maintained similar volumes to 2019-2020. Company taxes are expected to increase in-line with earnings growth, rising 12% to approximately $26 billion in 2020-21 and then rising by 53% (to $40 billion) in 2021-22[2]. In both 2020-21 and 2021-22, Australia's supply of minerals remained strong amidst geopolitical factors impacting the

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[1] 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 and is available on the ATO website.

[2] 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.

production of other nations.[3] This included a fall in Ukraine's iron ore exports and a resulting reorganisation of supply chains into Europe and Asia. It is expected that Australian royalty and company tax payments could peak in 2022-2023, before declining as prices are forecast to gradually begin to fall back to 2020 levels.[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 royalties reached approximately $17 billion in 2020-21 and rose to $24 billion in 2021-22.

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

$ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
WA	4,325	4,407	6,014	4,593	4,121	5,268	5,224	6,220	8,443	12,178	11,477
QLD[5]	2,795	2,085	2,310	2,007	2,086	3,780	4,108	4,765	4,066	2,239	7,773
NSW	1,464	1,318	1,338	1,254	1,189	1,580	1,763	2,093	1,683	1,418	3,636
SA	183	187	295	253	222	226	237	289	312	315	369
NT	162	108	155	164	194	170	336	425	372	378	353
VIC	46	46	51	51	48	81	101	99	111	138	140
TAS	48	55	49	27	28	20	41	34	33	61	80
Total*	9,023	8,206	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,727	23,828

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, and so increases in either production volumes or commodity prices result in higher royalty payments.[6] One of the main drivers behind Queensland's increase in the share of royalty payments is the rise in coal prices during the 2021-22 period. Coal prices increased substantially in 2022, partially as a result of the Russia-Ukraine war, and the resulting global energy supply constraints, peaking at over US $600 a tonne for Australian metallurgical coal, rising from levels of US $100-$200 a tonne between 2019 and 2021. Queensland is Australia's largest exporter of coal and mining companies in the state saw substantial increases in earnings.[7] As a result, Queensland's share of royalty payments increased significantly in 2021-22 (compared to 2020-21), rising from 13% in 2020-21 to 33% in 2021-22. Royalties in NSW increased from $1,418 million to $3,636 million in 2020-21 (compared to 2021-22) and all other states (excluding WA, QLD and NSW) also saw a small increase in royalty payments to $942 million in 2021-22.

Lastly, global steel production remained weak due to supply constraints from COVID-19 and the associated restrictions in China.[8] These factors caused falls in iron ore demand and explain a shift from royalty payments away from Western Australia towards the other states and territories, which export a greater proportion of coal relative to iron ore. Due to the record high levels of export values being sustained over this period, total royalty payments and taxes in the minerals sector are likely to remain elevated.

[3] Department of Industry, Innovation and Science, Resource and Energy Quarterly, Mar 2023.
[4]Ibid
[5] Petroleum royalties and land rents have been excluded from Queensland royalty calculations where data is available (years 2012-13 to 2021-22).
[6] Queensland Government, Mineral royalty rates, Business Queensland, 2021.
[7] Department of Industry, Innovation and Science, Resource and Energy Quarterly, Mar 2023.
[8] Ibid

1.2 Company taxes

The total amount of net company tax for the minerals sector is estimated to have grown from $23 billion in 2019-20 to $26 billion in 2020-21 and then further to approximately $40 billion in 2021-22. These strong increases mean that the trend of an increasing share of all company tax through the COVID-19 pandemic is likely to continue through 2021-22.

Table 2. Company tax, minerals sector

$ million	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gross company tax	15,346	11,590	15,315	7,887	10,403	12,641	16,531	22,994	25,880	30,294	46,347
Net company tax	14,144	10,534	11,228	7,149	5,141	10,774	14,480	20,245	22,979	25,847	39,544

Source: Australian Taxation Office, EY estimates

The mining company tax figures in this report reflect data from the ATO's Taxation Statistics dataset, available through to 2019-20. Data for 2020-21 and 2021-22 are EY's estimates, which are based on ABS data for mineral sector profits before income tax and ATO data for minerals sector company tax. The most recent available Australian Bureau of Statistics (ABS) Business Indicators publication produces data on mining profits. This provides estimates of quarterly profits for the mining industry through to the December quarter of 2022.[9] Taxable income data for 2020-21 and 2021-22 are derived by calculating the average gross and net tax rates using historical data between 2009-10 and 2019-20, based on ABS estimates on mining profits and ATO data on mineral sector company tax.[10] This is applied to the ABS data on profits before tax for 2020-21 and 2021-22, to estimate mining company taxes for these periods. In addition, as outlined in footnote 2, profit data for 2021-22 has been revised to account for the performance of oil and gas and coal mining sectors in 2020-21.

Table 2 shows company tax historically paid by the minerals sector from 2011-12 to 2019-20, and the estimates for 2020-21 and 2021-22, which have been calculated on the basis of mining profits. The table reports both gross company tax (or tax on taxable income), and net company tax, after the allowance of tax offsets.

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.[11]

- 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 Australia tax. This offset reflects tax paid in other jurisdictions, 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.[12]

- 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.[13]

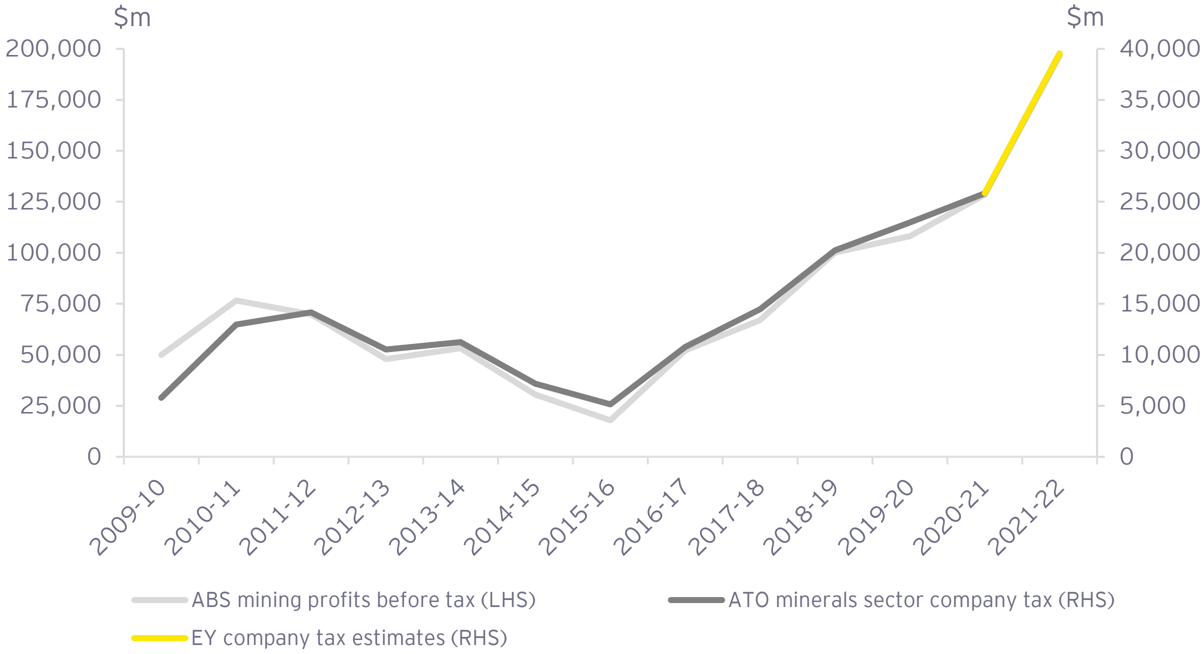
Not all Australian mining companies are eligible for tax offsets. Many mining companies pay income tax that is equal to their gross income tax liability. However, for the minerals sector as a whole, gross tax will always be higher than net tax due to the tax offsets which can be claimed by some

[9] Australian Bureau of Statistics, Business Indicators Australia, cat. 5676.0, Dec 2022.
[10] Australia Taxation Office, Taxation Statistics, Table 4A, from 2009-10 to 2019-20.
[11] Australian Taxation Office, Research and development tax incentive, 2020.
[12] Australian Taxation Office, Guide to foreign income tax offset rules 2021, 2021.
[13] Australian Taxation Office, Utilising franking tax offsets and effect on losses – corporate tax entities, 2016.

mining companies, with some years, such as 2015-16, showing a large divergence between net and gross tax.[14]

Figure 2 shows the company tax estimates alongside ATO data on mining sector company tax payments between 2009-10 and 2019-20, as well as ABS data on mining profits before tax. Note that the ABS measure used in the chart below covers the whole of the mining sector, including oil and gas.

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



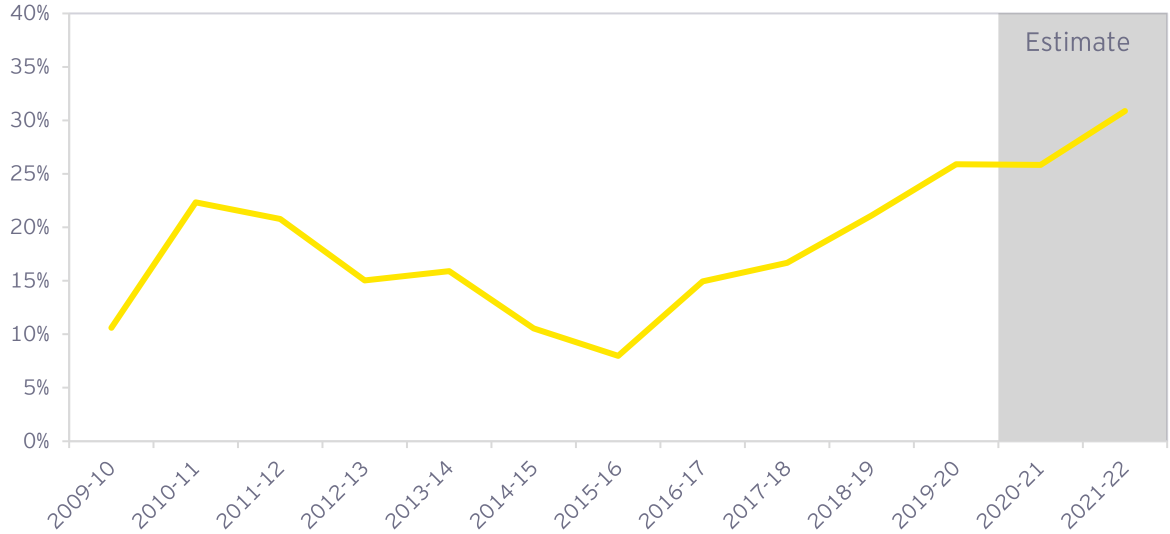
Source: Australian Taxation Office, Australian Bureau of Statistics, EY estimates

Because company taxes are levied on profits, trends in mineral sector company tax are driven mostly by fluctuations in commodity prices and volumes produced, meaning that the robust commodity prices seen recently have contributed to higher profits for the sector. The commodity price index, published by the Reserve Bank of Australia (RBA), is a composite of prices for major commodities exported by Australia, with each commodity given a weight based on their export values.[15] This relationship between commodity prices and iron ore profits is especially evident in 2021-22, where commodity prices increased significantly.

Figure 3 shows net company tax for mineral companies as a share of total company tax. This strong profit growth is reflected in the estimates for higher levels of company tax being paid by the minerals sector in 2021-22.

[14] Australian Taxation Office, Tax Statistics 2015-16, Company – Table 4, 2017
[15] Reserve Bank of Australia, Weights for the Index of Commodity Prices, 2022.

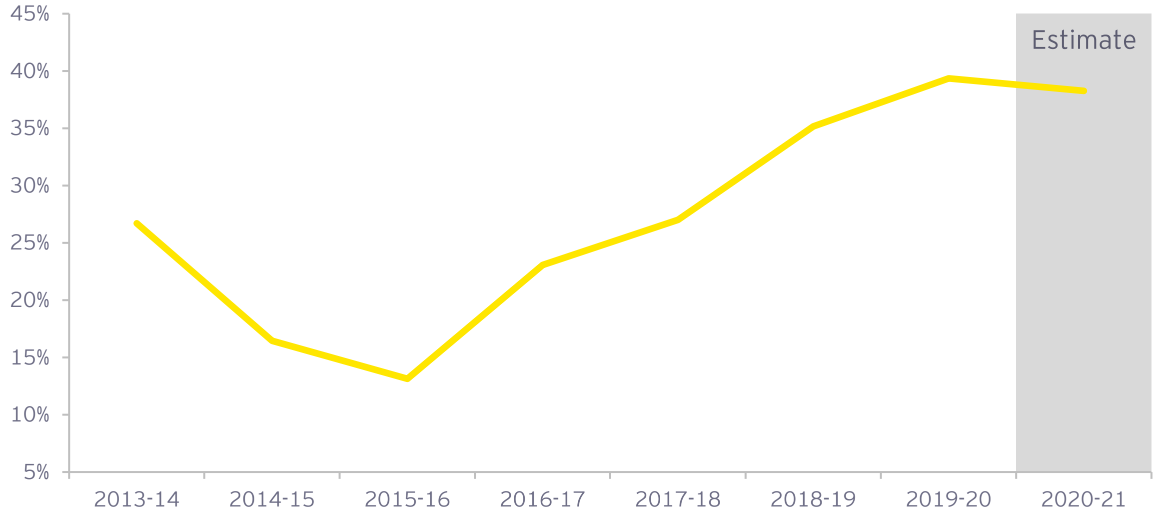
Figure 3. Minerals company tax as a share of total company tax



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

Data for tax payable for large and international business is compiled by the ATO in its 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.[16] The minerals sector's share of tax payable for large and international businesses has been on an upward trend since 2015, rising from a low of 13% in that year. Strong increases in company tax for the minerals sector continued through the COVID-19 pandemic, resulting in further gains. However, recovery of the wider economy in 2020-21 increased total tax paid by large and international businesses by 20% (from 2019-20), resulting in the minerals sector maintaining its high share of just under 40% (Figure 4).

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

[16] Australian Taxation Office, 2019-20 Report of Entity Tax Information, Corporate Tax Transparency, 2022.

1.3 Summary

In 2020-21, royalties and estimates of company tax continued to grow and the rise in energy prices over 2021-22 is likely to continue increasing company tax payments.

Table 3. Royalty and company tax payments, minerals sector

$ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total* (FY13-22)
Royalties	8,206	10,212	8,349	7,888	11,126	11,810	13,925	15,020	16,727	23,828	127,089
Net company tax	10,534	11,228	7,149	5,141	10,774	14,480	20,245	22,979	25,847	39,544	167,922
Total*	18,741	21,441	15,498	13,029	21,900	26,289	34,170	37,999	42,573	63,371	295,011

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

From 2020-21 to 2021-22, growth in net company tax is expected to outweigh the increase in royalty payments. Corporate profits continue to increase, driving net company tax higher, which is typically more influenced by commodity prices. On the other hand, royalties tend to be more stable and are calculated as a percentage of the mineral's value, meaning that the pass-through of commodity fluctuations is less pronounced. Queensland also recently introduced a new progressive royalty scheme for coal, which will likely further increase the value of royalties from 2022-23.[17]

In 2022-23, resource and energy export earnings are estimated to reach $464 billion (up 10% from 2021-22) before easing due to slower growth in some of Australia's major trading partners. Export earnings from iron ore (in real terms) are projected to decline following moderating prices over the forecast period. Metallurgical coal export earnings are expected to peak in 2021-2022 at $72 billion, although falling prices are to be offset by increases in Australian production. Thermal coal prices are expected to remain elevated due to global factors, however in future Australian exports of thermal coal are likely to decline from 2022-23 levels, meaning that export earnings remain flat.[18] Overall, these results suggest that royalties paid by the mineral sector may increase in 2022-23.

[17] Queensland Government, Budget strategy and outlook: coal royalties, June 2022
[18] Department of Industry, Science and Resources, Resources and Energy Quarterly, March 2023

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