KPMG

Minerals industry tax contribution survey 2019

Minerals Council of Australia

KPMG Economics

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No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the Minerals Council of Australia and the survey participants as part of the process.

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The findings in this report have been formed on the above basis.

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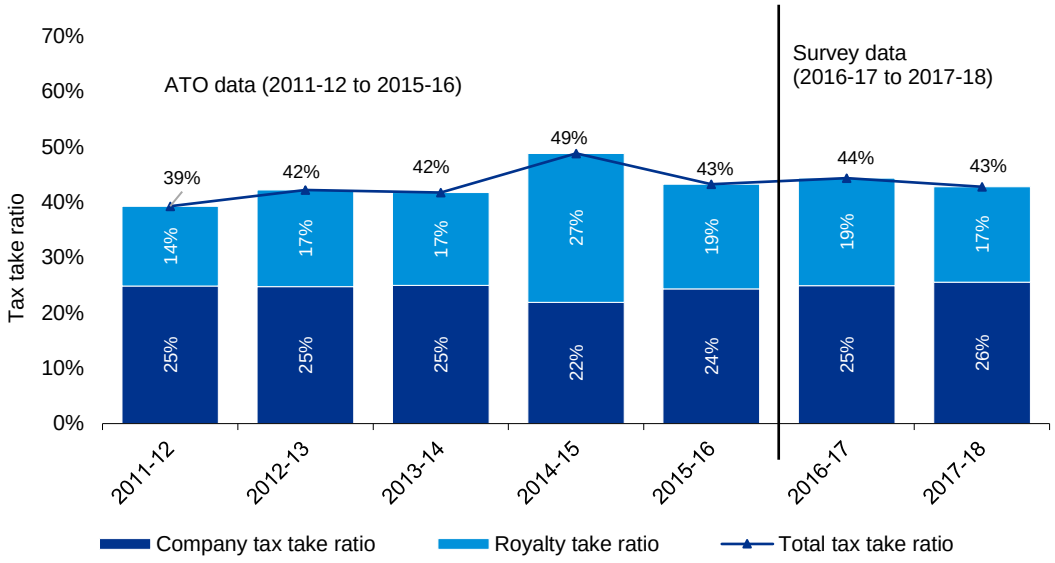
Contents

Executive summary

This report presents the results of the 2019 minerals industry tax survey conducted by KPMG on behalf of the Minerals Council of Australia (MCA). This is the eighth report in the series of MCA tax surveys. This study shows that the minerals industry continues to represent an important component of the economy in terms of both value add and tax contributions. Royalties and company taxes paid by the industry have increased over the past few years, together contributing over $20 billion each year, on average, over the past seven years.

Figure 1 compares survey results for the financial years 2016-17 and 2017-18 with historical Australian Taxation Office (ATO) records. The survey results show that the total tax take ratio for the minerals industry was around 44% in 2016-17 and 43% in 2017-18. This tax burden means that almost half of the miners' total taxable income was paid in taxes in these years.

Figure 1: Minerals industry tax take, 2011-12 to 2017-18



Source: KPMG analysis of survey data and ATO Taxation Statistics
Note that the company tax take ratio is less than the standard 30% rate levied on company income as the base (the denominator of the tax ratio) is taxable income before royalties are expensed.

The calculated tax burdens in the survey years (2016-17 to 2017-18) are at par with the ATO's historical tax take ratios (2011-12 to 2015-16), with the key exception of 2014-15 where the total tax take ratio rose to a high of 49%. This peak is largely attributed to a significant increase in the royalty share of the total tax take. Being a combination of specific and ad valorem taxes, royalties are closely tied to production and sales (not profits). Hence, royalties will tend to represent a larger share of the tax take as profitability falls. Consistent with this, the higher royalty take ratio in 2014-15 was the result of lower taxable income driven by falling commodity prices in that year.

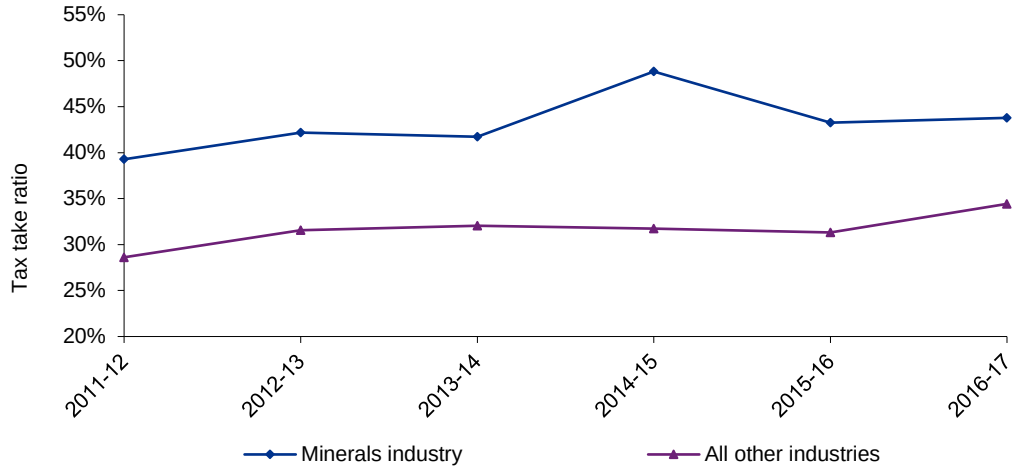
The period from 2015-16 to 2016-17 represented a period of recovery for the mining industry following previous years of low commodity prices. Over this period, both royalties and taxable income (and subsequently company tax) experienced robust growth. Royalties and taxable income have offsetting effects on the total tax take ratio, resulting in a negligible change in the total tax burden relative to the previous year.

From 2016-17 to 2017-18, the survey results indicate that the primary driver for the change in the total tax ratio was the increase in taxable income attributed to both a substantial reduction in subtraction items (such as prior year tax losses, capital works deductions and non-taxable income) and a price-driven increase in revenue. As a result, in 2017-18, company taxes grew to a higher proportion of the

total tax burden relative to royalty payments (as shown in Figure 1). Responses from the surveyed companies indicate that company taxes paid by the minerals industry grew by around 18.4% while royalty payments grew by 2.5% in that year.

While the minerals industry tax take has come back slightly since its high of almost 50% in 2014-15, the overall tax take by the minerals industry remains well above other sectors of the Australian economy. Figure 2 compares the tax take ratio of the minerals industry with other industries. In 2016-17, the tax burden for the minerals industry was 44%, while the tax take of other industries has generally remained consistent at around 30%, in-line with the standard tax rate levied on company incomes.

Figure 2: Tax take ratio of minerals and other industries



Source: KPMG analysis of ATO Taxation Statistics
Note: Royalties are only included as part of the tax take for mining industries.

While this report focusses on company tax and royalty payments made by the minerals industry, it should also be noted that there are a number of other significant taxes and government charges paid by the industry that are not captured in this report. These include payroll tax, land tax, duty paid on acquisitions, local government rates, lease and licence fees for mining rights and State government levies, some of which have been increasing in recent years. The minerals industry's contribution to these taxes are significant. For example, the minerals industry alone contributed nearly $800 million in employer payroll taxes in 2017-18.[1]

[1] ABS, 8155.0 – Australian Industry, 2017-18, *2019*. Available from https://www.abs.gov.au/ausstats/abs@.nsf/mf/8155.0

1. Background

1.1. Introduction and Scope

Since 2011, the Minerals Council of Australia (MCA) has produced yearly reports based on a minerals industry tax survey. These reports identify the current tax burden on the minerals industry in Australia. Results of the mineral tax surveys have proven extremely useful in identifying the amount of tax and the effective rates paid by the industry and countering inaccurate claims regarding the industry's tax contributions. Survey data, combined with secondary data from the Australian Tax Office (ATO), is able to provide a robust understanding of the minerals industry's tax liabilities.

KPMG has now been commissioned by the MCA to develop a minerals industry tax survey report that covers the 2016-17 and 2017-18 tax years. The survey was distributed to MCA members as well as non-MCA member mining businesses. The aim was to collect data on the industry's tax contributions, in particular company tax and resource royalties. The survey does not include other significant taxes and government charges paid by the minerals industry, some of which have been increasing in recent years. These include payroll tax, land tax, duty paid on acquisitions, local government rates, lease and licence fees for mining rights and State government levies. The minerals industry's contribution to these taxes are significant. For example, the minerals industry alone contributed nearly $800 million in employer payroll taxes in 2017-18.[2]

This minerals survey report is organised into two main sections:

- The following sub-section '*The Mining Industry*' provides background on the mining industry highlighting the industry's contribution to the Australian economy and government taxation revenues.
- The following section '*Minerals Tax Survey*' presents the survey design adopted by KPMG and an analysis of the survey data.

1.2. The Mining Industry

This section provides an overview of the entire mining industry with emphasis on its contribution to the Australian economy and government tax revenues. The analysis is based on publically available data from the Australian Bureau of Statistics (ABS) and the ATO. Data used includes manufacturing industry statistics (2017-18),[3] state accounts 2019,[4] the Labour Force Survey 2018,[5] and taxation statistics 2016-17.[6]

The economic contribution of a sector is generally measured by its value added (outputs less inputs from other industries outside the sector) and the sector's employment level. The mining industry is an important component of the Australian economy given its significant contribution to the Australia's real gross value added (GVA), as shown in Figure 3. Over the period 2010-11 to 2017-18, the mining industry's value added grew annually by six percent on average, with high growth rates recorded in 2012-13 and 2013-14 at 9.8%.[7] This meant that the industry contributed to about eight percent of total Australian GVA, on average, over the past eight years.

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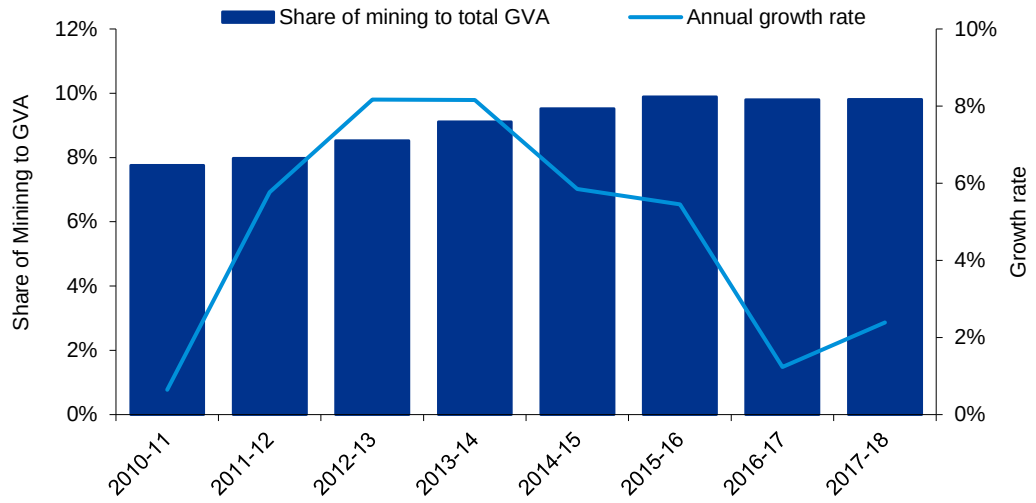
[2] ABS, 8155.0 – Australian Industry, 2017-18, *2019*. Available from https://www.abs.gov.au/ausstats/abs@.nsf/mf/8155.0
[3] Ibid.
[4] ABS, 5220.0 - Australian National Accounts: State Accounts, 2018-19, 2019. Available from https://www.abs.gov.au/Ausstats/abs@.nsf/mf/5220.0
[5] ABS, *6291.0.5.003 – Labour Force, Australia, Detailed, Quarterly, Aug 201*9, 2019. Available from https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6291.0.55.003Main+Features1Aug%202019?OpenDocument
[6] ATO, *Taxation statistics 2016-17*, 2019. Available from https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/
[7] ABS 8155.0

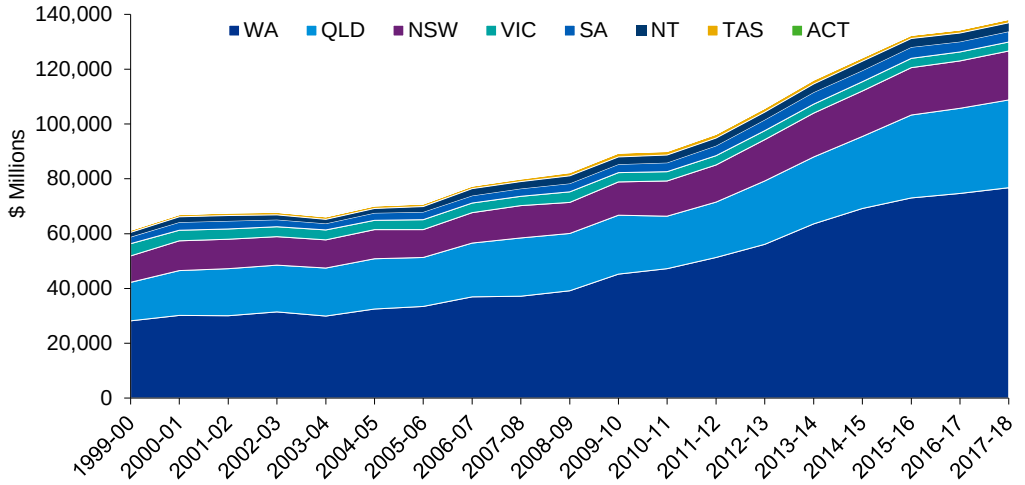
Figure 3: Gross Value Added (GVA) contribution and growth rates of the mining industry



Source: ABS 5220.0 – Australian National Accounts: State Accounts, 2017-18.

Across regions, Western Australia has been a consistent mining hub for the country, producing about half of the mining industry's GVA (Figure 4). Queensland is the next largest mining area in the country, contributing to around 20% of total mining GVA, followed by New South Wales with a 15% share.

Figure 4: Real Gross Value Added (GVA) of the mining industry across states

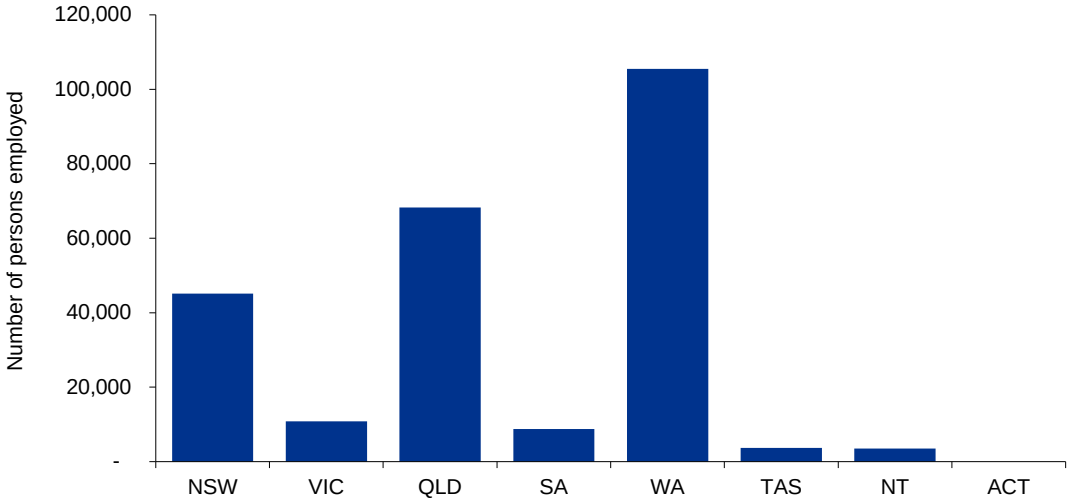


Source: ABS 5220.0 – Australian National Accounts: State Accounts, 2017-18.

As of 2017-18, there were 7,873 Australian businesses identified as operating in the mining industry. Similar to the value added regional profile, a high concentration of these mining businesses are in Western Australia (37%) followed by Queensland (23%) and New South Wales (20%).

There were an estimated 245,703 people employed directly in the mining industry as of August 2018. As shown in Figure 5, mining employment is primarily concentrated in the three states of Western Australia (43%), Queensland (28%), and New South Wales (18%).

Figure 5: State distribution of persons employed by mining industry, Aug 2018

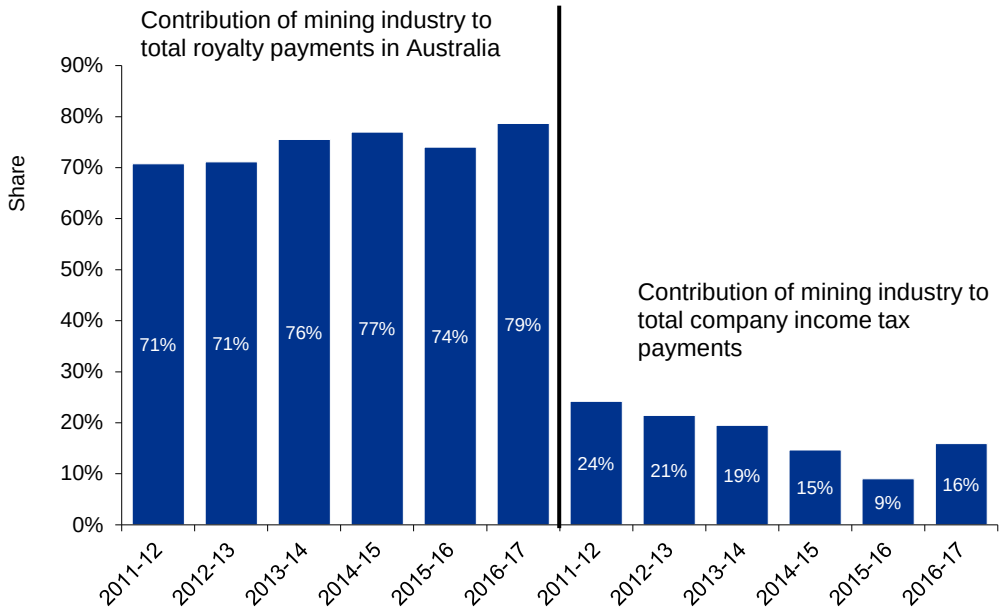


Source: ABS 6291.0.5.003

Mining companies also make a significant contribution to government revenue in the form of company taxes and mining royalties (Figure 6). On average, from 2011-12 to 2016-17, the mining industry contributed about 17% of the government's total collections of company income taxes, with the highest tax contribution in 2011-12 (a very strong mining production year) at 24% of total company income tax. Higher mining production implies higher company income which translates to higher company tax payments.

In addition to company income tax payments, the mining industry is a significant contributor to royalties. According to ATO's data from 2011-12 to 2016-2017, mining companies contributed more than 70% of total royalty expenses in Australia (Figure 6). In 2016-17, ATO statistics indicated that the mining industry contributed $11.8 billion in company tax collections and paid $10.8 billion in royalties.

Figure 6: Contribution of the mining industry to royalty and tax payments



Source: ATO Taxation Statistics (various years)

2. Minerals Tax Survey

Mining operations can be differentiated into two main types: minerals and non-minerals mining. Minerals mining includes extracting naturally occurring mineral solids, such as coal, ores and gold. Non-minerals mining involves producing crude oil, natural gas or condensate through the extraction of oil and gas deposits. While the previous section provided a general overview of the whole mining industry, the remainder of the analysis, and the tax survey in particular, focusses in on the minerals part of the industry.

2.1. Survey design

The 2019 mineral tax survey was conducted by KPMG on behalf of MCA and covers the 2016-17 and 2017-18 tax years. The survey collected data on the following:

- **Production data** on minerals mining (e.g., coal, iron ore, gold and other minerals mining). It is worth emphasizing that the focus of the survey is on minerals mining operations. This excludes mining activities that are manufacturing in nature such as the refining or smelting of minerals or ores (other than preliminary smelting of gold), or the manufacturing (processing) of products of mineral origin such as coke or cement. Furthermore, the survey excludes all mining activities undertaken outside of Australia. This is to be consistent with the data collected on company income tax payments that, by nature, do not reflect offshore mining activities.
- **Financial data** on the company's revenue and expense items reported in ATO tax returns. This includes taxable income, tax payments, resource royalties, payroll tax and fuel tax credits. While this data is readily available to companies at their company level, the survey also requested such information be disaggregated across mining commodities and activities. Data collected on royalty expenses covers only those payments incurred for Australian mining operations.

The data collection was implemented through an online survey. The questionnaire was distributed to MCA members and other mining businesses operating in Australia. There were 23 participating companies in this year's survey. Table 1 shows the survey coverage based on Australian mining production data in 2016-17 and 2017-18.[8] Overall, the survey captures around 70% of total minerals production in Australia across the two years. This indicates that survey data should provide a good representation of the overall minerals industry characteristics and, particularly, its taxation burden.

Table 1: Estimated MCA survey coverage

Mineral commodities	Share of survey production	
	2016-17	2017-18
Coal	48%	59%
Iron ore	78%	78%
Gold	57%	53%
All other minerals	58%	58%
Total	67%	71%

Source: KPMG analysis of survey data and Resources and Energy Quarterly data

For this analysis, the survey results have been analysed in their own right, and compared back to the whole of industry data from the ATO. This comparison shows that the survey results and the ATO data align in their estimates of the minerals industry tax burden. This provides further assurance of

[8] Office of the Chief Economist (OCE), *Resources and Energy Quarterly: September 2019*, Department of Industry, Innovation and Science, 2019.

the robust nature of the estimate of the minerals sector's tax burden that has been developed through the MCA minerals industry tax survey.

2.2. Survey results

This section presents the results of the survey, starting with an overview of methodology used to calculate the minerals industry tax burden and the aggregate results. The drivers of the latest surveyed tax burdens (2016-17 and 2017-18) are then explained. This is followed by an examination of the trends over the past seven years and the key drivers of these trends. Finally, the tax burden of the minerals industry is compared to the burden across other industries in the economy to provide more context around the survey results.

2.2.1. Minerals Industry tax burden

The purpose of our analysis is to provide a robust measure of the industry's tax burden rather than simply deriving estimates of the level of company tax and royalty payments made by the minerals industry. We use tax ratios, rather than dollar values, throughout our analysis. The use of tax ratios is more relevant to the analysis as it allows us to focus on the tax burden faced by the industry, rather than the size of the industry as measured in dollar terms.

Consistent with previous releases of the MCA industry tax report, we use two tax metrics to measure the current tax burden of mineral companies. These are calculated as follows:

$$\text{Total tax take ratio} = \frac{\text{Company income tax + Royalty payments}}{\text{Taxable income (or loss) + Royalty payments}}$$

$$\text{Royalty take ratio} = \frac{\text{Royalty payments}}{\text{Taxable income (or loss) + Royalty payments}}$$

The first metric, the total tax take ratio, measures the overall tax burden on the minerals industry. It takes into account the combined impact of both company income tax and royalty payments. This ratio is similar to the calculation of conventional tax rates, which is equal to the tax value divided by the tax base or income.

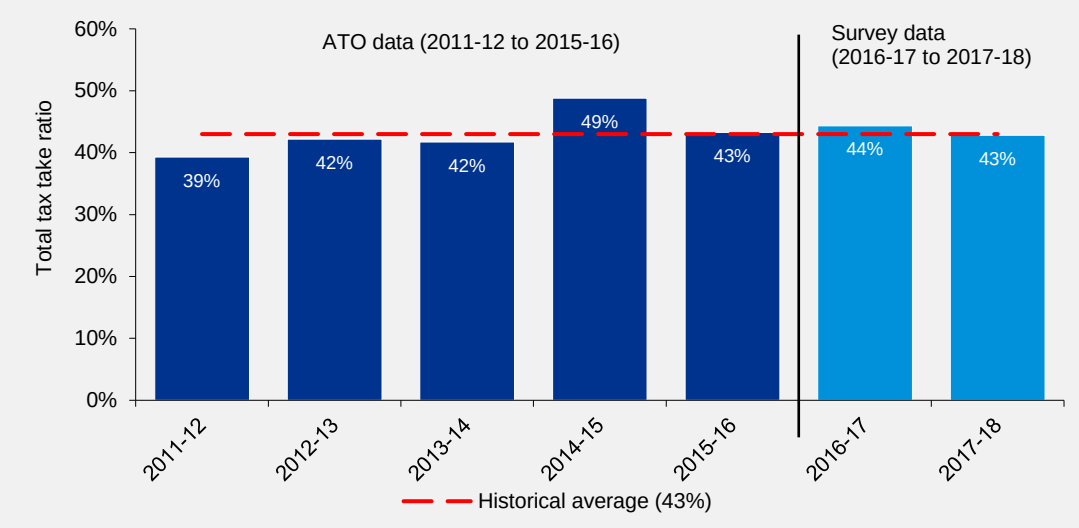
The only difference to the conventional tax rate calculations is that, for taxation purposes, royalties are generally treated as an expense when calculating taxable income. Thus, for the purpose of our analysis, we make the following adjustments to calculate the overall tax take (company tax and royalties) from the minerals industry: (i) the tax expense numerator takes into account the combined value of company taxes and royalties from Australian mining operations; and (ii) the income base denominator is the pre-tax value of a company's profit in which the royalties are added back to the taxable or net income.

The second metric, the royalty take ratio, measures the resource tax burden on the minerals industry calculated as the share of royalty payments to taxable income and royalty payments.

Figure 7 presents the tax ratios calculated from the survey data for 2016-17 and 2017-18, and historical data from the ATO. The mineral industry's total tax take rose by around 1 percentage point from 2015-16 to 44% in 2016-17. This indicates that in 2016-17, 44% of the industry's total pre-tax income was paid to government as royalty and company tax collections. In 2017-18, the total tax take was slightly lower (by 1 percentage point). Overall, the tax take ratios calculated from survey data are

consistent with the historical average of tax ratios (43%) calculated from ATO data. The total tax take ratio of the minerals industry has remained fairly stable over the past three years.

Figure 7: Total tax take ratio of minerals industry, Australia

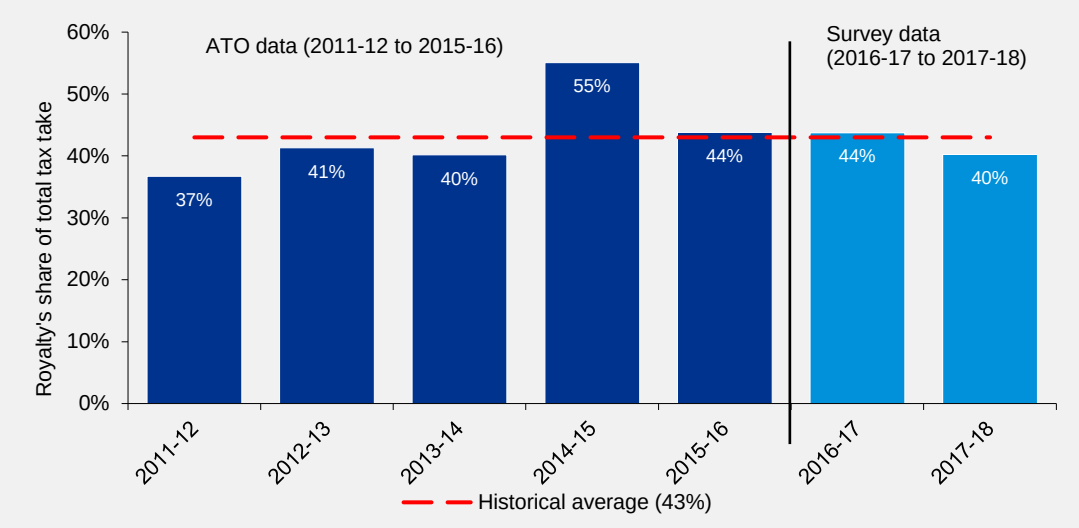


Source: KPMG analysis of survey data and ATO Taxation Statistics

Figure 8 plots the share of royalties as a proportion of total tax take. In 2015-16, ATO data showed that the royalty share of the total tax take was 44%. This means that royalties contributed 44% of the total tax burden. Survey data show that this had not changed in 2016-17.

Royalties will tend to comprise a larger share of the total tax paid during periods of low or negative profitability since most regimes are based on a percentage of sales or turnover. Conversely, royalties will tend to comprise a smaller share during periods of high profitability. For example in 2017-18, the royalty share of total tax take fell by 4 percentage points from the previous financial year. This is because taxable income for the industry was higher in that year resulting in a higher company tax take, and thus a smaller royalty share of the total tax take.

Figure 8: Royalty share of total minerals industry tax take



Source: KPMG analysis of survey data and ATO Taxation Statistics

2.2.2. Drivers of the tax ratio

Table 2 explains the contribution of royalties, company taxes and taxable income to the change in the total tax take. The focus of our analysis are the survey years 2016-17 and 2017-18. Data from 2014-15 and 2015-16 have been included only to provide additional context regarding the trends in tax components:

- Across the period from 2015-16 to 2017-18, increases in taxable income have been an important driver of the change in the tax ratio. Taxable income has an inverse relationship to the tax take ratio, i.e., a higher taxable income means a larger denominator and thus a lower tax ratio. As a result, the increase in taxable income in 2017-18 led to a slightly lower 2017-18 tax take ratio compared with 2016-17. Thus, despite higher estimated tax payments (take) in that year, the overall tax take ratio was lower, mainly due to the lower royalty tax take.
- While taxable income also increased from 2015-16 to 2016-17, the tax take ratio did not deviate significantly from the previous financial year. This was because the effect of higher taxable income on lowering the tax ratio (i.e. due to larger denominator) was largely offset by the effect of higher royalty payments and company tax on lifting the tax ratio (i.e. due to larger numerator).
- Company taxes increased in line with taxable income (as shown in Table 2). Given that company taxes are directly linked to profits while royalties are mostly linked to production and sales, the increase in taxable income has a more direct effect on increasing company taxes relative to royalties. From 2016-17 to 2017-18, company taxes increased at a much higher rate compared with the increase in royalty payments. On the other hand, in 2016-17, royalty payments rose more than the company taxes. This was influenced by factors such as the increase in commodity prices and the use of accumulated losses by some sections of the coal industry that had the effect of deferring company tax payments.

Table 2: Change in the values of tax take factors, 2014-15 to 2017-18

Drivers of tax ratios	Percentage change			
	2014-15	2015-16	2016-17	2017-18
Tax ratio components				
Royalties	36.6%	-10.4%	29.9%	2.5%
Company taxes	-51.9%	41.0%	24.0%	18.4%
Taxable income	-51.9%	41.0%	24.0%	18.5%

Source: KPMG analysis of survey data (2016-17 to 2017-18) and ATO data (2014-15 to 2016-17).

Taxable or net income can increase for a number of reasons – higher revenues, higher addition items, lower expenses, lower subtraction items, or a combination of these factors. Examples of subtraction items include prior year tax losses, capital works deductions and non-taxable income, while addition items include franking credits, net capital gains and expenses that are deducted in a company's accounts but not for tax purposes. Table 3 shows the year-on-year change in these taxable income components.

Table 3: Percentage change in taxable income components, 2014-15 to 2017-18

Taxable income components	Percentage change			
	2014-15	2015-16	2016-17	2017-18
Gross income	-9%	1%	8%	4%
Total expenses	8%	-7%	-7%	4%
Addition items	36%	-12%	-23%	-5%
Subtraction items	37%	-11%	-2%	-19%
Taxable income	-51.9%	41.0%	24.0%	18.5%

Source: KPMG analysis of survey data (2016-17 to 2017-18) and ATO data (2014-15 to 2016-17).

The Table above shows that gross income saw a sharp decrease in 2014-15, due to falling commodity prices, before gradually recovering over the period to 2017-18. Total expenses fell in the years

following 2014-15, before gradually recovering to 4% growth in 2017-18. In contrast to gross income and total expenses, reconciliation items – addition and subtraction items – tend to experience bigger fluctuations driven by a combination of factors.

In 2014-15, addition items for the minerals industry grew strongly, as a result of higher growth in *non-deductible expenses* and *other assessable income*. From 2014-15 to 2016-17, the downward trend in addition items has been largely driven by lower *non-deductible expenses* for the sector. Compared with *non-deductible expenses* and *other assessable income, net capital gains* are a relatively smaller component of addition items. *Net capital gains* for the industry grew strongly over the period, likely reflecting asset sales due to pressures from low commodity prices. Overall, addition items fell over this period.

The important components for the minerals industry subtraction items include *other deductible expenses*, *other income not included in assessable income* and *tax losses deducted*.

- *Other deductible expenses*, primarily for non-metallic mineral mining, grew in 2014-15 before declining over the period to 2017-18. This played a major role in the overall decrease in subtraction items over this period.
- While *other income not included in assessable income* increased, growth in this component was relatively moderate, falling for coal and iron ore mining but increasing for non-metallic mining.
- In comparison, while *tax losses deducted* grew significantly over the period as companies used accumulated losses to defer company tax payments, these remained at relatively small levels compared with other subtraction item components. In particular, there was a sharp increase in *tax losses deducted* for coal mining in 2016-17.

The combination of these factors resulted in an overall declining trend in subtraction items.

Interestingly, these relatively modest changes in the components can lead to significant changes in taxable income. Table 4 further examines the relative importance of gross income, total expenses and reconciliation items on taxable income. In contrast to Table 3 above showing year-on-year change for various tax components, Table 4 shows the percentage-point contribution of taxable income components to overall taxable income change.

Table 4: Taxable income breakdown, percentage point contribution

	2014-15	2015-16	2016-17	2017-18
Accounting profit (=1-2)	-62.6%	53.4%	74.5%	3.3%
(1) Gross income	*-37.3%*	*3.9%*	*41.6%*	*12.6%*
(2) Total expenses	*25.3%*	*-49.5%*	*-32.9%*	*9.3%*
Reconciliation items (=3-4)	10.7%	-12.4%	-50.6%	15.3%
(3) Addition items	*47.5%*	*-43.8%*	*-53.3%*	*-3.4%*
(4) Subtraction items	*36.8%*	*-31.4%*	*-2.7%*	*-18.6%*
Total = Taxable income (% change) = (1-2)+(3-4)	-51.9%	41.0%	24.0%	18.5%

Source: KPMG analysis of survey data (2016-17 to 2017-18) and ATO data (2014-15 to 2016-17).

For example, this table shows that the 41% increase in taxable income for 2015-16 was due to an increase in accounting profit offset slightly by a fall in reconciliation items. The change in the accounting profit contributed around 53 percentage points to the total year-on-year change in taxable income in that year, with the impact of higher gross income adding to the impact of a decrease in total expenses. On the other hand, reconciliation items took away 12.4 percentage points from the year-on-year change in taxable income, with the impact of the fall in the addition items outweighing the impact of the fall in subtraction items.

Looking at the latest two years in particular, the 2016-17 increase in taxable income was the result of significant offsetting contributions from higher accounting profit and a decrease in addition items.

- Accounting profit grew substantially, which was a result of both higher gross income and lower expenses. While significant, higher accounting profit growth here was reflective of the period of recovery for the mining industry from falling commodity prices in previous years, with sales

proceeds rising. This gave a positive net contribution from accounting profits of 74.5 percentage points to the (overall 24%) change in taxable income.

- There was a sharp drop in addition items which was primarily due to a reduction in *non-deductible expenses*, consistent with the sharp fall in total expenses. This detracted 53.3 percentage points from the change in taxable income in that year.

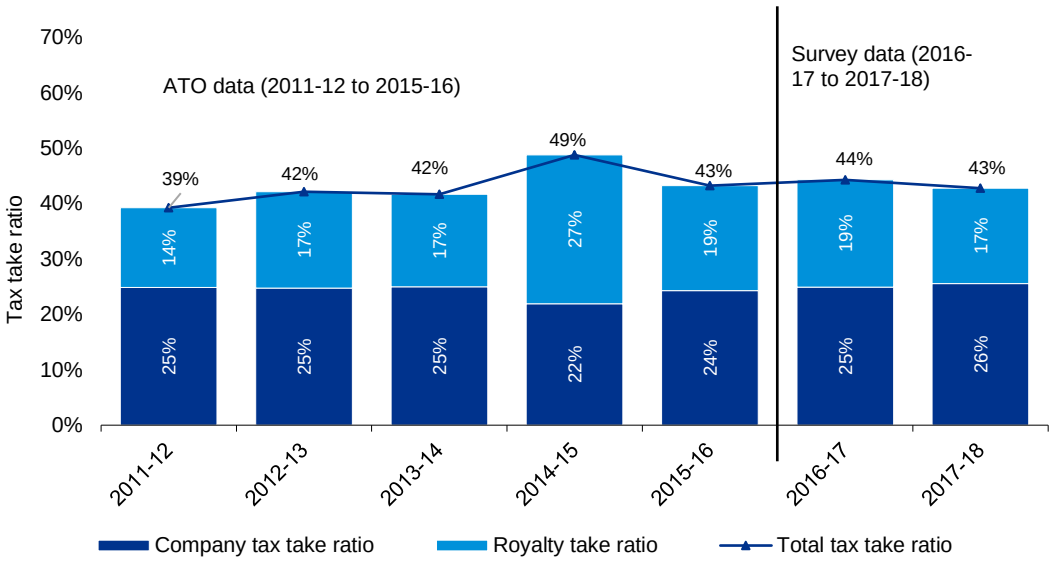
While there was a relatively similar increase in taxable income between 2016-17 and 2017-18, the drivers were somewhat different. The increase in 2017-18 was attributed to more modest contributions from an increase in the accounting profit and a reduction in subtraction items.

- More specifically, there was a large contribution from higher gross income driven by sustained growth in mineral production and prices, which we explain in more detail in the next section. The contribution from the higher gross income is stronger than the contribution from the increase in total expenses, leading to a 3.3 percentage point positive contribution from accounting profit to the (overall 18.5%) change taxable income.
- On the other hand, despite a reduction in addition items, the contribution from overall higher reconciliation items was also positive due to a significantly offsetting contribution from a fall in subtraction items. This gave a positive net contribution from reconciliation items of 15.3 percentage points to the (overall 18.5%) change in taxable income.

2.2.3. Trends

This section examines the pattern of the tax ratios over the past seven years and analyses the factors driving these trends. Specifically, Figure 9 plots the total take ratio and its components from 2011-12 to 2017-18. The data shows that (in every year except 2014-15), while the total tax take has averaged 43%, company tax payments have represented a higher proportion of the tax burden on the minerals industry compared to royalties.

Figure 9: Composition of tax take ratio



Source: KPMG analysis of survey data and ATO Taxation Statistics

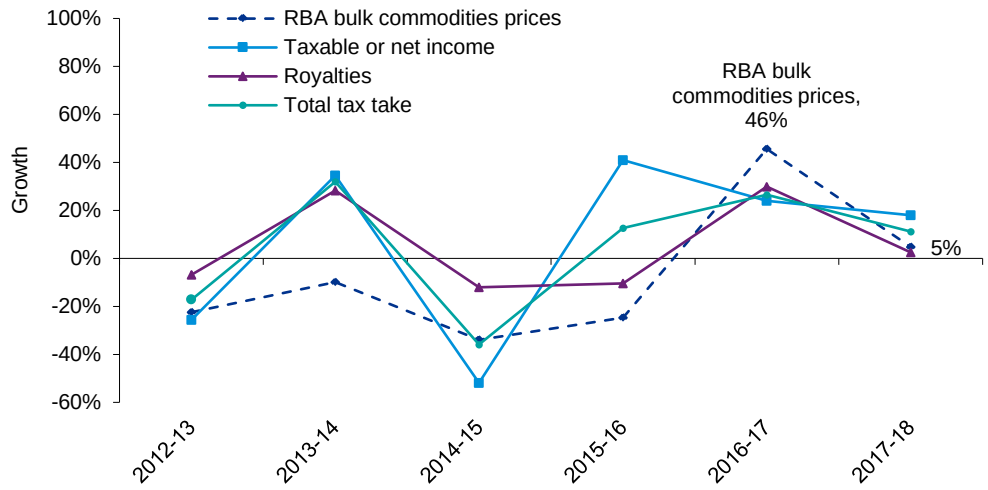
The trend in the company tax take is driven by the changes in taxable income, while the royalty tax take is affected by the changes in production and sales. Higher taxable income results in an increase in company taxes and hence a larger contribution of company taxes to the total tax take. On the other hand, when profits and thus taxable income fall, royalties will generally make up a greater proportion of company tax contributions.

A notable observation in the tax take trend is in 2014-15, where royalties made a bigger proportional contribution to the total tax take. We further examine this by looking at the factors affecting revenue, which are production volumes and mineral prices.

Figure 10 compares the five-year trend in taxable or net income, royalties, and total tax take with the Reserve Bank of Australia (RBA) bulk commodities price index. The RBA bulk commodity price index refers to the monthly data series *Bulk commodities prices*,[9] and tracks prices for iron ore and coal.

The figure suggests that commodity prices are an important driver of mining profitability and thus significantly affect the minerals industry's tax burden. Here it is clear that growth in total tax take will lie between the growth for taxable (or net) income and royalties. This is because total tax take is a function of these two components. Note that since the company tax rate is pegged at 30% of taxable (or net) income over this period, company tax and taxable income growth will exhibit the same pattern.

Figure 10: Growth in commodity prices, taxable income, royalties and total tax take



Source: KPMG analysis of ATO Taxation statistics 2016-17, RBA Index of Commodity Prices and survey data

Following a peak in commodity prices in 2011-12, growth in commodity prices stagnated. However, with the recent strong growth in 2016-17 and 2017-18, prices have now recovered to pre- 2014-15 levels. In particular, commodity prices grew by 46% in 2016-17 before moderating to 5% growth in 2017-18. Changes in bulk commodities prices appear to be highly consistent with the trend in royalty payments in general. This is not surprising since royalty payments are partially driven by sales, which are influenced by both commodity prices and production. For example, in 2014-15, while falling commodity prices were also matched by a fall in royalty payments, taxable income fell by a larger proportion resulting in an increase in the royalty take ratio (as observed in Figure 9).

Production represents another equally important component towards understanding the tax burden of the mining industry in Australia. Figure 11 compares the growth in bulk commodity prices with growth in Australian coal and iron ore production. Coal production shown here refers to the production of saleable black coal, which was estimated at around 450 megatons (Mt) for Australia in 2017-18.[10] Iron ore production reflects production of iron ores, concentrates, lump and pellets, which was estimated at around 900 Mt for Australia in 2017-18.[11]

Figure 11 shows that growth in mining production has slowed in recent years. Year-on-year growth in iron ore production increased from 10% in 2012-13 to 22% in the following year before falling to 3% in 2017-18. Growth in coal production fell from 9% in 2012-13 to -2% in 2015-16 before recovering to 2% by the end of the period. In comparison with production growth, larger fluctuations were

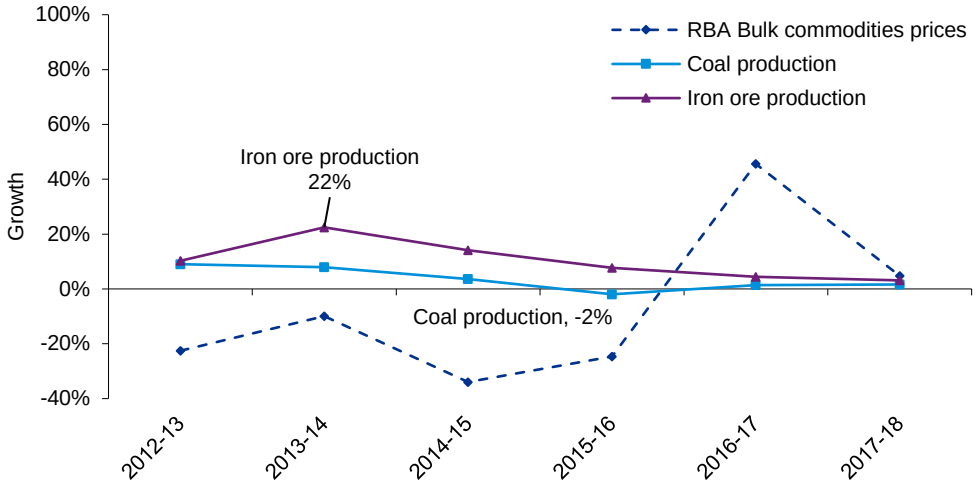
[9] RBA, RBA Index of Commodity Prices, November 2019. Available from https://www.rba.gov.au/statistics/frequency/commodity-prices/2019/weights-icp-20190401.html

[10] OCE, *Resources and Energy Quarterly: September 2019*, Department of Industry, Innovation and Science, 2019.

[11] Ibid.

observed in commodity prices suggesting that price changes are likely to be the dominant factor in determining mining income and thus the ultimate tax burden.

Figure 11: Growth in commodity prices, and coal and iron ore production

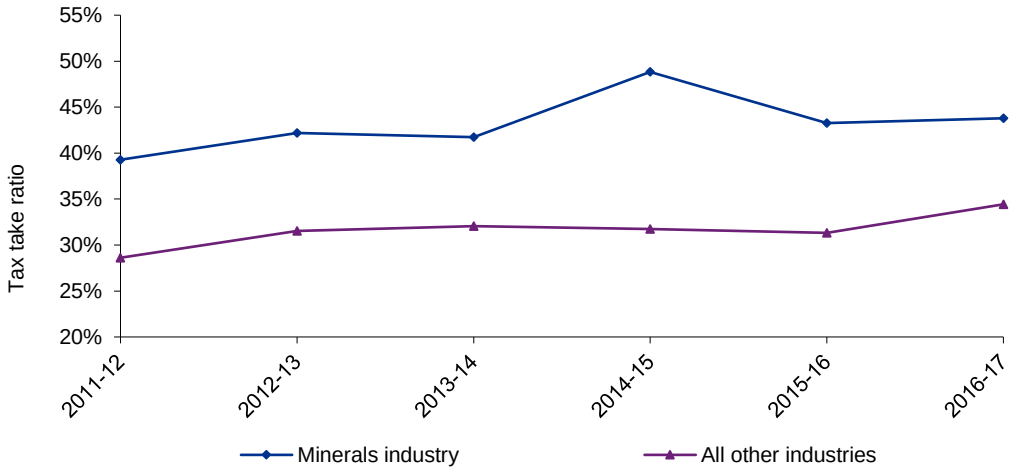


Source: KPMG analysis of RBA Index of Commodity Prices and Resources and Energy Quarterly data.

2.2.4. Comparison of taxation burdens across industries

As seen in Figure 6, the mining industry is an important contributor to government revenues in Australia. Figure 12 compares the tax take ratio of the mining industry against other sectors in the Australian economy in 2016-17. Figure 12 shows that the minerals industry in general faces the highest tax burden among Australian industries, at 44% in 2016-17. All other industries generally experienced a consistent tax take ratio of 30%, as determined by the company tax rate over the period.

Figure 12: Tax take ratio in mining and other industries



Source: KPMG analysis of ATO Taxation statistics data.
Note: Royalties are only included as part of the tax take for mining industries.[12]

[12] Note that while the ATO data shows that royalty expenses are also significant for other industries such as the Information, Media and Telecommunications industry, these generally represent payments for the use of rights, such as in relation to music in films. These payments differ from the royalties paid to the government by the mining industry, and are therefore not considered in our analysis.

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