Chapter 1
Regulation impact statement

Policy objective

Context

1.1 The Minerals Resource Rent Tax (MRRT) commenced operation on 1 July 2012 following the announcement of resource tax reforms by the then Government on 2 May 2010.

1.2 The MRRT is a profits tax which is levied at an effective rate of 22.5 per cent of the mining profit of coal and mining projects within Australia. Miners with an annual mining profit of less than $75 million are exempted from paying MRRT.

1.3 The former Government also introduced a number of measures following the 2010 announcement the funding for which, while not hypothecated, was tied to the forecast MRRT revenues. These included:

- company tax loss carry-back arrangements, which enable companies making a tax loss of up to $1 million to recoup taxes paid on an equivalent income amount earned in the previous two years;

- increasing the instant asset write-off threshold from $1,000 to $5,000 as part of the MRRT and subsequently from $5,000 to $6,500 as part of the carbon tax package commencing from the 2012-13 income year. This allows small businesses to immediately claim a deduction for depreciating assets costing less than $6,500;

- accelerated depreciation arrangements for motor vehicles from the 2012-13 income year, allowing small businesses to claim a $5,000 immediate deduction for a motor vehicle;

- the inclusion of geothermal exploration within the wider definition of exploration;

- the phased increase in the Superannuation Guarantee from 9 per cent to 12 per cent by 2019;

- the Low Income Superannuation Contribution (LISC) for contributions made from 2012-13, equal to 15 per cent of the concessional contributions (up to a $500 maximum) made by or for individuals with taxable income not exceeding $37,000;

- the Income Support Bonus, which provides an annual income tax exempt payment to certain income support recipients;

- the Schoolkids bonus, which commenced on January 2013 and is payable to parents who have dependent children in primary or secondary education; and to students receiving certain Government payments;

- the phase down of Interest Withholding Tax from 2014-15, which currently applies to financial institutions; and

- the Regional Infrastructure Fund (RIF) which provides funding to support infrastructure investments, particularly in regional areas associated with mining.

Problem

1.4 The Government has an election commitment to repeal the MRRT, which it has consistently opposed on the grounds that it undermines confidence in Australia as an investment destination and as a secure supplier of resources.

1.5 It is difficult to substantiate the impact the introduction the MRRT may have had on the level of mining investment in Australia in the absence of a counter-factual. However, evidence provided by mining stakeholders to the recent Senate Economics Committee inquiry into the development and operation of the Minerals Resource Rent Tax in March 2013, and submissions made in relation to the Bill, support the Government's concerns regarding the relative attractiveness of Australia as an investment destination.

1.6 The Chief Executive Officer of a small mining company, Golden West Resources, provided evidence to the Senate Committee that the MRRT had had a negative impact on international perceptions of Australia as an investment destination

1.7 'As the CFO of other iron ore explorers and producers in previous roles, and now as CEO of Golden West, I can attest to the fact that I have been frequently reminded by investors that Australia is not considered as attractive for foreign capital as it once was.

1.8 While there can be debate as to the extent to which [investment] decisions … are directly attributable to the additional costs and risks impose by the MRRT, it would be naïve to believe that such considerations did not form part of the decision-making process'.

1.9 Similarly, both the Minerals Council of Australia and the Association of Mining and Exploration Companies (AMEC), provided evidence to the Committee that the introduction of the MRRT had negatively impacted on Australia's reputation as an investment destination.

1.10 In its submission on the draft repeal legislation, the Minerals Council of Australia noted in relation to the MRRT that, 'additional taxes impact investment decisions and make Australian projects less attractive relative to projects in competitor nations'. In its submission on the draft legislation, the Association of Mining and Exploration Companies noted that the MRRT has 'detrimentally affected the risk profile of small Australian iron ore and coal miners and junior exploration companies, making raising equity and debt capital extremely difficult over the past three years'.

1.11 The MRRT imposes a regulatory and compliance burden on the mining industry. Under the MRRT, both coal and iron ore miners are required to maintain separate accounts and prepare and submit starting base, quarterly instalment, and annual MRRT returns. These reporting obligations are in addition to the obligations already imposed in relation to Commonwealth income tax and State royalty payments.

1.12 The regulatory burden is exacerbated by the complex design of the tax. Unlike other taxes applicable to the mining industry, the MRRT operates on a cash-flow basis, and involves the immediate deduction of all expenditures; the application of variable uplift factors to un-deducted expenditures and allowances each year; and the use of transfer pricing methods to determine taxable revenue. The MRRT also applies on a project interest, rather than entity basis, which further increases the complexity of the tax. In its submission to the recent Senate Economics Committee inquiry into the development and operation of the MRRT, Fortescue metals noted:

1.13 'The [MRRT] has introduced a new layer of administrative complexity into an already highly regulated industry. Taxing at a 'project' level rather than a corporate level has further complicated matters and is significantly increasing the cost of overall tax compliance … The MRRT imposes an additional layer of taxation on top of the existing State and Territory based royalty systems and the Federal income tax regime in a manner that does not simplify taxation, nor make the taxation process more efficient. In fact, since it is an entirely new tax

impost all it has done is to increase the complexity of the compliance burden and necessarily acts as an investment deterrent to the extent that it reduces forecast project returns'.

1.14 The failure of the MRRT to generate sufficient revenue in comparison with the additional expense of the measures associated with its introduction, poses a risk to the fiscal position. The cost of the MRRT associated measures will significantly exceed the MRRT revenue over the forward estimates and beyond.

1.15 The revenue expected to be raised by the MRRT has been progressively revised down since its announcement, with the 2013 Pre-Election Economic and Fiscal Outlook (PEFO) estimate being $4.4 billion in net terms (that is, after company tax deductions for MRRT paid) for the 2013-14 to 2016-17 period. To date, MRRT instalment collections have totalled around $400 million in net terms.

1.16 Resource rent taxes such as the MRRT are, by their nature, volatile due to the number of exogenous factors that may affect mining profitability. These include commodity price and exchange rate movements, cost pressures, and the level of activity.

1.17 The volatility of resource rent taxes is further exacerbated relative to income tax due to them being cash-flow taxes, which allow all expenditures to be immediately deducted against taxable revenue rather than depreciated over time, and the fact that they tax only a portion of an entity's profit — that being the 'resource rent'. This volatility may, in part, explain some of the variation between forecasts and actual collections to date.

1.18 However, in relation to the MRRT specifically, design features such as deductible mining allowances provided to companies, including starting base allowances and State royalty deductions, and that the MRRT is determined on the value of the commodity and not the sale value, requiring transfer pricing methods to be used, may also affect the level of MRRT that is ultimately paid.

1.19 Under the MRRT, miners holding a project interest on 2 May 2010 receive an additional 'starting base' allowance which is normally determined as the market value of the project interest as at 2 May 2010. This starting base amount is depreciated over the life of the relevant project asset in order to provide a partial tax shield to miners in recognition of historic investments.

1.20 Differences between the assumptions underpinning the revenue forecasts and the approach taken by miners regarding the value of starting base assets and the time over which those amounts are depreciated may be

a factor in the ongoing variation between revenue forecasts and outcomes. Miners are not required to submit their starting base returns to the ATO until after the end of their first MRRT year.

1.21 The MRRT also provides a credit-equivalent deduction for royalties paid to States and Territories. State royalty increases that occurred after the announcement of the MRRT also contributed to the downward revision of revenue forecasts.

1.22 Finally, the MRRT is levied only on the proportion of sales revenue attributable to the commodity at the valuation point (the point prior to 'downstream' activities being undertaken) which is not directly observable and hence difficult to forecast accurately. The MRRT Act does not require a particular method to be used in determining the revenue attributable to the valuation point, except to the extent that the method used is that which produces the most appropriate and reliable amount.

1.23 By comparison, many of the expense measures introduced in association with the MRRT are relatively stable and expected to grow over time.

Objective

1.24 The MRRT legislation package will meet the Government's election commitment to repeal the MRRT and associated measures and by so doing:

- reduce the compliance cost on industry and promote activity in the mining sector by abolishing the MRRT; and
- secure a structural improvement in the Budget by discontinuing or re-phasing those measures introduced in association with the MRRT, the costs of which were intended to be met by MRRT revenues.

Implementation options

1.25 The Government has committed to the abolition of the Minerals Resource Rent Tax from 1 July 2014. The repeal of the MRRT will also require consequential amendments to the Petroleum Resource Rent Tax (PRRT) to remove references to the MRRT that would otherwise extend the application of the PRRT.

1.26 In addition, the Government has committed to discontinuing those expense measures associated with the MRRT, with the exception of

the phased increase in the Superannuation Guarantee in relation to which it committed to delay the scheduled ramp-up of the superannuation rate by two years, to recommence on 1 July 2016.

Assessment of impacts

(a) Repeal the Minerals Resource Rent Tax from 1 July 2014

1.27 The Minerals Resource Rent Tax will be repealed, effective from 1 July 2014. *The Petroleum Resource Rent Tax Assessment Act 1987* (the PRRT Act) currently excludes gas that is produced incidental to coal mining (as opposed to a commercial gas operation), from the Petroleum Resource Rent Tax (PRRT), which is instead captured by the MRRT. Consequential amendments will be made to the PRRT Act so as to continue to exclude such incidental gas from the PRRT's scope following the repeal of the MRRT, noting that most coal mines release some gas and that applying the PRRT in such circumstances would impose considerable compliance burdens on industry for little, if any, revenue.

1.28 Repealing the MRRT will result in a reduced tax burden for those iron ore and coal miners who would otherwise be liable to pay MRRT.

1.29 As noted, a key concern of the Government which is supported by submissions from industry, is the impact that the introduction of the MRRT has had on investor confidence and the relative competitiveness of Australia as an attractive mining investment destination. The repeal of the MRRT is expected to restore industry confidence and will reduce the effective tax rate that coal and iron ore projects may be subject to. It is reasonable to expect that this will have a positive impact on the level of mining investment in Australia going forward relative to a scenario where the MRRT continues to apply.

1.30 The repeal will also remove the significant compliance and administrative burden imposed by the complex MRRT legislation. The abolition of the MRRT will result in the repeal of approximately 360 pages of legislation.

MRRT Administration Costs

1.31 The cost of administering the MRRT is significant. The 2010-11 Budget included nearly $92 million for the administration of the MRRT and extended Petroleum Resource Rent Tax, with the majority (~$20 million per year) directed to the MRRT. While the significant

administration cost reflect, in part, the fact the MRRT is a new tax and could be expected to decline somewhat once the MRRT became established, it also reflects the relative complexity of the tax notwithstanding the relatively small number of taxpayers.

1.32 The cost of collecting MRRT revenue is significantly higher than that for other taxes. The cost of administering the MRRT for the 2012-13 year was around $20 million, or around eight per cent of the $245 million net MRRT revenue collected for the 2012-13 year. This compares to the ATO's average cost (including GST) of 0.91 per cent of revenue collected in 2012-13. The repeal of the MRRT will deliver a saving in administrative costs of $82 million over the period 2013-14 to 2016-17 alone.

MRRT Compliance Costs

1.33 Under the MRRT, any entity holding a mining interest or a pre-mining interest (that is, an interest in an exploration permit) in a coal or iron ore project is required to register and complete quarterly instalment, starting base and annual MRRT tax returns. This means that, barring the limited exceptions noted below, all entities subject to the MRRT are required to prepare and submit returns, and incur the associated compliance costs, even if the entity will not be liable to pay MRRT in a given year, or has not generated any mining revenue from their interest(s).

1.34 One exception to the reporting requirements is where an entity has elected to use the simplified MRRT method for a given year. The simplified MRRT method allows small miners with an annual group profit of less than $75 million, (or where royalty liabilities are at least 25 per cent of profits, and those profits are less than $250 million) to not lodge an MRRT return for that year.

1.35 While the simplified method was intended to allow those entities who were unlikely to have an MRRT liability in a given year to avoid incurring compliance costs, the method has largely not been adopted to date due to the fact that, by doing so, the deductible allowances relating to the entity's interest for that year, including the starting base allowances, are extinguished.

1.36 A second exception is where an exemption from some reporting requirements is provided by the Tax Commissioner via legislative instrument for a given MRRT year.

1.37 To date there are approximately 235 companies registered for MRRT with only a very small number of companies having an actual MRRT liability The ATO advise that a further 65 companies have not

registered yet due to an extension being granted, but would be required to register should the MRRT repeal not proceed.

1.38 In 2012-13, only around 10 large miners (total annual business income > $250 million), less than 5 small or medium sized miners ($2 million to $250 million total annual business income), and less than five 'micro' miners (less than $2 million total annual business income) made (net) MRRT payments.

1.39 Around 105 large miners, 35 small or medium miners and 5 micro miners have submitted MRRT instalment notices while making no net payments. The difference between the number of companies registered for MRRT and those lodging instalment notices is due to the Australian Taxation Office providing an exemption to certain categories of miners (those holding only mining exploration licences) from lodging instalment returns for the 2012-13 MRRT year. However, these miners will still need to lodge a 2013 MRRT return.

1.40 While there will be some once off adjustment cost estimated at $800 per company ($243,000 in total for the industry (represented in the table as a 10 year average of $24,300)) to adjust their systems for the repeal of the MRRT, the ongoing compliance savings are estimated as $35,000 per company p/a, or $10.5 million p/a for the industry.

1.41 By way of comparison a 2012 ATAX study of compliance costs based on a survey of small businesses (50 or less full time employees equivalent) found that the average gross compliance costs (that is, excluding potential benefits that may accrue from record keeping etc) incurred by small businesses in relation to income tax was approximately $4,500 in 2010.

Regulatory Burden and Cost Offset Estimate Table

Average Annual Compliance Costs (from Business as usual)				
Sector/Cost Categories	**Business**	**Not-for-profit**	**Individuals**	**Total by cost category**
Administrative Costs	$-10.5 million	$0	$0	$-10.5 million
Substantive Compliance Costs	$24,300	$0	$0	$24,300
Delay Costs	$0	$0	$0	$0
Total by Sector	$-10.5million	$0	$0	$-10.5million
Annual Cost Offset				
	Agency	**Within portfolio**	**Outside portfolio**	**Total**
Business	$0	$0	$0	$0
Not-for-profit	$0	$0	$0	$0
Individuals	$0	$0	$0	$0
Total	$0	$0	$0	$0
Proposal is cost neutral? no Proposal is deregulatory yes Balance of cost offsets $0				

(b) Repealing the loss carry-back arrangements

1.42 The loss carry-back provisions enable companies making a tax loss of up to $1 million in the 2012-13 and subsequent income years to recoup taxes paid on an equivalent amount of taxable income in a recent income year.

1.43 The repeal of loss carry-back will have a negligible effect on the compliance burden on companies. To the extent that loss carry-back is an additional means by which companies may elect to utilise losses to reduce their tax liability, it currently is adding a marginal additional layer of complexity to the taxation interface with which companies interact. Removing it therefore represents a marginal simplification of the law regarding company taxation.

1.44 On the other hand, small companies whose profitability is volatile may face a higher effective tax rate (since they may not be able to readily write-off their losses against their profits). The repeal of loss carry-back may impact such companies' flexibility and their ability to take risks and invest.

1.45 This option will take effect for the 2013-14 income year and later income years. Having the repeal take effect from the 2013-14

income year will avoid 'clawing back' monies already paid to full year balancing companies under the arrangements, and companies will receive substantial notice before the end of the year to take account of the removal of the arrangements.

1.46 There will be some minor transitional compliance costs for small business entities in adjusting to the new arrangement. The total transitional compliance costs have been assessed as $734,400 (represented in the table as a 10 year average of $73,440).

1.47 As the repeal of loss carry-back provisions represents a marginal simplification of the law regarding company taxation, it is likely that the ongoing compliance cost effect will marginally positive. However, it is not possible to meaningfully assess this marginal simplification of the legislation with an hourly figure for compliance time saved. The ongoing compliance cost saving has therefor been conservatively assessed as zero.

Regulatory Burden and Cost Offset Estimate Table

Transitional Compliance Costs (from Business as usual)				
Sector/Cost Categories	**Business**	**Not-for-profit**	**Individuals**	**Total by cost category**
Administrative Costs	$73,440	$0	$0	$73,440
Substantive Compliance Costs	$0	$0	$0	$0
Delay Costs	$0	$0	$0	$0
Total by Sector	$73,440	$0	$0	$73,440
Annual Cost Offset				
	Agency	**Within portfolio**	**Outside portfolio**	**Total**
Business	$0	$0	$0	$0
Not-for-profit	$0	$0	$0	$0
Individuals	$0	$0	$0	$0
Total	$0	$0	$0	$0
Proposal is cost neutral? no Proposal is deregulatory yes Balance of cost offsets $0				

(c) Reducing the instant asset write-off to $1000 from 1 January 2014

1.48 The threshold for the value of assets below which small business entities can claim an immediate deduction through Subdivision 328-D of the *Income Tax Assessment Act 1997* (ITAA 1997) will be reduced from

assets costing less than $6,500 to assets costing less than $1,000, consistent with threshold that applied prior to the introduction of the MRRT and carbon tax. The reduction in the instant asset write-off threshold will apply to assets that are first used or installed ready for use on or after 1 January 2014.

1.49 The reduced value threshold will also apply to further expenditure incurred on or after 1 January 2014 in respect of assets that have already been used or installed ready for use. This will include those assets that were previously immediately deducted under the $6,500 instant asset write off.

1.50 The reduction in this concessional capital allowance will result in some small businesses depreciating some of their assets over a longer timeframe, with a resulting negative impact on cash flow. It will not, however, reduce the overall quantum of deductions.

1.51 The small business single pool arrangements currently contained in Subdivision 328-D of the ITAA 1997 will be retained and will apply to assets costing $1,000 or more. Prior to the 2012-13 income year, small business entities could only claim an immediate deduction for assets costing less than $1,000. Assets costing $1,000 or more were allocated to either the 'general small business pool' or the 'long life small business pool' depending on their effective life, and depreciated at different rates.

1.52 Retaining the single pooling arrangements will avoid requiring small businesses having some long life assets in the single pool and others in a long life pool, thus providing greater certainty. Small business will also continue to benefit from the simpler administration the single pool arrangement provides.

1.53 There will be some transitional compliance costs to small business entities as they adjust to the new threshold. A few entities may face some additional complexity due to the change occurring part way through an income year, resulting in assets and expenses being treated differently depending on the time that they are first used or installed ready for use, or incurred. The total transitional compliance costs have been assessed as $924,800 (represented in the table as a 10 year average of $92,480).

1.54 The retention of the single pool arrangements, however, will minimise the ongoing compliance cost and ongoing compliance costs have been assessed as zero.

Regulatory Burden and Cost Offset Estimate Table

Transitional Compliance Costs (from Business as usual)				
Sector/Cost Categories	**Business**	**Not-for-profit**	**Individuals**	**Total by cost category**
Administrative Costs	$92,480	$0	$0	$92,480
Substantive Compliance Costs	$0	$0	$0	$0
Delay Costs	$0	$0	$0	$0
Total by Sector	$92,480	$0	$0	$92,480
Annual Cost Offset				
	Agency	**Within portfolio**	**Outside portfolio**	**Total**
Business	$0	$0	$0	$0
Not-for-profit	$0	$0	$0	$0
Individuals	$0	$0	$0	$0
Total	$0	$0	$0	$0
Proposal is cost neutral? no Proposal is deregulatory yes Balance of cost offsets $0				

(d) Discontinuing the accelerated depreciation arrangements for motor vehicles from 1 January 2014

1.55 From 1 January 2014, the accelerated depreciation arrangements for motor vehicles under section 328-237 of ITAA 1997 will no longer apply. Under those arrangements, a small business entity can claim an immediate deduction for the first $5,000 of value of a motor vehicle it uses or has installed ready for use. The remaining value of the motor vehicle is then allocated to the entity's small business asset pool and depreciated at a rate of 15 per cent in the entity's first income year and then 30 per cent in later years.

1.56 Under the new arrangements, motor vehicles that are first used or installed ready for use on or after 1 January 2014 will instead be treated as normal business assets under the concessional capital arrangements under Subdivision 328-D of the ITAA 1997 and depreciated at a rate of 15 per cent in the year which the asset is first used or installed for use and then 30 per cent for all subsequent years.

1.57 The removal of this concessional capital allowance will have a negative impact on the cash flow of small business entities that use motor vehicles, due to those vehicles being depreciated over a longer timeframe.

1.58 There will be some minor transitional compliance costs for small business entities in adjusting to the new arrangement and some entities may face additional complexity due to the change occurring part way through an income year. The total transitional compliance costs have been assessed as $462,400 (represented in the table as a 10 year average of $46,240).

1.59 However, aligning the start date with that for the changes to the instant asset write off threshold will reduce complexity by bringing all depreciating assets back under the one concessional arrangement. Therefore the ongoing compliance cost savings may be expected to be slightly positive over time but have been conservatively estimated as zero.

Regulatory Burden and Cost Offset Estimate Table

Transitional Compliance Costs (from Business as usual)				
Sector/Cost Categories	**Business**	**Not-for-profit**	**Individuals**	**Total by cost category**
Administrative Costs	$46,240	$0	$0	$46,240
Substantive Compliance Costs	$0	$0	$0	$0
Delay Costs	$0	$0	$0	$0
Total by Sector	$46,240	$0	$0	$46,240
Annual Cost Offset				
	Agency	**Within portfolio**	**Outside portfolio**	**Total**
Business	$0	$0	$0	$0
Not-for-profit	$0	$0	$0	$0
Individuals	$0	$0	$0	$0
Total	$0	$0	$0	$0
Proposal is cost neutral? no Proposal is deregulatory yes Balance of cost offsets $0				

(e) Discontinuing the inclusion of geothermal exploration within the wider definition of exploration

1.60 What constitutes exploration under tax law was expanded to include geothermal exploration with effect from 1 July 2012. This inclusion enables companies engaged in exploration for geothermal

resources to immediately write off the asset expense of those assets first used for geothermal exploration.

1.61 Under this option, the inclusion of geothermal exploration within the wider tax definition of exploration will be discontinued with effect from 1 July 2014.

1.62 Discontinuing the inclusion of geothermal exploration will not have a significant effect on the compliance burden on companies. While requiring geothermal companies to depreciate relevant assets over time, rather than providing an immediate write-off, will negatively impact on the cash flow of some geothermal explorers, this depreciation treatment is consistent with that generally applicable to non-exploration assets.

1.63 Moreover, to the extent the immediate write off of assets first used in geothermal exploration represents an additional concession by which companies can utilise expenses to reduce their tax liability, it adds an additional layer of complexity to the taxation interface with which companies interact. Removing it would therefore result in a marginal simplification of the tax law.

1.64 Given the small number of geothermal explorers the compliance costs on the industry will be very small. The transitional compliance cost has been assessed as $192 (represented in the table as a 10 year average of $19.20). As the measure represents a marginal simplification of the tax law it is likely that the ongoing compliance cost saving will be marginally positive but has been conservatively assessed as zero.

Regulatory Burden and Cost Offset Estimate Table

Transitional Compliance Costs (from Business as usual)				
Sector/Cost Categories	**Business**	**Not-for-profit**	**Individuals**	**Total by cost category**
Administrative Costs	$19.20	$0	$0	$19.20
Substantive Compliance Costs	$0	$0	$0	$0
Delay Costs	$0	$0	$0	$0
Total by Sector	$19.20	$0	$0	$19.20
Annual Cost Offset				
	Agency	**Within portfolio**	**Outside portfolio**	**Total**
Business	$0	$0	$0	$0
Not-for-profit	$0	$0	$0	$0
Individuals	$0	$0	$0	$0
Total	$0	$0	$0	$0
Proposal is cost neutral? no Proposal is deregulatory yes Balance of cost offsets $0				

(f) Re-phasing the Superannuation Guarantee by two years

1.65 Compulsory employer-funded superannuation (Superannuation Guarantee (SG)) contributions are currently scheduled to increase from 9 per cent to 12 per cent. The increase in SG contribution is a stepped process, which commenced from 1 July 2013 with a 0.25 per cent increase to 9.25 per cent, with a further 0.25 per cent increase scheduled on 1 July 2014. It then increases in increments of half a per cent each year until it reaches 12 per cent on 1 July 2019.

1.66 Under this option the ramp-up in the Superannuation Guarantee contributions rate will be delayed by two years. The SG will remain at 9.25 per cent until 30 June 2016, increase to 9.5 per cent on 1 July 2016 and then increase in increments of half a per cent each subsequent year until it reaches 12 per cent on 1 July 2021 (instead of 1 July 2019). The currently legislated increases and the increases proposed under this option are set out in the table below.

Financial Year	*13-14*	*14-15*	*15-16*	*16-17*	*17-18*	*18-19*	*19-20*	*20-21*	*21-22*
Current	*9.25*	*9.5*	*10*	*10.5*	*11*	*11.5*	*12*	*12*	*12*
Proposed	*9.25*	*9.25*	*9.25*	*9.5*	*10*	*10.5*	*11*	*11.5*	*12*

1.67 This option involves the current SG rate of 9.25 per cent being retained for two years longer than currently legislated. Given that increases in the SG are funded largely from reductions in take-home wages or business profits, re-phasing the SG could boost near-term economic activity. Any reductions in businesses' overall wages bills would lower their operating costs, while employees could also receive more take-home pay in the near term.

1.68 Wages may have already been negotiated for some employees beyond 1 July 2014 on the basis of the legislated increases in SG. In this case, the employer could benefit from lower employment costs, which could increase their short term viability and ability to employ or retain people.

1.69 Delaying the increase in the SG rate for two years is not expected to have a significant impact on individuals' retirement incomes as the increase in contributions in the absence of the delay and the period the increase is postponed are not significant. The SG rate will still gradually increase over time to 12 per cent enabling individuals to achieve a higher retirement income than if the increase were repealed altogether.

1.70 Moreover, the change will not impact on those employees who already receive superannuation contributions at a rate above the prescribed minimum. In addition, individuals who wish to save more for their retirement can continue to do so by making additional salary sacrifice contributions or after-tax contributions.

1.71 Given that the magnitude of the increase being delayed is small and the period over which the increase is being delayed is only two years, the net impact of the delay in the increase in the SG on national savings, if any, is expected to be small.

1.72 The magnitude and length of the delay reflects the trade-off between seeking to provide a benefit to business through reduced business costs and repairing the budget position versus increasing individuals' incomes in retirement. Further postponements in the increase in the SG or abolishing the increase could be expected to result in continued positive impact on business costs, although over time the impact of lower superannuation contributions would be expected to be reflected in higher wages. However, this would come at the cost of more significant reductions in individual's retirement savings.

1.73 As the change applies to the SG rate only and employer procedures should essentially remain the same, the hours required for businesses to adjust to the rate change was assessed as zero and therefore the effective compliance cost has been assessed as zero. By way of verification a quantitative assessment of the measure's compliance cost was undertaken using the ATO's Business Compliance Cost Assessment which found the compliance cost too small to meaningfully measure.

(g) Abolish the Low Income Superannuation Contribution (LISC) on eligible contributions from 1 July 2013

1.74 The low income superannuation contribution (LISC) is a payment designed to effectively refund the 15 per cent tax on concessional contributions (such as superannuation guarantee contributions) for eligible individuals with incomes of $37,000 or less. The maximum LISC payment in any year is $500. The LISC commenced for contributions made in the 2012-13 income year.

1.75 As a result of this payment, most low income earners who receive the LISC effectively pay no tax on their concessional superannuation contributions.

1.76 This proposal seeks to abolish the LISC being paid for eligible concessional contributions made on or after 1 July 2013. Hence, only payments relating to the 2012-13 income year will be made. However, regardless of the year an income tax return is lodged, determinations for payment of the LISC (including underpayments) will not be made after 30 June 2015.

1.77 As a result of this option, eligible individuals would receive up to $500 less each year in contributions from the Government and ultimately have lower superannuation savings upon retirement. It is unlikely to significantly change the amount of concessional superannuation contributions received by superannuation funds. The Government has publicly committed to revisit superannuation incentives for low income earners once the Budget is back in a strong surplus.

1.78 The LISC is administered by the Australian Taxation Office (ATO). Typically payments are made by the ATO to superannuation funds or the individual where no superannuation fund exists. This option would have no impact on employers and superannuation funds would be required to receive and process fewer payments each year.

1.79 The net impact on compliance time, and therefore the effective compliance cost, has been assessed as zero. By way of verification a quantitative assessment of the measure's compliance cost was undertaken

using the ATO's Business Compliance Cost Assessment which found the compliance cost too small to meaningfully measure.

(h) Abolishing the Income Support Bonus

1.80 The proposal to abolish the Income Support Bonus is an election commitment and is part of a broader package to remove the Minerals Resources Rent Tax and associated expenditure.

1.81 This proposal will abolish all future payments of the Income Support Bonus from Royal Assent of the legislation.

1.82 There will be no regulatory impact on business activity, the not-for-profit sector or individuals resulting from the cessation of the Income Support Bonus.

(i) Abolishing the Schoolkids Bonus

1.83 From 1 January 2014, this measure will abolish the Schoolkids Bonus, an annual payment of $410 for each qualifying child in primary school, and $820 for each qualifying child in secondary education, payable over two instalments.

1.84 There will be no regulatory impact on business activity, the not-for-profit sector or individuals resulting from the cessation of the Schoolkids bonus.

Other measures

1.85 The measure to phase down Interest Withholding Tax from 2014-15, which applies to financial institutions was not enacted and will not be proceeded with. Discontinuing the Regional Infrastructure Fund (RIF) does not require legislation.

1.86 There will be no regulatory impact on business activity, the not-for-profit sector or individuals resulting from the cessation of the RIF or from not proceeding with the phase-down of interest withholding tax.

Consultation

1.87 The draft Minerals Resource Rent Tax and Other Measures Bill was released by the Government for public consultation on 24 October 2013 with a joint press release from the Treasurer, Minister

Cormann and Minister Macfarlane, calling for submissions by 31 October 2013. Sixty one submissions were received in total.

1.88 The draft Bill was placed on the Treasury website and relevant industry associations were invited by Treasury to engage in direct dialogue on the Bill in addition to making a submission if the association so chose.

1.89 Treasury invited the associations to comment on the legislation itself, on the impact of the legislation on the association's members, on the legislation's effect on investment and compliance costs, and on the broader costs/benefits to the community.

1.90 For the resources industry, the industry associations contacted were the Association of Mining and Exploration Companies, the Minerals Council of Australia, and the Australian Petroleum Production & Exploration Association.

1.91 The estimates of compliance cost savings for mining and exploration companies resulting from the repeal of the MRRT were informed through direct consultation with the Minerals Council of Australia (MCA) and the Association of Mining and Exploration Companies (AMEC).

1.92 The MCA's written submission supported the repeal of the MRRT Act and MRRT Imposition Acts. In addition, the MCA submission raised issues in relation to Schedule 1 of the exposure draft Bill. These issues related to the potential for the PRRT to apply to incidental gas produced from discrete coal mining operations, and the compliance burden associated with specific transitional provisions. Amendments were made to the final Bill to address these concerns.

1.93 The ACTU opposed the MRRT repeal, noting in its submission its support for the MRRT's predecessor the Resource Super Profits Tax, and that: "while the subsequent MRRT arrangements were flawed in some important respects, they nevertheless acted to secure some of the return that the Henry review panel had thought fair and legitimate for the community to expect". The Australia Institute also opposed the MRRT repeal, noting that the mining industry is one of the most profitable in Australia and argued that it is appropriate that the Australian community receive an appropriate return for resources extracted.

1.94 Submissions were received in relation to the changes to superannuation, welfare support, infrastructure funding, and business tax concessions.

1.95 Although the measures are expected to have a negligible compliance or regulatory impact on industry and households, consistent with expectations, submissions generally focus on the direct rather than the regulatory impact of the proposals

1.96 For the superannuation industry, the industry associations contacted were the Australian Council of Social Services, the Australian Institute of Superannuation Trustees, the Financial Services Council, the Industry super Network, the Association of Superannuation Funds of Australia Limited, Mercer and the Financial Planning Association of Australia.

1.97 The Council of Small Business Australia was invited to present views for small businesses and for business generally, the Australian Chamber of Commerce and Industry, the Australian Industry Group, the Institute of Public Accountants, the Institute of Chartered Accountants Australia, CPA Australia and the Tax Institute of Australia were contacted.

1.98 The Association of Superannuation Funds Australia, Women in Super and some community groups and unions expressed concerns that delaying the increase in the SG rate will reduce the adequacy of Australia's retirement income savings. The Financial Services Council and the Australian Institute of Superannuation Trustees understood the need to delay the SG increase in the near term but supported the rate reaching 12 per cent by 1 July 2021.

1.99 Superannuation industry bodies universally opposed the abolition of the LISC, but suggested that, if the LISC was to be repealed it should be from 1 July 2014 or, in one case a 'pause' instead be introduced, by amending the date from which fund members can accrue an entitlement to a LISC payment to 1 July 2017 to allow the Budget position to first strengthen.

1.100 The cessation of the low income superannuation contribution was generally not supported by industry bodies.

1.101 Business organisations generally were not supportive of measures to reduce the instant asset write-off to assets costing less than $1,000, removing the accelerated depreciation arrangements available to small businesses for motor vehicle purchases, and repealing the company loss carry-back provisions. Some submissions did note, however, the Government's stated intention to have a more comprehensive review.

1.102 Ai Group did not support the repeal of the loss carry-back provisions and the reduction in the small business asset write off threshold. Its submission claimed that these measures "have a strong

policy rationale and their retention would boost investment and cash flow to the particular benefit of smaller businesses; to the general benefit of the broader economy; and the commensurate growth of the tax base over the medium term".

1.103 Submissions made by welfare, community groups and unions, including the United Sole Parents of Australia, the Future Party, Uniting Care, and the NSW Nurses and Midwives' association expressed concern at the termination of the LISC, the Income Support Bonus and the Schoolkids Bonus. A large number of individual submissions were also made critical of the cessation of these payments.

Conclusion and recommended option

1.104 The MRRT repeal legislation package will meet the Government's election commitment to repeal the MRRT and to discontinue or re-phase the superannuation, tax and spending measures that were intended by the former Government to have been funded by revenue from the MRRT.

1.105 The package will reduce the compliance cost on industry and promote activity in the mining sector by abolishing the MRRT and it will secure a structural improvement in the Budget by discontinuing or re-phasing those programs introduced in association with the MRRT, the costs of which were intended to be met via MRRT revenues.

Implementation and review

1.106 The repealing legislation will be introduced in the Spring 2013 Sittings.

1.107 As the MRRT repeal has been assessed by the OBPR as a 'B' category measure, a review of the measure will be required within five years.

Repeal the Minerals Resource Rent Tax on and from 1 July 2014

1.108 The proposal will require the *Minerals Resource Rent Tax Act 2012*, *Minerals Resource Rent Tax (Imposition General) Act 2012*, *Minerals Resource Rent Tax (Imposition—Customs) Act 2012*, and the *Minerals Resource Rent Tax (Imposition—Excise) Act 2012* to be repealed. The proposal will also require part of the *Minerals Resource*

Rent Tax (Consequential Amendments and Transitional Provisions) Act 2012 to be repealed.

1.109 The repeal of the MRRT will also require consequential amendments to the *Petroleum Resource Rent Tax Assessment Act 1987* to remove references to the MRRT that would otherwise extend the application of the PRRT.

1.110 As many taxpayers are due to lodge their first MRRT returns on 1 December 2013, the Australian Tax Office will implement administrative arrangements to minimise compliance costs in the interim period prior to the repeal of the MRRT.

Repealing the loss carry-back arrangements

1.111 Amendments to the ITAA 1997 will be required. The repeal of loss carry-back will take effect from the 2013-14 income year onwards (for most companies, this means 1 July 2013 onwards).

1.112 Repealing loss carry-back from the 2013-14 and later income years will mean that the first year of revenue impact will be in 2014-15.

1.113 If the repeal is not enacted by 30 June, taxpayers will be able to claim the offset in 2013-14 tax return and be subject to an amended assessment after enactment.

Reducing the instant asset write-off threshold to $1000 from 1 January 2014

1.114 The reduction in the value of the instant asset write-off threshold will require amendments to *the Income Tax Assessment Act 1997* (ITAA 1997).

1.115 The ATO will issue additional guidance material for small business entities so they are aware of the changed arrangements. The ATO will also implement risk mitigation strategies so that assets are given the correct tax treatment and fraudulent claims are minimised.

1.116 Should the amending legislation not secure passage before 31 December 2013 then the change to the instant asset write-off will have some retrospective application. However, given that this policy has been clearly communicated to the public, any retrospective application is unlikely to have severe negative consequences for small businesses.

1.117 The repeal needs to be enacted by 30 June 2014 otherwise taxpayers will be able to claim the current instant asset write-off amount

in their 2013 14 tax return and be subject to an amended assessment after enactment.

Discontinuing the accelerated depreciation arrangements for motor vehicle from 1 January 2014

1.118 The removal of the accelerated depreciation arrangements for motor vehicles will require amendments to the ITAA 1997.

1.119 The 1 January 2014 commencement date will involve some minor transitional compliance costs for small business entities as they adjust to the new arrangements.

1.120 The ATO will issue additional guidance material for small business entities so they are aware of the changed arrangements. The ATO will also implement risk mitigation strategies so that assets are given the correct tax treatment and fraudulent claims are minimised.

1.121 Should the amending legislation not be given royal assent before 31 December 2013 then the removal of the accelerated depreciation arrangements for motor vehicles will have some retrospective application. However, given that this policy has been clearly communicated to the public, any retrospective application is unlikely to have severe negative consequences for small businesses.

1.122 The repeal needs to be enacted by 30 June 2014 otherwise taxpayers will be able to claim the current accelerated depreciation amount in their 2013 14 tax return and be subject to an amended assessment after enactment.

Discontinuing the inclusion of geothermal exploration within the wider definition of exploration

1.123 Implementing this measure will involve repealing amendments made to the *Income Tax Assessment Act 1997*.

1.124 Legislation will need to be introduced in the Spring 2013 Sittings to meet the Government's 100 day commitment.

Re-phasing the Superannuation Guarantee by two years

1.125 The proposal would be delivered by amending the *Superannuation Guarantee (Administration) Act 1992* to modify the SG charge in each year. The SG charge applies where employers have not made the minimum prescribed superannuation contribution for their eligible employees on time.

1.126 If this change is not passed before 1 July 2014, employers will be required under existing law to pay their eligible employees a SG contribution of 9.5 per cent or incur penalties.

1.127 To reduce this risk, it is intended to introduce the legislation into Parliament in the Spring 2013 Sittings to change the currently legislated increases in the SG. The earlier legislation is passed the sooner businesses and employees will have certainty over future employment costs, which will be good for confidence, business viability and employment.

Abolish the Low Income Superannuation Contribution (LISC) on eligible contributions from 1 July 2013

1.128 The Australian Taxation Office (ATO) currently administers the LISC. The ATO makes the payments to superannuation funds for eligible individuals, and where a superannuation account no longer exists directly to individuals.

1.129 Legislative amendments will be required to the *Superannuation (Government Co contribution for Low Income Earners) Act 2003* to abolish the LISC.

1.130 As a result of these changes, the LISC will not be payable in relation to eligible contributions made on or after 1 July 2013. As the LISC is typically made in the year or so after the contribution is made, the ATO will not have made payments for 2013 14.

1.131 The ATO will not make LISC determinations after 30 June 2015. By this time, almost all individuals eligible for LISC payments would have been paid.

1.132 The Commissioner of Taxation is also required to give the Minister quarterly and annual reports to be tabled in Parliament with details about the beneficiaries and amount of LISC paid. Under the proposed changes, these reporting obligations will cease (in respect of all LISC payments, even those in relation to the 2012 13 income year) once the bill receives Royal Assent.

Abolishing the Income Support Bonus

1.133 Abolishing the Mining Tax Supplementary Allowance (Income Support Bonus) will require legislative amendment to the *Social Security Act 1991*, *the Social Security (Administration) Act 1999*, *the Farm Household Support Act 1992* and the Education and Training Scheme and the *Income Tax Assessment Act 1997*.

1.134 The Department of Veterans Affairs (DVA) also needs to amend legislative instruments that sit under the *Veterans' Entitlements Act 1986* and the *Military Rehabilitation and Compensation Act 2004* and will progress this separately.

1.135 The Department of Social Services (DSS) and Department of Agriculture are jointly responsible for the Income Support Bonus. DSS, in conjunction with policy agencies, will be responsible for leading the implementation of the measure.

1.136 The Department of Human Services (DHS) and DVA, as service delivery agencies, in conjunction with the relevant policy departments, will be responsible for developing a communication strategy for affected recipients. Existing DHS-DSS governance arrangements for the administration of working age payments would be utilised to implement and monitor this proposal. In addition, existing stakeholder relationships between DHS and DVA will be utilised to manage implementation across affected service delivery agencies.

Abolishing the Schoolkids Bonus

1.137 This measure will be subject to the ongoing review processes that are already in place to monitor any issues that may impact family assistance. These include program management information reports submitted by DHS as well as Ministerial correspondence and public enquiries through the Government's websites.

1.138 The key performance indicator for assessing the success of this proposal is the realisation of savings by a reduction in expenses and better targeting of assistance to those most in need.

1.139 DHS' post-implementation delivery of the proposal would be monitored through the Bilateral Management Arrangement between DHS and DSS. A review is not required.