Australian government's new mining tax raises zero revenue

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The mining giants in Australia paid no tax during the first three months of the Labor government's new Minerals Resource Rent Tax (MRRT).

The debacle comes as little surprise, given that Prime Minister Julia Gillard had mining executives personally draft the new tax after she ousted Kevin Rudd in June 2010 and junked the proposed "super profits" tax. The quarterly revenue report nevertheless appears to wipe billions of dollars off government budget forecasts, with the shortfall sure to trigger further regressive spending cuts aimed at delivering the surplus in next May's budget that Labor has pledged the financial markets.

The MRRT was initially forecast to raise $10.6 billion over four years. Treasurer Wayne Swan projected a first year revenue intake of $3.7 billion in the May budget, but this was written down to $2 billion in last week's mid-year budget update. This update was released a month earlier than usual, apparently to pre-empt the first quarter MRRT announcement. If, as is widely expected, MRRT revenues for the next three quarters are also zero or near-zero, the government will have to deliver at least another $2 billion in cuts and savings if the small surplus is to be delivered as forecast next year.

Swan dismissed the first quarter MRRT announcement, insisting that the $2 billion revenue forecast was still realistic—but he provided no explanation for this confidence in his budget update predictions. The treasurer insisted that the MRRT was working as it was supposed to, with revenue raised only when high profits were being generated by the largest mining companies.

Only iron ore and coal mining companies generating annual profits of more than $75 million are potentially subject to the MRRT's effective tax rate of 22.5 percent. The end of the commodity price boom has led to a sharp shift across the Australian economy, with several planned mining investments junked, mounting job losses, and a stepped-up drive to reduce wages and impose new productivity speedups on mine workers. The downturn is not primarily responsible for the MRRT's failure to raise any revenue, however, with the Gillard government's myriad offsets and rebates built into the tax instead allowing even highly profitable mining giants to pay no additional tax.

The price of metallurgical coal has plunged by about 55 percent in the last three months, and thermal coal is down by about 40 percent. According to the *Australian*, this has resulted in 30-40 percent of the local coal industry losing money. The largest coal producers are nevertheless generating profits. In August Xstrata reported a $1.95 billion half-year net profit, down from $2.9 billion a year earlier.

Iron ore producers are still raking in enormous sums. The ore price has recently rebounded from $90 a tonne to about $120 a tonne. This is lower than the record-high $190 a tonne reached in February 2011, but is still historically very high. BHP Billiton reported in August an annual profit of $15 billion. In the same month, Rio Tinto reported a half-year profit of $5 billion.

According to the *Australian* last week, BHP and Rio would pay a nominal sum towards the MRRT. "They will be doing so out of a sense of obligation because of their role in designing the tax," the newspaper claimed. "Company sources say the liability could have been calculated at zero, or even yielding a net credit, but the two resource giants felt beholden to make some payment since they had such a large role in brokering the deal over the tax."

As it turned out, the only sense of obligation driving by BHP and Rio executives was that of maximising profits for their shareholders.

The Treasury department is yet to officially respond to the first quarter revenue result, and the mining companies have not issued their financial reports that will detail exactly how they avoided paying any tax. Mining and taxation analysts cited in the media referred to the many different ways in which the miners can offset the MRRT.

Any mining royalties charged by state governments are automatically deducted from the federal rent tax. This year, state Liberal governments in Western Australia, Queensland, and New South Wales have increased their royalty rates, affecting the MRRT. Another major MRRT offset is on the value of mining investments, which are transferable across a company's operations. So the value of an investment in one new mine site can offset the super profits made at other operational mining projects, which means the company is not subject to the MRRT.

The Gillard government also agreed to allow the mining companies to offset the new tax against the depreciation of their capital assets assessed at market value, rather than the far lower book value. This mechanism directly contradicts Swan's claim that the MRRT will raise revenue when profits are high. The market value of a mining company's capital assets is dependent on the price of the commodity being mined—very high mineral prices generally see mining assets valued very highly.

That is why in April this year, before the mineral commodity plunge, an article in the *Australian*, "Revenue fear as miner ducks tax," reported: "Because iron ore prices are at record highs, miners should be able to justify fairly high market prices for their operations, and therefore bigger shields. In essence, the higher the value put on the assets, the greater the depreciation deduction, the lower the level of the tax impost."

The MRRT was always a con job. From Gillard's first day as prime minister she made clear her intention to deliver everything that the mining giants demanded. According to former Fortescue Metals chief Andrew Forrest, Gillard and Wayne Swan stitched up a deal with BHP Billiton, Rio Tinto and Xstrata even before the anti-democratic Labor Party coup was carried out on June 23-24, 2010 (see: "Australian mining magnate accuses PM of secret minerals tax deal").

Rudd's proposed 40 percent "super profits" tax was a pro-business initiative, aimed at redistributing some of the unprecedented wealth being generated in the mining sector to other sections of corporate Australia. The mining companies nevertheless waged a ferocious campaign against the measure. They were determined to oppose any deduction on their profits, while also sending a clear warning to other politicians internationally who were inclined towards so-called "resource nationalism". Just a month after Rudd's removal, Rio Tinto CEO Tom Albanese delivered a speech warning policy makers around the world to "think carefully" about the "risk of the Australian approach". The coup was bound up with several factors—including the Obama administration's hostility towards Rudd's failure to entirely line up with it against China—but the mining companies' campaign played a major role in creating the conditions for the leadership change.

Within days of becoming prime minister, Gillard announced a deal with BHP, Rio, and Xstrata, with recently retired BHP chairman Don Argus appointed to draft the new watered down mining tax. The end result, a tax that no mining company is obliged to pay, exposes the government's bogus rhetoric about "spreading the benefits" of the mining boom and looking after the interests of "working families". In reality, Gillard heads a minority government that is the bought and paid for representative of big business and finance capital.