

The Secretary  
Senate Economics Legislation Committee  
Parliament House, CANBERRA 2600  
October 31, 2012

Dear Sir,

## Much hissing: no feathers

### A submission by Prosper Australia to the Inquiry into the *Minerals Resource Rent Tax Amendment (Protecting Revenue) Bill, 2012* (not confidential)

“The art of taxation”, according to Jean-Baptiste Colbert, “consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing.” The MRRT, in contrast, has so far yielded no feathers and caused enough hissing to lose an election.

I hasten to add that I am in no position to call anyone a goose. Two years ago, in our submission to the Inquiry into the National Mining Tax ([www.is.gd/vh7Fvm](http://www.is.gd/vh7Fvm)), I repeatedly referred to credits for “sub-normal” profits when I should have referred to credits for *losses*; when these credits are carried forward at the uplift rate but are not refundable, the uplift rate becomes the effective allowance for “normal” (necessary) profit.

Apart from that technical correction, **the earlier submission has been heavily vindicated**. Our suggestion that “*the revenue raised by the new tax from mines in each State should be refunded to that State, subject to abolition of royalties, and with consequential adjustments to horizontal fiscal equalization*” would have avoided the present embarrassment over increases in royalties after 1 July 2011, which the present Bill is designed to remedy. The submission concluded:

By proposing a lightweight and selective RRT which is not capable of displacing any existing tax, the Government has set itself too modest and, ironically, too *difficult* a task. Had the Government proposed to refund the RRT collected in the several States to the respective States, subject to abolition of existing royalties, it could have turned the “States’ rights” argument in its own favour while boasting of the superior efficiency of the RRT. Had it proposed a broad-based economic-rent tax as a replacement for royalties and corporate income tax, it could have deflected all criticisms of the new impost by pointing out that they were more applicable to the old ones. But by failing to offer the elimination of even the existing royalties, let alone corporate income tax, the Government has accepted all the odium for introducing a new tax and none of the kudos for abolishing old ones.

To which we can now add: “and none of the revenue that a new tax is supposed to yield!”

One could put a brave face on it by saying that the yield from a super-normal-profit tax is always going to be volatile. Indeed it is. The same is true, to a lesser degree, of company tax. Therefore the revenue from profit-based taxes should not be relied upon for the ordinary annual expenses of government, but should be saved for long-term goals—such as superannuation—so that short-term fluctuations have time to average out.

Meanwhile the Government imposes an employer-funded superannuation system which is equivalent to a Federally funded system paid for by a Federal payroll tax. While we do not condone payroll tax under any circumstances, we cannot help noticing that a payroll tax yields one of the *least* volatile revenue streams. (So does land tax, which is far more efficient than payroll tax.)

Thus the Government not only has Colbert back-to-front, but is spending revenue streams that should be saved and vice versa.

Yours sincerely,

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