Minerals Resource Rent Tax Amendment (Protecting Revenue) Bill 2012: Submission

The Henry Review of taxation recommended a resource rent tax, levied at the national level to replace royalties levied by states. There were two main reasons for this recommendation

* Standard economic analysis showing that a resource rent tax is more efficient
* The fact that existing royalties did not yield an adequate return to the Australian people
* In addition, it may be observed that the basis of the long-standing system of financial equalization is an assumption that all Australians, wherever they live, are entitled to equal treatment by government. This point is the main focus of this submission

Following a successful political campaign against the proposed Resource Super Profits Tax, which would have implemented the Henry recommendations, mineral resources may be subject both to royalties levied at the state level and to the Commonwealth Minerals Resource Rent Tax.

This duplication raises the possibility that state governments, by increasing royalty rates, may reduce revenue under the MRRT. The proposed legislation, which would preclude this possibility, should be supported.

Under Australian law, minerals are the property of the Crown. Historically, 'the Crown' has been understood to be represented by the state in which the minerals are located, implying that residents of mineral-rich states are entitled to derive benefits not available to others.

However, under the system of fiscal equalization implemented through the Grants Commission since 1933, the Commonwealth is required to redistribute resources so as to ensure a starting position of fiscal equality between states. The introduction of the Grants Commission was, in part, a response to dissatisfaction with existing arrangements among residents of Western Australia, reflected in the passage of a referendum advocating secession from the Commonwealth. Historically, fiscal equalization has worked to the benefit of WA and Queensland, offsetting the high costs of providing services to a sparsely distributed population.

A situation where the governments of mineral-rich states can gain revenue at the expense of the Commonwealth, and therefore ultimately at the expense of other states is antithetical to the principles of fiscal equalization. Any such gains would ultimately be undone through the operations of the Grants Commission. In the meantime, however, the effect would be to compromise still further the operation of the MRRT, which remains more efficient and equitable than royalties. The proposed legislation should therefore be supported

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