The fortnight of Parliamentary sittings which begins tomorrow will be quite a change of scene after spending the last week and a bit travelling around the country talking to businesses and locals about our disciplined Budget which returns to surplus three years early, as well as our tax reform package to boost national savings, cut business taxes especially for small business, and invest in infrastructure. I know how important it is that we bring the community with us by talking widely about the benefits these initiatives will bring for their families and our nation's economic prosperity. Over the past week I've met with retirees in the electorate of Swan in Perth with Tim Hammond; talked with shoppers in the electorate of Boothby in Adelaide with Annabel Digance; visited teachers, students and tradies in the electorate of Greenway in Sydney with Michelle Rowland; and opened a community centre in the electorate of Deakin in Melbourne with local MP Mike Symon.

Budget Roadshow

I spent a lot of time talking to owners of businesses of all sizes last week. Keynote addresses in Perth, Adelaide and Sydney provided a great opportunity to reflect on our economic successes over the past 18 months and map out our future plans. While we see continuing global turbulence and economic instability in countries like Greece, we know that our own economy is the strongest in the developed world and is backed up by a robust and resilient financial system. The responsible economic management on display in the Budget means we'll return to surplus ahead of every major advanced economy. And just this week it was reported that Australia is among the world's top five most competitive economies according to the World Competitiveness Yearbook.

Last week's speeches also focused on the new initiatives we are introducing using the proceeds of the Resource Super Profits Tax (RSPT). In Perth I spoke about our new infrastructure fund worth some $5.6 billion over the next decade, which will be distributed in a way that recognises the large infrastructure needs of the resource-rich states. In Adelaide I talked about our plans to grow the whole economy by cutting the company tax rate to 29 per cent in 2013-14 and 28 per cent in 2014-15, and giving small businesses a head-start in the cut to the company tax rate to 28 per cent in 2012-13 and an instant write-off for assets worth up to $5,000 from 2012-13. Last week we also saw the Key Government in New Zealand announce it is cutting the company rate to 28 per cent, which just highlights that company tax is on the way down in our region and underscores the need for Australia to take action to stay competitive. In Sydney I discussed how we will boost national savings by introducing a range of superannuation reforms and a 50 per cent tax discount on the first $1,000 of interest earned on a variety of savings products.

RSPT Myths

I want to use today's note to clear up a few myths that are doing the rounds on our new RSPT. The first is that it will reduce investment. The fact is that replacing an inefficient tax like royalties with an efficient tax like the RSPT will drive investment, growth and jobs going forward. As discussed in this article by Peter Martin, when asked this week whether the RSPT would discourage foreign investors, OECD Secretary-General Angel Gurria said Australia would remain an attractive destination for investment because "what drives investors is not necessarily that they are going to pay higher or lower tax but the availability of raw materials."

Another myth out there is that the RSPT will harm existing projects. The truth is that mining companies will receive generous recognition of their past investment costs, and the "generous transitional arrangements" we flagged with the announcement. The stability of the RSPT will also give miners certainty going forward, in contrast to the current situation where state royalties are subject to unpredictable change.

There's also a misconception in some parts that the RSPT will cause consumer prices to rise. Independent modelling by KPMG Econtech shows the RSPT won't increase prices. After all, the vast majority of the minerals subject to the RSPT – like iron ore in the Pilbara – are shipped overseas at prices set on world markets. For those minerals that are sold on domestic markets, Treasury analysis confirms that as the RSPT is a resource rent tax falling only on economic rents, it should not affect the prices of gas and coal (and therefore electricity). The Department of Resources, Energy and Tourism has also advised that it expects there will be no significant effect on electricity prices from changed tax arrangements under current contracts between coal miners and electricity generators. In fact the KPMG Econtech modelling shows our tax reform package – including the RSPT and our cuts to company tax – will actually reduce the price of food and housing over time by making our economy more competitive.

The last myth I want to deal with is that the RSPT is a triple tax on mining – coming on top of royalties and company tax. In actual fact the RSPT effectively replaces royalties, as firms will receive a refundable tax credit for the amount they pay in royalties. If a firm's royalty payments are higher than their RSPT liability, we will actually give them a cash refund of the difference. This is one of the reasons why less profitable projects – including those marginal projects where there is some uncertainty as to whether they will go ahead – will actually be better off under the new arrangements.

All companies in Australia are required to pay company tax. But very few businesses receive as their primary input the non-renewable resources that belong to the Australian people. The purpose of the RSPT is to ensure Australians receive fair value for these non-renewable resources that miners extract from *our country.* No other business would try to argue that they should get their primary input for free courtesy of the Australian people just because they pay company tax – and neither should Australia's largest mining companies. This common sense reality is reflected in the fact that miners have always had to pay royalties to reflect the value they are receiving from our national resources. What we have announced is replacing those royalties with a more efficient profits-based tax. And when it comes to calculating the amount of company tax that a miner is required to pay, we will allow them to claim their RSPT payments as a tax deduction.

It's also the case that mining companies operating in Australia get a big discount on the company tax they pay because of very generous tax concessions they get at the expense of Australian taxpayers. Independent analysis quoted in the Australia's Future Tax System review estimated the effective tax rates faced by companies in various industries in a number of countries, using financial statement information over the period 2003 to 2007. It found that in Australia, wholly-domestic mining companies paid an effective tax rate of only 17 per cent and multinational mining companies paid an effective tax rate of only 13 per cent – both dramatically below the headline company tax rate of 30 per cent. Compare that to wholly-domestic companies in the retail industry which pay 27 cents of company tax in each dollar, or those in the manufacturing industry which pay 25 cents in each dollar they earn. You can find these figures and those for other industries and countries on page 44 of the study. In our tax system, an ordinary worker who earns an extra dollar through their hard work pays higher tax, but a mining company that earns massive amounts pays the same flat, low rate of company tax. That's simply not fair on the Australian people, which is just another reason we are so determined to deliver on our historic tax reforms.

RSPT Consultation

The Resource Tax Consultation Panel has been engaging with the resource industry since the announcement of the RSPT three weeks ago today. The Panel has already met with eight large resource companies, six industry and tax associations and representatives of the state treasuries, and is scheduled to meet with another ten large resource companies and three industry and tax associations over the coming weeks. The Panel Secretariat has also been meeting with industry representatives on the Panel's behalf, with this consultation to increase significantly over the next few weeks as the Secretariat starts resource tax workshops in state capitals.

From the day I announced the Resource Super Profits Tax I've said we would have a genuine and mature consultation with the mining companies within the framework we announced. I said at the time "extensive and ongoing consultation with industry will be undertaken to identify the design details that would best deliver the Government's policy intent". We also said on that same day we anticipated a very big, very well-funded scare campaign. Recently we've seen that scare campaign unfold in much the same way it unfolded when a similar 40 per cent profits-based tax was introduced on petroleum over two decades ago. Of course that industry went on to grow and flourish. So we will not be deterred by this scare campaign from consulting to get the best outcome for both the mining sector and the Australian community. Nobody should doubt the Government's resolve to make sure the community gets a fair share of the mineral resources that belong to the Australian people, not the mining companies.

Wayne Swan
Treasurer of Australia
Sunday 23 May 2010

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