



Australian Government

The Treasury

COSTING MINUTE

Date: 1/12/2009
Ref: CQAU 2009-247
File:

To: Shane Johnson, Australia's Future Tax System
Cc: Katherine Tuck, Australia's Future Tax System

TITLE AFTS proposal - Flow through shares for exploration companies

SUMMARY OF PROPOSAL

Intent of the proposal

The Australian Government asked the review to consider a proposal to promote exploration investment by adopting flow-through shares schemes for smaller operators in the gas, oil and mineral exploration industries.

Current taxation treatment/problem

The current treatment of tax losses puts small exploration companies at a competitive disadvantage relative to larger, more diversified companies and to business investments in other sectors. This is because losses generated by exploration companies often cannot be used to offset other taxable income. At the same time, the immediate deduction for exploration expenses generates non-economic tax losses when exploration is successful.

Proposed taxation treatment

The existing tax bias arising from the treatment of losses could be addressed by using a targeted, company level approach to increase loss utilization.

For example, it would be possible to allow the company an election to defer taking a deduction in respect of exploration expenditure (effectively allowing loss transfers) or to provide a refundable tax offset for designated expenditure set by reference to the company income tax rate.

The proposal would be to introduce a refundable tax offset at the company level for exploration expenses incurred by exploration companies, with the offset set at the company income tax rate (it would operate similar to the R&D scheme, without the uplift).

ELEMENTS AND OPTIONS**Elements**

Element ID	Description
A	Assume the immediate deduction for exploration expenditure is replaced with effective life depreciation.
B	Assume the immediate deduction for exploration expenditure is maintained
C	Assume that unlike the R&D scheme excess refunds result in a debt to the franking account balance

Options examined

Option ID	Option	Assumed start date	Was a Departmental Impact Assessment sought?	Was a Tax Regulation Impact (preliminary assessment) sought?
1	A	01/07/2010	No	No
2	B	01/07/2010	No	No
3	B & C	01/07/2010	No	No
4	A & C	01/07/2010	No	No

FINANCIAL IMPLICATIONS**IMPACT ON FISCAL BALANCE - ACCRUAL-BUDGET (\$m)**

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2021-22	-	-190	-210	-230	-240
2	2015-16	-	-250	-260	-270	-290
3	2015-16	-	-180	-180	-190	-190
4	2021-22	-	-190	-200	-220	-230

- Nil

IMPACT ON UNDERLYING CASH BALANCE (\$m)

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
1	2021-22	-	-190	-210	-230	-240

Option ID	Year of Maturity	2009-10	2010-11	2011-12	2012-13	2013-14
2	2015-16	-	-250	-260	-270	-290
3	2015-16	-	-180	-180	-190	-190
4	2021-22	-	-190	-200	-220	-230

- Nil

The costing of each option has been undertaken independently from those of other options, meaning that the costs are not necessarily additive.

RELIABILITY

Medium - Estimates are based on ABS and several assumptions

COSTING DETAILS

Methodology

The revenue impact of each option is calculated and the base revenue currently collected is subtracted to give the estimated revenue impact.

AFTS 2010 cost for option:

1(A) = -\$210m

2(B) = -\$200m

3(B&C) = -\$130m

4(A&C) = -\$200m

Data

ABS data - Cat. 8412

Assumptions

Exploration by juniors represents 45% of mineral and on-shore petroleum and 5% of off-shore petroleum.

Base data growth 8.74 per cent derived from data.

The probability of successful exploration is 20per cent.

New company tax rate is 25 per cent.

ADDITIONAL INFORMATION

Departmental impacts

An assessment of the Departmental Impact has not been requested.

Tax Regulation Impact (preliminary assessment)

A preliminary assessment of the Tax Regulation Impact has not been requested.

All material provided in this minute must be cleared by the Tax Analysis Division incorporated into Executive Minutes, Cabinet Submissions, any other briefing material, or when used for external purposes.

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