

There he goes again

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Speaking in Sydney today, Treasurer Wayne Swan claimed that:

“Mining pays a relatively low rate of company tax compared to its share of the economy. Mining companies currently account for about 30 per cent of corporate gross operating profits, but only around 15 per cent of corporate tax receipts.”

This is not a sensible comparison. Gross operating profit is essentially a cash flow measure; in contrast, corporate tax is payable on the basis of accrual accounting income. As a result, the timing of the two will differ, but in expectation, their present value will be the same (subject to a number of technical conditions about how the accrual accounting system works). When companies are undertaking major investments, their accrual income will be less than their gross cash flow; this will lower their tax payments. But they will still pay the same rate of tax as everyone else – it is simply that the income on which that tax is calculated will be affected by their investments. As a result, it is completely misleading to say mining has a low rate of company tax; it doesn't. And the overall tax rate on mining is in fact higher than its share of the economy because of royalties and now the MRRT.