Resource rent tax | What are the transfer pricing issues?

What are the issues?

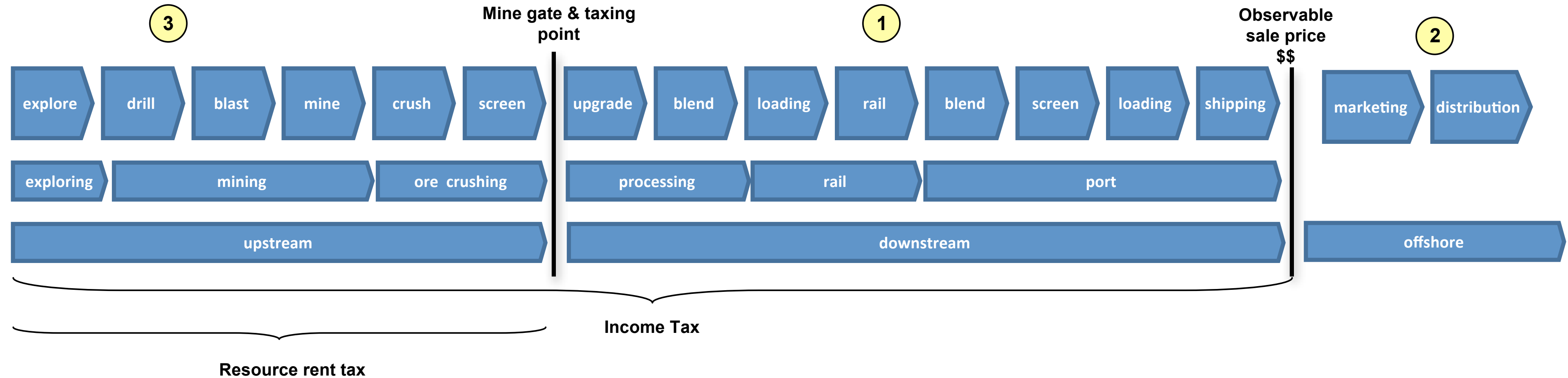
A miner faces three transfer pricing issues, under a self-assessment resource rent tax regime. These are:

1. Downstream
2. Offshore
3. Upstream

The value chain

Below is a generic bulk minerals value chain. The mine gate, taxing point and the point an observable sales price emerge are indicative only. The value chain shows a series of activities that could occur. Some are upstream of the taxing point, typically within the mine gate. Others are downstream of the taxing point; generally activities that could occur beyond the mine gate.

Generic bulk minerals value chain



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1. Downstream

How does the miner establish a value for my ore at the mine gate if they are not making an arm's length sale at this point? In particular how do they establish a value if there are downstream activities being performed by myself or a related party?

In particular, a downstream activity that is priced above the market price will see a too-low price for the ore at the taxing point, a shifting of profit from upstream to downstream activities and an under-collection of resource rent tax. Conversely, setting too low a price on downstream activities will inflate the resource rent tax profit.

2. Offshore

Often the point of shipping will see an observable, arms length price. Sometimes the miner's value chain will extend off-shore, where related parties are providing value-adding activities. Issues arising here may have income tax implications as well as resource rent tax implications.

3. Upstream

Arm's length principles should be applied to upstream as well as downstream activities. If a related party is performing an upstream activity, arm's length principles should be applied to the pricing of these services for tax purposes.

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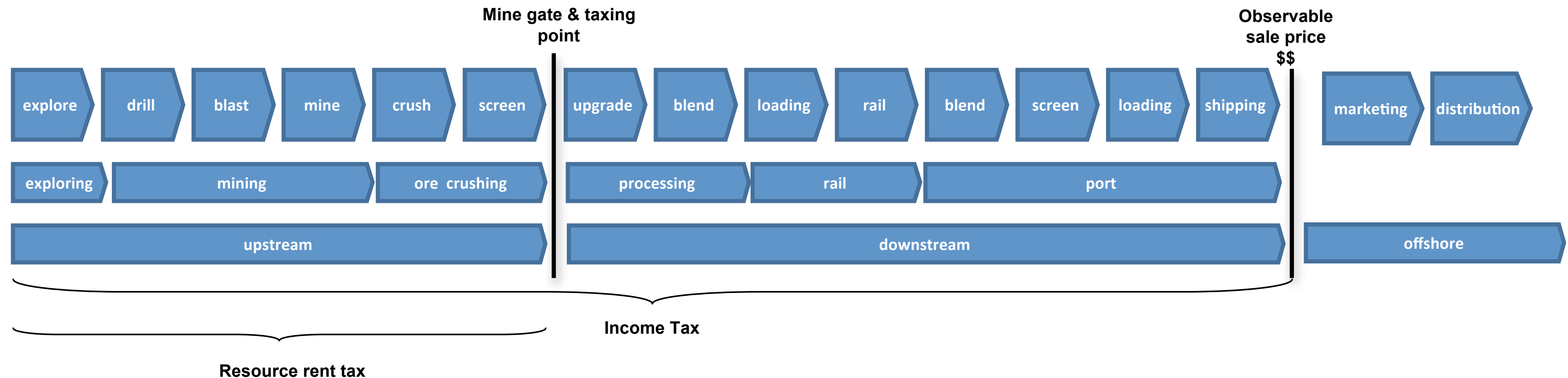
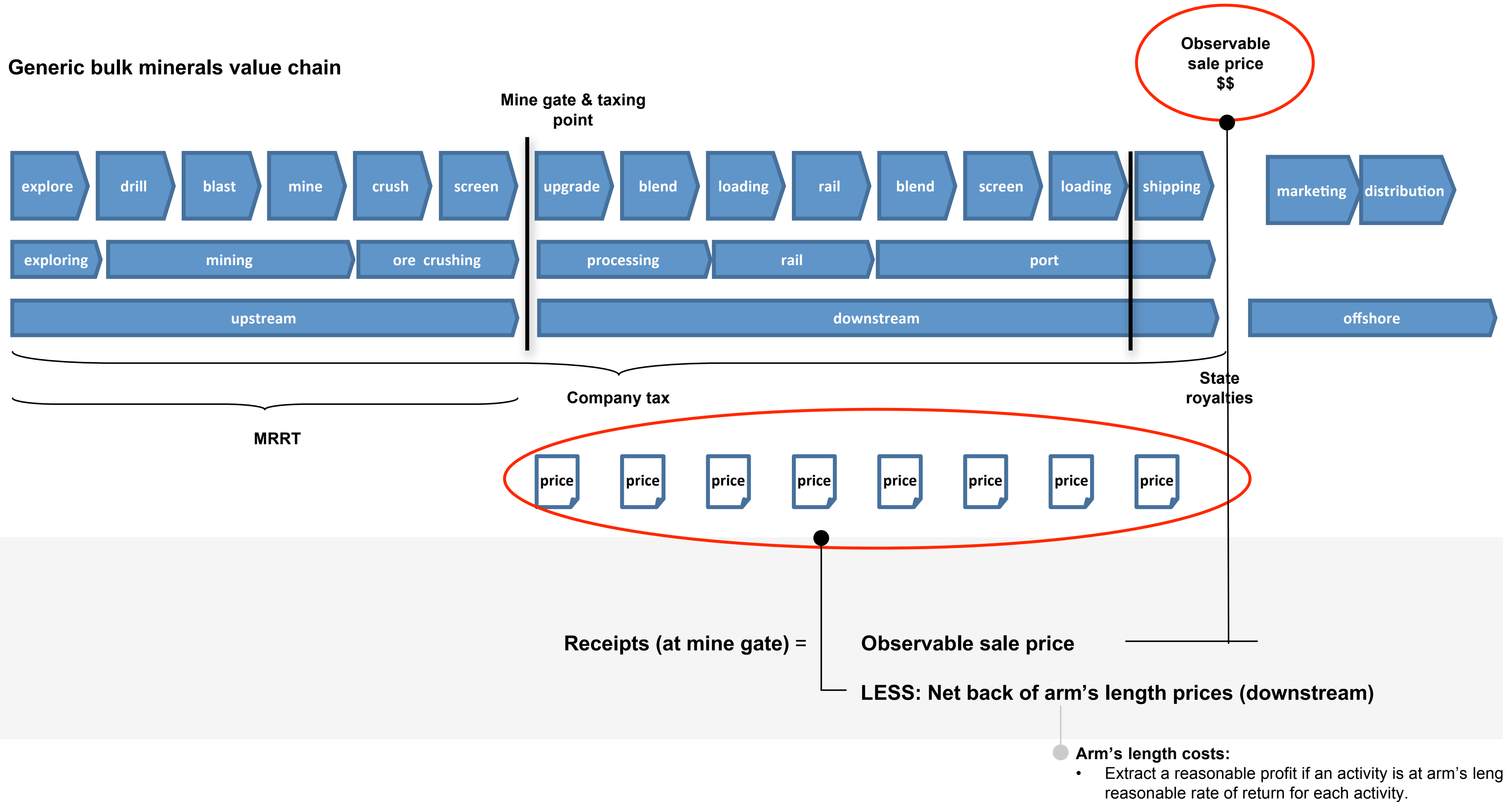
Generic bulk minerals value chain



Resource rent tax | Transfer pricing – downstream: net back

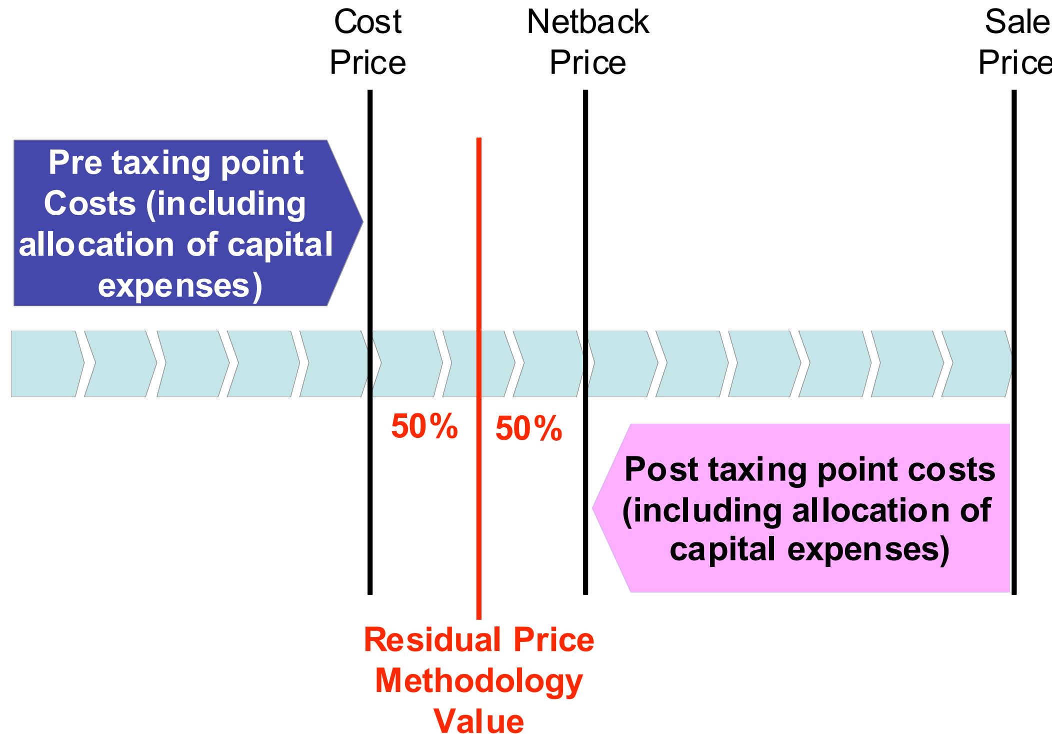
The taxing point for a resource rent tax may be the mine gate. As ore is rarely sold to third parties at the mine gate, there is a need to look for an observable price downstream and 'net back' to the mine gate. The diagram below attempts to explain the 'net back' concept.



Petroleum resource rent tax | Gas to liquid transfer pricing

The residual price method is used in the Petroleum resource rent tax (PRRT) for integrated enterprises that extract gas and liquefy it before transportation.[1] Under the PRRT residual price method, the entity would work out the minimum price at which it would have to sell the resource to recover its extraction and other pre-taxing point costs (including a portion of its relevant capital costs). It would also take the sale price of the resource (or its arm's length equivalent) and reduce it by its post-taxing-point costs. The point half way between those two figures is assumed to be the value of the resource at the taxing point (on the basis that profit is allocated equally between the pre and post taxing point stages Figure 5.3). Where the netback method yields a value less than the cost plus value, the netback value is used as the resource value at the taxing point.

[1] See regulations 16 to 23 of the *Petroleum Resource Rent Tax Assessment Regulations 2005* and the discussion in Taxation Ruling TR 2008/10 – *Petroleum resource rent tax: application of the Petroleum Resource Rent Tax Assessment Regulations 2005 to an integrated gas-to-liquid operation*.



Source: Policy Transition Group (PTG) Secretariat