MRRT UPDATE

OUR FEBRUARY 2012 EDITION OF ACCOUNTING NEWS HIGHLIGHTED SOME OF THE ACCOUNTING ISSUES ASSOCIATED WITH THE GOVERNMENT'S PROPOSED MINERALS RESOURCE RENT TAX (MRRT).

The MRRT passed through the Senate on 20 March 2012 and received Royal Assent on 29 March 2012. The legislation is now enacted in accordance with Interpretation 1039 *Substantive Enactment of Major Tax Bills in Australia*, which means that all entities with years ending on or after 31 March 2012 need to consider any accounting impacts under AASB 112 *Income Taxes*.

Our February article highlighted two accounting issues which the AASB subsequently took to the IFRS Interpretations Committee for clarification.

Initial recognition exemption for deferred tax on 'starting base market value uplift'

The 'starting base market value uplift' results in a fair value uplift to pre-mining phase costs and more tax deductions being available in future compared to the carrying amount. At their December 2011 meeting, the AASB thought that the initial recognition exemption in AASB 112 could not be applied to the resulting deferred tax asset because the assets to which the MRRT related had already been recognised. This view was confirmed by the Interpretations Committee at their March 2012 meeting as a tentative agenda decision.

Thus if miners elect to adopt the fair value option, it is likely that they will recognise a deferred tax asset (DTA) with a corresponding credit to the income statement.

State government royalties

The amounts of royalties paid to State governments are deducted to arrive at the final MRRT profit. This means that the higher the amount of State government royalties paid, the lower the amount of MRRT payable, and the lower the amount of State government royalties paid, the higher the amount of MRRT payable.

At their December 2011 board meeting, the AASB also looked at the appropriate accounting treatment for these State government royalties and proposed two options:

1. As a 'production cost' and therefore recognised as an 'above the line' expense
2. As a pre-paid income tax expense.

The AASB expressed a preference for option 1 above, which was also confirmed by the Interpretations Committee at their March 2012 meeting as a tentative agenda decision. The Interpretations Committee noted that the basis of calculation determines whether an item meets the definition of income tax. As royalty payments are not based on net income, they should be treated in the same way as other expenses.