

Growth the first victim

PUBLISHED: 07 May 2010 12:06:23 PRINT EDITION: 7 May 2010

Luke Forrestal

Australia's future growth has already been compromised by proposed changes to the way resources companies are taxed, according to a Western Australian private wealth manager.

Managing director of Entrust Private Wealth Management, Graeme Yukich, manages more than \$700 million for high-wealth individuals in Perth, where many of Australia's richest miners reside.

He told *The Australian Financial Review* yesterday that despite the tax changes not yet being in force, there would be implications from the uncertain investment climate they have created.

"Every mining company now has to go back and reassess because they don't know what the true position is and a lot of projects are going to be put on delay," he said.

"So it will have an effect on Australia's future economic growth numbers, just for the simple fact that projects are going to be reassessed and delayed and some won't be getting off the ground. What revenue the polities think they are going to get, I suspect they now won't get it."

The list of projects postponed because of the tax uncertainty lengthened yesterday. Santos's multibillion-dollar liquefied natural gas development in Queensland was the latest addition. Santos said the final investment decision on the project at Gladstone would be pushed back by up to six months to allow the company time to understand the impact of the proposed changes.

Origin Energy warned on Wednesday that its \$35 billion Australia Pacific LNG project at Gladstone could face significant delays, while Rio Tinto has been forced to hose down reports that it has shelved its iron ore expansion plans in WA's Pilbara.

Mr Yukich said the fundamental issue in the debate on tax changes was the government's definition of "super profits" as anything above the risk-free rate of return of 6 per cent. "The view is why would you really want to take on projects," he said. "You may as well leave your money in the bank. If it was set at around 15 per cent, you could really strongly argue that's fair enough: if you start generating 15 per cent returns, you start paying the additional tax. The problem is that from a government point of view, if they set it at 12 or 15 per cent, the effect on the net revenue they get is substantial."

Mr Yukich had no doubt BHP Billiton would reassess the expansion of the Olympic Dam copper, gold and uranium mine in South Australia – a project potentially costing \$20 billion – in light of the proposed tax changes.

"Look at what happened at Ravensthorpe," he said. "They took on a project and lost \$3 billion. With the amount they have to generate from other projects to recoup that, if you take a tax position just above the risk-free rate, it's just not worthwhile taking that risk."

Mr Yukich expected companies had the capacity to explore transfer pricing: loading up costs on their Australian operations to reduce their taxable profit.

The Australian Financial Review

Related News

Companies [Santos Ltd](#), [Origin Energy](#), [Rio Tinto Ltd](#)

Topics [Commodities](#), [Energy & Utilities](#), [Resources & Mining](#), [Taxation](#)



Create an alert