November 24, 2017

Robert Ewing
Tax Analysis Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Robert,

Prosper Australia would like to see further detail on the following costings:

Housing

Negative Gearing

The lack of inclusion of Negative Gearing as a tax expenditure in any form is concerning. Negative Gearing expenditure consists of multiple factors, from the inclusion of wage income (as opposed to quarantining it to investment income or the individual asset itself), to the allowance of it on existing real estate etc. While we appreciate the complexities involved, Prosper Australia believes negative gearing should be included and disaggregated into its relevant factors.

Accelerated depreciation

Prosper Australia also notes housing related depreciations, whilst tightened up in the most recent budget, need to be detailed.

Related Comments
Prosper Australia strongly endorses the continual costing of the CGT exemption of the family home and the capital gains tax discount.

Petroleum Resource Rents Tax

Transferability of deductions for the PRRT, compared to quarantining by project:
The ability to transfer deductions across projects undermines the resource rental tax base by conflating unrelated exploration costs with current profitable projects. This tax expenditure also provides market power to existing companies who can deduct exploration costs against existing projects, whereas new entrants are unable to utilise this benefit until a future project has been developed. Quarantining deductions from exploration to future projects within the exploration area would remove this unfair advantage to incumbents, while providing additional revenue from the elimination a tax expenditure.

Deductible expenses under PRRT not being “necessarily incurred” as with income tax:
Income tax currently uses a concept of “necessarily incurred deductions”, whereas the current PRRT regime has no such limitations. A lack of stringent predetermined requirements for deductions constitutes a tax expenditure.

Exemptions on crude oil excise from high thresholds:
There is currently a zero tax rate on the first 500ML of annual crude oil production, and an exemption for the first 4,767ML of oil from a new field. The exemption from oil excise due to these tax free thresholds should be considered. While these zero rate thresholds have been implemented in favour of the PRRT, there is little economic rationale for such high exemptions considering total crude oil and condensate is only around 20,000ML p.a. - suggesting a potentially significant amount of production is tax exempt.

Accelerated depreciation:

The structure of implementing depreciation for tax purposes has been changed to allow book value or market value. This change in how the depreciation is administered for tax has potentially undermined the tax base, and should be reflected in tax expenditures depending on the valuation method selected.

Other comments:
It would be useful if depreciation effects related to using book or market value for the PRRT could also be factored in for company tax where applicable.

Prosper Australia supports the inclusion of expenditure uplift rates (using the Long Term Bond Rate as the benchmark) for the PRRT.

We thank you for the opportunity to provide this submission,

Jesse Hermans, Karl Fitzgerald

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