

## GOVERNMENT RESPONSE TO THE PETROLEUM RESOURCE RENT TAX REVIEW

Part A – PRRT design settings	Interim response 30 June 2017	Final response
<p><b>Recommendation 1:</b> A process should be established, involving full consultation with industry and the community, to update PRRT arrangements so that they are more appropriate to the current Australian oil and gas industry. This process should be comprehensive and take into account the integrated nature of the PRRT along with likely future developments in the Australian petroleum industry. Changes to the PRRT from this process should only apply to new projects (as defined in the PRRT legislation) after a date to be specified. Areas that should be considered include:</p> <ul style="list-style-type: none"> <li>changing the arrangements for the uplift rates for all deductible expenditures so that they are more commensurate with the risk of losing PRRT deductions, taking into account transferability and that this risk will vary over the life of a project;</li> <li>ensuring that classes of expenditure with the highest uplifts are deducted first having regard to how deductions can compound in large, long-life projects;</li> <li>examining the rules for the transferability of deductions between projects in a company to ensure they produce a consistent set of outcomes; and</li> <li>examining the gas transfer pricing arrangements to identify possible changes that would achieve greater simplicity and transparency, ease of compliance, and fair treatment of the economic rent from each stage of an integrated petroleum operation.</li> </ul>	<p>A key purpose of the Government’s additional consultation is to undertake the considered and comprehensive outreach to update the PRRT regime envisaged by this recommendation.</p> <p>Treasury will release an options paper setting out possible approaches under each of the areas identified in the Callaghan review. Treasury will seek comments from industry and interested parties on these.</p> <p>Further, while the Government notes that Mr Callaghan’s overall assessment is that the PRRT is the preferred way to achieve a fair return to the community without discouraging investment, the scope of areas within the PRRT regime are recommended for further consideration together and could result in major changes to the regime. However, the review also identified several aspects of the PRRT design that pose long term revenue risks.</p> <p>Treasury has been asked to oversee the additional consultation process and interested parties are encouraged to participate in that consultation.</p> <p>Treasury has been asked to provide a report to the Treasurer by the end of September 2017 to inform the Government’s final decisions.</p> <p>In making any final decision, the Government will be cognisant that sovereign risk is an important factor influencing investment attractiveness.</p>	<p>The Government supports this recommendation in principle. We will update the design settings of the PRRT to better reflect the current structure of the industry which is dominated by LNG projects. The changes are:</p> <ul style="list-style-type: none"> <li>for PRRT projects that successfully apply for a production licence after 1 July 2019, the general expenditure uplift rate will be Long Term Bond Rate (LTBR)+5 percentage points until 10 years from the financial year in which a project first earns assessable petroleum receipts, after which the uplift rate for remaining deductions will be LTBR.</li> <li>for exploration expenditure incurred or transferred from 1 July 2019, the uplift rate will be LTBR+5 percentage points for 10 years from the time the expenditure is incurred, with any remaining augmented amount maintained in real terms by applying the GDP deflator until the expenditure is deducted.</li> <li>where exploration expenditure incurred before 1 July 2019 is deducted within a project at the uplift rate of LTBR+15 percentage points, the LTBR+15 percentage point uplift will apply until 1 July 2019 after which the uplift rate of LTBR+5 will apply.</li> </ul> <p>These changes result in uplift rates that better reflect the risk of deductions being trapped in projects and limit the scope for excessive compounding. They achieve a consistent set of outcomes for all transferred expenditure, which matches the treatment of new exploration expenses. No reordering of deductions is required to ensure those with the highest uplifts are deducted first. The Government will retain an interoperable PRRT regime with transfers of exploration expenditure allowed between existing and new projects. This takes into account concerns raised in consultation. As part of accommodating this change, the treatment of exploration expenditure incurred before 1 July 2019 will also change when it is transferred or deducted within a project at the uplift rate of LTBR+15 percentage points.</p> <p>From 1 July 2019, the Government will remove onshore projects from the PRRT regime. This is both a simplification and integrity measure. The Callaghan Review demonstrated that onshore projects are not expected to pay PRRT, but are able to transfer exploration deductions to profitable offshore interests, which reduces PRRT tax paid. Removing the onshore mitigates this integrity risk and addresses recommendation 2 of the Callaghan Review. It also removes the regulatory burden associated with the PRRT for these projects. Onshore oil and gas will continue to be subject to State royalties.</p> <p>The Government has asked Treasury to lead a review of the gas transfer pricing arrangements. Treasury will consult and report back within 12 to 18 months.</p>

<b>Part B – Technical changes</b>		
<b>Recommendation 2:</b> Prohibit onshore projects transitioned into the PRRT in 2012 with ‘starting base’ credits from combining with future onshore projects that don’t currently have a starting base.	The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.	This recommendation has been addressed through the Government’s decision to remove onshore projects from the PRRT.
<b>Recommendation 3:</b> The review into the legislative framework for decommissioning of projects currently being undertaken by the Department of Industry, Innovation and Science should take into account the impact of decommissioning expenses on PRRT revenue.	The Government is open to this recommendation and notes it will be considered in the context of the review into the legislative framework for decommissioning of projects being undertaken by the Department of Industry, Innovation and Science.	This recommendation is being considered in the context of the review into the legislative framework for decommissioning of projects being undertaken by the Department of Industry, Innovation and Science.
<b>Recommendation 4:</b> Recognise partial closing down expenditure as a legitimate deduction	The Government is open to this recommendation and notes that this will be considered in the first instance through the current consultation process being undertaken by the ATO.	This recommendation has been addressed by the ATO through publication of guidance. This recognises partial closing down expenditure as a legitimate deduction.
<b>Recommendation 5:</b> Allow PRRT taxpayers to lodge annual returns after they start holding an interest in an exploration permit, retention lease or production lease rather than having to wait until they receive assessable receipts from the project.	The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.	<p>The Government supports this recommendation. Production may start many years – potentially decades – after the original exploration and development costs are incurred. This can result in a lengthy period between when expenses are incurred and when they are formally notified to the ATO.</p> <p>Requiring PRRT taxpayers to lodge annual returns and get assessments after they start holding an interest in an exploration permit, retention lease or production licence improves the administration of the PRRT as it increases ATO visibility over the administration of the PRRT earlier.</p> <p>Earlier lodgement and assessment also provides PRRT taxpayers with tax certainty sooner. This is because it reduces the time between when expenditure is incurred and assessed.</p> <p>This change interacts with recommendation 8, which allows all interests held in offshore groups to be lodged as one return, minimising the number of returns that need to be lodged.</p> <p>Consultation on exposure draft legislation will ensure no unintended consequences arise from implementation.</p>
<b>Recommendation 6:</b> Grant power to the Commissioner of Taxation to treat a new project as a continuation of an earlier project, where it would be reasonable to do so.	The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.	<p>The Government supports this recommendation. Treating a new project as a continuation of an earlier project is reasonable where it keeps administration of the PRRT up to date with commercial practices in relation to petroleum tenements.</p> <p>The legislation will outline criteria that the Commissioner must take into account in for determining whether a new project is a continuation of an existing project.</p>
<b>Recommendation 7:</b> Grant discretion to the Commissioner of Taxation to recognise more than one project from a production licence area where there are genuinely separate and independent petroleum operations.	The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.	<p>The Government supports this recommendation. Having the flexibility to recognise more than one project from a production licence area is reasonable where it keeps administration of the PRRT up to date with the complex structures of ownership used in commercial practice.</p> <p>The legislation will outline criteria that the Commissioner must take into account in determining whether there are multiple projects in a production licence area.</p>

<p><b>Recommendation 8:</b> Extend to offshore projects, the option to have all interests held by a group taken together and reported as a single PRRT return.</p>	<p>The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.</p>	<p>The Government supports this recommendation. This lowers compliance costs for business and reduces the complexity of the PRRT system.</p>
<p><b>Recommendation 9:</b> Allow PRRT taxpayers to adopt a substituted accounting period for PRRT so it can align with their choice to use a substituted accounting period for income tax.</p>	<p>The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.</p>	<p>The Government supports this recommendation. This modernises the PRRT to be more in line with income tax and accounting rules which allow entities to prepare their records using other year-end dates. It also lowers business compliance costs.</p>
<p><b>Recommendation 10:</b> Allow PRRT taxpayers operating with a Multiple Entry Consolidate (MEC) Group to make a functional currency choice for PRRT purposes that aligns with the functional currency choice made for income tax purposes.</p>	<p>The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.</p>	<p>The Government supports this recommendation. Providing functional currency choice lowers compliance and transaction costs for business.</p>
<p><b>Recommendation 11:</b> Grant power to the Commissioner of Taxation to administratively exempt projects from PRRT obligations where they are clearly unlikely to pay PRRT in the foreseeable future.</p>	<p>The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.</p>	<p>The Government supports this recommendation.</p> <p>This will reduce tax compliance costs for PRRT taxpayers who are not immediately likely to pay PRRT despite the reforms to uplift rates. The exemption recognises that with earlier lodgement obligations and with many years between exploration and development, there may be years in which no new substantial activity is taking place in relation to a project.</p> <p>Entities would not have to lodge returns in the years in which they are exempt. Entities would have to maintain records and be prepared to lodge returns once they are no longer exempt; for example when they commence project activities or PRRT starts to become payable.</p>
<p><b>Recommendation 12:</b> Amend PRRT anti-avoidance rules to be in line with the income tax anti-avoidance rules.</p>	<p>The Government is open to considering this change and Treasury will seek comments and views on this proposal as part of the options paper it will release.</p>	<p>The Government supports this recommendation. This modernises the PRRT and ensures anti-avoidance rules operate consistently with other parts of the tax law.</p>