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Submission to Senate Standing Committees on Economics inquiry into the Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023 [Provisions].

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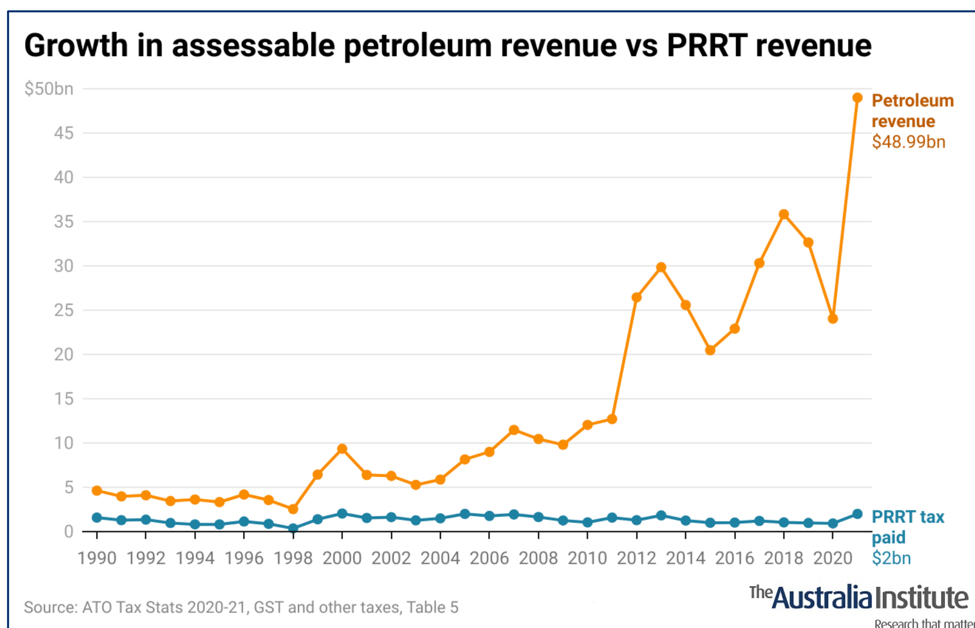
Introduction

The Australia Institute welcomes the opportunity to make a submission on the Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023.[1] The proposed legislation seeks to amend the Petroleum Resource Rent Tax Assessment Act 1987 Schedule 5, which "will limit the proportion of petroleum resource rent tax assessable income that can be offset to a maximum deduction of 90 per cent."[2] These changes are estimated to increase the revenue over the forward estimates by $2.4 billion.

While on the surface these changes are to be welcomed, the amendments do not go far enough to ensure that the gas industry pays a fair share of tax given the large profits it is generating through international events such as the illegal Russian invasion of Ukraine. The $2.4 billion also needs to be considered in the context of overall petroleum production. According to the Australian Tax Office (ATO), over the past five years assessable petroleum revenue has averaged $34 billion per year and PRRT revenue $1.2 billion a year, representing just 3.6% of petroleum revenue,[3] as shown in Figure 1 below:

Figure 1.



[1] Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023, https://www.aph.gov.au/Parliamentary_Business/Bills_LEGislation/Bills_Search_Results/Result?bId=r7107.

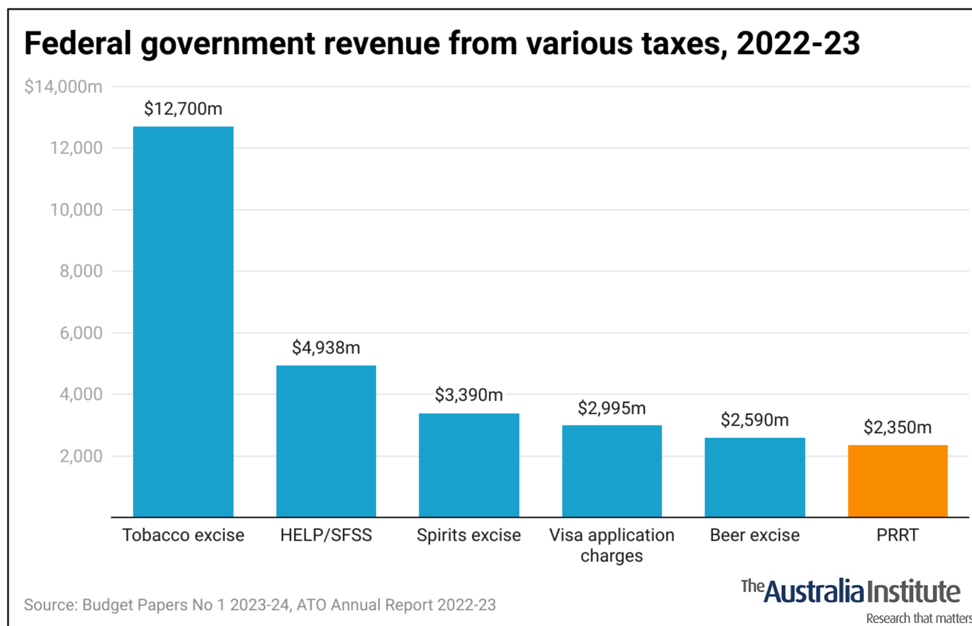
[2] Jones (2023), Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023, Second Reading Speech, https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F27181%2F0053%22.

[3] ATO (2023) *Taxation statistics 2020-21 - GST and other tax statistics,* https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2020-21

The poor performance of the PRRT shown in Figure 1 is even worse when considered in real terms. Adjusting for inflation, in 2022 prices real PRRT revenue has fallen from $3.4 billion in 1990-91 to $2 billion in 2021-22, while real assessable petroleum revenues have grown from $9.9 billion to $49 billion a year.

While PRRT has the potential to be a major revenue source for the Federal Government, the current arrangements mean that it collects less revenue than tobacco or beer excises, or even that paid in HELP/SFSS debts as shown in Figure 2 below:

Figure 2.



The divergence between petroleum revenues and the PRRT's inability to raise significant revenue has led to various reviews into its operation. The goal of a 2017 review was "to help better protect Australia's revenue base and to ensure that oil and gas projects are paying the right amount of tax on their activities in Australia".[4] The most recent review was initiated under the former Coalition government and completed by Treasury in May 2023.[5] The review focussed on 'transfer pricing', or the 'taxing point' of LNG projects. In Treasury's words, "the taxing point signifies the boundary between petroleum project operations, which fall within PRRT, and non-project operations, which do not." Gas that comes out of the ground attracts PRRT, but the operations that turn that gas into LNG and the LNG itself do not attract PRRT.

Treasury found that the current regime structurally undervalues natural gas in the calculation of the tax for integrated LNG projects, meaning that much less revenue is

[4] Treasury (2017) *Petroleum Resource Rent Tax Review – Final Report*, p.2, https://treasury.gov.au/review/review-of-the-petroleum-resource-rent-tax

[5] Treasury (2023), *Petroleum Resource Rent Tax: Review of Gas Transfer Pricing Arrangements Final Report*, https://treasury.gov.au/publication/p2023-388153

collected than should be. The review also confirmed that, due to the large up-front cost associated with LNG developments, it is possible that some LNG projects could pay no PRRT over their lifetimes.

The Treasury review, and subsequent documents tabled to the Senate, showed that Treasury proposed three policy change options.[6] Two of these changes amounted to a restructuring of the PRRT to directly address the undervaluing of the gas in the transfer pricing process.

The third proposal was not a major reform of PRRT, but to put an annual cap on PRRT deductions. Treasury proposed that deductions in any year should be capped at 90% of revenue, a path which they noted would bring forward taxation revenue that would otherwise be collected later. After consultation with oil and gas companies, the Government chose this third option.[7] But the large up-front costs of LNG facilities and the generous treatment of these costs within the PRRT system mean that most LNG companies have banked PRRT deductions that can cover all relevant revenue in any given year.

The Treasury review did not provide revenue estimates of the three policy options, but since the first two would more accurately value the gas, they would collect more revenue than an annual cap, especially when gas prices are high.

The changes contained in this Bill would not ensure that gas companies pay any tax on future windfall profits and are so mild that they were immediately supported by the gas industry lobby group, Australian Energy Producers (AEP).[8] They also do little to change the likelihood of major gas projects such as Gorgon to pay petroleum resources rent tax (PRRT). Neither do they reflect community support for gas companies to pay a greater level of tax. Australia Institute polling reveals that 41% of voters are in a favour of a stricter cap of either 80 per cent or 60 per cent. By contrast a mere 17% of voters are in favour of the 90 per cent cap proposed in this legislation, while just 12% support the status quo of no cap being maintained. Crucially support in the major gas-producing states of both Western Australia and Queensland for stricter caps outweighed support for either the proposed 90 per cent cap or for no cap.[9]

Moreover, the Australia Institute have also received more than 10,000 signatures on a petition stating that "Repairing and increasing the PRRT is necessary to address this

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[6] Parliament of Australia (2023), *Order of 15 June 2023 (246) relating to petroleum resource rent tax - Review of gas transfer pricing,* https://www.aph.gov.au/Parliamentary_Business/Tabled_Documents/2849

[7] Wright (2023) Greens say Chalmers chose 'watered-down' gas super-profits tax, *Sydney Morning Herald,* https://www.smh.com.au/politics/federal/greens-say-chalmers-chose-watered-down-gas-super-profits-tax-20230730-p5dsdx.html

[8] AEP (2023) Media Release: APPEA statement on changes to the Petroleum Resource Rent Tax (PRRT), https://energyproducers.au/all_news/media-release-appea-statement-on-changes-to-the-petroleum-resource-rent-tax-prrt/

[9] The briefing note on this poll are attached in Attachment 2.

imbalance and ensure the Australian people get a fair share of the windfall profits from our own natural resources". Clearly there is broad community support for stronger measures being put in place to ensure gas and oil companies pay a greater amount of revenue than would occur under the proposed changes.[10]

One major problem with the PRRT is its complexity. Over many years the oil and gas industry has run rings around Australian Governments, creating tax loopholes. The objective of any tax policy of the oil and gas industry should be to raise more revenue. As such, The Australia Institute argues that these amendments will do little to create real and significant increases in the level of PRRT. It is little wonder the gas industry is in favour of the changes because they will likely continue to use the complexity to avoid paying a fair share of tax.

This submission relates this position to the current Bill under inquiry and ends with our recommendations.

While this submission relates in the main to the provisions dealing with the changes to the PRRT, we have also included Attachment 1 which deal with the provisions relating to Tax whistleblowing and oversight.

[10] The Australia Institute (2024) Petition: Increase the Petroleum Resource Rent Tax https://nb.australiainstitute.org.au/increase_the_prrt.

Petroleum Resource Rent Tax

The PRRT is a tax on super-profits, sometimes called "resource rents", made by multinational oil and gas companies operating in Australia. These are profits well above the returns that could ordinarily be expected and result from global price increases rather than any change in productivity by the companies themselves.

While the PRRT is intended to achieve a 'fair return'[11] to the community for the operation of oil and gas companies, the amount of tax raised by the PRRT is almost universally regarded as far too low, due to an extremely complex design that allows oil and gas producers to minimise or avoid paying it altogether.

PROPOSED CHANGES TO THE PRRT

The Australian Government chose the weakest of three options presented by treasury to change the PRRT, rejecting Treasury's recommendation for a stronger change.[12] This was the preferred option of the gas industry and is so mild it is supported by the gas industry lobby group Australian Energy Producers (AEP).[13]

One long running and major problem with the PRRT is its complexity. Over many years the oil and gas industry has run rings around Australian governments, creating tax loopholes. It is clear that the proposed changes to the PRRT will make no material difference to the level of revenue that is raised. This is why the Treasurer and other members of the government are careful to note that the changes proposed in this legislation would only lead to a "fairer" or "bigger" returns "sooner".[14] The changes would not raise the quantum of PRRT revenue, merely lead to a shift of the timing of when the tax would be paid, from later to sooner. We argue that any changes to the PRRT regime should be based on the need to raise fairer and

[11] The Australian Government Treasury (2017) Petroleum Resource Rent Tax Review Final Report, p. 3, https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf

[12] Mizen (2023) Labor faces crossbench pressure over coal and gas, https://www.afr.com/politics/federal/labor-faces-crossbench-pressure-over-coal-and-gas-20230730-p5dsbg

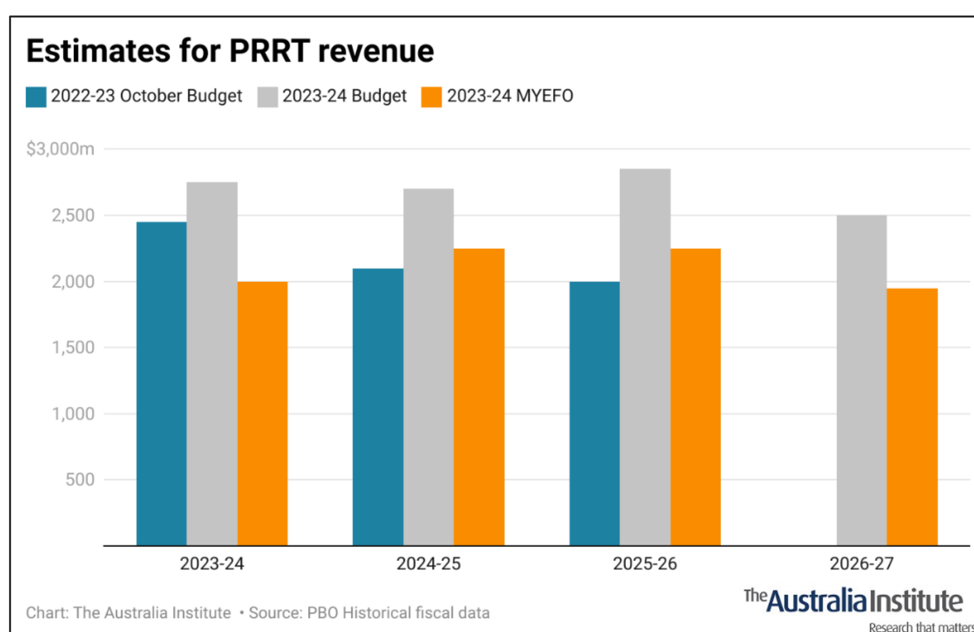
[13] AEP (2023) Media Release: APPEA statement on changes to the Petroleum Resource Rent Tax (PRRT), https://energyproducers.au/all_news/media-release-appea-statement-on-changes-to-the-petroleum-resource-rent-tax-prrt/

[14] See Chalmers (2023) Budget Speech 2023-24 https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/budget-speech-2023-24 and Chalmers (2024) Hansard 13 February 2024 "Taxation: Corporate Profits" https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F27602%2F0074%22.

bigger returns "always". However, the budget papers reveal that even the relatively small gains from the changes to the PRRT are unlikely to be realised.

In the 2023-24 Budget, Treasury estimated that the changes would increase PRRT receipts by $2.4 billion over the 5 years from 2022-23.[15] And yet all of these gains were wiped out in 6 months by the 2023-24 mid-year economic and fiscal outlook which noted that "petroleum resource rent tax receipts have been revised down by $0.8 billion in 2023–24 and $2.4 billion over the four years to 2026–27".[16] As Figure 3 shows, so trivial are the changes in estimated revenue from the introduction of the 90 per cent cap that total revenue from the PRRT over the 3 years from 2023-24 to 2025-26 is lower in the 2023-24 MYEFO than was estimated in the 2022-23 October Budget prior to the cap being proposed.

Figure 3.



It is little wonder the oil and gas industry is supportive of the proposed changes to the PRRT given any increases in tax can disappear with parameter changes, even while the 2023-24 MYEFO estimates "higher Australian dollar oil prices compared to the 2023–24 Budget". Clearly changes to the PRRT which do not actually result in more revenue even when the estimates for gas prices increase are not adequate for Australia's needs.

The changes reflect the broader problem of the Australian government failing to raise a fair level of revenue from the gas industry since the opening of the Gladstone terminal and the

[15] 2023-24 Budget Paper, Number 2 (2023) "Petroleum Resource Rent Tax – Government Response to the Review of the PRRT Gas Transfer Pricing arrangements", https://budget.gov.au/content/bp2/download/bp2_2023-24.pdf.

[16] Midyear Economic and Fiscal Outlook 2023-24 (2023) "Part 3: Fiscal Strategy and Outlook" https://budget.gov.au/content/myefo/download/myefo2023–24.pdf

massive increase in LNG exports. While tax revenue and PRRT is not based on production levels or company revenues prior to the opening of the Gladstone port and the massive increase in LNG production there was a strong correlation between both the level gas industry corporate tax revenue and PRRT and both production and industry revenue (see Figures 4 and 5)

Figure 4.

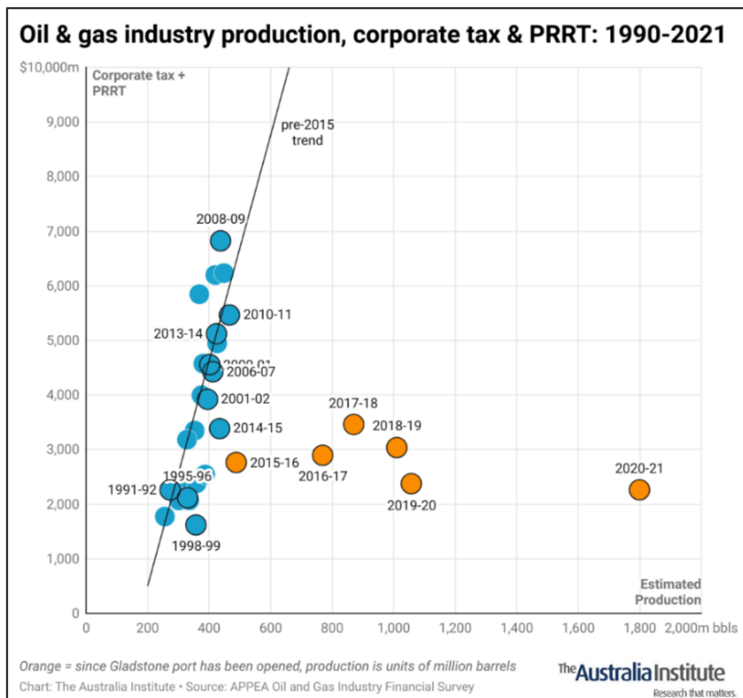
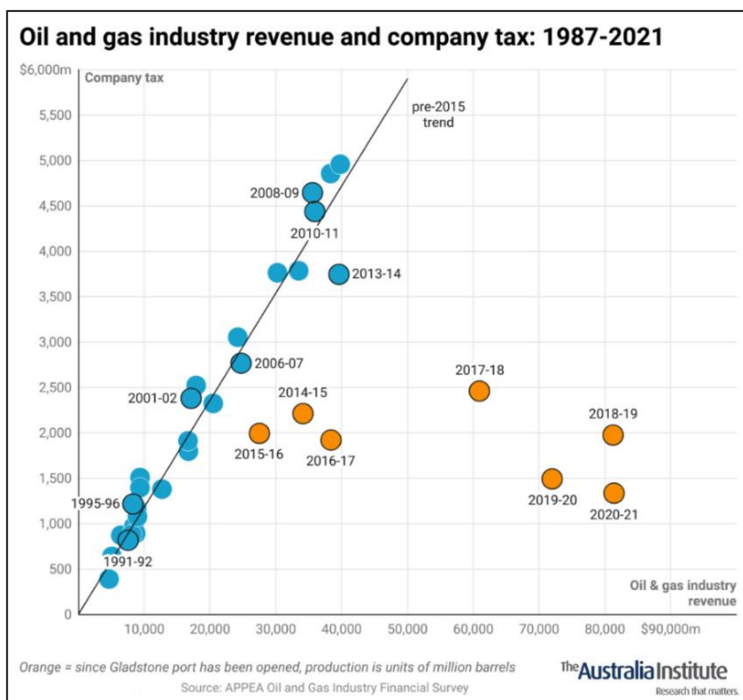
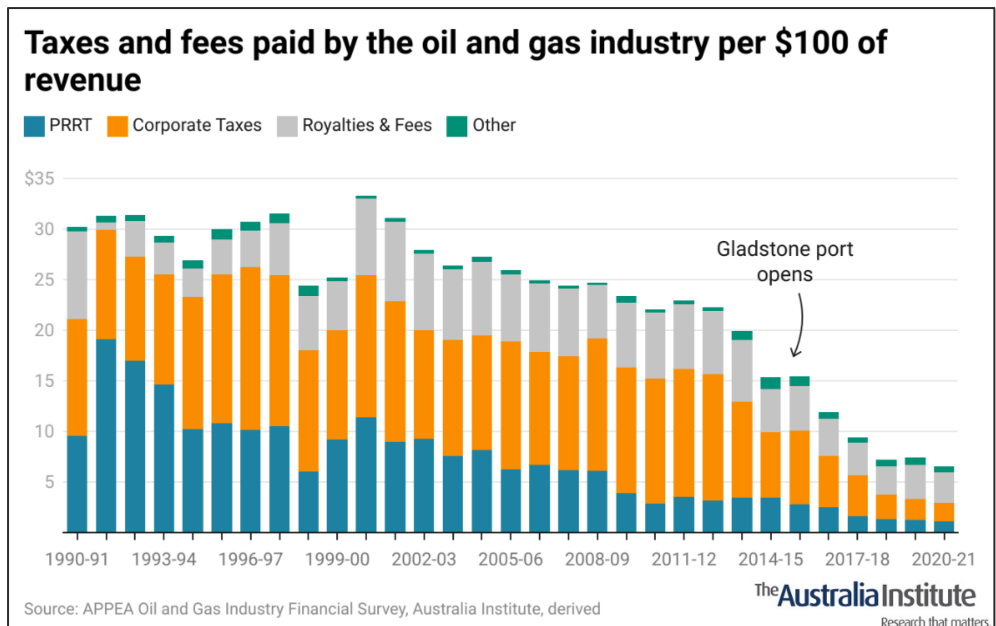


Figure 5.



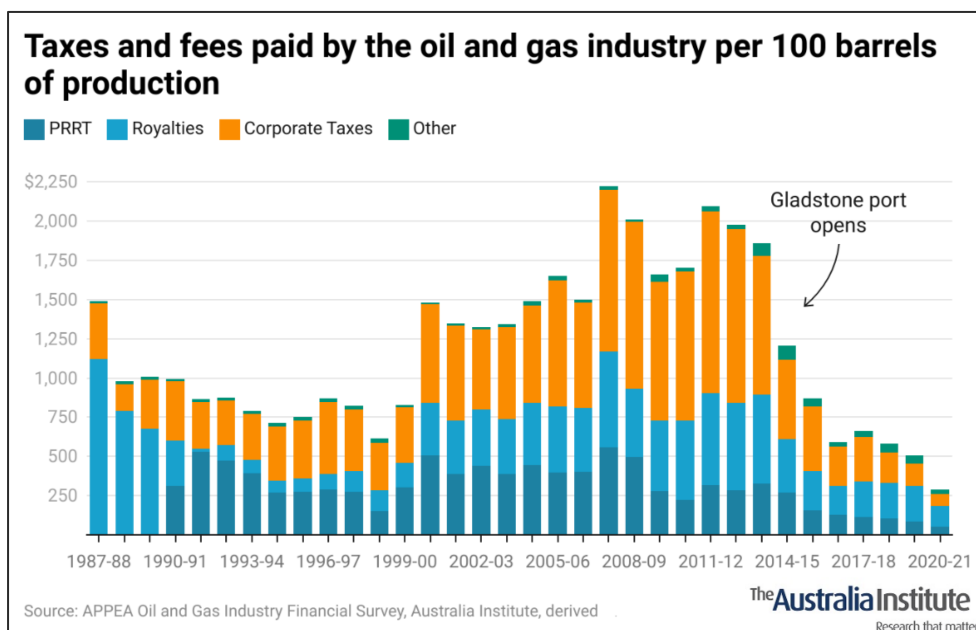
The level of corporate taxation, PRRT and royalties paid by the gas industry has declined as a share of revenue so greatly that, as Figure 6 shows, while before the opening of the Gladstone port the gas industry would routinely pay over $25 in tax and royalties per $100 of industry revenue, now it is just above $5.

Figure 6.



Similarly, despite a massive increase in gas and oil production revenue has failed to rise. So massive is the disparity between production and tax that oil and gas production in 2020-21 was 314% higher than it was in 2014-15 and yet corporate tax paid by the industry was 40% lower and the amount of PRRT paid had fallen 21%. This is not in line with community expectation, nor is it in the economic interests of Australia. As Figure 7 below shows this means that the oil and gas industry is paying less tax per production than at any time in the past 35 years.

Figure 7.



It is worth noting that the three major LNG producers that source unconventional coal seam gas in Queensland are not subject to the PRRT. This is because such projects were excluded due to the decision to remove onshore projects from the PRRT regime in 2019 as part of the then Government's response to the Callaghan Review, even though the Callaghan review did not recommend they be excluded. The result has been a massive decline in the real and potential level of revenue collected by the Australia government.

The failure of taxing oil and gas

The three main ways Australian governments raise revenue from the oil and gas industry are through:

- Royalties
- Company tax
- PRRT

The oil and gas industry are very good at avoiding paying all of these.

Royalties

Whereas the petroleum resource rent tax (PRRT) is a tax levied on extraordinary profits, royalties are the payments gas companies make for gas resources owned by the Australian community. Royalties are similar to a builder paying for the building materials they use.

However, the Federal Government fails to impose royalties on any offshore gas production in Commonwealth waters other than the North West Shelf. This means that over half the gas exported from Australia is royalty-free. In other words, gas companies are receiving their gas for free.

PRRT

In 2021-22[17] the oil and gas industry paid $926 million PRRT,[18] around 1% of their $89 billion income in that year.

As shown in Table 1, some of the largest oil and gas companies operating in Australia have paid no PRRT on almost $300 billion income since 2013-14.

[17] The most recent year of ATO data Company Statistics data.

[1818] ATO Corporate Tax Transparency data, 2020-2021 (2022), https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details

ATO (2023) Company Statistics, Table 4A, https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2020-21/statistics/company-statistics?anchor=Companies#ato-Companydetailedtables

Table 1: Total income v PRRT paid 2013-14 to 2021-22, selected companies.

	Total income $	PRRT $
Exxon	97,875,399,715	0
Shell	83,828,945,557	0
INPEX	41,841,659,444	0
Chevron	73,353,575,915	0
Total	**296,899,580,631**	**0**

Source: ATO (2023) Corporate Tax Transparency, Report of Entity Tax Information 2021-22, https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details

Company tax

In 2020-21, the oil and gas industry paid just $782 million in company income tax, less than 1% of its $89 billion of income.[19]

Furthermore, many of these companies pay little to no company tax. The three large east coast LNG exporters -- APLNG operated by Origin, QCLNG operated by Shell subsidiaries Arrow and QGC, and GLNG operated by Santos -- appear to have paid no company tax since they began operating in around 2018. This situation is the same with Icthys LNG in Darwin Harbour, operated by INPEX. Santos has paid just $6 million of company income tax, amounting to only 0.2% of its $38 billion income since 2014. Chevron paid company tax for the first time in 2022.

Table 2 below compares the income and income tax of various selected companies from Australian Taxation Office (ATO) Company Tax Transparency data published in December 2023.

[19] ATO (2023) Ibid.

Table 2: Total income and company tax paid, selected companies, FY 2014-2022

	APLNG		QGC		Arrow Energy		Icthys LNG		Chevron		Santos	
FY	Total income $m	Tax paid $m	Total income $m	Tax paid $m	Total income $m	Tax paid $m	Total income $m	Tax paid $m	Total income $m	Tax paid $m	Total income $m	Tax paid $m
2014	481	0							3,032	0	4,357	3
2015	415	0			208	0			3,088	0	3,389	0
2016	911	0			207	0			2,142	0	3,476	0
2017	3,582	0			231	0			2,239	0	3,715	0
2018	5,292	0	3,655	0	617	0			5,274	0	3,498	0
2019	7,207	0	3,985	0	338	0	802	0	11,986	0	5,322	3
2020	6,979	0	3,524	0	361	0	6,378	0	15,934	0	5,014	0
2021	4,615	0	4,602	0	272	0	6,106	0	12,484	0	4,798	0
2022	9,347	0	5,870	0	360	0	7,281	0	17,174	155	5,861	0
Total	38,834	0	21,637	0	2,594	0	20,569	0	73,354	155	39,432	6

Source: Source: ATO (2023) Corporate Tax Transparency, Report of Entity Tax Information 2021-22, https://data.gov.au/dataset/ds-dga-c2524c87-cea4-4636-acac-599a82048a26/details

Other countries don't allow themselves to be swindled

Other countries don't allow themselves to be swindled by global resource companies like Australia does.

Norway, for instance, produces a similar amount of gas to Australia. However, it takes a far greater proportion of revenue generated by oil and gas production than Australia does and has transferred this money to a sovereign wealth fund now worth A$1.9 trillion, equal to around $350,000 for each of Norway's 5.4 million citizens or $1.4 million for a family of four.[20]

The following two charts show the stark contrast between the share of oil and gas revenue collected by the Australia and Norwegian governments.

[20] Bleakley (2022) Norway shows how Australia can get a fair return from oil and gas https://australiainstitute.org.au/post/norway-shows-how-australia-can-get-a-fair-return-from-oil-and-gas/.

Figure 8.

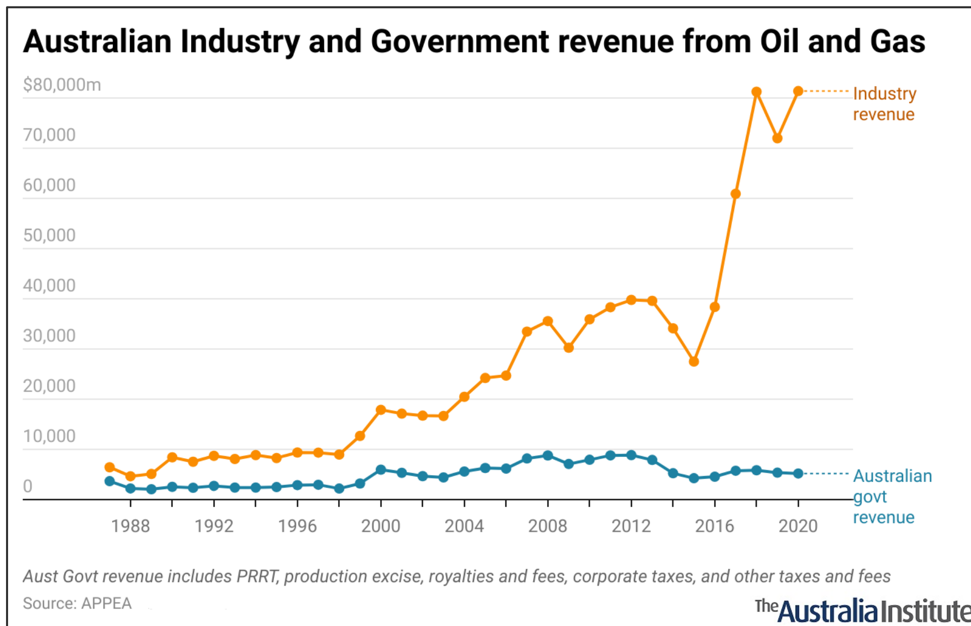
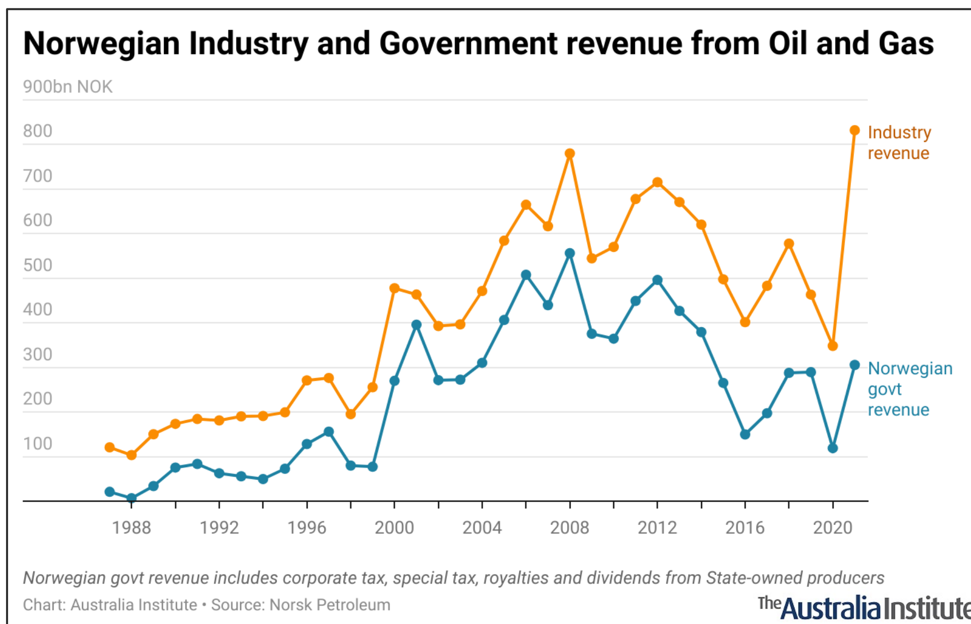


Figure 9.



Subsidies

Additionally, the Australian Federal Government subsidises fossil fuels to the tune of $11 billion annually. Much of these subsidies consist of fuel tax concessions that primarily benefit the fossil fuel industry. In 2022-23 the oil and gas industry was the main beneficiary of direct subsides through budget spending (excluding fuel tax concessions), receiving

approximately $967 million in that year, around half of the $1.9 billion raised by the PRRT in 2021-22.[21] These direct subsidies increased to $1.4 billion in 2022-23.

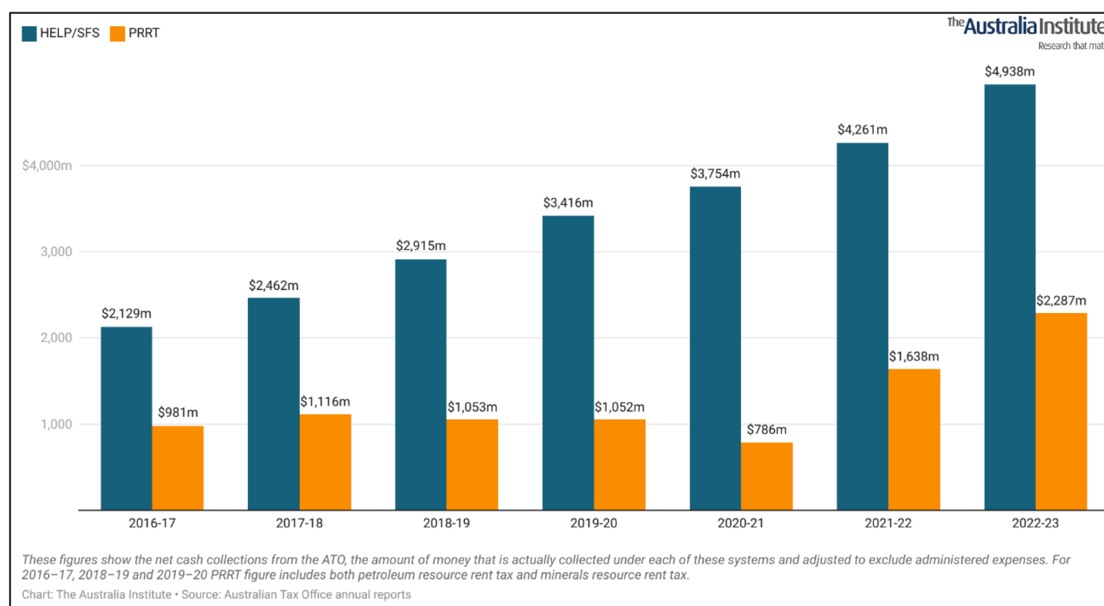
The Federal Government's main spending measures which benefit the gas industry, spread over forward estimates, consist of $1.9 billion to assist the Middle Arm petrochemical hub in Darwin, $141.1 million over 10 years to assist carbon capture and storage (CCS) projects, and $217 million to build roads explicitly for the onshore gas industry in the NT.

PRRT AND HECS/HELP

The PRRT is intended to ensure Australia benefits from the extraction of our gas and oil resources. Similarly, HECS/HELP is a special levy on tertiary students designed to enable them to contribute to the costs of their tuition once they have begun earning.

The government consistently collects more from people repaying their student debts than from the PRRT. These figures can be found in the annual reports of the Australian Tax Office and are displayed below.[22]

Figure 10: Collections by ATO by financial year



In his 2023 Budget address, the Treasurer, Dr Jim Chalmers, told parliament that the purpose of the PRRT was to ensure "Australians receive a fairer return on the sale of our

[21] Campbell et al (2022) Fossil fuel subsidies in Australia, https://australiainstitute.org.au/wp-content/uploads/2022/03/P1198-Fossil-fuel-subsidies-2022-WEB.pdf

[22] ATO Annual Report (2016-17 to 2022-23), "Revenue Collection". https://www.transparency.gov.au/portfolio-entities-companies/treasury/australian-taxation-office

natural resources" and that changes the government was proposing were intended to ensure this would occur "sooner".[23]

It is clear that the PRRT is not achieving this objective. In the seven years to 2022-23, the government collected a total of $14,962m more in HECS/HELP than it did from the PRRT. This is equivalent to 168% more in tax from HECS/HELP than the PRRT.

[23] Chalmers (2023) "Budget Speech 2023-24" https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/speeches/budget-speech-2023-24.

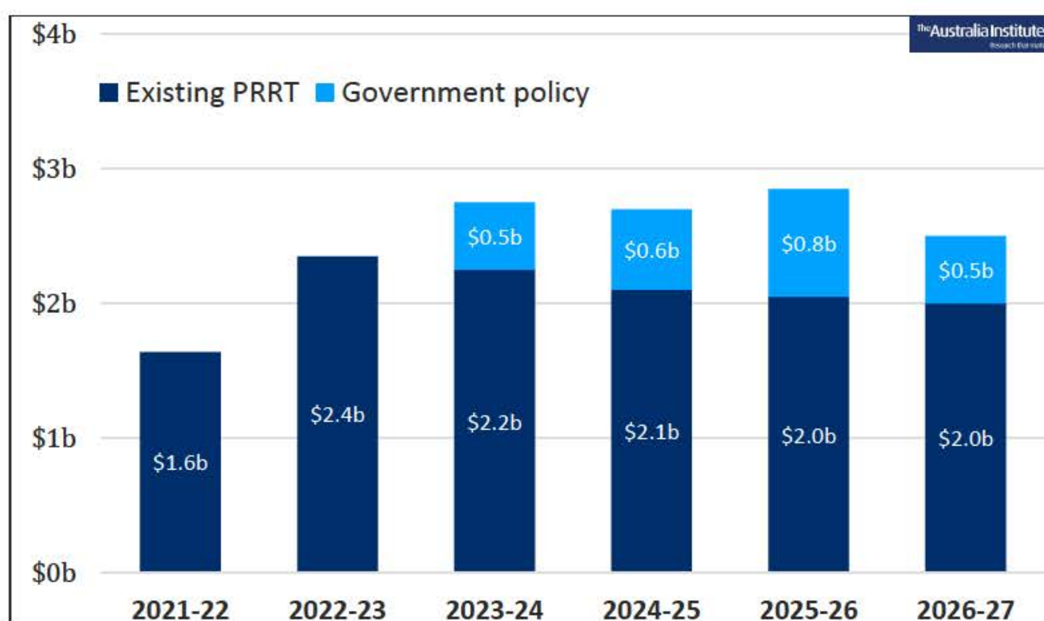
Stricter Deduction caps

90% DEDUCTION CAP

The changes to the PRRT regime contained in this bill were estimated to generate $2.4 billion of additional taxation receipts over the period 2023-24 to 2026-27, or $601 million per year on average.[24] The mechanism for this increase is a cap on allowable PRRT deductions of 90% of revenue in any year.

Figure 11 outlines the projected revenue increase of the Government's 90% deduction cap compared to the existing PRRT forecast.

Figure 11: Current PRRT revenue forecast with a 90% deduction cap



Source: Treasury (2023) and PBO (2023)

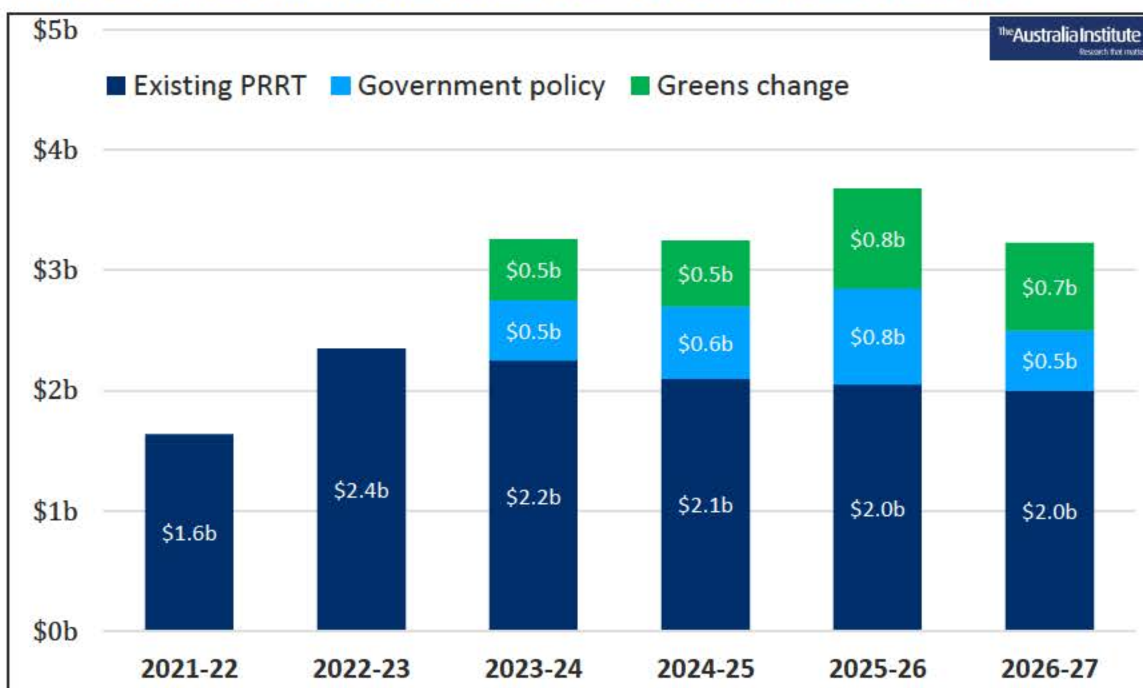
Figure 11 shows that the increase in PRRT revenue from the proposed 90% change is modest. With PRRT revenue expected to decline under current arrangements, the 90% deduction cap offsets this decline to keep revenue steady in nominal terms. If adjusted for expected inflation, however, the value of PRRT receipts with the 90% deduction cap would actually decline. In real terms, using inflation forecasts from the 2023-24 Budget, real PRRT revenue is expected to fall from $2.35 billion in 2022-23 to $2.24 billion in 2026-27.

[24] Treasury (2023) *Budget 2023-23, Budget Paper 1*, p.179, https://budget.gov.au/content/documents.htm

80% DEDUCTION CAP AND FURTHER

Parliamentary Budget Office (PBO) analysis of the Greens proposal to cap allowable PRRT deductions at 80% of revenue suggests that it would generate $2.62 billion over the period 2023-24 to 2026-27, or an additional $654 million a year on average.[25] This would roughly double the impacts of the 90% proposal. Figure 12 shows the proposed 80% and 90% increases on top of PRRT revenue forecasts under the current system:

Figure 12: Current PRRT revenue forecast with 90% and 80% deduction caps



Source: Analysis of Treasury (2023) and PBO (2023)

As Figure 12 shows, the 80% deduction cap would generate a further modest increase PRRT revenue, roughly doubling the 90% policy. An 80% deduction cap would increase PRRT revenue by 60% each year.

In real terms, the 80% deduction cap would ensure that PRRT revenues increase slightly, from $2.35 billion in 2022-23 to $2.90 billion in 2026-27 in 2022-23 dollars.

Lowering the cap on deductions even further would deliver greater revenue increases. Basic calculations are made in Table 3 below, assuming a linear relationship between the cap and the revenue gained.

[25] Parliamentary Budget Office (2023)

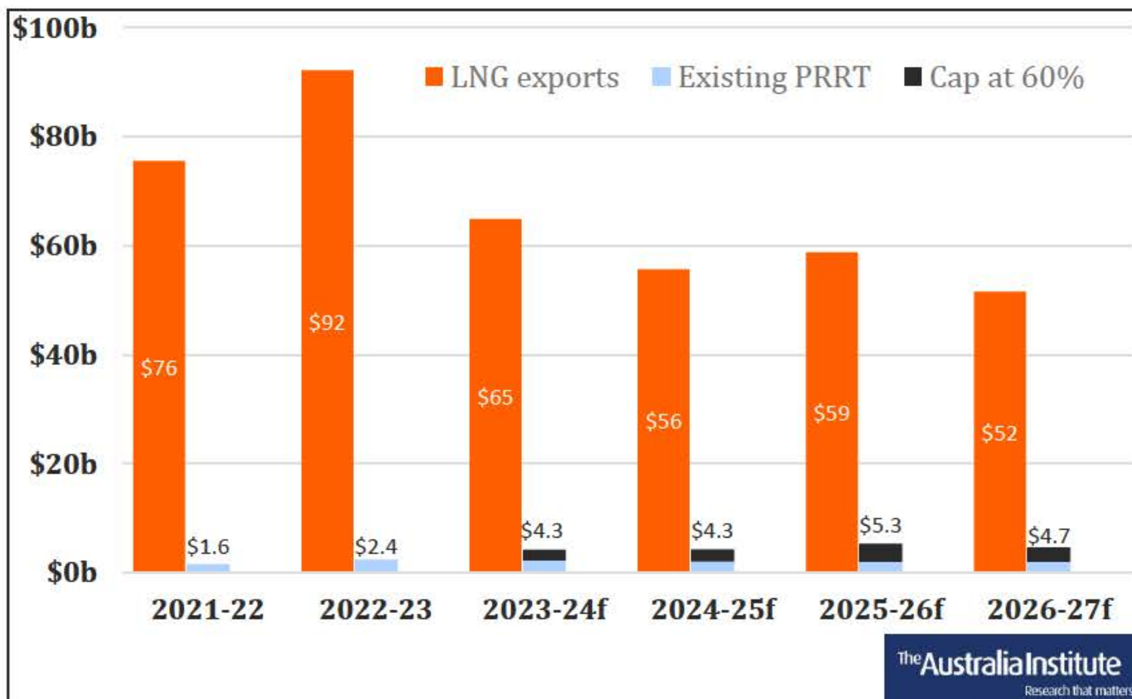
Table 3: Estimated PRRT revenue by annual deductions cap, $ billion

	2023-24	2024-25	2025-26	2026-27
90% cap	$0.5	$0.6	$0.8	$0.5
80% cap	$1.0	$1.1	$1.6	$1.2
70% cap*	$1.5	$1.7	$2.5	$2.0
60% cap*	$2.0	$2.2	$3.3	$2.7

Note: *estimates based on pro-rating revenue impacts from PBO (2023) and Treasury (2023)
Source: Analysis of PBO (2023) and Treasury (2023)

Table 3 shows that even with the deductions cap lowered to 60% the overall PRRT revenue increase remains below $3 billion per year. As Figure 13 shows, this is a very small sum compared to the projected LNG exports earnings.

Figure 13: Deduction cap at 60% vs forecasts of assessable PRRT revenue



Source: Analysis of Treasury (2023), PBO (2023), Office of Chief Economist (2023) Resources and Energy Quarterly, June 2023. Note: Office of Chief Economist (2023) forecast LNG exports to 2024-25. 2025-27 are projections based on PRRT revenue published in Treasury (2023)

Figure 13 shows that even with a 60% cap on allowable PRRT deductions, PRRT revenues remain modest compared with forecast revenues.

Capturing windfall gains

Changes to the PRRT deduction caps however continue to provide the opportunity for oil and gas industry accountants to game the system and continue to run wings around the government. It also would not ensure that any future windfall gains, such as those produced due to the Russian invasion of Ukraine, are realised in appropriate returns in government revenue. The Australia Institute has proposed instead reforming the PRRT so that whenever the rate of return on the funds employed exceeds a certain threshold the liability would be triggered.[26]

For example, if the project generates a rate of return 20 per cent above the "trigger return" then the amount of profit so calculated would be taxed at the PRRT rate. Collecting the PRRT would not depend on the project sponsor getting all their investment back plus uplift factors before any tax is paid. If it is decided that the exploration expenditure is more risky than the rest of the investment in the project then it could be catered for by blending the trigger return as a simple arithmetic combination of the return allowed for risky investment and the return on the rest of the project. Indeed, if the PRRT is extended to other minerals there could even be a number of risk rates of return given that some exploration is more uncertain and early exploration is more uncertain than later "exploration" which is more like defining the boundary of the operation than assessing whether it is viable or not.

A hypothetical example demonstrates how this would work. Suppose we use the existing thresholds of

- LTBR + 5 for most expenditure for 10 years and
- LTBR + 15 for 10 years for exploration expenditure incurred before July 2019, when recent changes were applied, and
- LTBR for all other expenditure.

The difference is that these interest rates are not used to calculate escalation factors but are used as the target thresholds for applying the PRRT. Take a project that involved exploration worth $10 million in the year before 2019, and $90 million in other capital expenses since then. Assuming a LTBR of two per cent then, on these figures the blended trigger return would be the LTBR plus six per cent or a total of eight per cent.[27] Suppose in the first year of

[26] Richardson (2022) "Reforming the Petroleum Resource Rent Tax" https://australiainstitute.org.au/report/reforming-the-petroleum-resource-rent-tax/#:~:text=SPENDING%20%26%20THE%20BUDGET-,Reforming%20the%20Petroleum%20Resource%20Rent%20Tax,-October%2025%2C%202022"
[27] 6 = 90% of 5 and 10% of 15.

operation the profit is $20 million and remains steady at that level. The first eight per cent on the capital outlay ($100 million) is exempt.

Hence the PRRT base is then $12 million, which, at the present tax rate of 40 per cent would generate revenue of $4.8 million.[28] The PRRT is deductible for income tax purposes so that a company that normally paid 30 cents in the dollar on additional revenue would normally pay less company tax by the amount of $1.44 million.[29] Note that without the PRRT our project would pay company tax of $6 million on the $20 million profit. With PRRT the total tax increases to $9.36 million.

The proposal discussed here is illustrated in Table 4 which shows the first 11 years of operation.

Table 4: Hypothetical mining tax revenue under proposed changes to PRRT

	Exploration spending	Cumulative capital total	Profit	Existing PRRT	Proposed PRRT with 8% threshold	Company tax	Total new tax
2018	$10m	$10m	$0m	$0	$0.0m	$0.0m	$0.0m
2019	$90m	$100m	$0m	$0	$0.0m	$0.0m	$0.0m
2020	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2021	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2022	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2023	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2024	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2025	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2026	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2027	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m
2028	$0m	$100m	$20m	$0	$4.8m	$4.6m	$9.4m

Source: Authors calculations

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Under the above assumptions our project pays PRRT in year 3. However, under the present arrangement there would be no PRRT collected until 2031 as shown in the column headed "Existing PRRT".

Under existing arrangements, we may well have a mine that is quickly developed to take advantage of high commodity prices with significant profits in the first couple of years of production and then settles down to a more modest normal-rate-of return. There is a very good chance it never has a PRRT liability whereas the early years of large economic rents would be taxable under the proposal put here. For convenience, the example has assumed a PRRT rate of 40 per cent. An important feature of the PRRT is that it should not affect behaviour of those investing in mining projects. That means, in principle, the PRRT can be

[28] The effect of this may be to reduce company tax collections.

[29] Smaller companies with a turnover less than $50 million would pay tax of 25 per cent.

set at high levels without affecting how the mining industry operates. The implication is we could well consider going higher, perhaps up to the 90 per cent effective tax that has applied in Norway.

Potential uses of additional PRRT revenue

Given countries like Norway receive tens of billions of dollars more revenue annually than Australia in return for their oil and gas, the PRRT could be increased in the order of tens of billions of dollars annually. This would simply bring us in line with other countries.

Australia faces a clear choice between prioritising the profits of multinational oil and gas companies or making Australia better off as a country.

It could fund the restoration of our natural environment, compensate Australians for the costs of damage from climate change, secure better funding for health, education and social services, build social housing, or indeed provide anything else we believe is important.

While modest in the context of industry revenue, the additional money raised by lowering the deduction cap on the PRRT to 80% could be used for a range of purposes to improve social outcomes.

Analysis of the ABS Input-Output tables suggests that an extra $1.26 billion year directed to *primary and secondary education* could employ an extra 8,600 staff.[30] The same expenditure in the *residential and aged care* sector could employ an extra 7,700 workers, or create 8,120 new positions in the *health care services* industry.

[30] ABS (2023) *Australian National Accounts: Input-Output Tables 2020-21,* https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables/

Conclusion

The proposed changes to the PRRT as contained in Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023 deliver returns to taxpayers that are well below community expectations and do little to alter the current reality that gas companies are failing to pay a fair level of tax under the current PRRT regime.

We argue that the government should:

- Adopt a stricter cap of either 60% or 80%, or
- Reform the PRRT regime to ensure any windfall gains are taxed.

Our polling demonstrates that stricter caps would have much greater support than the 90% proposed. The concern that any changes to the cap would continue to play into the hand of the oil and gas industry accountants however could be countered by reforming the PRRT so that whenever the rate of return on the funds employed exceeds a certain threshold the liability would be triggered. This supports our recommendation that the government pursue a PRRT regime that would ensure any windfall gains are taxed, given such gains are not expected or included in investment decision taxing them would not affect investment decisions. These recommendations would also meet the demands of the more than 10,000 people who have signed the Australia Institute petition calling for the repair and increase of the PRRT to address this imbalance and ensure the Australian people get a fair share of the windfall profits from our own natural resources.

The aim of the government should be not to shift PRRT return from a later period to earlier, but to deliver bigger returns, always.

Given the great needs within the community for stronger government services, infrastructure and benefits, the government needs to be able to raise more revenue to fulfill spending commitments into the future. Given the role the oil and gas industry in producing emissions that lead to rising temperatures and climate change, we also argue the government has a moral responsibility to ensure that the industries which are causing the most damage to the climate pay a greater level of taxation given the large costs required to transition the economy to net zero. Recently, Professors Rod Sims and Ross Garnaut of The Superpower Institute proposed a “carbon solutions levy”, which they estimate would raised in the order of $100 billion in its first year.[31] Such a level of revenue should be the amount the government is contemplating. In such a context the average $600 million extra revenue estimated to be raised by these proposed changes to the PRRT is woefully inadequate.

[31] Sims and Garnaut (2024) “Restoring Prosperity by Building the Superpower” https://cdn.sanity.io/files/1pv5uha8/production/acd64198bc1248006ac829e4852c0c72b9e120e6.pdf.

The proposed changes to the PRRT are little more than a pea and thimble trick which fail to deliver the required revenue needed nor the level of revenue expected by the community.