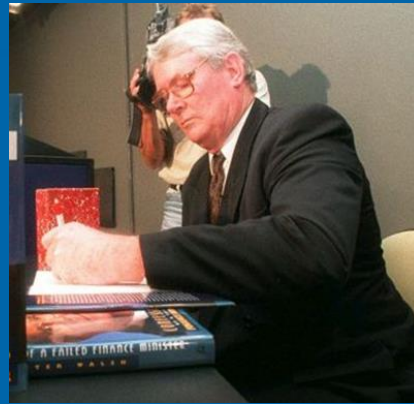


Australia's Petroleum Resource Rent Tax 1987: Paul Keating, Peter Walsh and other game changers



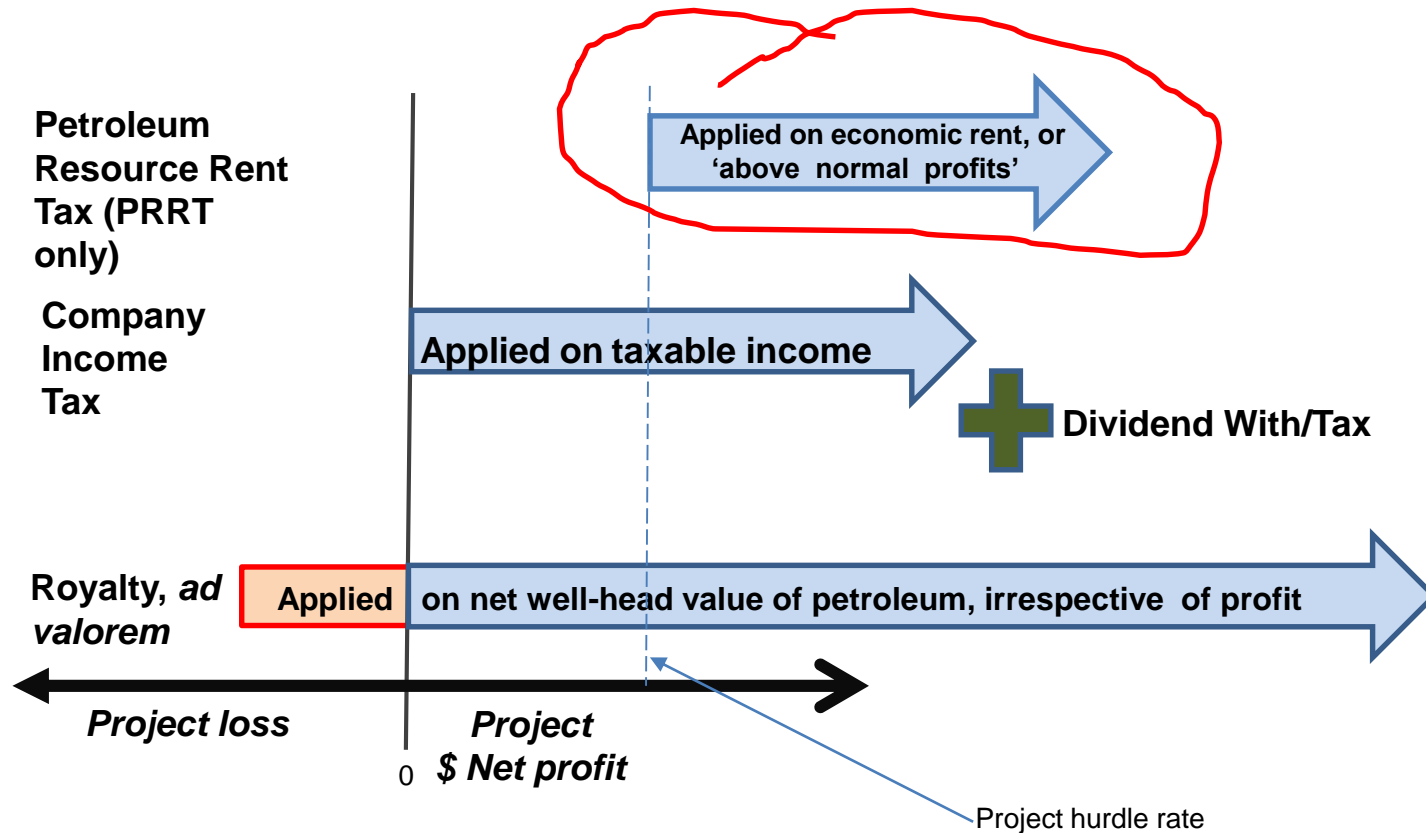
Presenter:

Dr Diane Kraal

Australasian Tax Teachers' Association's 29th Annual Conference, "Tax and Society".

Victoria University, 18 to 20 January 2017.

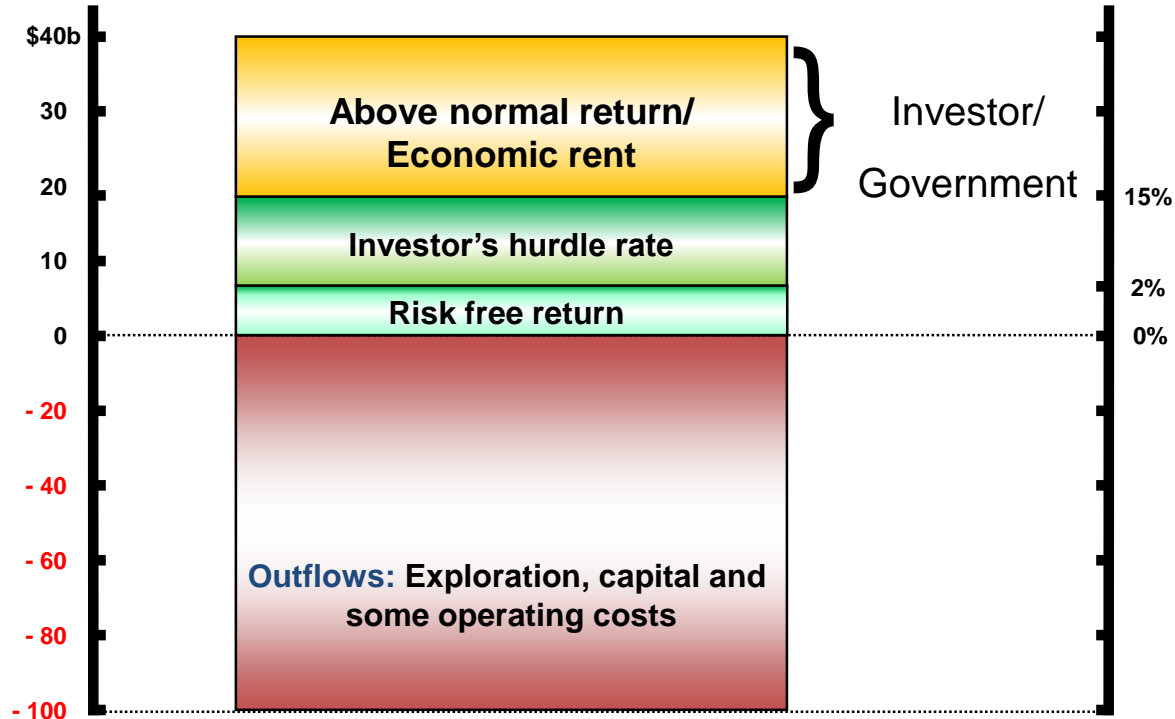
Petroleum tax revenue: PRRT, CIT, royalty, w/h tax



Resource rent tax: based on cash flow tax

Net Cash Flows \$billion

Discounted Rate of Return %

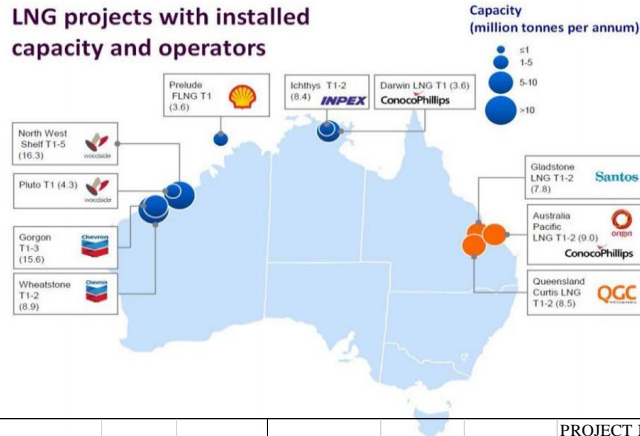


1980s Petroleum tax reform

- Jabiru project



Australia: Future petroleum tax reform? - processing of natural gas to LNG



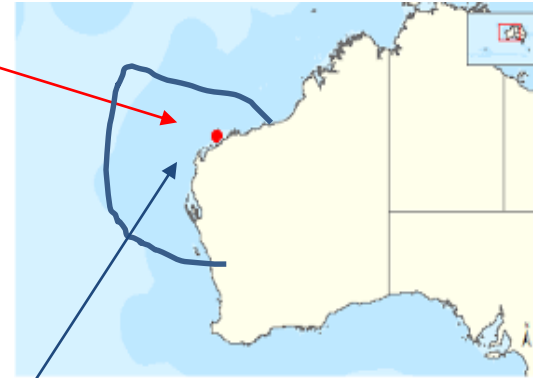
| | | | PROJECT NAME | | | | | | | |
|--|--|-------------------|-------------------------------|-------------------------|-------------------------------|------------|-----------------------------|---------|------------------|--|
| | | | Prelude (under construction)* | Darwin LNG ^b | Ichthys (start-up late 2017)* | Pluto LNG* | Wheatstone (start-up 2017)* | Gorgon* | North West Shelf | East coast: three coal seam gas projects + |
| Company Tax | | | yes | yes | yes | yes | yes | yes | yes | yes |
| Petroleum Resource Rent Tax (Commonwealth) | | | yes | | yes | yes | yes | yes | yes | yes |
| State royalties | | | | | | | | | | yes |
| Commonwealth royalties | | | | | | | | | yes | |
| Commonwealth excise** | | | | | | | | | yes | yes |
| | | MTPA [#] | 3.6 | 3.6 | 8.4 | 4.3 | 8.9 | 15.6 | 16.3 | 25.3 |

Source: Santos Ltd

Australia: Future tax reform?

-Petroleum:

onshore processing of natural gas to LNG



Carnarvon Basin.

Gorgon project, operated by Chevron

Gorgon Case Study: Summary of Results, 2016 - 2030

| | PRRT only, Commonwealth waters | PRRT & Commonwealth royalties | PRRT, no uplift, Commonwealth waters | Commonwealth Royalty |
|--------------------------|--------------------------------------|-------------------------------------|--|-------------------------|
| | US\$m cons | US\$m cons | US\$m cons | US\$m cons |
| <u>Secnario</u> | 1 | 2 | 3 | 4 |
| Royalty | - | 4,847 | - | 4,847 |
| PRRT | - | - | 12,692 | - |
| Company Income Tax | 10,963 | 9,762 | 7,747 | 9,762 |
| Dividend Withholding Tax | 4,823 | 4,293 | 3,405 | 4,293 |
| Total government revenue | 15,786 | 18,901 | 23,844 | 18,901 |

Recommendations for PRRT Reform: integrated gas projects in Commonwealth waters

- **Recommendation 1:** To determine the effect of differing uplift rates on expenditure, more sensitivity PRRT modelling needed.
- **Recommendation 2:** Transferability of exploration expenses between projects should be modelled for a fairer outcome from community resources.
- **Recommendation 3:** Reverse order of deductions for the PRRT should be modelled. Eg. high uplift deductions should be deducted first.

Recommendations for PRRT Reform: integrated gas projects in Commonwealth waters

- **Recommendation 4:** Focus on natural gas projects. Current PRRT regime for gas shows minimal resource tax.
- **Recommendation 5:** Current Gas Transfer Price method is flawed. Try alternatives: 'mid-stream breakeven price' method, or the 'Net Back' method.
- **Recommendation 6:** Royalties should be re-introduced and PRRT retained.