Parliamentary Budget Office

Make Gas Exporters Pay Taxes and Royalties	
Party:	Australian Greens

Summary of proposal:

The proposal has two components that would have effect from 1 July 2022.

Component 1

Replace the existing petroleum resource rent tax (PRRT) method of uplifting excess expenditure to future years that relates to PRRT projects with the following method.

- All excess expenditure recorded before the implementation date would be immediately deducted against PRRT profit. Any unused excess expenditure incurred before the implementation date would not be carried forward to future years.
- All expenditure, including general expenditure, incurred after the implementation date, would be deducted based on prime cost depreciation over 15 years so that 6.66% of the expenditure would be deducted each year. There would be no uplift factor applied to unused expenditure.

Component 2

Place a 10% royalty on offshore projects (excluding the North West Shelf project) that are subject to the PRRT. Royalty payments would be creditable against PRRT liabilities on a one-for-one basis and treated as a deductible expense in calculating company tax liabilities. Any royalties paid that are not credited against PRRT liabilities in a year would be carried forward, to be credited against PRRT liabilities in a later year.

Costing overview

The proposal would be expected to increase the fiscal balance by around $59,000 million and the underlying cash balance by around $54,600 million over the 2022-23 Budget forward estimates period. This impact reflects a net increase in tax and non-tax revenue.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

Departmental expenses for the proposal would not be expected to be material because it would not significantly alter the administration of the tax system. It is assumed that the Australian Taxation Office (ATO) would absorb the departmental costs of implementing these changes and as such this proposal would have nil departmental costs.

The differences between the fiscal and underlying cash balance impacts reflect timing differences between when the PRRT and royalty revenue are recognised and when they are paid.

There is a significant degree of uncertainty around the following factors:

- oil and gas production volumes
- capital and operating costs

- future oil and gas prices
- long-term bond rate
- expected behavioural responses to the proposal.

It is possible that some projects would close sooner than they otherwise would. This is because the proposal would reduce the post-tax return on projects, possibly making them unviable.

The uncertainty of these factors means that revenue from this proposal could vary substantially from the estimates provided, both over the time frame of this costing or in individual years. For example, lower oil or gas prices can rapidly reduce PRRT profit and tax payable.

Table 1: Financial implications ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	4,320.0	19,060.0	20,210.0	15,450.0	**59,040.0**
Underlying cash balance	3,940.0	14,140.0	19,720.0	16,750.0	**54,550.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- Oil and gas production volumes over the period to 2032-33 would not be affected by the proposal.
- No new oil and gas projects would begin production over the period to 2032-33.
- Companies affected by this proposal would be subject to the full company tax rate of 30%, and PRRT payments would be deductible for company tax purposes.
- Companies would not vary their company tax instalment payments as a result of this proposal.
- The gross-up oil price of oil would be around US$96 per barrel at the end of the 2022-23 Budget forward estimates period and grow over the period to 2032-33 in line with changes in the consumer price index.
- There would be no new transfers of exploration expenditure between PRRT projects.
- Royalties would be paid monthly, consistent with company tax instalments.
- The majority of companies that are investors in PRRT projects would continue to be primarily foreign owned over the period to 2032-33.

Methodology

PRRT

The PRRT impact was estimated by calculating the difference between the amount of PRRT revenue raised under the proposal and the baseline on a project-by-project basis.

Under the baseline, taxable PRRT profit was calculated by deducting estimated eligible project expenses from the assessable receipts derived from the project. PRRT profit was multiplied by 40% to derive the PRRT liability.

Under the proposal, a similar calculation was applied, however, the proposed treatment of expenditure was applied instead. This include disallowing unused excess expenditure being uplifted and carried forward to later years and applying the prime cost depreciation method to new deductible expenditure.

Royalties

Royalty revenue was estimated by multiplying the royalty rate by the wellhead value of the forecast production levels of projects that would be subject to the proposed royalty. Estimated production of offshore oil and gas projects that would become subject to the royalty was based on PBO analysis and data from Wood Mackenzie.

Royalties paid by projects would be creditable against PRRT liabilities. In calculating resource tax expenditure, the royalty revenue was grossed up by dividing the value of the royalty expenditure by the PRRT rate to offset the available assessable PRRT receipts and reduce the PRRT payable.

Company tax

The company tax impact was calculated based on the net amount of the estimated increase in PRRT and the estimated royalty amount that would become deductible from company taxable income.

Other

As the majority of shareholders in companies that operate PRRT projects are not Australian tax residents, the PBO has not calculated the dividend effect of this proposal or any impact on Australian resident shareholders under the dividend imputation arrangements.

The costing has taken into account the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

Wood Mackenzie provided project level data on oil and gas production.

The Treasury provided economic parameters as at the Budget 2022-23.

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[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Make Gas Exporters Pay Taxes and Royalties – financial implications

Table A1: Make Gas Exporters Pay Taxes and Royalties – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax revenue													
Petroleum resource rent tax	*-200.0*	*19,400.0*	*21,400.0*	*16,200.0*	*15,300.0*	*14,300.0*	*9,100.0*	*6,800.0*	*3,100.0*	*1,200.0*	*600.0*	***56,800.0***	***107,200.0***
Company tax	*-*	*-5,130.0*	*-5,940.0*	*-5,550.0*	*-5,040.0*	*-4,760.0*	*-4,530.0*	*-4,330.0*	*-4,110.0*	*-2,150.0*	*-1,510.0*	***-16,620.0***	***-43,050.0***
Total – tax revenue	**-200.0**	**14,270.0**	**15,460.0**	**10,650.0**	**10,260.0**	**9,540.0**	**4,570.0**	**2,470.0**	**-1,010.0**	**-950.0**	**-910.0**	**40,180.0**	**64,150.0**
Non – tax revenue													
Royalties	*4,520.0*	*4,790.0*	*4,750.0*	*4,800.0*	*4,790.0*	*4,630.0*	*4,360.0*	*4,270.0*	*4,260.0*	*4,180.0*	*4,120.0*	***18,860.0***	***49,470.0***
Total – non-tax revenue	***4,520.0***	***4,790.0***	***4,750.0***	***4,800.0***	***4,790.0***	***4,630.0***	***4,360.0***	***4,270.0***	***4,260.0***	***4,180.0***	***4,120.0***	***18,860.0***	***49,470.0***
Total (excluding PDI)	**4,320.0**	**19,060.0**	**20,210.0**	**15,450.0**	**15,050.0**	**14,170.0**	**8,930.0**	**6,740.0**	**3,250.0**	**3,230.0**	**3,210.0**	**59,040.0**	**113,620.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Make Gas Exporters Pay Taxes and Royalties – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Tax receipts													
Petroleum resource rent tax	*-200.0*	*14,500.0*	*20,900.0*	*17,500.0*	*15,500.0*	*14,600.0*	*10,400.0*	*7,400.0*	*4,100.0*	*1,700.0*	*700.0*	***52,700.0***	***107,100.0***
Company tax	*-*	*-5,130.0*	*-5,940.0*	*-5,550.0*	*-5,040.0*	*-4,760.0*	*-4,530.0*	*-4,330.0*	*-4,110.0*	*-2,150.0*	*-1,510.0*	***-16,620.0***	***-43,050.0***
Total – tax receipts	**-200.0**	**9,370.0**	**14,960.0**	**11,950.0**	**10,460.0**	**9,840.0**	**5,870.0**	**3,070.0**	**-10.0**	**-450.0**	**-810.0**	**36,080.0**	**64,050.0**
Non-tax receipts													
Royalties	*4,140.0*	*4,770.0*	*4,760.0*	*4,800.0*	*4,790.0*	*4,640.0*	*4,380.0*	*4,280.0*	*4,260.0*	*4,190.0*	*4,130.0*	***18,470.0***	***49,140.0***
Total – non-tax receipts	***4,140.0***	***4,770.0***	***4,760.0***	***4,800.0***	***4,790.0***	***4,640.0***	***4,380.0***	***4,280.0***	***4,260.0***	***4,190.0***	***4,130.0***	***18,470.0***	***49,140.0***
Total (excluding PDI)	**3,940.0**	**14,140.0**	**19,720.0**	**16,750.0**	**15,250.0**	**14,480.0**	**10,250.0**	**7,350.0**	**4,250.0**	**3,740.0**	**3,320.0**	**54,550.0**	**113,190.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Make Gas Exporters Pay Taxes and Royalties – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Fiscal balance	*50.0*	*250.0*	*640.0*	*1,070.0*	*1,470.0*	*1,890.0*	*2,290.0*	*2,610.0*	*2,880.0*	*3,110.0*	*3,380.0*	***2,010.0***	***19,640.0***
Underlying cash balance	*40.0*	*230.0*	*590.0*	*1,020.0*	*1,420.0*	*1,840.0*	*2,240.0*	*2,570.0*	*2,850.0*	*3,080.0*	*3,340.0*	***1,880.0***	***19,220.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

[2] Online budget glossary – Parliament of Australia (aph.gov.au)