Inquiry into the Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions] and **Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 [Provisions]**

Division: Corporate and International Tax Division
Topic: Decommissioning costs and PRRT scheme
Reference: Written (8 November 2021)

Question:

1. Noting that he is talking about decommissioning costs generally, and not specifically about this bill, respected gas industry analyst from Credit Suisse, Saul Kavonic estimates that 60-70% of decommissioning costs are borne by taxpayers due to the ability for companies to transfer PRRT credits for decommissioning. Would Treasury agree or dispute this point?

2. Can Treasury provide its estimate as a percentage or dollar figure of the clean-up costs effectively paid for by government due to the PRRT scheme?

3. Does the levy impose requirements on the quality of work or independent checks to ensure removal and remediation are complete? If not, why not?

Answer:

1. Under the PRRT, where a decommissioning cost meets the definition of closing down expenditure, it is able to be deducted against assessable PRRT receipts derived in the same financial year. If closing down expenditure exceeds assessable receipts, the excess give rise to a refundable credit at 40 cents in the dollar of the excess capped to the extent of PRRT paid by a taxpayer in relation to that project.

Credits for closing down expenditure are not transferable between petroleum projects.

Where a taxpayer incurs expenditure in decommissioning and that expenditure is deductible for income tax, then the company may claim a deduction against taxable income that is derived in the same year. If their deductions exceed their expenditure, they may carry that loss forward.

Where a taxpayer is liable for both PRRT and income tax on a project, they pay a combined rate of tax of up to 58 per cent on those profits, this takes account of the fact that PRRT liabilities are deductible for income tax purposes.

2. Refer to answer 1 above for the operation of the PRRT and corporate income tax in respect of decommissioning costs.

3. The Offshore Petroleum (Offshore Petroleum (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 and the Treasury Laws Amendment (Laminaria and Corallina Decommissioning Cost Recovery Levy) Bill 2021 introduce a temporary levy on offshore

petroleum production to recover the Commonwealth’s costs of decommissioning the Laminaria and Corallina oil fields and associated infrastructure.

The Bills do not regulate the standards to which decommissioning and remediation activities are to be undertaken. The standards for decommissioning and remediation are regulated by the *Offshore Petroleum and Greenhouse Gas Storage Act 2006* and related legislation.