Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023,

Schedule 5—Petroleum resource rent tax deductions cap

Department: Department of the Treasury
Topic: PRRT revenue and deductions
Reference: Written
Senator: Nick McKim

Question:

1. Can Treasury please explain why it assumes that if gas prices are lower that more money will be raised as a result of the deductions cap than if prices were higher (Table 8.1 from the Treasury report)
2. Are any additional PRRT revenue write downs currently being forecast by Treasury over and above the $1.3 billion from last budget and $2.4 billion write down from MYEFO?
3. Do PRRT deductions credits exhaust after being used under the deductions cap? In other words, will this bill extinguish the pile of PRRT uplift credits quicker than otherwise or no? If so, what are the forecast increase on reducing the pile of PRRT credits?
4. Given that all changes to the PRRT by definition will not deter investment as an economic rent tax, what is the rationale for exempting new gas projects for seven years?

Answer:

1. At higher prices, the deductions cap is estimated to result in less of an increase in PRRT receipts over the medium term compared with the lower and central price scenarios. This is because, under current arrangements, more projects will pay PRRT under a higher oil price, and they will start paying PRRT earlier. This means the cap has less of a role to play as a minimum tax for projects that would otherwise not pay PRRT, or in bringing PRRT revenues forward.
2. The outlook for PRRT revenue was updated in the 2024–25 Budget on 14 May 2024.
3. The deductions cap measure limits the amount of deductions that can be used to 90 per cent of assessable receipts. Where the cap applies, carried forward deductible expenditure will be used more slowly than would be the case without the cap. Denied deductions are uplifted at the long-term bond rate, which is lower than the uplift rate applying to general project expenditure. As a result of the cap PRRT will be payable by all projects, and sooner than otherwise would have occurred for those that would eventually pay PRRT.
4. The seven-year exemption period minimises the impact of upfront payments on projects and allows investors in new projects a reasonable time to recoup upfront construction costs.