

Department of Business Law and Taxation  
Level 3, Building S, Caulfield Campus  
Sir John Monash Drive  
Caulfield East VIC 3145

17 March 2017

Mr Alan Raine  
Committee Secretary  
Senate Economics References Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Raine

**Re: Senate inquiry into corporate tax avoidance and minimisation**

This submission concerns the treatment and/or payment of:

- i. royalties;
- ii. the Petroleum Resource Rent Tax (PRRT);
- iii. deductions; and
- iv. other taxes

by corporations involved in Australia's offshore oil and gas industry.

Contemporary developments in the extraction of gas and the lower than expected receipts for government have raised concerns about the effectiveness of petroleum taxation in Australia. The petroleum resource rent tax (PRRT) revenue take since the 2002-03 financial year has fallen, despite new business investments of A\$200 billion for integrated gas projects.

I am conducting Monash University funded research on integrated natural gas-to-liquids projects that extract from basins in Commonwealth waters. A key question concerns modifications necessary to the current fiscal regime for petroleum to facilitate an equitable return to the Australian community. Research findings from fiscal system modelling of one case study, Chevron's Gorgon project, indicates flaws in the fiscal system, such as zero PRRT collections to 2030. The research is significant for its unique review of Australia's petroleum taxation from the 1980s to the rise in the 2000s of natural gas projects for LNG export. My findings have been presented at the Australasian Tax Teachers' Association 29th Annual Conference, "Tax and Society". Victoria University, New Zealand in January 2017. My recommendations from the research to date follow below.

**Recommendation 1:** To determine the effect of differing uplift rates on deductible expenditure, more sensitivity PRRT modelling is required for offshore gas projects in Commonwealth waters.

**Recommendation 2:** Transferability of exploration expenditure was negotiated for oil back in 1990, and is not working as intended today for gas. Gas projects only provide utility rates of return, not ‘super profits’ as found in oil. Transferability of exploration expenses should be modelled for a fairer outcome from community resources.

**Recommendation 3:** Reverse order of deductions for the PRRT should be modelled. For example, high uplift deductions should be deducted first.

**Recommendation 4:** The focus of PRRT modelling should be on natural gas projects in Commonwealth waters that are not subject to a royalty regime. Case study modelling shows flaws in the PRRT regime for gas, which suggests minimal resource tax will be paid on these projects in the near future. This is a serious matter for the federal government revenues.

**Recommendation 5:** The Gas Transfer Price method is flawed, as shown by case study modelling. There are alternatives, such as the use of the ‘mid-stream breakeven price’ method, or the ‘Net Back’ method alone, either of which would derive a fairer price. Advance Pricing Arrangements should be made transparent to the public, much like the Australian Tax Office ‘sanitised’ private rulings or interpretive decisions.

**Recommendation 6:** Royalties should be re-introduced for integrated natural gas-to-liquids projects in Commonwealth waters. This change would result in earlier and assured revenue from resources. Royalties are credited against later PRRT collections. The fiscal system would then be equal to onshore coal seam gas projects and the North West Shelf project.

I would be pleased to further discuss my findings with the Senate Economics Committee.

Yours Sincerely

*Diane Kraal*

**Dr Diane Kraal**

Senior Lecturer

Department of Business Law and Taxation

**Monash Business School**, Monash University