

Questions on Notice
 Economics References Committee, Corporate tax avoidance
 WEDNESDAY, 14 MARCH 2018

	Question	Answer
Page 53	<p>CHAIR: Firstly, I would like to ask about the Treasurer's visit to the US and, in particular, the meeting with ExxonMobil. There was a comment in the media release of 29 January which indicated that there would be such a meeting. Can you confirm that that meeting took place?</p> <p>Mr McCullough: I apologise. This is not a level of detail that I could answer on the spot. I would have <u>to take that sort of thing on notice.</u></p> <p>CHAIR: You're not familiar with the meeting at all?</p> <p>Mr McCullough: No, I'm not.</p> <p>CHAIR: Are you not sure as to what the purpose of the meeting was?</p> <p>Mr McCullough: As I said, I apologise: I have been in this job for a week and a half. I have not followed all of the recent events. I assume if there was a release about the Treasurer's meeting, then there was a meeting; but I would have <u>to take it on notice</u> if you want something specific in relation to it. .</p>	Refer to Additional Estimates Question on Notice Number 98.
Page 54	<p>CHAIR: Generally, in terms of a policy position, wouldn't it be a stronger position to require tax advisers to report in advance rather than waiting for the ATO to have already detected an issue?</p> <p>Mr Potts: We may well be discussing at cross-purposes here. Firstly, whether it's weaker or stronger, we should acknowledge that different jurisdictions will have different starting bases and quite a lot of information comes to the ATO already through various mechanisms. Another country may not have the same base starting point. But getting to your question: a mandatory</p>	Consultation ran to April 2017.

	<p>disclosure regime, as thought of in our consultation, would have a requirement, if the government decided to implement it, to disclose that earlier than you would expect it to be disclosed at the moment. I say, 'earlier than you would expect it to be disclosed at the moment', because there are lots of points of time where the tax office may get information at the moment.</p> <p>CHAIR: Let's move onto the period of consultation. I understand the submission period ran from 2 May 2016 to 15 July 2016. When did Treasury complete its consultation?</p> <p>Mr Potts: I'm not sure. <u>I'll have to take that on notice.</u></p>	
Page 54	<p>CHAIR: Can you tell us when you expect the review to be completed?</p> <p>Mr Potts: The review in the sense of—I suppose <u>I need to take that on notice,</u> but we aren't consulting at the moment with industry.</p> <p>CHAIR: But the government announced that it was looking at the OECD's mandatory disclosure rules, and my questions go to the fact that the government decided to have a community consultation process and this all suggests that the government is going to move in this direction?</p>	The timing of any announcement of an MDR is a matter for Government.
Page 55	<p>CHAIR: It's been over 18 months since the closing date of the submissions. Can you tell us when the Treasurer will make the non-confidential submissions publicly available?</p> <p>Mr McCullough: I thought the non-confidential submissions were already available.</p> <p>Mr Potts: No, I don't think they are.</p> <p>Mr McCullough: I apologise. I can't tell you when they will be made available, <u>but we'll take that on notice.</u></p> <p>CHAIR: And can you tell us why they haven't been made public as yet?</p>	Submissions may be published by Government on introduction of a bill into Parliament or other response to the consultation.

	<p>Mr McCullough: I certainly can't now, but we'll take that on notice. There are two ways to do this with consultation. Typically, if there is a government response, that's a really good time to make the submissions public. Sometimes it's done well in advance. It just depends.</p>	
Page 55	<p>CHAIR: Has the government requested further information from Treasury, the ATO or the Board of Taxation [regarding the MDR]?</p> <p>Mr McCullough: I don't think I can answer the question about whether the government's requested this or asked for that.</p> <p>CHAIR: But you can tell us whether they've requested it from you.</p> <p>Mr McCullough: I can certainly take it on notice.</p>	Yes
Page 59	<p>Senator CAMERON: Did anyone in the Treasury have a look at the submissions to this committee?</p> <p>Mr McCullough: I'm sure somebody did.</p> <p>Senator CAMERON: Would they have looked at submission 158 from the Oxford Institute for Energy Studies?</p> <p>Mr McCullough: Again, I'm sure somebody's looked at it.</p> <p>Senator CAMERON: You've got no views on it? They're basically saying we're getting ripped off by hundreds of billions of dollars.</p> <p>Mr McCullough: I saw a press article. I haven't seen anything more than that and it's very difficult to—</p> <p>Senator CAMERON: Can you take on notice whether anyone has had a look at that submission and provide us with details of whether that submission was looked at? If the submission was looked at, what are the lessons, from an economic perspective, that we should be addressing. If it wasn't looked at, why not? Can you take that on</p>	<p>Treasury did read the submission.</p> <p>The submission goes to the design of the PRRT and compares Australia's Petroleum tax regime with the UK and other North Sea oil and gas producers' regimes.</p> <p>The Callaghan review found that the costs of getting oil and gas to markets in different regions and from different fields can vary enormously, which will affect tax revenues. In addition, other countries may use very different tax regimes, have different levels of direct government involvement in the industry and be in a different phase of the exploration- development- production cycle. As a result the review found that it is difficult to analyse revenues collected between the jurisdictions on a comparable basis.</p>

	<p>notice? Mr McCullough: I can take it on notice</p>	
<p>Page 60</p>	<p>Senator CAMERON: Thanks. So the Henry tax review did have a look at PRRT and resource rent taxes. Is that still actively under consideration in Treasury? Mr McCullough: I'm just being reminded by my colleague here that the government did have a review into PRRT, of course. Treasury released that review, the Callaghan review, on 27 April 2017. Then the Treasurer asked Treasury to undertake consultation on options. Treasury consulted extensively with stakeholders. You were asking me before about submissions. There are 24 public submissions available on the Treasury website. There is one confidential submission, which was not published. The consultation paper was released on 30 June 2017. Senator CAMERON: What were the key recommendations arising from that inquiry? Mr McCullough: From the Callaghan review? Mr Potts, do we have that in front of us or not? So, for the Callaghan review, my notes here say that the review found that 'the decline in PRRT revenue does not in itself indicate the Australian community is being short-changed in receiving an equitable return from the development of its resources'. It found that the PRRT 'remains the preferred way for charging for the use of petroleum resources and that the current scheme was not deterring investment'. Senator CAMERON: What were the other aspects that saw a lack of return? Mr McCullough: I beg your pardon? Senator CAMERON: You said that the Callaghan review said that the PRRT in itself was not a reason. What were the other reasons? Mr McCullough: I didn't read that sentence as having</p>	<p>The Callaghan review said: The PRRT has generated over \$33 billion in revenue since payments were first made in 1989 90. The reduction in PRRT revenue from 2002 03 to 2015 16 reflects subdued oil and gas prices, declining production in mature projects, growing deductible expenditure from the recent large investment in new projects and the transfer of exploration expenditure between companies in wholly owned groups. The large stock of deductible expenditures will curtail PRRT revenue for a number of years notwithstanding the increase in LNG production. Under the PRRT arrangements, tax only becomes payable once projects become cash flow positive, meaning all expenditure has been deducted. The cost of developing many of these new projects is significantly higher than originally planned when the decision was taken to proceed, and oil prices are significantly lower. If current oil prices prevail for an extended period, the profitability of these projects will be substantially lower than expected when the decisions were taken to proceed with these projects, as will PRRT revenue to the Government.</p>

	<p>that implication. We'll have to take that on notice. Senator CAMERON: What implication did you read?</p>																															
<p>Page 62</p>	<p>Senator CAMERON: Did Treasury do any analysis as to the amount of income that the government can expect from the PRRT recently? Mr McCullough: Again, I'm sure that in every budget process, estimates of revenue, not income, are par for the course. We publish them on an annual basis. We review them in the MYEFO process. I don't have those figures to hand, but they are routinely estimated. Senator CAMERON: How many estimates have you got wrong recently in terms of budget outcomes? Mr McCullough: I would have to take that on notice. Senator CAMERON: There are a few, though, aren't there? Mr McCullough: I would have to take it on notice. Senator CAMERON: Are you saying there's none? Mr McCullough: The numbers are not my area. I don't do the— Senator CAMERON: We've just had Exxon in here. They've got tax departments with multimillion-dollar budgets. The critique I've seen recently is that some of our government departments are being gutted in terms of expertise. That makes it very difficult, doesn't it? It makes it very difficult if we can't match the expertise in some of these multinational corporations. Mr McCullough: It's always been thus. The Public Service advises government. These days, it's much more contestable as well. It's not just the Public Service. Government takes advice from all sorts of sources. Yes, it's true that multinational companies, probably, pay higher salaries.</p>	<p>A summary of PRRT estimates and actual outcomes as reported in the last four Final Budget Outcomes are below on a cash and accrual basis.</p> <p>Australian Government general government sector (Cash) Receipts</p> <table border="1" data-bbox="996 467 1736 711"> <thead> <tr> <th>Year</th> <th>Estimate \$m</th> <th>Outcome \$m</th> </tr> </thead> <tbody> <tr> <td>2013-14 at 2014-15 budget</td> <td>1,400</td> <td>1,368</td> </tr> <tr> <td>2014-15 at 2015-16 budget</td> <td>1,800</td> <td>1,810</td> </tr> <tr> <td>2015-16 at 2016-17 budget</td> <td>800</td> <td>741</td> </tr> <tr> <td>2016-17 at 2017-18 budget (a)</td> <td>1,000</td> <td>981</td> </tr> </tbody> </table> <p>(a) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.</p> <p>Australian Government general government sector (accrual) revenue</p> <table border="1" data-bbox="996 863 1736 1107"> <thead> <tr> <th>Year</th> <th>Estimate \$m</th> <th>Outcome \$m</th> </tr> </thead> <tbody> <tr> <td>2013-14 at 2014-15 budget</td> <td>1,470</td> <td>1,645</td> </tr> <tr> <td>2014-15 at 2015-16 budget</td> <td>1,640</td> <td>1,319</td> </tr> <tr> <td>2015-16 at 2016-17 budget</td> <td>840</td> <td>876</td> </tr> <tr> <td>2016-17 at 2017-18 budget (a)</td> <td>1,050</td> <td>976</td> </tr> </tbody> </table> <p>(a) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.</p>	Year	Estimate \$m	Outcome \$m	2013-14 at 2014-15 budget	1,400	1,368	2014-15 at 2015-16 budget	1,800	1,810	2015-16 at 2016-17 budget	800	741	2016-17 at 2017-18 budget (a)	1,000	981	Year	Estimate \$m	Outcome \$m	2013-14 at 2014-15 budget	1,470	1,645	2014-15 at 2015-16 budget	1,640	1,319	2015-16 at 2016-17 budget	840	876	2016-17 at 2017-18 budget (a)	1,050	976
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