

Greens Additional Comments

Time to end the PaRRTy for oil and gas giants

1.1 The Greens support this Bill because it is an improvement upon the existing PRRT. But it would be almost impossible not to improve upon the existing PRRT.

1.2 The PRRT is the most egregious rort in the Australian tax code. While the world is in the middle of a LNG boom, the PRRT is flat lining. We're practically giving the stuff away.

1.3 The fundamental flaw with the PRRT is the overly generous uplift rates applied to carried-forward expenditure which is used to offset taxable income.

1.4 Most problematic are exploration expenses which compound at 15% above the long-term bond rate, and can be transferred from one project to another within a company.

1.5 This is not a revelation. Ten years ago, the Henry Tax Review stated that:

Although the current PRRT collects a more stable share of rents in varying economic conditions, it fails to collect an appropriate and constant share of resource rents from successful projects due to uplift rates that over-compensate successful investors for the deferral of PRRT deductions.¹

1.6 Successive Liberal and Labor governments' failure to address this problem has resulted in oil and gas companies accumulating \$324 billion worth of tax offsets as of 2017-18. This equates to more than 70% of the Commonwealth Government's total revenue.²

1.7 In the years since the PRRT's coverage was extended, the rate of growth in tax offsets has left behind the rate of growth in taxable profit and tax paid. On current trends, it is an open question whether PRRT tax offsets will ever be expired. Some companies might ride a multi-decade long boom and end up tax positive.

1.8 There are numerous improvements that could be made to the PRRT that would result in a better distribution to the public of the profits being made by multinational oil and gas companies from extraction of Commonwealth resources. These options were well explored by the Senate Economics Reference Committee's inquiry into corporate tax avoidance.³

1 Australia's future tax system, Report to the Treasurer, December 2009, Part Two: Detailed analysis—volume 1 of 2.

2 MYEFO 2018–19, Table 3.15: Australian Government general government sector (accrual) revenue: Actual revenue, 2017–18—\$456 billion.

3 Senate Economics Reference Committee, *Corporate Tax Avoidance report—Part III: Much heat, little light so far*.

1.9 Yet the Liberal and Labor parties continue to tinker at the edges and allow some of the most polluting, biggest tax-dodging companies on the planet to starve the public of a fair take.

Recommendation 1

1.10 The government bring forward legislation that provides for any or every one of the following measures that would increase revenue from oil and gas and improve transparency around oil and gas taxation:

- **A 10% Commonwealth royalty, creditable against the PRRT.**
- **The use of a 'shadow price' as the taxing point for LNG under the PRRT.**
- **The application of a single uplift rate for all eligible categories of carried forward expenditure under the PRRT, applicable from this point on, irrespective of when the expenditure was incurred; and that this uplift rate be set at the LTBR where the LTBR is the existing benchmark.**
- **The prohibition on transferring carried forward expenditure under the PRRT from one project to another.**
- **The requirement to deduct carried forward expenditure with the highest uplift rate before deducting any other expenditure, irrespective of when the expenditure was incurred.**
- **The removal of decommissioning costs as a deductible expense under the PRRT.**
- **The reporting of exploration costs to the ATO from the commencement of a project, irrespective of when tax liabilities are first incurred.**

**Senator Peter Whish-Wilson
Senator for Tasmania**

Table: Historic PRRT data⁴

<i>Year</i>	<i>Taxable profit (\$B)</i>	<i>Carry forward expenditure (\$B)</i>	<i>PRRT collected (\$B)</i>	<i>Petroleum exports (\$B)</i>
1999-00	3.5	2.4	1.4	9.6
2000-01	5.1	1.2	2.0	11.6
2001-02	3.8	0.8	1.5	9.7
2002-03	4.1	1.0	1.6	9.4
2003-04	3.2	1.0	1.3	7.9
2004-05	3.8	1.7	1.5	10.3
2005-06	5.0	2.6	2.0	12.7
2006-07	4.4	2.0	1.8	14.6
2007-08	4.9	3.5	1.9	17.5
2008-09	4.1	4.7	1.6	18.2
2009-10	3.2	10.6	1.3	18.4
2010-11	2.6	9.4	1.0	23.3
2011-12	4.0	18.4	1.6	26.1
2012-13	3.2	127.7	1.3	25.8
2013-14	4.6	159.3	1.8	28.7
2014-15	3.1	186.7	1.2	24.7
2015-16	2.2	237.8	0.9	22.6
2016-17	2.4	282.2	1.0	28.4
2017-18	2.9	324.0	1.2	38.7

4 ATO, Taxation statistics 2016–17, Table 5: GST and other taxes—Petroleum resource rent tax, Selected items: 1999–00 to 2017–18 financial years; Office of the Chief Scientist, Resources and Energy Quarterly, Petroleum: export— total value of crude oil, LPG and LNG.

