Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2016 - 2017

Division/Agency: Corporate and International Tax Division
Question No: 241
Topic: PRRT - Tax credits
Reference: Written
Senator: Whish-Wilson, Peter

Question:

1. How many reporting entities currently hold PRRT tax credits?
2. Can you confirm that total PRRT tax credits increased from $187b to $238bn in the last reported tax year?
3. What proportion of total PRRT tax credits originate from exploration uplift, and what proportion originate from general expenditure?
4. What proportion of the last reported year's increase in PRRT tax credits is uplift of pre-existing credits, and what proportion are new credits?
5. When is it projected that current PRRT tax credits will be exhausted?
6. Other than under the PRRT, are businesses able to uplift undeducted expenditure, or similar concessions, for any other business investment or activity?
7. Subsidies are commonly defined internationally as "measures that keep prices for consumers below market level or keep prices for producers above market level or that reduce costs for consumers and producers by giving direct or indirect support".
8. Do the uplift rates in the PRRT qualify as a subsidy?

Answer:

1. The Australian Tax Office (ATO), in table 1 of their submission to the Review of the Petroleum Resource Rent Tax (PRRT), outlines that 148 PRRT returns were submitted in 2015-16. As PRRT is assessed on a project basis, an entity needs to prepare and lodge separate PRRT returns for each interest it has in a petroleum project.

2. Carry forward expenditure reported in PRRT returns increased from $187,506 million in 2014-15 to $237,867 million in 2015-16.

3. There was $255,249 million of deductible expenditure reported on PRRT returns in 2015-16. General expenditure comprised $124,597 million (48.8%) and exploration expenditure comprised $32,334 million (12.7%).

The splits between expenditure in the current year and uplifted expenditure from previous years cannot be determined from the data.

4. The splits between expenditure in the current year and uplifted expenditure from previous years cannot be determined from the data.

5. The current total stock of PRRT deductible expenditure is not expected to be exhausted over the forward estimates. The medium term projections are not equivalent to forecasts: they outline the broad trajectory of tax receipts under current policy settings and prevailing economic assumptions.

6. PRRT operates in addition to the company tax. Its design features are intended to apply an additional tax to economic rent, where present, while avoiding the double taxation of normal returns. The uplift is an important part of the design.

PRRT is the only rent tax in the Australian tax system. Rent taxes are unique, in that all expenditure, including capital expenditure, is immediately deductible. In the corporate tax system capital expenses are deductible over the period that the benefit of the expenditure occurs, which in effect, preserves the value of the deduction. Interest expenditure is usually deductible in other tax systems and is not deductible for the PRRT.

Tax systems are complex and standalone mechanisms need to be considered within the system in which they operate. An example of a similar mechanism can be found for qualifying infrastructure projects. Companies and fixed trusts that carry on part or all of a designated infrastructure project can, subject to certain conditions uplift their tax losses at the long term bond rate (Division 415, Income Tax Assessment Act 1997).

7 - 8. No they do not meet the definition provided in question 7.