

Petroleum Resource Rent Tax: Review of Gas Transfer Pricing arrangements

Evaluation Plan for the proposed policy changes

OIA reference quote: 'OIA23-04704'

Summary of proposed policy

The proposed policy is to alter the calculation of taxable profit for the purposes of the Petroleum Resource Rent Tax (PRRT), limiting the use of deductions to 90 per cent of assessable receipts. Treasury's Review of the Gas Transfer Pricing (GTP) Regulations found that alongside other changes affecting the industry, a deduction cap will provide a timely and minimum return from Australia's offshore LNG industry. Compared to other policy options raised in the Review, a deductions cap will have limited impact on the economics of current and future LNG projects.

The proposed policy will limit deductible expenditure to the value of 90 per cent of each taxpayer's PRRT assessable receipts in respect of each project interest in the relevant income year and apply after mandatory transfers of exploration expenditure. The amounts that are unable to be deducted because of the cap will be carried forward and uplifted at the Government long-term bond rate. The cap will only apply to PRRT projects that produce LNG. Projects would not be subject to the cap until 7 years after the year of first production or from 1 July 2023, whichever is later. The cap will not apply to certain classes of deductible expenditure in the PRRT – closing-down expenditure, starting base expenditure and resource tax expenditure.

Evaluation plan

No formal evaluation will occur as the proposed policy will impact various Liquefied Natural Gas (LNG) projects at different times rather than a specific point in time. Rather, the proposed policy will be evaluated over time through observing the increase in PRRT revenue as a result of the typical administration of the tax system by the ATO, and established monitoring and reporting channels. This includes:

- intelligence on annual PRRT revenue collections gathered from PRRT tax returns over time;
- the annual Report on entity tax information published on data.gov.au, which discloses the names of all the entities that have paid PRRT in each year and the amounts paid;
- the PRRT tax gap assessment, which estimates the difference between the amount that the ATO collects and what it would have collected if every taxpayer was compliant with the law;
- established forums with the ATO to discuss the implications arising in its administration of the proposed policy changes as part of its ongoing monitoring of the health of the tax system.

The proposed policy will also be evaluated over time through regular community outreach and engagement Treasury has with the industry and other interested stakeholders.