



# Australia PETROLEUM



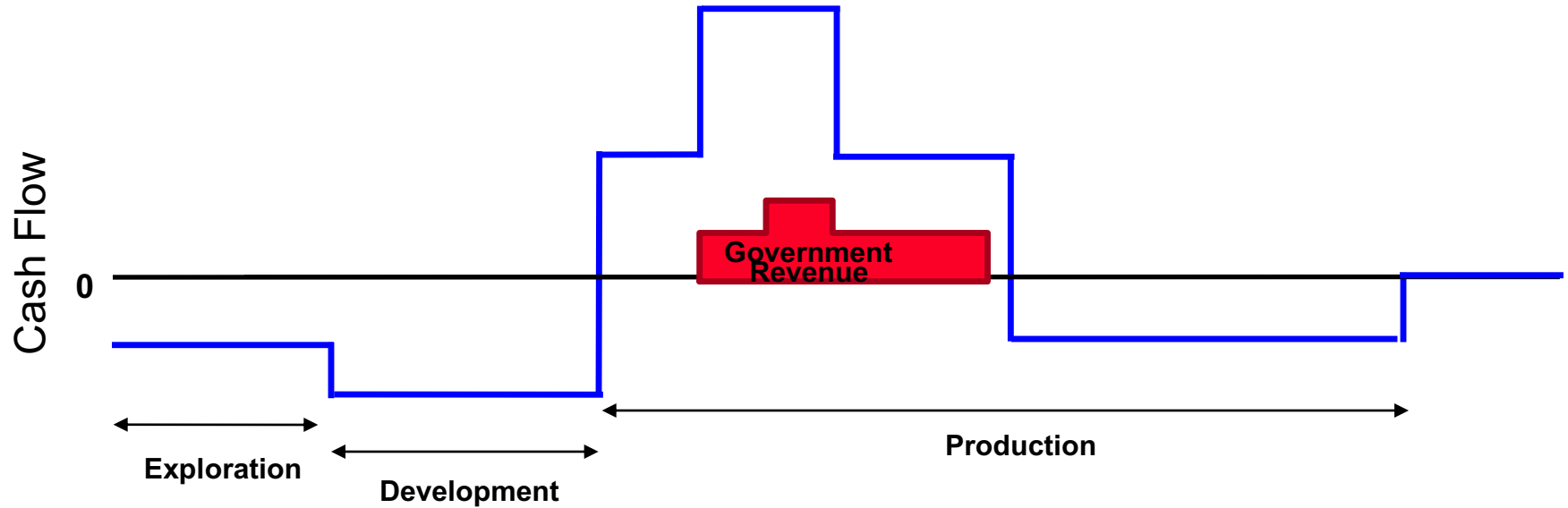
# Commonwealth's petroleum resource rent taxation system

- PRRT is deductible against company tax
- Exploration expenditure outside of the production area may be transferred to the taxable project
- Cash inflow = sales revenue
- Expenditure must be deducted in the following order:
  1. General project expenditure including eligible capital expenditure
  2. Exploration expenditure within the project area
  3. Closing down and rehabilitation expenditure
  4. Exploration expenditure transferred from another project
- The tax is levied at a rate of 40 per cent of net project income after the threshold rate of return is achieved (after accumulated exploration and general project expenditures have been deducted)

# Petroleum Resource Rent Tax (PRRT)

- Key features:
  - Extended to all State areas from 1 July 2012.
  - Project basis application
  - Rate: 40 per cent of net project income (before Company tax)
  - Net cash flow calculation
  - GST, Income Tax, FBT, Financing costs (interest) not deductible
  - Encourages exploration
  - Back end loaded
  - Recognises investor risk
  - Administered by Australian Tax Office
  - Revenue fluctuation

# Resource rent



# **Petroleum Resource Rent Tax (PRRT)**

**Upstream oil and gas projects in Australia are subject to the Petroleum Resource Rent Tax (PRRT)**

**PRRT is a project-based cash flow tax at a rate of 40 per cent.**

- No PRRT is collected until a project is in a cash flow positive situation and is profitable.
- If a project is not profitable, it will not pay PRRT.

**Project expenses and exploration expenditure can be deducted to reduce PRRT liability.**

**Exploration expenditure is transferrable within a company group.**

# Petroleum Resource Rent Tax (PRRT)

**The PRRT regime will be updated from 1 July 2019. Key changes include:**

- PRRT will apply to offshore projects only. Onshore projects will remain subject to state royalty regimes.
- Uplift rates for exploration and other expenditure will be subject to new terms:
  - *General expenditure – Long Term Bond Rate plus 5% for 10 years, then LTBR (currently LTBR+5% indefinitely)*
  - *Exploration expenditure – LTBR plus 5% for 10 years, then GDP deflator (currently LTBR+15% indefinitely)*
- Exploration expenditures will remain transferable and can be used indefinitely.

\*Information on this slide is general information only and does not replace the need to seek advice directly from the Australian Taxation Office