Parliamentary
Budget Office

Policy costing

Lowering the PRRT deductions cap		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	13 July 2023	
Expiry date of the costing:	Release of the next economic and fiscal outlook report	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential –~~ *Authorised for public release on 1 August 2023*	☐ Not confidential

Summary of proposal:

This proposal would change the deductions cap introduced in the Petroleum Resource Rent Tax (PRRT) measure in the 2023-24 Budget, *Petroleum Resource Rent Tax – Government Response to the Review of the PRRT Gas Transfer Pricing arrangements* (the 2023-24 measure). This measure affects 5 major offshore liquefied natural gas (LNG) projects:

- Gorgon
- Ichthys
- Wheatstone
- Pluto
- Prelude.

Under the proposal, the cap would limit deductible expenditure to the value of 80% of each taxpayer's PRRT assessable receipts.

This proposal would have effect from 1 July 2023.

Costing overview

The proposal would be expected to increase the fiscal balance by around $2.9 billion and the underlying cash balance by around $2.6 billion over the 2023-24 Budget forward estimates period. This impact reflects a net increase in tax revenue.

The proposal would have an ongoing impact beyond the 2023-24 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2033-34 is provided at Attachment A.

Departmental expenses for the proposal would not be expected to be material because it would not significantly alter the administration of the tax system.

The differences between the fiscal and underlying cash balance impacts reflect timing differences between when the PRRT are recognised and when they are paid.

Table 1: Lowering the PRRT deductions cap - Financial implications ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	Total to 2026-27
Fiscal balance	690.0	558.0	929.0	689.0	**2,866.0**
Underlying cash balance	510.0	548.0	829.0	729.0	**2,616.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
- Indicates nil.

Uncertainties

Estimating the PRRT impact involves a significant degree of uncertainty as it is dependent on a range of factors which could vary substantially from the estimates provided, both over the timeframe of this costing or in individual years. For example, lower oil or gas prices can rapidly reduce or extinguish PRRT profit and tax payable. The factors which could affect the estimated PRRT liabilities are:

- future oil and gas prices
- exchange rate changes
- long-term bond rate changes
- additional offshore projects commencing production
- take up of the residual pricing method (RPM) in the gas transfer pricing arrangements
- project-specific features such as:
  - deviations of actual capital and operating costs from the Wood Mackenzie projection
  - fluctuation of oil and gas production volumes
  - unique arrangements within or between eligible LNG projects or project joint venture partners that are not disclosed
- behavioural responses to the proposal.

More generally, changes in the post-tax revenue of a project may have an influence on investment decisions for that project into the future.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The Brent oil price would be held constant at around US$84 per barrel over the 2023-24 Budget forward estimates period and then grow over the period to 2033-34 in line with changes in the consumer price index.
- All 5 affected LNG projects would use the RPM for the gas transfer price.
- Oil and gas production volumes and planned new expenditure for each project over the period to 2033-34 would not be affected by the proposal.
- No new oil and gas projects would begin production over the period to 2033-34.
- There would be no new transfers of exploration expenditure between PRRT projects.
- Companies affected by this proposal would be subject to the full company tax rate of 30%, and 90% of PRRT payments would be able to be deducted for company tax.

- Companies would not vary their company tax lodgement cycles as a result of this proposal.
- The majority of companies that are investors in PRRT projects would continue to be primarily foreign owned over the period to 2033-34.

Methodology

PRRT

The PRRT impact was estimated by calculating the difference between the amount of PRRT revenue raised under the proposal and the baseline using a custom PRRT model that has been benchmarked to the 2023-24 Budget measure and *Key assumptions* discussed above.

Taxable PRRT profit was calculated by modifying the deductions cap as specified and then subtracting this amount from the assessable receipts derived from the project.

Company tax

The net company tax impact was calculated by multiplying the estimated net increase in PRRT that would become deductible from company taxable income by the assumed company tax rate.

Other

As the majority of shareholders in companies that operate PRRT projects are not Australian tax residents, the PBO has not calculated the dividend effect of each option or any impact on Australian resident shareholders under the dividend imputation arrangements.

The costing has taken into account the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

The ATO provided PRRT tax return data for the financial years from 2012-13 to 2021-22.

The Treasury provided the costing model (excluding data) for the PRRT measure in the 2023-24 Budget.

The Treasury provided updated economic parameters as at the *2023-24 Budget*.

Wood Mackenzie provided project level data on oil and gas production.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Lowering the PRRT deductions cap – financial implications

Table A1: Lowering the PRRT deductions cap – Fiscal balance ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Tax revenue													
PRRT	*740.0*	*760.0*	*1,160.0*	*990.0*	*720.0*	*1,040.0*	*1,070.0*	*1,050.0*	*-10.0*	*150.0*	*30.0*	***3,650.0***	***7,700.0***
Company Tax	*-50.0*	*-202.0*	*-231.0*	*-301.0*	*-250.0*	*-216.0*	*-283.0*	*-287.0*	*-212.0*	*-8.0*	*-31.0*	***-784.0***	***-2,071.0***
Total – revenue	**690.0**	**558.0**	**929.0**	**689.0**	**470.0**	**824.0**	**787.0**	**763.0**	**-222.0**	**142.0**	**-1.0**	**2,866.0**	**5,629.0**
Total (excluding PDI)	**690.0**	**558.0**	**929.0**	**689.0**	**470.0**	**824.0**	**787.0**	**763.0**	**-222.0**	**142.0**	**-1.0**	**2,866.0**	**5,629.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Lowering the PRRT deductions cap – Underlying cash balance ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Tax receipts													
PRRT	*560.0*	*750.0*	*1,060.0*	*1,030.0*	*790.0*	*960.0*	*1,060.0*	*1,060.0*	*250.0*	*110.0*	*60.0*	***3,400.0***	***7,690.0***
Company Tax	*-50.0*	*-202.0*	*-231.0*	*-301.0*	*-250.0*	*-216.0*	*-283.0*	*-287.0*	*-212.0*	*-8.0*	*-31.0*	***-784.0***	***-2,071.0***
Total – receipts	**510.0**	**548.0**	**829.0**	**729.0**	**540.0**	**744.0**	**777.0**	**773.0**	**38.0**	**102.0**	**29.0**	**2,616.0**	**5,619.0**
Total (excluding PDI)	**510.0**	**548.0**	**829.0**	**729.0**	**540.0**	**744.0**	**777.0**	**773.0**	**38.0**	**102.0**	**29.0**	**2,616.0**	**5,619.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Lowering the PRRT deductions cap – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Fiscal balance	*8.0*	*26.0*	*50.0*	*78.0*	*102.0*	*128.0*	*159.0*	*194.0*	*216.0*	*227.0*	*240.0*	***162.0***	***1,428.0***
Underlying cash balance	*7.0*	*23.0*	*46.0*	*73.0*	*97.0*	*123.0*	*154.0*	*187.0*	*212.0*	*225.0*	*238.0*	***149.0***	***1,385.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[2].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

[2] Online budget glossary – Parliament of Australia (aph.gov.au)