Parliamentary Budget Office

Policy costing

Big corporations tax (Oil and gas)		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	20 August 2024	
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 2 September 2024*	☐ Not confidential

Summary of proposal:

The proposal has two components that would have effect from 1 July 2025.

Component 1

Replace the existing petroleum resource rent tax (PRRT) method of uplifting excess expenditure to future years that relates to PRRT projects with the following method.

- All excess expenditure recorded before the implementation date would be immediately deducted against PRRT profit. Any unused excess expenditure incurred before the implementation date would not be carried forward to future years.
- All expenditure, including general expenditure, incurred after the implementation date, would be deducted based on prime cost depreciation over 15 years so that 6.66% of the expenditure would be deducted each year. There would be no uplift factor applied to unused expenditure.

In addition to the offshore gas projects that are liable to pay PRRT currently, the following 4 onshore projects would be included in the PRRT calculation:

- Australian Pacific LNG (APLNG)
- Cooper Basin
- Gladstone LNG Project (GLNG)
- Queensland Curtis LNG Project (QCLNG)

Component 2

Place a 10% royalty on offshore projects (excluding the North West Shelf project) that are subject to the PRRT. Royalty payments would be creditable against PRRT liabilities on a one-for-one basis and treated as a deductible expense in calculating company tax liabilities. Any royalties paid that are not credited against PRRT liabilities in a year would be carried forward, to be credited against PRRT liabilities in a later year.

Overview

The proposal would be expected to increase the fiscal balance and underlying cash balance by around $35.6 billion and $33.0 billion respectively, over the 2024-25 Budget forward estimates period (see Table 1). This impact reflects an increase in PRRT and royalty revenue, and a decrease in company tax revenue.

The proposal would be expected to have an impact beyond the 2024-25 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2034-35 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. It is assumed that the Australian Taxation Office (ATO) would absorb the departmental costs of implementing these changes and as such this proposal would have nil departmental costs.

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

Table 1: Big corporations tax (Oil and gas) – Financial implications ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	**Total to 2027-28**
Fiscal balance	-	4,988.0	16,573.0	14,060.0	**35,621.0**
Underlying cash balance	-	4,748.0	13,913.0	14,360.0	**33,021.0**

(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.

Key assumptions

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

- Oil and gas production volumes over the period to 2034-35 would not be affected by the proposal.
- No new oil and gas projects would begin production over the period to 2034-35.
- Companies affected by this proposal would be subject to the full company tax rate of 30%, and PRRT payments would be deductible for company tax purposes.
- Many companies subject to the increased PRRT or royalty payments are not in a payable position for company income tax purposes.
- The price of oil would grow over the period to 2034-35 in line with changes in the consumer price index.
- There would be no new transfers of exploration expenditure between PRRT projects.
- Royalties would be paid monthly, consistent with company tax instalments.
- The majority of companies that are investors in PRRT projects would continue to be primarily foreign owned over the period to 2034-35.

Methodology

PRRT

The PRRT impact was estimated by calculating the difference between the amount of PRRT revenue raised under the proposal and the baseline on a project-by-project basis.

Under the baseline, 5 offshore liquefied natural gas (LNG) projects used a custom PRRT model that has been benchmarked to the 2023-24 Budget measure *Petroleum Resource Rent Tax – Government Response to the Review of the PRRT Gas Transfer Pricing arrangements* and *Key assumptions* discussed above.

Taxable PRRT profit of other projects was calculated by deducting estimated eligible project expenses from the assessable receipts derived from the project. PRRT profit was multiplied by 40% to derive the PRRT liability.

Under the proposal, taxable PRRT profit was calculated by modifying eligible expenses as specified in the proposal and then subtracting this amount from the assessable receipts derived from the project. PRRT liability before royalties was then calculated by multiplying the taxable PRRT profit by 40%. Royalties paid by projects were then credited against these PRRT liabilities to derive the final PRRT payable amount.

Company tax

The net company tax impact was calculated by multiplying the estimated net increase in PRRT and royalties 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 this proposal or any impact on Australian resident shareholders under the dividend imputation arrangements.

The costing takes into account the timing of tax collections.

Financial implications were rounded consistent with the PBO's rounding rules[1].

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 include:

- 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:

---

[1] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

  - 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.

Data sources

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

Wood Mackenzie provided historical and forecast production and expenditure data for petroleum projects on 7 July 2024.

Federal Reserve Economic Data (FRED), fred.stlouisfed.org, accessed 14 August 2024.

Commonwealth of Australia, 2024. *2024-25 Budget,* Canberra: Commonwealth of Australia.

Attachment A – Big corporations tax (Oil and gas) – Financial implications

Table A1: Big corporations tax (Oil and gas)Big corporations tax (Oil and gas) – Fiscal balance ($m)[(a)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Revenue													
Tax revenue													
Petroleum resource rent tax	-	*-100.0*	*10,000.0*	*9,400.0*	*9,100.0*	*8,400.0*	*7,700.0*	*5,800.0*	*5,100.0*	*4,500.0*	*3,900.0*	***19,300.0***	***63,800.0***
Company tax (clawback)	-	*-302.0*	*-867.0*	*-900.0*	*-869.0*	*-835.0*	*-792.0*	*-687.0*	*-621.0*	*-573.0*	*-507.0*	***-2,069.0***	***-6,953.0***
Non – tax revenue													
Royalties	-	*5,390.0*	*7,440.0*	*5,560.0*	*5,600.0*	*5,600.0*	*5,570.0*	*5,380.0*	*5,230.0*	*5,080.0*	*4,530.0*	***18,390.0***	***55,380.0***
Total – revenue	**-**	**4,988.0**	**16,573.0**	**14,060.0**	**13,831.0**	**13,165.0**	**12,478.0**	**10,493.0**	**9,709.0**	**9,007.0**	**7,923.0**	**35,621.0**	**112,227.0**
Total (excluding PDI)	**-**	**4,988.0**	**16,573.0**	**14,060.0**	**13,831.0**	**13,165.0**	**12,478.0**	**10,493.0**	**9,709.0**	**9,007.0**	**7,923.0**	**35,621.0**	**112,227.0**

(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.

\- Indicates nil.

Table A2: Big corporations tax (Oil and gas) – Underlying cash balance ($m)[(a)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	Total to 2027-28	Total to 2034-35
Receipts													
Tax receipts													
Petroleum resource rent tax	-	*-70.0*	*7,510.0*	*9,540.0*	*9,140.0*	*8,550.0*	*7,850.0*	*6,250.0*	*5,290.0*	*4,630.0*	*4,020.0*	***16,980.0***	***62,710.0***
Company tax (clawback)	-	*-302.0*	*-867.0*	*-900.0*	*-869.0*	*-835.0*	*-792.0*	*-687.0*	*-621.0*	*-573.0*	*-507.0*	***-2,069.0***	***-6,953.0***
Non-tax receipts													
Royalties	-	*5,120.0*	*7,270.0*	*5,720.0*	*5,600.0*	*5,600.0*	*5,570.0*	*5,400.0*	*5,240.0*	*5,090.0*	*4,570.0*	***18,110.0***	***55,180.0***
Total – receipts	**-**	**4,748.0**	**13,913.0**	**14,360.0**	**13,871.0**	**13,315.0**	**12,628.0**	**10,963.0**	**9,909.0**	**9,147.0**	**8,083.0**	**33,021.0**	**110,937.0**
Total (excluding PDI)	**-**	**4,748.0**	**13,913.0**	**14,360.0**	**13,871.0**	**13,315.0**	**12,628.0**	**10,963.0**	**9,909.0**	**9,147.0**	**8,083.0**	**33,021.0**	**110,937.0**

(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.

\- Indicates nil.

Table A3: Big corporations tax (Oil and gas) – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	**Total to 2027-28**	**Total to 2034-35**
Fiscal balance	-	*100.0*	*500.0*	*1,120.0*	*1,760.0*	*2,420.0*	*3,080.0*	*3,730.0*	*4,360.0*	*4,970.0*	*5,580.0*	***1,720.0***	***27,620.0***
Underlying cash balance	-	*80.0*	*400.0*	*970.0*	*1,610.0*	*2,260.0*	*2,920.0*	*3,580.0*	*4,210.0*	*4,820.0*	*5,430.0*	***1,450.0***	***26,280.0***

(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.

\- Indicates nil.

[2] https://www.aph.gov.au/about_parliament/parliamentary_departments/parliamentary_budget_office/online_budget_glossary