

***Summary of the PRRT  
Extension Exposure Draft:***  
A step closer to a uniform federal  
oil and gas taxation regime

September 2011

# A step closer to a uniform federal oil and gas taxation regime

On 26 August 2011, the Federal Government released Exposure Draft (ED) legislation containing the provisions which extend the Petroleum Resource Rent Tax (PRRT) regime to all onshore Australian oil and gas projects, as well as the North West Shelf project. The ED is supplemented by an accompanying draft explanatory memorandum (EM).

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In contrast to the Mineral Resource Rent Tax (MRRT) which is an entirely new tax, the PRRT regime has applied to the offshore oil and gas sector broadly since 1 July 1986. Accordingly, the ED legislation only seeks to amend the existing PRRT legislation with effect from 1 July 2012 by introducing provisions:

- that transition onshore oil and gas projects, along with the North West Shelf project, into the PRRT regime, and
- to cater for certain unique characteristics of onshore oil and gas developments and the North West Shelf project.

Taxpayers should review the ED in conjunction with the existing PRRT legislation to fully understand the context and effects of the amendments.

Generally, the ED reflects the PRRT-related recommendations made by the Policy Transition Group (PTG) in its report to the Government on 21 December 2010, which were endorsed by the Government on 24 March 2011, including:

- providing a deductible starting base for projects existing as at 2 May 2010
- broadening the circumstances in which onshore projects can be combined through the combination certificate process, and

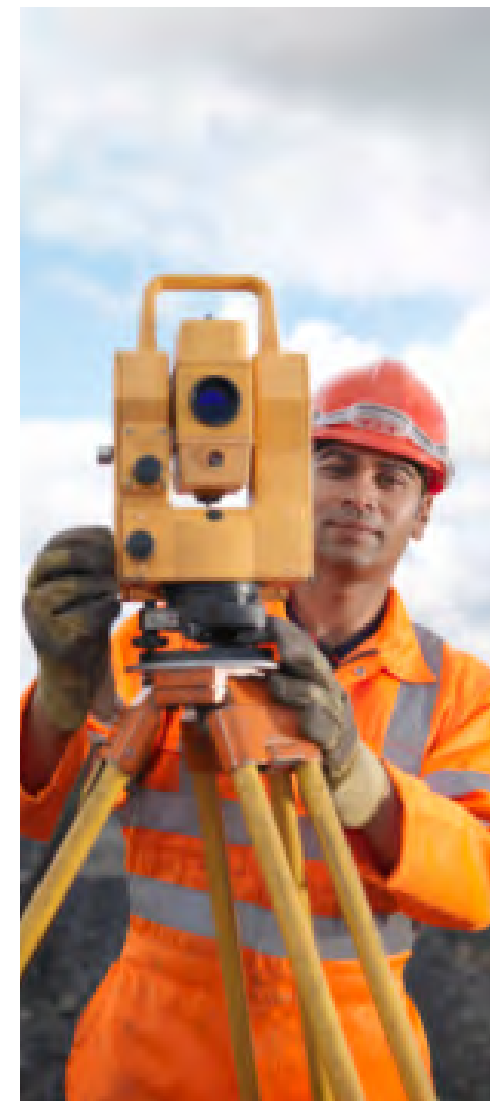
- allowing certain types of expenditure (specific to onshore projects) as deductions (including resource taxes, native title payments and certain types of incidental expenditure).

The drafting of the ED does, however, present certain complications.

In particular, the rules on the transitional “starting base” and the “look back approach”, as currently drafted, appear to give rise to certain adverse (and anomalous) issues in respect of:

- project interests existing at 2 May 2010, but which were acquired by the present holder between 2 May 2010 and 30 June 2012 (such project interests do not appear to receive a starting base), and
- project interests that do not consist of an existing production licence on issue prior to 2 May 2010 (the application of the look-back approach appears to be narrowed for such project interests).

The concerns raised above may be drafting oversights and not the intended application of the law. Hence, affected taxpayers should provide timely feedback to the Government to ensure their concerns are addressed when the revised bill is tabled in Parliament.



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In addition, the ED does not appear to have addressed the PTC's recommendation pertaining to modifications of the assessable receipts provisions in relation to integrated gas-to-liquids and integrated gas-to-electricity operations, and the ability to use a State-based royalty revenue determination for PRRT purposes.

For those entities wishing to rely on the modified look-back approach, the legislative guidance on how to allocate the acquisition cost of project interests into the exploration and non-exploration components is not contained in the ED, but will be issued in the final version of the bill.

It is hoped that the consultation process will result in more clarity on the critical issues noted above, and that there is an appropriate opportunity for industry to comment and provide inputs on aspects of the PRRT transitional rules that have not yet been developed and exposed at this stage. Affected taxpayers should note that submissions in respect of this ED will be accepted until 29 September 2011.

This publication sets out:

- a summary of the extension of the PRRT regime
- key observations on the elements contained in the ED, and
- what the ED means for you in your implementation planning.

We have also included as appendices to this publication:

- a recap of the PRRT framework [Appendix A]
- a summary of the PRRT calculation method statement [Appendix B]
- a more detailed discussion of the ED and the technical issues arising [Appendix C], and
- an illustrative worked example of the PRRT calculation [Appendix D].

***Affected taxpayers should provide timely feedback to the Government to ensure their concerns are addressed***



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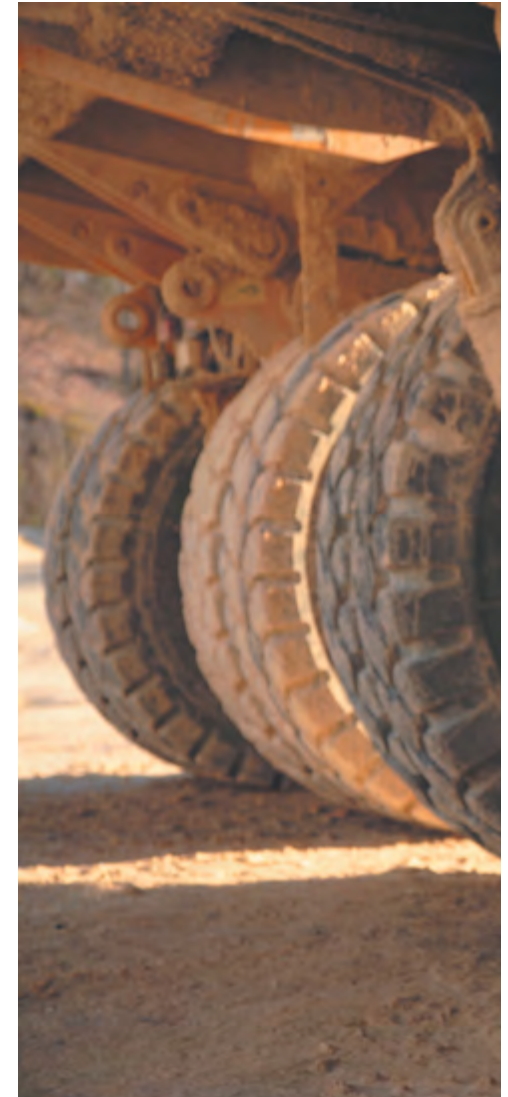
### Summary of the extension of the PRRT to onshore projects and the North West Shelf project

From 1 July 2012, all onshore oil and gas projects including those that relate to coal seam gas and shale oil, as well as the North West Shelf project, will be transitioned into the PRRT regime. Projects located in the Joint Petroleum Development Area (JPDA) continue to remain outside the scope of PRRT as the JPDA is subject to the terms of the Timor Sea Treaty between Australia and Timor-Lesté.

As there is an existing body of law that regulates the application of the PRRT regime to offshore oil and gas projects, the ED amends the existing *Petroleum Resource Rent Tax Assessment Act 1987 (PRRTAA)* to expand the scope of its application to the onshore sector and the North West Shelf project. The ED achieves this by:

- explicitly removing the exemption of the North West Shelf from PRRT liability
- treating all current and future licences over the North West Shelf project areas as a single notional project (similar to the Bass Strait project when it was transitioned into the PRRT regime in 1990)
- recognising petroleum projects that are derived from production licences (and predecessor exploration permits, access authorities and retention leases, as well as associated infrastructure and pipeline titles) issued under various State and Territory petroleum, geothermal or submerged lands legislation, or as may be specified under relevant Regulations to be issued in the future
- specifically recognising the marketable petroleum commodity of shale oil that is produced from onshore oil shale projects
- tailoring the project combination criteria to better accommodate onshore projects that are downstream integrated but are not geologically, geochemically or geophysically-related
- including, as assessable income, the receipts resulting from the sale of necessary by-products of a petroleum project
- introducing a new eligible deductible expenditure category in respect of other “resource tax expenditures” (in order to prevent economic double taxation given that onshore oil and gas projects, as well as the North West Shelf project, continue to be subject to Commonwealth, State or Territory royalties and other excise regimes)
- introducing provisions that are intended to ensure native title payments are deductible for PRRT purposes
- introducing provisions that ensure water treatment costs and other expenditures, incurred to satisfy environmental obligations and responsibilities of taxpayers relating to their upstream activities, are deductible for PRRT purposes, and
- introducing transitional rules to provide a “starting base” allowance for project interests existing at 2 May 2010, or alternatively, to provide taxpayers with the ability to take into account actual expenditures incurred between 1 July 2002 and 1 July 2012 on their eligible pre-2 May 2010 projects when determining their PRRT liability from 1 July 2012, in recognition of past investments.

Some of the more pertinent of the above elements are discussed further below.



## A step closer to a uniform federal oil and gas taxation regime

### Resources subject to PRRT

All onshore and offshore projects (other than those situated in the JPDA) that produce petroleum or marketable petroleum commodities are subject to PRRT as of 1 July 2012. Onshore projects are distinguished from offshore projects by reference to the statute under which the underlying petroleum title is issued (titles issued under State/Territory statutes give rise to onshore projects while titles issued under Commonwealth statutes are offshore projects).

Underground coal gasification, coal-to-liquids (coal liquefaction) and coal mine methane or coal seam gas extraction that are an integral or incidental part of coal mining are subject to the MRRT regime, not PRRT.

As new or alternative fuel technologies emerge, the relevant resource taxation regime would need to be appropriately applied, having regard to the nature of the operations undertaken.

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### Project combination

A modified set of criteria apply to determine whether onshore projects can be combined as a single project. The relevant criteria are upstream integration, commonality of project participants (who together are entitled to 50 per cent or more of each project's assessable receipts) and downstream integration (if any) of the constituent projects. Only the Federal Resources Minister can authorise project combinations. The combination criteria for offshore projects are unchanged.

Holders of existing onshore production licences who wish to combine their projects which exist at 1 July 2012 must do so by 28 September 2012 (a one-off 90 day period is allowed starting from 1 July 2012 – ordinarily, the 90 day period would commence from the time the last of the constituent production licences is issued).

Early preparation should therefore be made by onshore project participants to assess the combination eligibility, obtain joint venture participants' consent to apply for a combination certificate and to compile the combination application package, based on the offshore project experience and precedents.

As the relevant conditions for combination may be applied strictly (based on the offshore experience), the eligibility for combination should be carefully considered in the context of the commercial and operational parameters of the individual projects/production licence areas. It is hoped that the Federal Resources Minister adopts a pragmatic approach to the combination process having regard to the characteristics of onshore projects.

Further clarity is needed for dealing with the future situation where onshore and offshore projects may potentially be downstream integrated. It also remains to be seen whether the combination process adequately and effectively addresses the circumstances of taxpayers holding minority interests in various projects.

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### Assessable receipts

The basic framework of the assessable revenue provisions of the existing PRRT regime has been retained. A new category of income has been introduced to assess receipts derived from the sale of products and services generated as an incidental part of the upstream project's operations such as water and electricity surplus to the project's needs – this is aimed at ensuring a consistent fiscal treatment by assessing the corresponding revenue generated from the activities for which a deduction has been allowed.

The ED does not include rules relating to the modifications of the Residual Pricing Methodology for existing integrated gas-to-liquids projects as at 1 May 2010 that will be transitioning into the PRRT regime (such as the North West Shelf project), nor does the ED address the treatment of integrated gas-to-electricity projects.

The ED is also silent with respect to providing two safe harbour options, being the ability to rely on the Residual Pricing Methodology as a default option for onshore integrated gas-to-liquids projects, and the ability to rely on an existing State or Commonwealth determined royalty price for PRRT purposes. These options were recommended by the PTG and have previously been accepted by the Government.

A new integrity rule is being introduced to ensure that taxpayers transitioning into the PRRT regime on 1 July 2012 cannot escape taxation by entering into forward sales agreements with revenues being prepaid. Such revenues will be assessable when the activities are performed to derive that income. Taxpayers with prepaid revenues as at 1 July 2012 will need to ensure that the revenues are correctly brought to account for PRRT purposes.

### Deductible expenditure

The basic framework of the deductibility provisions of the existing PRRT regime has been retained. New categories of expenditure have been introduced to provide for the deductibility of Commonwealth, State and Territory-imposed resource tax payments (on a grossed-up, deduction equivalent basis) and starting base allowances. Taxpayers should note the revised deduction ordering rules.

Exploration expenditures (current year and carried forward) are deducted before the deduction equivalent for resource tax payments. This would limit the ability to 'bank' and transfer exploration expenditures which also generally augment at higher rates.

To accommodate the particular characteristics of onshore petroleum projects, the ED introduces amendments to the PRRTAA which are intended to ensure that expenditures incurred in respect of environmental activities (such as the treatment of water produced as part of the recovery of petroleum), and native title payments in respect of the petroleum project area, are deductible for PRRT purposes. Notwithstanding, due to the drafting style of the amendments which purport to give effect to this policy intent, the deductibility of these expenditures could potentially remain open to interpretation, and therefore challenge, by the Australian Taxation Office (ATO). Accordingly, it is recommended that legislative clarity should be provided, for example, by specifically legislating that these expenditures are deductible.

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### Starting base allowances

At face value, the starting base rules broadly accord with the PTG's recommendations to provide a framework for recognising past investments made in petroleum projects existing at 2 May 2010, which will be transitioned into the PRRT regime from 1 July 2012. The various alternatives recommended by the PTG have been included in the ED, being the market value approach, the book value approach and the 'look-back' approach which recognises actual expenditures incurred since 1 July 2002 at the earliest. The ED also includes rules that:

- allow for a short-cut market valuation method to be used for interests in coal seam gas projects acquired between 1 July 2007 and 2 May 2010, based on a safe harbour reserve price of A\$0.60 per gigajoule (GJ) and having regard to the estimated proved, probable and possible (3P) reserves as at 2 May 2010, and
- allow for the acquisition cost of project interests acquired directly or indirectly (through an interposed wholly-owned entity) between 1 July 2007 and 2 May 2010 to be recognised under the look-back approach, to the extent it reflects the value of the underlying upstream assets acquired.

The book value starting base, along with interim capital expenditure incurred up to 30 June 2012, is augmented during the interim period, whereas the market value starting base, along with the associated interim capital expenditure incurred up to 30 June 2012, is not augmented during the interim period. Expenditures incurred under the look-back approach are augmented based on the nature of the expenditure and the timing of their incurrence in accordance with the usual PRRT rules. The starting base determined under either the book or market value methods is immediately deductible on 1 July 2012 if there is an existing production licence, otherwise, the starting base is only deductible in the PRRT year following the year in which the production licence is issued, with no augmentation in the meantime.

Taxpayers must make an election no later than 30 August 2013 (unless extended by the Commissioner) specifying which starting base method they wish to use or otherwise default to the look-back approach (subject to satisfying the substantiation requirements). The Commissioner of Taxation has a period of four years from the date the valid election is made, to amend the starting base calculation.

Based on the current drafting, the PRRT starting base rules significantly disadvantage taxpayers which acquire their project interests between 2 May 2010 and 30 June 2012. Such taxpayers will not have access to either the book value or the market value starting base as they have not held their project interest continuously since 2 May 2010 (although a vendor's starting base is proportionately reduced as a result of a disposal made during that period). Conversely, for taxpayers who will acquire their project interests post 1 July 2012, they will step into the vendor's shoes and inherit any unused starting base of the vendor. Unless this is an unintended drafting oversight, this would clearly distort investment decisions as it would discourage project acquisitions in the period before 1 July 2012.

In addition, the look-back rule effectively only permits the recognition of expenditure from as far back as 1 July 2002 where the project interest is a production licence that has been issued prior to 2 May 2010. For taxpayers who hold exploration permits as at 1 July 2012, such taxpayers would only be entitled to recognise past expenditures which they have actually incurred from 2 May 2010 onwards. For a taxpayer who has acquired an interest in an onshore production licence prior to 1 July 2007 where such production licence was issued pre-2 May 2010, applying the look-back approach is also fraught with uncertainty as to the taxpayer's ability to recognise any expenditures which the taxpayer did not itself incur, but which were incurred by the former holder from 1 July 2002 until the date the interest was acquired by the taxpayer, since there are no inheritance rules that apply prior to 1 July 2012.

This has significant implications for a cross-section of taxpayers who have engaged in M&A activity, as well as those taxpayers which have farmed into exploration stage onshore projects, post-2 May 2010, as they may not have fully or partially factored in the impact of the impending PRRT into their investment or bid decisions (due to the absence of specific legislation at the time of their transaction) and hence, may not be entitled to recognise their past investment in the project.

Taxpayers should carefully review the operation of the starting base rules and their own eligibility based on their particular fact pattern. Where outcomes are considered inappropriate, taxpayers should engage with the Government via the submission process and by raising the issue through industry bodies.

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### Next steps

As there are elements of the extended PRRT legislation that appear not to have been developed at this stage, it is unclear whether a revised draft of the PRRT amendment bill will be exposed for public comment before the bill is introduced into Parliament. The timing of introducing the bill into Parliament is uncertain – this could potentially occur before the end of 2011 but is expected to follow the MRRT bill.

### What does this mean for you?

The release of the PRRT ED provides affected taxpayers with further certainty in planning their response to the extension of the PRRT regime. Given the significant implications of the ED, affected taxpayers should review the ED closely in the context of their facts and circumstances, and evaluate the impact of the ED as currently drafted on their project economics in a PRRT environment. It is recommended that all companies review the ED in detail (and/or consult with their professional adviser) to determine whether a submission is needed to take account of their personal circumstances. It is imperative that this be undertaken promptly, as submissions are due by 29 September 2011.

More broadly, however, the release of the ED provides affected taxpayers with additional detail to consider in their implementation planning and the impetus to proactively engage in further consultation with Government to ensure that the design of the extended PRRT regime is appropriate, equitable and practical. The additional details surrounding the ordering of deductions and starting base calculations, for example, should enable taxpayers to:

- update their PRRT models
- begin considering and refining the design of their PRRT compliance processes and modifications to existing information capture and reporting systems
- further analyse the tax accounting implications that may arise under the extended PRRT rules, and
- appropriately consider the PRRT implications on any upcoming deals or transactions.

PwC has a market leading energy and resources practice comprising dedicated PRRT, transfer pricing, valuations, consulting, accounting, legal and industry specialists who can deliver an integrated service offering to you. This can help in the design and implementation of your response to the extension of the PRRT which may be uncharted territory for your

organisation. We have a deep knowledge of the technical issues developed through active participation in the consultation process and assisting our clients with their response to the various resource rent tax proposals. In addition, PwC has been actively involved in advising clients extensively on the intricacies of the offshore PRRT regime, since the PRRT legislation was introduced in 1987. This hands-on technical knowledge is combined with our practical industry expertise and insights developed through working with clients of all sizes in the oil and gas industry. We have developed a framework implementation plan that can be tailored to your specific needs which sets out the key actions across each of the issues outlined above. In particular, we can provide the following services to assist you in ensuring your business is PRRT-ready:

- taxation services in relation to the technical interpretation and practical application of the PRRT and its overlay with Commonwealth, State and Territory-based royalties
- valuation services to assist in calculating, documenting and supporting your calculation of the transitional starting base, as well as validating the valuation inputs and assumptions used, where the market value approach is proposed to be used

- transfer pricing services to assist in supporting the arm's length taxable revenue at the taxing point (where other prescribed methods are not available)
- technical accounting services in relation to the tax accounting impact of the PRRT
- consulting services to help you develop best practice systems and processes including implementing upgraded accounting systems, business processes and stakeholder engagement strategies
- deal services to help you properly understand the impact of the PRRT on any proposed merger or acquisition and to plan the appropriate strategy for managing such impacts, and
- legal services in relation to the reviews of contracts and joint venture agreements, as well as assist with any resource rent tax funding arrangements that may now be necessary.

We will also be holding various technical sessions and releasing further publications on the PRRT in due course. Please liaise with your usual PwC contact or our resource tax specialists listed on page nine if you have any questions or if you would like to discuss the impact of the PRRT on your business.

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# Appendix

## Appendix A: Recap of PRRT Framework

PRRT is imposed at the rate of 40 per cent on an entity's profits from a "petroleum project". PRRT currently applies only to all offshore petroleum projects within Australia's boundaries (except for projects derived from certain North West Shelf exploration permit areas and projects located in the JPDA). If the ED is legislated, all onshore oil and gas projects and the North West Shelf project will become subject to PRRT from 1 July 2012.

A petroleum project is defined by reference to the existence of a particular production licence and the upstream activities in respect of the area covered by that production licence. Therefore, a petroleum project exists in respect of each production licence, unless two or more related projects are combined as a single project at the discretion of the Resources Minister following application by the relevant project proponents.

The PRRT regime has been operational since 1 July 1986. At the time of its introduction, it replaced other forms of secondary taxes such as crude oil excise and royalties in respect of the offshore oil and gas projects to which it applied.

The notable elements of the PRRT regime are summarised as follows:

- PRRT is a profit-based tax which applies to the taxable profit of an entity from a petroleum project in a PRRT year (i.e. broadly, assessable upstream petroleum revenues and certain cost recoupments, less upstream expenditures).
- PRRT is also a cash-flow tax, with deductions allowed for expenditure of either a revenue or capital nature, as and when such expenditure is incurred, subject to certain exceptions (this is unlike income tax, where capital expenditure is generally non-deductible or only deductible over time).
- During the period when revenues earned are less than the expenditures which have been incurred on the project, the excess expenditures are carried forward and augmented, at varying rates based on the particular expenditure category, on a compounding basis (until they are fully offset by revenues).
- When a project is closed down, expenditure that is incurred to close down the project and that is unable to be offset by any further project revenues will generate a refund of prior PRRT paid (at the rate of 40 per cent of such excess closing down expenditure).
- Exploration expenditures incurred by an entity post-1 July 1990 can be transferred to a profitable project of the same entity or another profitable project in the entity's wholly-owned corporate group, subject to meeting certain "common interest rules" (broadly, only exploration expenditures incurred while the donor and recipient projects are owned by the same entity or the same wholly-owned corporate group are transferable).
- When an entity acquires an existing project interest from an unrelated third party, the buyer steps into the shoes of the vendor and generally inherits any unused PRRT expenditures relating to the underlying project in proportion to the interest acquired. Such PRRT expenditures will be quarantined to the project and can only be offset against the future revenues derived from that project (i.e. exploration expenditures that are inherited from a previous holder of the project interest are non-transferable).

Based on the above, it can be seen that an entity will only be liable to pay PRRT on its portion of taxable profit from a project once it generates revenues in excess of all the upstream costs necessary for the production of petroleum in marketable form, and after allowing for the appropriate rate of return to be generated on the up-front investment made in the project.

Payments of a project's PRRT liability are made by three quarterly instalments during the PRRT year (based effectively on the year-to-date PRRT profits up to the end of the particular quarter, less instalments paid in prior quarters). A final payment (based on actual liability for the year minus the three earlier instalments paid) is due no later than 60 days after the end of the PRRT year. The PRRT fiscal year ends on 30 June annually, irrespective of the taxpayer's income year. There is no ability to change the PRRT year-end to coincide with the taxpayer's financial/corporate tax year-end.

PRRT payments are deductible in full for Australian income tax purposes when the payments are made.

## Appendix B – Summary of PRRT calculation statement

PRRT element	Explanation
<b>Assessable receipts</b>	<ul style="list-style-type: none"> <li>Broadly, the consideration or market value of the first saleable resource at the taxing point and incidental production receipts.</li> <li>Excludes non-project income (e.g. interest/dividends).</li> </ul>
<b>Less: General and Exploration Expenditure (current and carried forward)</b>	<ul style="list-style-type: none"> <li>Expenditure (both capital and revenue) incurred on project operations upstream of the taxing point.</li> <li>Certain costs are not deductible (e.g. finance/tenements/income tax/hedging/private overriding royalties generally).</li> <li>The existing PRRT expenditure classes for general and exploration expenditures remain unchanged, with deductions claimed in line with the current ordering rules.</li> <li>Undeducted expenditure for PRRT is carried forward and augmented at different rates depending on the character and timing of incurrence of expenditure – only incurred exploration expenditure (other than pre-1 July 2012 expenditure that is recognised under the look-back approach) is transferable (see below).</li> </ul>
<b>Less: Resource tax expenditure</b>	<ul style="list-style-type: none"> <li>Royalties grossed up at the PRRT rate of 40 per cent.</li> <li>Unused royalty credits are carried forward and uplifted at long term bond rate (LTBR) + five per cent per annum.</li> <li>Not transferable or refundable.</li> </ul>
<b>Less: Acquired exploration expenditure</b>	<ul style="list-style-type: none"> <li>Only exists if the look-back approach is used.</li> <li>Represents the extent to which acquisition expenditure (in respect of the direct or indirect acquisition of project interests made between 1 July 2007 and 2 May 2010) is reasonably attributable to exploration activities undertaken in relation to the acquired interest (the apportionment method is subject to further legislative guidance).</li> <li>Unused acquired exploration expenditure is carried forward and augmented at LTBR + 15 per cent per annum from 1 July 2010 to 1 July 2014 (inclusive), and thereafter at LTBR + five per cent per annum.</li> <li>Not transferable or refundable.</li> </ul>
<b>Less: Starting base expenditure</b>	<ul style="list-style-type: none"> <li>Represents the value of the starting base assets which existed at 2 May 2010 and which were held continuously from 2 May 2010 through to 30 June 2012 (inclusive), determined using either the market value or book value method, plus 'interim' capital expenditure incurred up to 30 June 2012.</li> <li>If, however, the look-back approach is used, this represents the amount of acquisition expenditure (in respect of the direct or indirect acquisition of project interests made between 1 July 2007 and 2 May 2010) other than the amount that is reasonably attributable to exploration activities undertaken in relation to the acquired interest (the apportionment method is subject to further legislative guidance).</li> <li>Carried forward starting base expenditure is augmented at LTBR + five per cent per annum.</li> <li>Not transferable or refundable.</li> </ul>
<b>Less: Transferred exploration expenditure</b>	<ul style="list-style-type: none"> <li>Exploration expenditure from other projects of the same taxpayer or the taxpayer's wholly-owned group member(s), provided the transferability requirements (common interest rules) are satisfied.</li> </ul>
<b>Less: Closing down expenditure</b>	<ul style="list-style-type: none"> <li>Expenditure in closing down the project.</li> <li>Excess is refundable at 40c in the dollar, capped to total PRRT payments made in respect of the project.</li> </ul>
<b>Equals: Taxable Profit</b>	
<b>@ PRRT Rate (40 per cent)</b>	
<b>Equals: PRRT Liability</b>	

## Appendix C – Detailed Discussion of PRRT ED elements

### Resources subject to PRRT

After 1 July 2012, PRRT will apply to all Australian petroleum projects which produce:

- petroleum (being any naturally occurring hydrocarbon or mixture of hydrocarbons, whether gaseous, liquid or solid), or
- marketable petroleum commodities such as stabilised crude oil, sales gas, condensate, liquefied petroleum gas, ethane and shale oil (each term, as specifically defined).

PRRT will, however, not apply to any taxable resource that is subject to the MRRT. Therefore, any hydrocarbon or hydrocarbon derivative that is produced from a process that results in iron ore or coal being consumed or destroyed without extraction, and coal seam gas extracted as a necessary incident of coal mining, will not be subject to PRRT. This is intended to minimise the compliance burden of taxpayers who may otherwise have to comply with both the MRRT and PRRT in respect of their operations.

### Project combination

Where two or more individual projects are combined, they are treated as one single project for PRRT purposes. Combination provides for more effective and efficient tax compliance, although it is conceivable that records pertaining to the individual constituent projects within a combined project should continue to be separately maintained in the event that only an interest in a constituent project (and not the overall combined project) is transferred in the future.

The Federal (not State or Territory) Resources Minister is responsible for authorising project combinations.

By its nature, the North West Shelf project cannot be combined with any other project.

From 1 July 2012, there will be separate sets of factors that the Federal Resources Minister will take into consideration in assessing whether to allow onshore projects and offshore projects to be combined. Each set of factors must be assessed to ascertain whether the constituent projects that are sought to be combined are sufficiently related in order to be treated as a single petroleum project.



## Appendix

Importantly for the onshore sector, there will be no requirement for geological, geophysical and geochemical relatedness to exist in order for the constituent projects to be combined (i.e. it appears that onshore projects will not be prevented from being combined only because the project licences are not contiguous or geographically proximate or are in respect of petroleum pools/hydrocarbons situated in different, unconnected basins or formations).

### Onshore petroleum projects (modified criteria)

- a) The operations, facilities and other things that comprise the constituent petroleum projects (upstream integration).
- b) Identity/commonality of the participants in the constituent projects.
- c) The operations, facilities and other things that are involved in any further processing or treatment of any marketable petroleum commodity in relation to the constituent projects (downstream integration).

### Offshore petroleum projects (no change to existing criteria)

- a) The operations, facilities and other things that comprise the constituent petroleum projects (upstream integration).
- b) Identity/commonality of the participants in the constituent projects.
- c) The geological, geophysical and geochemical and other features of the production licence areas of the constituent projects.

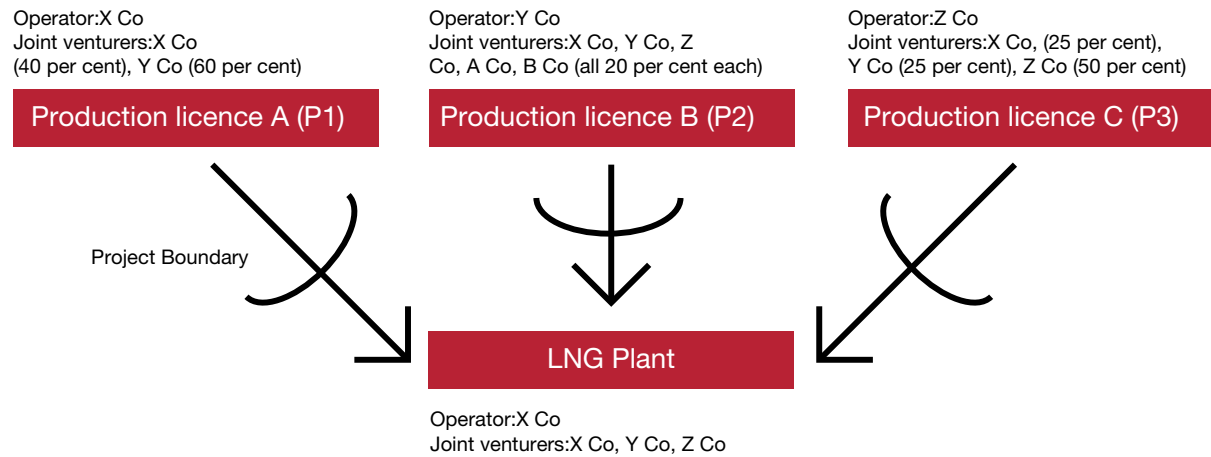
Only the project participants who together are entitled to 50 per cent or more of the receipts from the sale of marketable petroleum commodities produced from each project can and must apply for the combination certificate.

Existing onshore projects (i.e. where production licences exist) at 1 July 2012 are given a limited time frame of 90 days (i.e. up to 28 September 2012) to apply for a combination certificate. Once this period has expired, there is no ability to combine existing production licences that are in existence at 1 July 2012. Therefore, participants in existing onshore projects will need to factor in sufficient time into their PRRT implementation plans to prepare their combination application case for submission to the Federal Resources Minister before 28 September 2012. For projects (i.e. production licences) that come into existence after 1 July 2012, the 90 day 'combination window' runs from the time the latest production licence is issued.

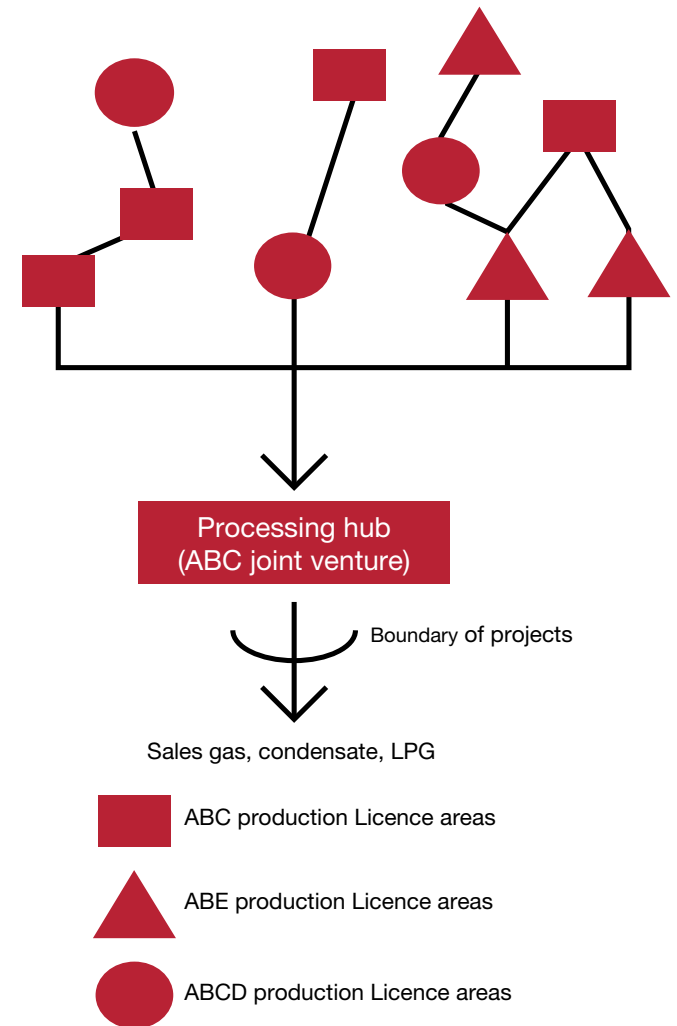
The leading case law on project combinations in an offshore context is *BHP Petroleum (Timor Sea) Pty Ltd and Others v Minister for Resources (1994)* 49 FCR 155 (and the subsequent decision of the Administrative Appeals Tribunal (AAT) to which the case was remitted back by the Federal Court on appeal). The case demonstrates that a high test standard is applied – it is not sufficient for two (or more) projects to be similar or to resemble each other in order to be “related”; rather the test is whether the constituent projects are so connected, associated or allied so that together, they should be regarded as one project. For example, the AAT promulgated that one of the key indicia of “relatedness” is the existence of a physical connection between the operations and facilities relating to the constituent projects. For constituent projects that are sequentially (rather than concurrently) tied back into common facilities, a concern remains that there exists insufficient relatedness between them in order to be considered as one. Taxpayers should therefore carefully assess the combination potential of their projects and the impact of production scheduling of different tenement areas on the ability to combine those projects.

# Appendix

Examples provided in the EM of potentially combinable onshore projects:



Source: Example 2.12 of the EM



Source: Example 2.14 of the EM

# Appendix

## Assessable receipts

From 1 July 2012, assessable receipts will consist of the following, with incidental production receipts from the sale of by-products or services being a new category of income introduced by the ED:

<b>Assessable Petroleum Receipts</b>	<p>a. The consideration receivable, less expenses payable, in relation to the sale of petroleum (whether processed or unprocessed) before a marketable petroleum commodity is or was produced.</p> <p>b. The consideration receivable for, or the value of, the marketable petroleum commodity when it becomes an excluded commodity (either by way of sale, further processing or treatment beyond the upstream project boundary, movement away from its place of production or away from a site adjacent to its place of production).</p> <p>c. Special provisions apply to sales gas (as defined) that is produced as part of an integrated gas-to-liquids projects in the following cases:</p> <ul style="list-style-type: none"><li>– where the sales gas is sold in a non-arm’s length transaction, or</li><li>– where there is no sale but the sales gas is subjected to further processing and treatment.</li></ul> <p>In these cases, the gas-to-liquids regulations prescribe either a price agreed under an Advance Pricing Arrangement (if any), a Comparable Uncontrolled Price (if any), or otherwise, a price determined under the Residual Pricing Methodology (in that order of hierarchy).</p>
<b>Assessable Tolling Receipts</b>	Consideration receivable by a taxpayer in relation to processing petroleum (whether recovered from the same project as that in which the taxpayer has an interest or whether from another project).
<b>Assessable Exploration Recovery Receipts</b>	Consideration receivable for, or the value of, petroleum recovered from exploration activities in the exploration permit area (e.g. during exploratory drilling).
<b>Assessable Property Receipts</b>	Consideration receivable (including by way of insurance or damages) for the disposal, loss or destruction of property in respect of which deductible expenditure is incurred, the value of property that ceases to be used for the PRRT project, income from hiring or leasing of project property and amounts receivable for providing information obtained as a result of incurring deductible expenditure.
<b>Assessable Miscellaneous Compensation Receipts</b>	Amounts receivable as insurance, compensation or indemnity for the loss of petroleum, the loss of income from petroleum or as a ‘recoupment’ of deductible expenditure.
<b>Assessable Employee Amenities Receipts</b>	Amounts receivable in respect for the provision of employee amenities in relation to the petroleum project.
<b>Assessable Incidental Production Receipts (new category)</b>	<p>Consideration receivable, less expenses payable, in relation to the sale of a product (other than petroleum or marketable petroleum commodity) or service if it has been recovered, extracted or produced in carrying on the operations, facilities and other things that comprise the upstream petroleum project in respect of which deductible expenditure is incurred.</p> <p>The following specific examples have been provided in the note to the legislation:</p> <p>a. water from a water treatment facility that is an integral part of a coal seam gas project is sold (this would only apply to the treatment of water generated from the upstream phase of the project, i.e. up to the taxing point), and</p> <p>b. excess electricity that is produced as part of the petroleum project is sold (this example seems to refer to excess electricity generated from the infrastructure used in the upstream activities, and is to be distinguished from integrated gas-to-electricity projects where gas produced is fed into a (downstream) electricity generation plant – the rules on integrated gas-to-electricity projects have not been included in the ED).</p> <p>A further example suggests that the proceeds from the sale of timber irrigated by the water produced from upstream activities (and presumably where the timber cultivation is an environmental obligation of the taxpayer in carrying on its upstream petroleum project activities), is assessable where the water treatment and timber production operations has given rise to deductible PRRT expenditure.</p> <p>Likewise, income from providing geo-sequestration (carbon capture and storage) services in respect of the greenhouse gases from someone else’s project or other activities will be assessable to PRRT – this is broadly consistent with, and possibly extends, the principles set out in Taxation Ruling (TR) 2008/6 which deals with the PRRT implications of geo-sequestration activities.</p> <p>There is no deemed market value proceeds if there is no actual consideration for the sale of the incidental product or service.</p>

## Appendix

The assessability of incidental receipts arguably removes the need to apportion, and limit the deductibility of, expenditures incurred partly for incidental non-project use (i.e. allowance is made for the expenditure to be deductible in its entirety if it is a necessary part of the petroleum operations, notwithstanding that it generates some level of 'incidental' products or services).

The ED does not address the PTG's Recommendation 74 which provides for the following modifications and concessions:

- where there are existing State or Commonwealth royalty determinations that set the value of the resource at the taxing point, the taxpayer should be able to seek a determination from the Minister for Energy and Resources to use the royalty value for PRRT purposes
- taxpayers developing onshore gas resources in integrated gas-to-liquids operations are to have the option of using the Residual Pricing Methodology as the default method for determining the assessable receipt at the taxing point

- taxpayers developing integrated gas-to-liquids projects that existed as at 1 May 2010 should have access to a simplified Residual Pricing Methodology, and
- the existing Residual Pricing Methodology should be modified for integrated gas-to-electricity projects.

It is unclear whether the integrated gas-to-liquids regulations will be amended to cater in part for the above, however, it is considered that a legislative amendment to the mainstream revenue assessing provisions is nonetheless required to give effect to the above proposals.

Onshore projects and the North West Shelf project can derive assessable receipts of a kind specified in the table above on or after 1 July 2012, even if the receipts relate to expenditures incurred prior to 1 July 2012. However, participants of onshore projects and the North West Shelf project will not be assessed on a refund received post-30 June 2012 of resource tax payments that were incurred in relation to the project (i.e. related to petroleum extracted) prior to 1 July 2012.

A new prepayment integrity rule will be introduced for onshore projects and the North West Shelf project transitioning into the PRRT regime. Prepaid revenues received prior to 1 July 2012, but which relate to activities to be undertaken from 1 July 2012, will be subject to PRRT when the activities are undertaken. Therefore, prepaid tolling fees and prepaid gas revenues received prior to 1 July 2012 will become assessable when the activity to earn that income is ultimately performed.

# Appendix

## Deductible expenditure

From 1 July 2012, the new order of deductions will be as follows, with deduction categories seven, eight and nine being the new categories introduced by the ED:

Category of expenditure by order of deduction	Broad description	Augmentation factor (p.a.)
1. Class 1 Augmented Bond Rate (ABR) general expenditure	General expenditure incurred pre-1 July 1990 (other than earlier than five years before the application for the grant of a production licence).	LTBR + 15 per cent
2. Class 1 ABR exploration expenditure	Exploration expenditure incurred pre-1 July 1990 (other than earlier than five years before the application for the grant of a production licence).	LTBR + 15 per cent
3. Class 2 ABR general expenditure	General expenditure incurred post-30 June 1990 (other than earlier than five years before the application for the grant of a production licence).	LTBR + five per cent
4. Class 1 Gross Domestic Product (GDP) factor expenditure	Pre 1 July 1990 exploration expenditure incurred prior to five years before the application for the grant of a production licence. All general expenditure incurred earlier than five years before the application for the grant of a production licence.	GDP Factor
5. Class 2 ABR exploration expenditure	Post-30 June 1990 exploration expenditure (other than earlier than five years before the application for the grant of a production licence).	LTBR + 15 per cent
6. Class 2 GDP factor expenditure	Post-30 June 1990 exploration expenditure incurred prior to five years before the application for the grant of a production licence.	GDP Factor
7. Resource tax expenditure	Commonwealth, State or Territory-imposed resource taxes in relation to the project, multiplied by 2.5 (i.e. converted into deduction equivalent).	LTBR + five per cent
8. Acquired exploration expenditure	The 'exploration' component of the look-back method that recognises acquisition costs of direct or indirect project interests acquired between 1 July 2007 and 2 May 2010.	LTBR + 15 per cent (from 1 July 2010 to 1 July 2014), then LTBR + five per cent
9. Starting base expenditure	<ul style="list-style-type: none"> <li>Market value of the starting base assets in respect of the project interest as at 1 May 2010, plus interim expenditure from 2 May 2010 to 30 June 2012.</li> <li>Book value of the starting base assets in respect of the project interest (excluding mining rights, information and goodwill) at the last audited accounts prepared during and for the period ended in the 12 months prior to 2 May 2010, augmented at LTBR + five per cent from that accounts date until 30 June 2012, plus interim expenditure from that last accounts date through to 30 June 2012 augmented at LTBR + five per cent from the date of incurrence until 30 June 2012.</li> <li>The 'non-exploration' component of the look-back method that recognises acquisition costs of direct or indirect project interests acquired between 1 July 2007 and 2 May 2010, deemed incurred on 2 May 2010 and augmented at LTBR + five per cent from 1 July 2010.</li> </ul>	LTBR + five per cent from 1 July 2013 onwards (provided a production licence is on issue as at 1 July 2012) unless stated otherwise
10. Closing down expenditure	Project specific payments made to close operations down, including environmental restoration expenditure.	N/A

The above will therefore recognise the deductibility of a range of resource tax expenditures and the “starting base” allowances. Resource taxes must be incurred under an Australian law and can either be a royalty, an excise or an amount calculated by reference to the revenue, expenditure, value (at the wellhead) or profits made or incurred in relation to petroleum recovered from the production licence area of the project. Starting base amounts (i.e. expenditure categories eight and nine) are discussed further below.

Within categories five and six, it would be necessary to separately track exploration expenditure recognised under the ‘look-back’ approach as such exploration amounts are not transferable.

In addition, to explicitly treat environmental expenditures (as they relate to the project operations of the petroleum project) as deductible for PRRT purposes, the definition of ‘petroleum project’ (i.e. the operations, facilities and other things that are within the petroleum project boundary) will specifically include those operations and facilities, carried on or provided for an environmental purpose, to the extent they are related to the petroleum project. Similarly, ‘exploration expenditure’ will also be broadened in the same manner.

The amendments are intended to ensure that water treatment and other environmental expenditures are deductible to the extent they are incurred in relation to the upstream petroleum project. Based on these amendments, it is arguably clearer that carbon prices paid for emissions units acquired to abate greenhouse gas emissions from upstream activities, and the cost of geo-sequestration undertaken in respect of upstream greenhouse gas emissions, should be deductible. Uncertainty remains over the treatment of costs incurred in undertaking bio-sequestration activities (such as the cultivation of carbon sink forests) that are not specific to project-related emissions.

Private override royalties (being royalties paid other than under a State or Territory law) are excluded expenditures and specifically non-deductible for PRRT purposes. A new carve out from excluded expenditures will be introduced in respect of private override royalties that take the form of compensation to native title holders, native title claimants or an indigenous person having a right under another Australian law dealing with the rights of Aboriginal or Torres Strait Islanders, in relation to an area in which operations, facilities and other things comprising a petroleum project are carried on.

The carve out under the MRRT is broader than it is for PRRT (e.g. where a private override royalty is a payment for upstream services or where the royalty is paid to a State or Territory body). Furthermore, this amendment provides a carve-out to the list of non-deductible excluded expenditures but does not explicitly provide for these costs to be deductible and the onus is arguably still on the taxpayer to demonstrate the necessary nexus between the incurrence of native title and other similar land access payments and the carrying on of the operations, facilities and other things comprising a petroleum project, especially in the current environment where the ATO is increasingly adopting a narrow interpretation of the deductibility provisions (see for example the draft ATO rulings TR 2010/D4 and TR 2010/D5). A positively drafted provision that explicitly provides for the deductibility of these payments would be preferable so as to put the matter beyond any doubt.

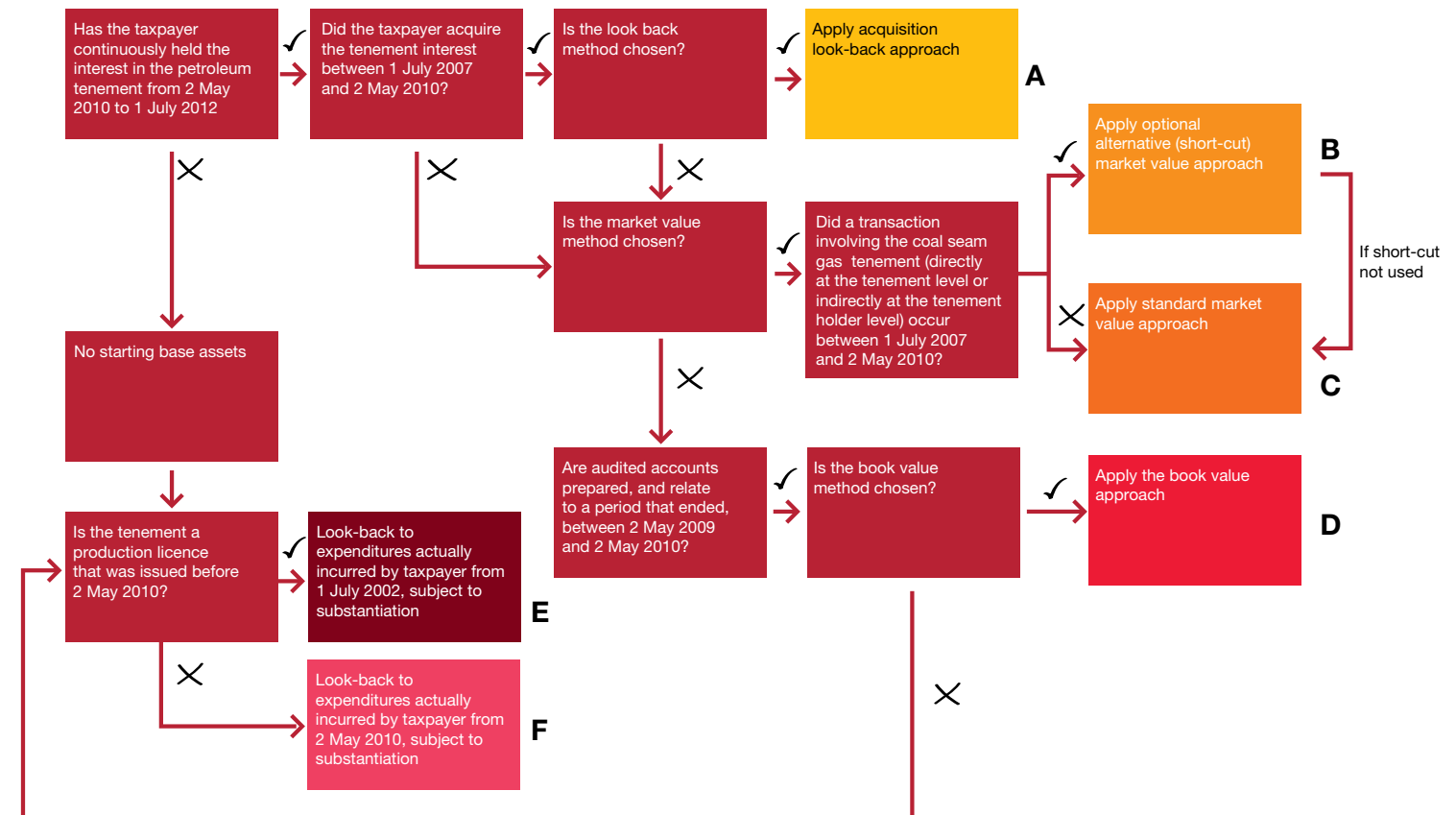
# Appendix

## Starting base allowances

When the extension of the PRRT to all Australian oil and gas projects was announced, the Government committed to providing a tax shield by way of starting base allowances for taxpayers with projects prior to 2 May 2010 that will be transitioned into the PRRT regime.

As currently drafted, the entitlement to a starting base allowance or alternatively, the ability to “look-back” to actual expenditures incurred since 1 July 2002 and recognise them for PRRT purposes (as if the taxpayer had been in the PRRT regime since 1 July 2002) appears to depend on whether the relevant taxpayer holds the project interest continuously from 2 May 2010 through to 1 July 2012, and whether there is a production licence issued prior to 2 May 2010. If the taxpayer acquired the project interest post-2 May 2010, then generally, only expenditure actually incurred by the taxpayer after 2 May 2010 can be taken into account as part of the starting base amount. Further consultation with Government on the drafting of the starting base rules is needed as this may not be the intended operation of the law.

A summary of the available approaches on a project-by-project basis (based on current drafting) is depicted as follows:

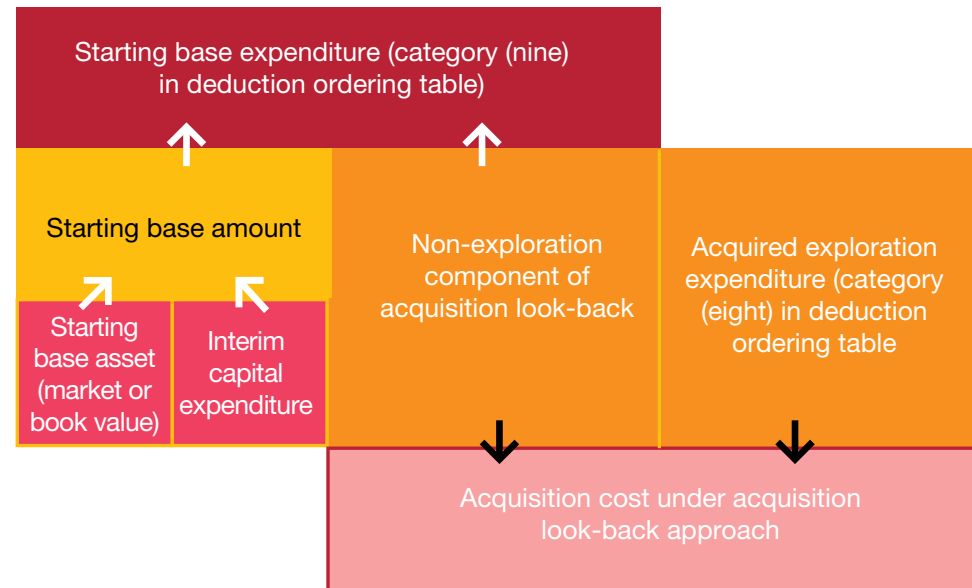


Flowchart of available approaches under the transitional rules to recognise past investments in relation to existing project interests

## Appendix

The taxpayer is required to make an irrevocable choice in the approved form by 30 August 2013 as to the approach it wishes to adopt to recognise its past investments in an existing project interest held on 1 July 2012. If no election is made, the default approach is to look-back to the actual eligible expenditures incurred by the taxpayer, provided such expenditures can be reasonably substantiated. The Commissioner of Taxation has the discretion to extend the time in which the election is made, however, given the ATO has a limited period of four years from the making of the election to review or amend the starting base, it would seem prudent to start the clock ticking as soon as possible.

The relationship between the various elements of the starting base expenditure and their inter-relationship with the acquisition cost recognised under the acquisition look-back approach is shown as follows:



## Appendix

The following table summarises how the starting base amounts are calculated:

	Starting base amount
<b>Market value (short cut) approach, corresponding to outcome [B] in the above flowchart</b>	A deemed market based price of A\$0.60 per GJ <i>multiplied</i> by 3P reserves at 2 May 2010 (in GJ) [most recent Society of Petroleum Engineers – Petroleum Resources Management System ( <b>SPE-PRMS</b> ) approved estimated reserves pre-2 May 2010 minus production from the reserve estimate date until 2 May 2010]. + Interim capital expenditure* incurred between 2 May 2010 and 30 June 2012.
<b>Market value (standard) approach, corresponding to outcome [C] in the above flowchart</b>	Market value** of starting base assets at 1 May 2010 (including mining rights, mining information and goodwill), assuming the project is unencumbered by any private override royalties negotiated prior to 1 May 2010. + Interim capital expenditure* incurred between 2 May 2010 and 30 June 2012.
<b>Book value approach, corresponding to outcome [D] in the above flowchart</b>	Book value of starting base assets (excluding mining rights, mining information, goodwill and excluded expenditures such as capitalised interest) <i>multiplied</i> by $(LTBR+1.05)^N$ , where N = number of days from the financial report date to 30 June 2012 <i>divided</i> by 365. + Interim capital expenditure* incurred between 2 May 2010 and 30 June 2012 augmented at LTBR + five per cent from date of incurrence until 30 June 2012 ( <b>adjusted interim expenditure</b> ).

\* Interim capital expenditure comprises the cost of a depreciating asset (as defined for income tax purposes), an amount included in the cost base of a Capital Gains Tax (CGT) asset other than an amount included in the third element of the CGT “cost base” and an amount of “mining capital expenditure” (also as defined for income tax purposes), except to the extent such cost or expenditure is an excluded expenditure (as defined for PRRT purposes e.g. capitalised interest). The drafting suggests this expenditure is limited to that of a capital nature only – such a concept is novel to PRRT, which by its nature contains no revenue versus capital distinction, and is inconsistent with the look-back approach (see below).

\*\* The draft EM envisages that the ATO will be issuing early guidance materials in respect of valuations for PRRT purposes, which may include non-binding, safe harbour reference benchmarks for common (macroeconomic) inputs into valuations (such as exchange rates, interest rates, inflation rates, etc).

The starting base amount determined in accordance with the rules in the above table is immediately deductible on 1 July 2012 (via category nine), if there is a production licence which is in existence as at that date. Otherwise, the starting base amount as at 1 July 2012 is ‘dormant’ and becomes deductible in the first PRRT year following the year in which a production licence in relation to the project is issued (the starting base amount is not augmented while it is dormant).

## Appendix

The look-back rules, as currently drafted, apply as follows:

Outcomes	
<b>Normal look-back approach, corresponding to outcomes [E] or [F] in the above flowchart</b>	<p>Exploration or general expenditure based on the circumstances and period in which the expenditure was incurred. Expenditure that is recognised under the look-back approach cannot be incurred earlier than 1 July 2002. The ordinary augmentation rules (including the five-year rule) apply based on the actual date of incurrence of the expenditure (viz. the underlying production licence when ultimately applied for) and their nature (either as exploration or general) – i.e. these will flow into expenditure categories three, four, five or six of the deduction ordering table. However, the exploration expenditures recognised under the look-back approach are not transferable.</p>
<b>Acquisition look-back approach, corresponding to outcome [A] in the above flowchart</b>	<p>Expenditure incurred to directly acquire the project interest (in the direct interest acquisition scenario) or the expenditure incurred by the parent to acquire all of the shares in the wholly-owned subsidiary which holds the project interest, to the extent the expenditure reflects upstream assets – this expenditure is deemed to be incurred on 2 May 2010 and is reasonably apportioned between:</p> <ol style="list-style-type: none"><li>the exploration component (acquired exploration expenditure) which is attributable to the exploration relating to the project, and</li><li>the non-exploration component (which will form part of starting base expenditure).</li></ol> <p>Further legislative guidance on the appropriate apportionment approach will be provided in the final version of the PRRT amendment bill.</p> <p>The acquired exploration expenditure is augmented at LTBR + 15 per cent per annum for five years from 1 July 2010 through to 1 July 2014, and thereafter, at LTBR + five per cent per annum to the extent it has not been offset by available assessable revenues following the stipulated order of deductions.</p> <p>The non-exploration component is treated as if it is ‘general expenditure’ and is augmented at LTBR + five per cent per annum</p> <p>+</p> <p>Exploration or general expenditure from the date of acquisition until 30 June 2012 (in accordance with the normal look-back rules), if the project has a production licence which was issued prior to 2 May 2010, <u>OR</u></p> <p>Exploration or general expenditure from 2 May 2010 until 30 June 2012 (in accordance with the normal look-back rules), if the project has a production licence which was issued on or after 2 May 2010.</p>

Consistent with the design of the PRRT legislation, undeducted starting base amounts will be inherited by a buyer of a project interest who steps into the shoes of the vendor post-1 July 2012, however, it appears that the ‘dormant’ starting base amount while a production licence is not yet in force will not be inherited by the buyer of a project interest that does not comprise a production licence as at 1 July 2012. Where a taxpayer disposes of its interest in the project prior to 1 July 2012, its starting base amount is reduced (even though the buyer of that project interest will not inherit any of the unused starting base prior to 1 July 2012).

## Appendix

### Other relevant clarifications

It is worthwhile noting the following clarifications provided in the ED:

- 23**
- a) For the purposes of applying the common interest rules for determining whether eligible exploration expenditure incurred by a taxpayer can be transferred to a profitable project of the same taxpayer or another project in the taxpayer's wholly-owned corporate group, the PRRTAA will recognise the period over which the taxpayer has actually held the project interest in the donor and recipient projects even though the PRRTAA only commences to apply to onshore projects and the North West Shelf project from 1 July 2012. There does not appear to be any restrictions in transferring eligible exploration expenditure between an offshore project, an onshore project and the North West Shelf project if the common interest rules are satisfied.
  - b) An example in the draft EM (example 5.4) suggest that where unprocessed petroleum produced by an upstream project participant/owner is sold to another company for processing into marketable petroleum commodities which are sold by the buyer, the buyer is not subject to PRRT and the buyer's processing plant is not within the PRRT ringfence, as the buyer does not have an interest in a petroleum project. While not entirely without doubt, this example lends some additional support to the view that once petroleum is sold to another entity after it has been produced (or recovered), then the buyer of that petroleum (which otherwise has no interest in the petroleum project from which the said petroleum is produced) should not be concerned that it might be subject to PRRT. It is understood that for various commercial and regulatory reasons, many onshore projects involve the sale of untreated raw petroleum to an intermediary (a gas aggregator or a toller), for processing. It should be borne in mind that where contrived arrangements are structured to avoid PRRT by bringing forward the taxing point as close as possible to the wellhead, the anti-avoidance rules in the PRRT legislation may be applied.
  - c) The commentary in the draft EM has also clarified that an entity can hold an interest in a petroleum project without being a legal owner of such an interest, provided the entity is entitled to derive assessable petroleum receipts from the sale of petroleum, or marketable petroleum commodities produced from petroleum, that has been recovered from the production licence area. Contractual arrangements between entities will need to be carefully reviewed for any economic interest that an entity may have acquired or granted in a petroleum project, as this would trigger PRRT consequences.
  - d) For the first PRRT year (1 July 2012 through to 30 June 2013), no quarterly instalment obligations will be imposed for taxpayers transitioning into the PRRT regime. This is to allow sufficient time for taxpayers to appropriately ascertain their starting base position.

# Appendix

## Appendix D – Illustrative Worked Example

### Simplified Illustrative Prrt Calculation

Key assumptions:

- (a) Single project taxpayer
- (b) LTBR = six per cent throughout the project life
- (c) Year One commences on or after 1 July 2012
- (d) Project operates from Year Two through to Year Six (inclusive)
- (e) Eligible market value starting base amount at 1 July 2012 is \$250 million
- (f) Royalty rate is ten per cent of revenue for simplicity
- (g) The underlying production licence was on issue as at the start of Year One

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>PRRT charge</b>							
Assessable receipts	0	650	1,150	1,650	2,150	2,650	0
General expenditure (opex)	0	-130	-210	-320	-430	-520	0
General expenditure (capex)	-1,000	0	0	0	0	0	0
General expenditure b/fwd	0	-1,000	-590	0	0	0	0
11% augmentation (i.e. LTBR + 5%)	0	-110	-65	0	0	0	0
General expenditure c/fwd	-1,000	-590	0	0	0	0	0
After general expenditure relief	0	0	285	1,330	1,720	2,130	0
Exploration expenditure	-300	0	0	0	0	0	0
Exploration expenditure b/fwd	0	-300	-363	-154	0	0	0
21% augmentation (i.e. LTBR + 15%)	0	-63	-76	-32	0	0	0
Exploration expenditure c/fwd	-300	-363	-154	0	0	0	0
After exploration expenditure relief	0	0	0	1,144	1,720	2,130	0
10% royalty	0	-65	-115	-165	-215	-265	0
Deduction equivalent for royalty credit	0	-163	-288	-413	-538	-663	0
Royalty credit b/fwd	0	0	-163	-469	0	0	0
11% augmentation (i.e. LTBR + 5%)	0	0	-18	-52	0	0	0
Royalty credit c/fwd	0	-163	-469	0	0	0	0
After royalty relief	0	0	0	210	1,182	1,467	0
Starting base deduction	-250	0	0	0	0	0	0
Starting base loss b/fwd	0	-250	-278	-309	-133	0	0
11% augmentation (i.e. LTBR + 5%)	0	-28	-31	-34	-15	0	0
Starting base loss c/fwd	-250	-278	-309	-133	0	0	0
After starting base relief	0	0	0	0	1,034	1,467	0
Closing down expenditure	0	0	0	0	0	0	-100
PRRT taxable profit / (loss)	0	0	0	0	1,034	1,467	-100
40% PRRT	0	0	0	0	414	587	-40
<b>Net PRRT payable / (refundable)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>414</b>	<b>587</b>	<b>-40</b>

