

# *Government responds to the resource tax recommendations*

March 2011

# Government responds to the resource tax recommendations

The Government's response to the Policy Transition Group's (PTG) report provides companies with a more certain framework as to the likely design of the proposed resource taxes. This should assist companies with continuing to develop their implementation plan for the taxes. Affected taxpayers should act now in considering the impact of, and preparing to implement, the new taxes.

This document sets out some key practical issues to consider in framing your implementation plan, as well as summarising the PTG's recommendations (which are now endorsed by Government).

## Planning your resource tax implementation strategy – key issues to consider

Issues	Considerations
<b>Defining your projects</b>	<ul style="list-style-type: none"><li>• The resource taxes are project-based taxes which means defining the relevant project is a key step in preparing for the taxes</li><li>• Furthermore, defining your project and determining which projects can be combined will be a key factor in modelling (and complying with) the resource tax impost and royalty creditability</li><li>• You may need to form cross-disciplinary teams (including finance and operational personnel) to properly define your project if you have integrated operations</li></ul>
<b>Calculating your starting base</b>	<ul style="list-style-type: none"><li>• The starting base allowance could be one of the most significant deductions for existing projects</li><li>• Taxpayers will have a choice of different methods to use in calculating their starting base</li><li>• This choice may affect the present value impact of the resource taxes</li><li>• Modelling is required to determine the appropriate choice</li><li>• The calculation of the starting base will need to be substantiated (e.g. independent valuations may be needed to support a market value starting base)</li><li>• We recommend early consideration of the starting base issue as specialist valuation expertise may be difficult to obtain closer to 1 July 2012 (and the starting base may need to be reflected in accounts prior to this date)</li></ul>
<b>Accounting for the resource taxes</b>	<ul style="list-style-type: none"><li>• The tax effect accounting for the resource taxes will affect both earnings and asset values</li><li>• Companies will need to have considered the tax effect accounting implications by the first reporting date after legislation is passed by the Senate</li><li>• This may be a significant exercise as there are several complex issues to be considered</li></ul>
<b>Stakeholder engagement</b>	<ul style="list-style-type: none"><li>• Companies will need to manage both internal and external stakeholders by appropriately communicating the impact of the resource taxes and responding as required</li><li>• Affected stakeholders may include shareholders, debtholders, management, customers and suppliers</li></ul>
<b>Systems and processes</b>	<ul style="list-style-type: none"><li>• The resource taxes will represent a systems issue similar to the introduction of the Goods and Services Tax (GST)</li><li>• In order to appropriately implement your response to the resource taxes it will be necessary to assess whether existing systems are capable of meeting the additional reporting requirements or whether new systems (or upgrades) are required and also to ensure that your tax and finance function is appropriately resourced to meet the additional workload and increased documentation requirements</li></ul>

## Government responds to the resource tax recommendations

### Government's Response to the PTG Recommendations

On 24 March 2011, the Federal Government announced its response to the PTG's recommendations on the design and implementation of the proposed resource tax arrangements (being the Mineral Resource Rent Tax (MRRT) and the extension of the Petroleum Resource Rent Tax (PRRT)) and the promotion of minerals and petroleum exploration.

The Government has announced that it accepts **all** 98 of the PTG's recommendations, including most notably the recommendation that **all current and future** State and Territory royalties and resource taxes be creditable under the proposed resource tax regimes. A recap of the key features of the MRRT and extended PRRT, and the PTG's recommendations on the resource taxes and exploration incentives, is contained in the Appendices.

Whilst the proposed resource taxes are still subject to political debate and the vagaries of the legislative process, the Government's acceptance of the PTG report in its entirety means that affected companies now have a more certain framework to continue preparing for the implementation of these taxes from 1 July 2012, in accordance with the Government's proposed start date.

Moreover, the Government's acceptance of the PTG's recommendation to establish a Resource Tax Implementation Group comprised of representatives from industry and professional bodies should facilitate the development of practical, appropriate legislation.

We have set out below some key practical issues for companies to consider in framing their implementation plan as well as reviewing the significant recommendations made by the PTG that have now been endorsed by the Federal Government.

### Preparing for the Resource Taxes – a checklist of what you need to consider

Implementation of the new taxes is going to require the involvement of the expertise of a cross-section of your organisation's personnel. An understanding, in reasonable detail, of the impact of the new taxes on your company will be required for your first financial accounts following draft legislation passing the Federal Senate. Earnings (and potentially asset values) will also be impacted at this time, which elevates the requirement for effective implementation to be a Board-level priority and focus.

Appropriate time and attention is needed to properly consider the broad extent to which the new taxes impact each facet of the business and to develop a comprehensive and systematic implementation and response plan. For example, the impact of the starting base needs to be financially modelled and independent market valuations will be required to make an informed decision on which starting base to use. For each organisation, systems changes will require time to introduce and "road test" before they go live, as will educating the business and operations personnel on the implications of the resource taxing point, implementing changes to accounting and record keeping to cater for the new taxes and briefing management on the need to re-evaluate the key performance indicators (KPIs) of the business.

Taxpayers should also carefully evaluate the technical aspects of the design features of the proposed resource taxes, as recommended by the PTG, so that practical issues can be anticipated and escalated via appropriate channels, in order to have the chance of being taken into account in the legislative drafting process on a real time basis with optimal effect.

In short, affected taxpayers should act now. Significant value lies in a detailed and thorough consideration of, and being adequately prepared for, the implementation of the new resource taxes, which will have an impact on those affected that is unprecedented since the introduction of the GST.

We have set out below a summary of five of the key issues that should be the primary considerations in designing your implementation plan. Each of these issues presents its own set of challenges and opportunities which can add to, or erode value for, your organisation.

1. *Defining your resource tax projects*
2. *Calculating your transitional starting base*
3. *Accounting for the resource taxes*
4. *Engaging with stakeholders*
5. *Establishing appropriate systems and processes*

*The Government's acceptance of the PTG report in its entirety means that affected companies now have a more certain framework*

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### 1. Defining your resource tax projects

The resource taxes are “project based” taxes which means that a fundamental element of preparing your organisation for the implementation of the taxes (including modelling their impact on your business) is to be able to define your resource tax “projects”.

Both the MRRT and PRRT (through the combination certificate process) include some degree of flexibility to treat separate production licences as one project where there is sufficient integration of:

- Extraction and processing activities;
- Operations, facilities and infrastructure; and
- Geological and geophysical features of the areas containing the resource.

The quarantining of certain types of resource tax attributes and the interaction with the creditability of royalties in respect of a project (for royalty purposes) means that the project definition can significantly influence the amount of your resource tax burden. This, combined with the resulting effect on your resource tax compliance obligations, means that it is critical that you carefully consider how the resource tax definition of “project” applies to your operations.

For companies that have integrated operations spanning multiple production rights, this may necessitate establishing a cross-disciplinary team including members of both the finance and operations teams as the most effective means of appropriately defining your projects.

### 2. Calculating your transitional starting base

The ability to transition existing projects into the resource tax regime with a valuable “starting base” allowance will provide projects in existence at 1 May 2010 with a significant tax shield to reduce your resource tax impost. The starting base will be calculated based on an election of the taxpayer and therefore due diligence will be required to ensure that the elected method is the most appropriate for each project.

The calculation of the starting base is project specific and therefore will depend on your definition of the project (as discussed above) and the taxing point for the resource taxes. It will be influential in determining your:

- resource tax impost (the shield generated by the starting base could represent one of the most significant deductions);
- tax effect accounting outcomes (discussed further below); and
- the calculation of your resource tax revenue for integrated projects (the calculation of your resource tax “transfer price” may be influenced by the assumptions implicit in the market valuation and taxing point of the project).

Accordingly, it will be important that companies proactively determine the appropriate method for calculating their transitional starting base and take steps to verify and support the position adopted.

Under the proposed MRRT taxpayers are able to calculate the starting base of their projects using either:

- the market value method; or
- the “book” (accounting) value method.

Whilst the market value method will generally yield a higher starting base, the present value of this benefit may be tempered by the longer period over which it is deducted (the market value starting base will be deductible over the shorter of the project life or 25 years whereas the book value method is deductible over 5 years).

Projects transitioning into the extended PRRT regime will be able to use:

- the market value method;
- the “book” (accounting) value method; or
- the “look back” method.

The starting base calculated under any of these methods will be immediately deductible under the PRRT.

Accordingly, as well as calculating the value of the starting base, MRRT and PRRT affected companies should also conduct **modelling** as to which method delivers the best present value outcomes for their projects.

The starting base calculation has a likelihood of being an area of significant dispute between taxpayers and revenue authorities under either of the resource taxes. The inherent subjectivity of market value assessments has caused disputes in



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other revenue contexts (for example, the tax consolidation legislation). We have experience in preparing valuations for revenue purposes and therefore are able to develop valuations that are capable of being robustly defended from challenges by revenue authorities.

Accordingly, taxpayers should ensure that any market value calculations are rigorous and supportable. There are many benefits in beginning the market value process as soon as possible as calculating a value as at 1 May 2010 will become more difficult as we move further from this date and specialist valuation expertise may be difficult to obtain closer to the resource tax start date. Moreover (as discussed below) companies may be obliged to use the starting base calculations to calculate deferred tax balances in their accounts even before 1 July 2012.

### 3. Accounting for the resource taxes

Companies will be obliged to account for the proposed resource taxes in their first financial statements issued after substantial enactment of the legislation.

We expect legislation to be passed within calendar year 2011, which may mean that companies are obliged to consider the accounting impact of the taxes in the half or full year reporting for the period ending 31 December 2011. Certain companies may wish to consider providing information on the likely impact of the resource taxes at an earlier date.

Some of the key accounting issues that companies will need to consider include:

- when will companies first have to recognise the accounting impact of the resource taxes (including whether note disclosures are required around the time of substantive enactment of the legislation)?
- will the resource taxes trigger impairment testing of existing assets, and if so what will the impact be on your operations?
- how will the starting base be accounted for, and when will companies have to recognise the accounting impact of the starting base?
- will the creditability of existing royalties change the current accounting for royalty expenses?
- how will the accounting for the resource taxes affect post-tax profits and therefore any profits-based obligations within existing contractual arrangements, including loan covenants, management KPIs and new tax clauses in existing contracts?

***Taxpayers should ensure that any market value calculations are rigorous and supportable***



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### 4. Engaging with stakeholders

The implementation of the resource taxes will be a “whole of business” issue for many affected companies. Managing stakeholder expectations and interests (including appropriate communication with stakeholders) will be of central importance in appropriately implementing your response to these taxes.

Stakeholder management in respect of the resource taxes should be considered in respect of external and internal stakeholders.

#### External Stakeholders

The most important external stakeholder for many resource companies will be their shareholders. It will be important that companies proactively communicate the likely effect of the resource taxes on their business and their response to the reforms throughout the implementation process, including the potential earnings impact. To the extent that the resource taxes will have a material impact on their operations, this may include fulfilling continuous disclosure obligations in order to maintain an informed market.

The highly political nature of this tax means that companies may also need to engage with relevant politicians either through industry bodies or directly. The Government’s establishment of the Resource Tax Implementation Group is a welcome signal of a willingness to engage with the resource industry in the development of the detailed legislation.

Whilst it will not generally be possible to obtain Australian Taxation Office (ATO) guidance on tax laws that have not yet been legislated, companies should be considering their significant or uncertain technical positions so that they can proactively engage with the ATO in a timely manner once it is possible to do so.

Depending on their own specific circumstances, companies may also need to engage with lenders or contractual counter-parties if the resource taxes impact existing contractual arrangements.

#### Internal Stakeholders

The response to the resource taxes will likely require the involvement of personnel outside of the tax or finance functions. Technical issues regarding project definition, valuations and broader commercial consequences of these taxes will likely involve personnel from a broad cross-section of the company. Accordingly, it will be necessary to consider how best to manage and co-ordinate these disparate skill sets. In some circumstances it may be necessary (or even preferable) to establish a multi-disciplinary implementation team to ensure that all business issues are considered and reflected in your response to the new taxes.

Further, as discussed above, the resource taxes may impact the metrics by which management KPIs are calculated. This may require engaging with management to re-negotiate performance targets to reflect the changed environment.

It will also be important to educate many functions within the business because of the far reaching consequences of the resource taxes. The taxes will have significant impact on value considerations and transaction structures for all mergers, acquisitions and divestments undertaken from 2 May 2010 onwards. This means that the business development professionals within your organisation will need to understand the resource taxes in detail. Similarly, the resource taxes may affect legal documentation in respect of many contractual arrangements entered into from sale and purchase documentation for M&A transactions to tax clauses in commodity or product offtake agreements, contract mining agreements and/or loan documents. The taxes may also impact procurement decisions and therefore will have to be understood by all personnel involved in operational and capital procurement.

### 5. Establishing appropriate systems and processes

The resource taxes will impose an additional compliance obligation on affected companies. It will impact both existing tax effect accounting reporting as well as the resource tax compliance process. It will be important to ensure that appropriate systems and processes are established to ensure that companies can extract value through the compliance process. This includes ensuring that your tax and finance functions are appropriately resourced and have the necessary skills to manage this compliance process.

From a systems perspective, it will be necessary to ensure that your existing accounting systems are able to capture all of the necessary information required to prepare your resource tax calculations and to provide the appropriate audit trail and document retention processes. This will include ensuring that your systems are capturing information at a project level that is aligned with the definition of a project for resource tax purposes, as well as suitable and timely information for your project participants, where you are the project operator. It will also be necessary to be able to capture and allocate costs and revenue pre- and post-taxing point. This may require a re-evaluation and re-alignment of existing cost centre reporting and indirect cost allocation, using activity based costing principles.

These systems and procedures will also have internal controls implications which may require consideration from a risk and controls perspective.

*Resource taxes will be a whole of business issue*

## Government responds to the resource tax recommendations

### How PwC can help you

PwC has a market leading energy and resources practice comprising dedicated tax, transfer pricing, valuations, consulting and accounting industry specialists who can deliver an integrated service offering to you in the design and implementation of your response to the resource taxes.

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 tax proposals. In addition, PwC has been actively involved in advising clients extensively on the intricacies of the offshore PRRT regime for many years since its introduction 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 affected industries.

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 resource tax ready:

- **taxation services** in relation to the technical interpretation and practical application of the proposed taxes;
- **valuation services** to assist in calculating, documenting and supporting your calculation of the transitional starting base;
- **transfer pricing services** to assist in calculating the taxable revenue in integrated operations;
- **technical accounting services** in relation to the accounting impact of these proposed resource taxes;
- **consulting services** to help you develop best practice systems and processes including implementing upgraded accounting systems, business processes and stakeholder engagement strategies.

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

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# Appendix A – Recap of the Key Resource Tax Features, Incorporating Recommendations Endorsed by Government

## Key Design Features of the Resource Taxes

	MRRT	Extended PRRT
Applicable from	1st July 2012	
Applies to all operations in Australia	that result in the depletion of naturally occurring iron ore & coal	that involves naturally occurring hydrocarbons (onshore and offshore)
Small taxpayer threshold	<\$50m p.a.	Tax free
	\$50m - \$100m p.a.	Phased in concessionally
Taxable Revenue Calculation – simple valuation methodology available	Safe harbour method if production < 10m tonnes p.a. (or for transformative operations)	Simplified Residual Pricing Methodology for existing integrated gas-to-liquids projects, or royalty value at taxing point
Extraction allowance	25%	None
Effective RRT tax rate	22.5%	40%
Treatment of royalties	All current and future State and Territory royalties are creditable against MRRT liability	All current and future State and Territory resource taxes are creditable against PRRT liability
Starting base	All projects existing as at 1 May 2010 are transitioned into the MRRT with a depreciable starting base calculated as either the market value of the project assets (including the value of the resource) or the book value of the project assets (excluding the value of the resource)	All projects existing as at 1 May 2010 transitioning into the PRRT receive a deductible starting base calculated as either the market value of the project assets (including the value of the resource), the book value of the project assets (excluding the value of the resource) or the historical expenditure incurred in respect of the project (the “look back” method)
Deductible Expenditure	All necessarily incurred expenditure (excluding financing costs)	All upstream projects expenditure that meet the preconditions for deductibility (except for specifically excluded costs)
Carried forward losses	Uplifted at LTBR+7% and transferable	Unused expenditure uplifted at varying rates depending on time incurred and type of expenditure; only exploration expenditure is transferrable
Substituted accounting period (SAP)	SAPs available for taxpayers who use them for income taxation	None (but recommended)

# Appendix B – Key PTG Recommendations on the MRRT and extended PRRT (as accepted by Government)

## MRRT – the key recommendations

The PTG report to Government contained 67 recommendations regarding the design and implementation of the MRRT. We have not replicated this list in full but have instead concentrated on the outcomes of the recommendations which will be most significant for affected companies.

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### Scope:

MRRT should apply to all coal and iron ore extraction including coal utilised through underground coal gasification (UCG) and coal mine methane (CMM) extracted as part of coal mining. Coal and iron ore should take their ordinary meaning and not be defined.

### Royalties:

The PTG recommends the crediting of **all current and future** State and Territory royalties. Whilst this has been accepted by the Federal Government, this is likely to be subject to further consultation between the Federal Government and State and Territory Governments.

### Project definition:

The definition of project is linked to a production right but taxpayers can self assess linking of operations (and aggregation of interests) in certain circumstances.

The PTG suggests the concept of an MRRT consolidated group to be linked to the concept of an income tax consolidated group. This would provide greater flexibility for aggregation of interests and transfer of losses in certain circumstances. Grouped companies may need to consider issues such as MRRT Sharing Agreements and Funding Agreements similar to under the current tax consolidation regime.

### Taxing point:

The taxing point is fixed (with **no flexibility**) at the ROM pad (or the first point of operation post-extraction if there is no ROM pad).

### Valuation of resource revenue:

Resource revenue will be valued using the "most appropriate and reliable" method of determining the arm's length value. The PTG suggests that there be detailed explanatory memorandum commentary and ATO guidance to support this flexible approach.

There will be an elective safe harbour method for small taxpayers (i.e. taxpayers with less than 10 million tonnes per annum of production) and vertically integrated transformation operations (e.g. electricity generators and steel makers) to determine arm's length pricing. Income from take or pay contracts should be assessable revenue even if no delivery has taken place.

### Deductible expenditure:

All expenditure "**necessarily incurred**" in producing assessable MRRT revenue will be deductible subject to certain exclusions (e.g. payment of interest, rehabilitation bonds and dividends). Exploration expenditure definition will be aligned with the income tax definition. This should ensure that expenditure incurred on feasibility studies to evaluate the economic feasibility of mining minerals once they have been discovered is included in the definition of exploration expenditure.

### Starting base:

Starting base will be linked to the definition of project but will only be depreciable when production commences. The starting base election (e.g. market value or book value) must be made by lodgement of the first MRRT return and is irrevocable. If no election is made then book value is the default.

The valuation of the starting base will be based on existing methodologies but must be consistent with the determination of arm's length revenue. It can include all tangible assets as well as relevant intangible assets such as mining information.

### Loss ordering:

The recommended methodology for utilising deductions, losses and credits is:

1. Project deductions (current year)
2. Royalty credits (current and prior year)
3. Carried forward losses of project
4. Starting base depreciation and losses
5. Transferred expenditure
6. Transferred in losses.

## Appendix B – Key PTG Recommendations on the MRRT and extended PRRT (as accepted by Government)

### PRRT – the key recommendations

The PTG report included 27 recommendations in respect of the extension of the existing PRRT to the onshore sector. These recommendations were all accepted by Government.

In addition to these recommendations that were within the PTG's terms of reference, the PTG provided advice to Government in respect of the existing PRRT regime. The Government's response indicated that this advice would be considered "as fiscal circumstances permit".

#### Scope:

From 1 July 2012, the PRRT should apply to all Australian petroleum projects other than:

- projects within the Joint Petroleum Development Area in the Timor Sea, which are governed by the Timor Sea Treaty (2003);
- coal mining operations involving the extraction of coal or gas derived from the underground combustion of coal, which would be subject to MRRT; and
- the extraction of coal mine methane where it is a necessary and integral part of a coal mining operation, which would also be subject to MRRT.

The North West Shelf (NWS) licences should be transitioned into the PRRT regime as a single notional project.

#### Project definition:

PRRT projects should continue to be defined by reference to the granting of a production licence with that definition expanded to include State and Territory petroleum production licences.

Production licences can be combined based on the existing combination certificate regime in the PRRT rules, with the power to grant combination certificates reserved for the Minister for Resources and Energy and with additional factors to be considered expanded to include circumstances where licences are operated as an integrated operation because of integration of the upstream activities or because of reliance on common downstream infrastructure.

#### Taxing point:

The existing PRRT definition of taxing point is sufficient to accommodate projects transitioning into the PRRT under the extended PRRT regime.

#### Taxable revenue:

The existing PRRT process for determining the value of taxable revenue at the taxing point should continue to apply, subject to the following qualifications:

- 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 of Energy and Resources to use the royalty value for PRRT purposes;
- taxpayers developing onshore gas resources in integrated gas-to-liquids operations (e.g. LNG) should have the option of using the Residual Pricing Methodology (RPM) as the default method for determining the assessable receipts from their Marketable Petroleum Commodity (sales gas) at the taxing point;
- taxpayers developing integrated gas-to-liquids projects that exist as at 1 May 2010 should have access to a simplified RPM; and
- the existing RPM should be modified for integrated gas-to-electricity projects.



## Appendix B – Key PTG Recommendations on the MRRT and extended PRRT (as accepted by Government)

### Deduction ordering rules:

Existing PRRT rules should be modified to include starting base deductions and Government resource taxes as deductible expenditures (i.e. the order should be general project expenditure, Government resource taxes, starting base and then transferred-in exploration expenditure).

### Deductible expenditure:

Native title payments (under the Native Title legislation) relating to upstream operations and the cost of water treatment integral to coal seam gas should be specifically made deductible. The PTG proposes that the existing general deduction provisions could be replaced with the income tax concept of an expense being necessarily incurred in the upstream operations. Treatment of private override royalties as non-deductible expenditure is retained.

### Exploration expenditure:

The PTG suggests that the existing exploration treatment apply appropriately to unconventional gas. The PTG also notes that the PRRT exploration provisions have caused uncertainty and advises potentially harmonising the definition of ‘exploration expenditure’ across income tax, MRRT and PRRT.

### Starting base:

The starting base can be determined using the book value, market value or look back methods for projects or petroleum tenements at 1 May 2010, to be elected by the time of lodging the first PRRT return (or the default look back method applies unless the look back expenditure cannot be substantiated). Under any method, the starting base should be immediately deductible from 1 July 2012 (subject to a project existing). The starting base includes tangible and intangible assets (such as mining information) that are used in the upstream activities. There will be no depletion of the starting base prior to 1 July 2012, but the starting base value is excluded if any starting base assets are disposed of prior to 1 July 2012.

In summary, the starting base is to be applied as follows:

- Market value method – deemed incurred on 1 July 2012 and, together with eligible expenditure between 1 May 2010 and 30 June 2012, augmented from that point;
- Book value method – deemed incurred on 1 May 2010 (based on the last audited accounts pre 1 May 2010) and, together with eligible expenditure actually incurred between the last audited accounts pre 1 May 2010 and 30 June 2012, augmented from the date of deemed/actual incurrence as the case may be; and
- Look back method – incurred starting from 1 July 2002 onwards and, together with eligible expenditure between 1 May 2010 and 30 June 2012, augmented from the date of actual incurrence.

Starting base amounts should be treated in the same manner as general project expenditure, being immediately deductible, non-transferable and non-refundable, with undeducted amounts uplifted in accordance with the existing augmentation provisions. An exception would be the exploration expenditure component of a look-back starting base, which should be treated in accordance with the existing provisions relating to exploration expenditure.

### Government resource taxes:

All **current and future** Government resource taxes should be creditable against PRRT liabilities and be otherwise treated like general project expenditure (i.e. non-transferable, non-refundable and uplifted at the same rate as general project expenditure).



## Appendix C – Key PTG Recommendations on Exploration Incentives (as accepted by Government)

The Government also accepted all four recommendations the PTG made in respect of their review of minerals and petroleum exploration.

The PTG found that there was no “compelling case at present for fiscal incentives to promote exploration” and therefore the Government’s acceptance of the PTG report is unlikely to result in any additional fiscal incentives.

The two active recommendations by the PTG related to encouraging exploration through improvements to the regulatory process for exploration. They recommended that the Government provide a sustainable funding source for Geoscience Australia to acquire and distribute geosciences and geospatial data and work with the Council of Australian Governments to improve the regulatory environment faced by explorers.

Whilst the PTG did not recommend fiscal incentives for exploration, it indicated that an “exploration refundable tax offset” would be their preferred method of fiscal incentive and that an incentive of this nature should be targeted towards greenfield exploration activities.

Finally, the PTG recommend that these findings be reviewed by 2015 to assess any change in industry circumstances.

### Geothermal Energy – Exploration Expenditure

In a separate media release on 24 March 2011, the Minister for Resources, Energy and Tourism announced that the Government had accepted advice from the PTG outside of their terms of reference in respect to the geothermal energy industry.

The Government proposes to amend the definition of exploration expenditure within the income tax laws to address industry concerns that they are presently unable to access the immediate deduction for expenditure incurred for exploring or prospecting for minerals, petroleum or quarry materials.

This reform will be prospective in nature only and will apply from 1 July 2012 onwards.

### The Resource Tax Implementation Group

As noted above, the Government has acted on the PTG’s advice to continue engagement with industry and professional bodies by establishing the “Resource Tax Implementation Group”.

This group comprises members of industry as well as from the tax profession and Government departments to ensure that industry and stakeholder views are taken into account in the drafting of the legislation.

The media release contained limited detail as to the precise scope of the activities of this group.





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