



# Petroleum Taxation.

## 19 MINERAL AND PETROLEUM EXCISE AND PRODUCTION & DEVELOPMENT TAXATION A GUIDE FOR INVESTORS

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### Onshore

Onshore and within coastal waters, royalties are levied on petroleum production and are collected by the States and the Northern Territory. The rate of royalty is normally set at about 10% of net wellhead value of the petroleum produced. Crude oil is subject to a Commonwealth excise, the first 30 million barrels is excise exempt and varying excise rates apply to annual production at different levels.

A profits-based resource rent royalty may replace crude oil excise and State royalty, if the producers and the State agree.

### Offshore

In addition to complying with income tax arrangements, petroleum production companies involved in projects in Australia's offshore areas beyond coastal waters are subject to resource taxation.

The Petroleum Resource Rent Tax (PRRT) applies to petroleum projects in Australia's offshore areas beyond coastal waters, with the exception of:

- › the North West Shelf (NWS) production licence areas and associated exploration permits to which petroleum royalties and crude oil excise apply; and

- › the Joint Petroleum Development Area (JPDA) which lies in the waters between Australia and East Timor which is subject to arrangements under Production Sharing Contracts (PSC).

The offshore taxation regimes aim to provide a fair and reasonable return to the Australian community from the development of these non-renewable resources, while at the same time providing an incentive for companies to explore and develop resources.

### Excise and Royalty

The rate of excise applicable in the NWS depends on the annual rate of production of crude oil, the date of discovery of the petroleum reservoir and the date on which production commenced. Royalties are levied at a rate of between 10% to 12.5% of net wellhead value of all petroleum produced, depending upon whether primary or secondary entitlement licences apply. Royalty rates of 10% and 12.5% of wellhead value generally apply for primary and secondary licences respectively.

Once the secondary entitlement licence is invoked, the rate of 12.5% applies to both the primary and secondary entitlements.

### PRRT

The key features of the PRRT are as follows:

- › PRRT applies in respect of profits from the recovery of all offshore petroleum production including crude oil, condensate, natural gas, LPG and ethane;
- › The tax is assessed on a project basis, where a project is considered as an integrated investment including onshore facilities and operations necessary to produce a marketable product, for example condensate, sales gas and liquid petroleum gas (LPG), but not liquid natural gas (LNG), which is categorised as a processed product;
- › PRRT applies at a rate of 40% of the net income of a project after project expenditure, exploration expenditure and transferable exploration expenditure from other PRRT liable areas have been deducted;
- › Certain undeducted exploration expenditures are transferable between projects. The company must have held an interest in both the transferring project and the receiving project in the year the expenditure was incurred, at the end of the transfer year and in the intervening period;
- › A rebate may be allowable for project closing-down costs, including environmental restoration of a project site;
- › PRRT payments are deductible for company tax purposes; and
- › Provisional instalments of PRRT are payable quarterly in the year of tax liability.

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In 2004, the Government introduced a taxation incentive to encourage petroleum exploration in Australia's remote offshore areas. The measure allows an immediate uplift to 150% on PRRT deductions for exploration expenditure incurred in designated offshore frontier areas. The 150% uplift applies to pre-appraisal exploration expenditure in the initial term of the exploration permit granted for a designated area, and applies to the annual offshore acreage releases for 2004 to 2009.

Uplifted expenditure retains access to the transferability and annual uplift provisions of the PRRT.

This 150% uplift measure is not illustrated in the PRRT-Calculation example shown on the following page.

**Table 5: Calculation Example**

	2001	2002	2003	2004
<b>Expenditure</b>	(\$m)	(\$m)	(\$m)	(\$m)
General	50	50	10	5
Project Exploration	50	50	20	10
Other Exploration	100	100	50	50
Assessable Receipts	0	100	400	600
Less general expenditure	50	108 <sup>(1)</sup>	19 <sup>(2)</sup>	5
Notional taxable profit (loss)	(50)	(8)	381	595
Less exploration expenditure <sup>(7)</sup>	–	–	381 <sup>(3)</sup>	199 <sup>(4)</sup>
Taxable Profit	–	–	0	396
PRRT @ 40%	–	–	–	158

(1)	2001 general expenditure \$50 + 15% augmentation	58
	2002 general expenditure \$50	50
	Notional deduction	108
	Less Receipts	100
	Unused 2002 general expenditure to be carried forward to 2003	8
(2)	2002 carried forward general expenditure \$8 + 15% augmentation	9
	2003 general expenditure \$10	10
		19
(3)	2001 exploration \$50 + 25% augmentation + 25% augmentation	78
	2002 exploration \$50 + 25% augmentation	63
	2003 exploration \$20	20
	2001 other exploration \$100 + 25% augmentation + 25% augmentation	156
	2002 other exploration \$100 + 25% augmentation	125
	Notional Deduction	442
	Less notional taxable profit	381
	Unused 2002 other exploration expenditure to be carried forward to 2004	61
(4)	2004 year exploration \$10	10
	2002 carried forward other exploration \$61 + 25% augmentation	76
	2003 other exploration \$50 + 25% augmentation	63
	2004 other exploration \$50	50
	Deduction	199

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### Further details of the PRRT are outlined in:

- › “Offshore Resource and Income Taxation”, a brief guide to taxation of offshore petroleum production released in January 1992; and
- › the Petroleum Resource Rent Tax Assessment Act 1987, (as amended) and associated Explanatory Memoranda and Second Reading Speeches or at the Department of Industry, Tourism and Resources website: [www.ret.gov.au](http://www.ret.gov.au).

### PRRT – Calculation Example

Table 5 illustrates a four year calculation of a project’s PRRT. It includes deductibility for other exploration expenditure which was incurred outside the project in PRRT-liable areas. Assuming a LTBR of 10%, the augmented bond rates for compounding are 25% for exploration expenditure and 15% for general expenditure.

The compounding rate for transferred exploration expenditures is determined by the date of application for the production licence of the receiving project. The augmented bond rate applies if the expenditures were incurred no more than five years before the year of application for the production licence. Expenditures incurred before that time are compounded at the GDP factor (in Table 5, all exploration expenditures qualify for compounding at the augmented bond rate).

In general, project expenditure is deductible before exploration expenditure and Augmented Bond Rate expenditure is deducted before GDP factor expenditure. Project specific exploration expenditure is deductible prior to any transferable exploration expenditure being deducted. The oldest expenditure in each category is always deducted first. It is mandatory to deduct all available exploration expenditure whenever a notional taxable project profit occurs.

