Petroleum Resource Rent Tax: Example of a Calculation

The following example is provided for illustrative purposes only. RET accepts no responsibility for decisions made based on the example and recommends that potential producers consult with qualified tax practitioners before making any investment decisions.

This example includes deductibility for exploration expenditure incurred outside the project in Petroleum Resource Rent Tax (PRRT) liable areas. A long term bond rate of **10 per cent** is assumed, giving deduction rates of 25 per cent for exploration expenditure and 15 per cent for general expenditure.

Table one shows how a project's PRRT is determined over four years.

Table 1: Petroleum Resource Rent Tax over 4 years:
Descriptions of Year 1, Year 2, Year 3 and Year 4 below.

Expenditure	Year 1 ($m)	Year 2 ($m)	Year 3 ($m)	Year 4 ($m)
General Expenditure	50	50	10	5
General Expenditure Carried Forward		58	9	
Total Deductible Eligible Expenditure	50	108	19	5
Exploration Expenditure	50	50	20	10
Exploration Expenditure Carried Forward		63	141	
Total Deductible Eligible Expenditure	50	113	161	10
Other Exploration	100	100	50	50
Other Exploration Carried Forward			281	139
Total Deductible Eligible Expenditure			331	189
Calculation				
Receipts		100	400	600
Less general expenditures (step a)	50	108	19	5
Notional taxable profit (loss)	(50)	(8)	381	595
Less exploration expenditure (step b)			161	10
Notional taxable profit (loss)			220	585
Less other eligible exploration expenditure (step c)			331	189
Notional taxable profit (loss)			(111)	396
Taxable receipts				396
PRRT @40%				159

A company is undertaking a petroleum project.

Year 1: company produces no assessable receipts. However, it incurs the following expenditures: $50 million in general expenditure and $50 million of project exploration. The company also spent $100 million exploring for petroleum in other areas. As the company produces no PRRT liable income outside this project, this amount is not deducted.

Year 2: the company produces petroleum and has $100 million of assessable receipts. General expenditure and exploration expenditure are each $50 million. The company also spent $100 million exploring in other areas. To determine whether the company pays any PRRT in Year 2, firstly general expenditures are deducted from the

assessable receipts. The undeducted general expenditure from Year 1 is augmented at the LTBR plus 5 percentage points (15 per cent in this example), to give $57.5 million. This amount is assumed to be incurred on the first day of Year 2. Subtracting this amount from the assessable receipts leaves $42.5 million of assessable receipts. This is less than the $50 million general expenditure in year two, and the remainder (7.5 million) is carried forward to year 3. All project exploration expenditure will also be carried forward.

In **Year 3** the company earns $400 million in assessable receipts. General Expenditure incurred in this year is $10 million and project exploration $20 million. Total augmented general expenditure ($10 million in this year, and 9 million carried forward) is less than the assessable receipts (step a). After general expenditures are deducted, $381 million dollars of assessable receipts remains. Total augmented project exploration expenditure of $160 million ($50 million x 1.252 + $50 million * 1.25 + $20 million) is less than the remaining assessable receipts (step b).

At this stage, if the company has no other exploration expenditure, the remaining amount would be liable for PRRT. However, the company undertook exploration in other areas in Year 1, 2 and 3, which have not been deducted against any other projects. Therefore, the company can deduct the augmented values of these other exploration expenditures. In Year 3, augmented other exploration totals $331 million ($100 million x 1.252 + $100 million * 1.25 + $50 million), which is more than the remaining receipts of $221 million. Therefore $111 million of other exploration expenditures remain undeducted (step c). The compounding rate for transferred exploration expenditures is determined by the date of the production licence of the receiving project. The oldest eligible expenditure is deducted first. **It is mandatory to deduct all available exploration expenditure whenever a taxable project profit occurs.**

In **Year 4** the company earns $600 million in assessable receipts. There are no augmented general expenditures, nor any augmented project exploration. After general expenditures and project exploration expenditures have been deducted (steps a and b), there remains $585 million of assessable receipts. The augmented other exploration amount ($111 million * 1.25), $139 million and the other exploration incurred in year 4, $50 million, are deducted from the remaining assessable receipts. After this, $396 million of assessable receipts remain. This is the income against which PRRT is assessed. PRRT liability is 40 per cent of these assessable receipts, or $158 million.