



Private & Confidential

Geoff Francis
Principal Adviser
Corporate and International Taxation Division
The Treasury
Langton Crescent
Parkes ACT 26002

17 January 2019

By email: prrt@treasury.gov.au

Dear Mr Francis

Petroleum Resource Rent Tax Reform

PricewaterhouseCoopers (**PwC**) welcomes the opportunity to make a submission to Treasury in relation to the Exposure Draft (**ED**) legislation and accompanying Explanatory Memorandum (**EM**) (*Treasury Laws Amendment (Petroleum Resource Rent Tax Reforms No. 1) Bill 2019*) released for comment on 14 December 2018.

PwC makes the following general submissions on the ED. All references are to ED, EM or the *Petroleum Resource Rent Tax Assessment Act 1997* (**PRRT Act**).

Submissions related to the uplift rates for carried-forward expenditure

Submission 1: Starting time for the 10 year uplift

The current drafting of the ED potentially limits the application of the 10-year uplift period to only 9 years on the basis that augmentation is not applied in the year that expenditure is actually incurred.

We submit that the wording in the ED and the EM be amended to reflect that the 10 years starts from the year after which expenditure is incurred.

Submissions related to removal of PRRT for onshore projects

Submission 2: Transferability of exploration expenditure incurred prior to 1 July 2019

The current drafting of the ED is unclear regarding the impact on the transferability of exploration expenditure incurred in relation to an onshore project prior to 1 July 2019 after that time.

One interpretation of the ED is that exploration expenditure incurred prior to 1 July 2019, that would otherwise meet the requirements for transfer, will no longer be transferable from 1 July 2019 due to the removal of the application of the PRRT regime for onshore projects at that date.

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

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Such an outcome could have a significant impact on taxpayers who have incurred onshore exploration expenditure and have operated under current rules that require such expenditure to be transferred where the requirements under the PRRT Act are satisfied. For example, taxpayers may have been required to recognise deferred tax assets in their financial statements in relation to such credits or have made investment decisions based on the transferability of such expenditure.

Maintaining the ability to transfer exploration expenditure already incurred is not inconsistent with the operation of the current regime, which operates to enable the retention of exploration deductions and transferability in the future even after the expiry of a permit.

We submit that further consideration be given to the potential impact of such an interpretation and that alternatives be considered such that this retrospective application of the ED is limited – for example, a transitional approach to phase out the transferability of such costs over time.

Submission 3: Starting base implications for NWS participants

Schedule 2 of the PRRT Act, which relates to determining the starting base amounts for projects transitioning to the PRRT regime from 1 July 2012, is being repealed as a consequence of the removal of the application of PRRT for onshore projects.

We consider this may have an unintended impact on the North West Shelf (**NWS**) project participants in relation to exploration permits and retention leases held at the transition time.

Specifically, the repeal of Schedule 2 causes uncertainty as to the status of starting base amounts for such interests, which have not yet been included as part of starting base expenditure under section 35E(1A) of the PRRT Act.

These amounts should continue to be eligible to be included in starting base expenditure for the combined NWS project in the financial year a production licence is granted in relation to the relevant interest. Further clarification in the legislation and / or EM is required to reflect this outcome.

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We would be happy to discuss any of our submission points with you further. If you have any questions please contact me on (07) 3257 6026.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J O'Hare', written in a cursive style.

Janelle O'Hare
Partner