

Australia is missing out on tax revenue from gas projects

Written by The Conversation

Despite huge investment from the liquefied natural gas (LNG) industry, the revenue generated by taxing gas is falling. This is in part because of lower gas prices but it's also due to the complexity of the tax system, where only eight projects are actually paying the petroleum resource rent tax.

The value of gas projects in Australia sits at around [A\\$200 billion dollars](#) . Out of the operating and planned LNG projects in Australia, the largest natural gas to LNG projects are offshore in the west and the north. All the coal seam gas to LNG projects are onshore in the east.

The petroleum resource rent tax is a profits-based tax, levied over a specified threshold, and generated from the sale of petroleum commodities such as natural gas and oil, but excludes LNG.

It replaced Commonwealth royalties for all petroleum resources in Commonwealth waters, except for the North West Shelf project. From 2012 it was [extended to include](#) all onshore and offshore oil and gas projects, including the North West Shelf and coal seam gas (CSG) projects.

Royalty revenues are higher because the calculation is a straightforward 10-12% of the gas value at the well-head. Royalties are not technically a tax, but rather the price paid for the stock of mineral resource by business.

Currently the businesses operating the huge WA offshore LNG projects, such as Gorgon and Pluto, do not pay for petroleum resources via a royalty, and it seems unlikely that a petroleum resource rent tax will be paid in the near future.

How gas projects are taxed

All business profits (taxable income), including those from LNG projects in Australia, are subject to company taxation. However petroleum (oil and gas) is also subject to resource taxes, which vary depending on whether the resource is located in fields onshore or offshore. The accepted justification for the additional resource tax is that extraction can only occur once.

Australia is missing out on tax revenue from gas projects

Written by The Conversation

The petroleum resource rent tax was introduced in 1987. There are various ways in which resource taxes are applied. As a result, only petroleum projects offshore in the west (and some in the north) of Australia are subject to the petroleum resource rent tax. Examples include Chevron's Gorgon and Wheatstone projects, and Inpex's Ichthys project.

Coal seam gas projects in the east are subject to both royalties and the petroleum resource rent tax.

How much does the government collect?

The Commonwealth collected \$1.2 billion in petroleum resource rent tax in 2014-15, but the 2016-17 budget [forecast shows a decrease](#) to \$800 million per annum from 2015 until 2020.

By contrast Australian Tax Office statistics below show that \$6 billion was collected in royalties in 2014-15. However only the North West Shelf and the Darwin LNG projects pay Commonwealth royalties and these (in addition to state royalties) are deductions from the petroleum resource rent tax.

The low petroleum resource rent tax collection suggests there are marginal benefits from the current LNG boom for the wider community, as Commonwealth taxes are collected and redistributed Australia-wide. However the Queensland state royalties collected from coal seam gas projects are only distributed within the state.

The Australian Tax Office statistics below reveal that in 2014-15, out of 149 returns, only eight "profitable projects" are currently paying petroleum resource rent tax. It's not likely this will improve in the future due generous tax concessions.

For example, expenditure that is in excess of sales (assessable) receipts, can be carried over year by year, plus interest. The table below depicts sales receipts of more than \$25 billion in 2014-15, but only \$1.2 billion was paid in petroleum resource rent tax.

What role does transfer pricing play?

Australia is missing out on tax revenue from gas projects

Written by The Conversation

The gas price plays a vital role in assessing a business's liability for petroleum resource rent tax. This is because gas value, minus expenditure, is subject to the petroleum resource rent tax. As there is no Australia-wide market hub for gas that can help determine a fair price, a "transfer price" needs to be calculated for the cost of gas that is used to make LNG.

Transfer pricing in the petroleum resource rent tax is covered by regulations that include a general [gas transfer price methodology](#). This is used to calculate the transfer price of gas, but the various interpretations by business of the method [are seen as contentious](#)

. The fairness of the regulation process should be debated more openly, as it's currently debated only among companies, tax advisers and the Australian Tax Office.

Chevron (a major oil and gas company) failed to defend its profit-shifting, which minimises company tax, in the Australian courts. The loss has sent a message to industry about [observing the intent of tax laws](#)

Surely this lack of revenue from the petroleum resource rent tax raises a few questions for the government? There has been recent commentary about a [resource rent tax versus a royalty](#). It's time for a review of the taxing of LNG projects.

Diane Kraal does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

Read more <http://theconversation.com/australia-is-missing-out-on-tax-revenue-from-gas-projects-62899>