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# A stronger PRRT cap

## A fairer way to tax gas super profits

*Even though Australia needs to transition to a net zero emissions economy as a matter of urgency, the tax system continues to encourage fossil fuel investment. Current Commonwealth Government attempts to reform the Petroleum Resources Rent Tax (PRRT), do little to address structural problems that allow the gas industry to pay little tax relative to large profits. The Australia Institute proposes a stricter cap on PRRT deductions that would better deliver for all Australians.*

Discussion paper

**Greg Jericho**

**May 2024**

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# Contents


Summary .... 4

Introduction .... 6

Current operation of the PRRT and the government's proposed change .... 10

The Government's Three Proposed Changes .... 13

The Government's current proposal .... 14

Two stricter PRRT caps .... 16

An 80% deduction cap .... 16

A 60% deduction cap .... 17

A Real Windfall Profits Tax .... 19

Potential uses of additional PRRT revenue .... 20

Conclusion .... 22

# Summary

In this paper we propose reforms that could improve the Petroleum Resources Rent Tax (PRRT). Currently the government is proposing a deduction cap limited to 90% of assessable PRRT income. The deduction cap is far too small to make a material difference to PRRT revenue over the long term. We propose instead two stricter caps of either 80% or 60%.

While a stricter cap of either 80% or 60% is preferred to the government's current proposal, it remains a least-best solution. We propose the Commonwealth Government tax also investigate introducing a true windfall profits tax. Such a tax would raise much greater revenue but would still be a modest return relative to large industry profits and revenue.

**Table 1. Revenue estimate for versions of the PRRT**

| | Current PRRT | 90% Cap (Govt proposal) | 80% cap | 60% cap |
|---|---|---|---|---|
| 2023-24 | $2.25bn | $2.75bn | $3.26bn | $4.25bn |
| 2024-25 | $2.10bn | $2.70bn | $3.25bn | $4.30bn |
| 2025-26 | $2.05bn | $2.85bn | $3.68bn | $5.35bn |
| 2026-27 | $2.00bn | $2.50bn | $3.23bn | $4.70bn |
| Total | $8.40bn | $10.80bn | $13.42bn | $18.60bn |
| **Increase compared with current** | **NA** | **$2.40bn** | **$5.02bn** | **$10.20bn** |
| **Annual increase** | **NA** | **$0.60bn** | **$1.26bn** | **$2.55bn** |
| **Increase compared with 90% cap** | **NA** | **NA** | **$2.62bn** | **$7.80bn** |
| **Annual increase** | **NA** | **NA** | **$0.66bn** | **$1.95bn** |

Source: 2023-24 Budget Papers, PBO, The Australia Institute

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Given the level of revenue that is estimated to be raised over the next 3 years, had the 60% cap been in place since 2016-17 it would have raised some $10.8bn more than was raised by the PRRT.

At a time when Australia is suffering from shortages in education, health and care sectors the extra revenue could fund the employment of up to 17,290 extra primary and secondary school teachers, 16,270 health care workers, 12,920 workers in residential care or 10,412 extra lecturers at university or technical and further educations colleges. Given the gas industry's role in producing greenhouse gas emissions the extra revenue could also be used to invest in renewable energy projects, including the re-training of workers from the fossil fuel industry as Australia moves to a net zero-economy.

The choices for the government and the parliaments are clear: they can either once again relinquish the opportunity to ensure gas companies pay a fair return on their profits, or they can create a better PRRT that truly captures windfall profits and delivers for all Australians.

# Introduction

The Petroleum Resource Rent Tax (PRRT) is a tax on super-profits, sometimes called "resource rents", made by foreign and domestically owned oil and gas companies operating in Australia. These are profits well above the returns that could ordinarily be expected and result from global price increases rather than any change in productivity by the companies themselves.

The PRRT was originally intended to achieve a 'fair return' to the community for the operation of oil and gas companies by working to "encourage the exploration and production of petroleum while ensuring an adequate return to the community for the development of its petroleum deposits".[1] Clearly, the current operation of the PRRT over-delivers on the first of these aims while under-delivering on the second.

The amount of tax raised by the PRRT is widely regarded as insufficient. Many oil and gas producers are able to avoid paying it altogether, due to the complex design of the PRRT system.

In 2016, the then Treasurer Scott Morrison established a review into the operation of the Petroleum Resources Rent Tax (PRRT) in response to community concerns that Australians were not receiving a fair share of the excess profits from the booming LNG (liquified natural gas) industry that had occurred with the opening of the Gladstone terminal and the projects on the WA North West shelf.[2]

The former government failed to make any changes to the operation of the PRRT, although it did remove onshore projects from the PRRT regime such as the Gladstone Australian Pacific LNG, Cooper Basin Gladstone LNG Project, and Queensland Curtis LNG Project. Thus, Australians missed out on gaining a fair share of the ongoing boom of profits in the LNG sector.[3]

The failure to make any change also meant Australians missed out on receiving a fair share of the windfall gains that occurred due to the Russian invasion of Ukraine which saw the price of gas more than double.[4] The gas industry had done nothing to reap the benefits of those gains, and indeed were profiteering from a war.

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[1] ANAO (2009) *Administration of the Petroleum Resource Rent Tax*, https://www.anao.gov.au/work/performance-audit/administration-the-petroleum-resource-rent-tax.

[2] Treasury (2017) *Petroleum Resource Rent Tax Review*, https://treasury.gov.au/sites/default/files/2019-03/R2016-001_PRRT_final_report.pdf.

[3] Treasury (2023) *Petroleum Resource Rent Tax: Review of Gas Transfer Pricing Arrangements*, https://treasury.gov.au/sites/default/files/2023-05/p2023-388153.pdf

[4] Ogge (2022) *War gains: LNG Windfall Profits 2022*, https://australiainstitute.org.au/report/war-gains-lng-windfall-profits-2022/.

The need to reform the PRRT is especially crucial as combined with the lack of a PRRT on these major onshore projects, most LNG projects in Western Australia pay no royalties at all. No royalty is paid on the LNG exported by Chevron's Gorgon LNG or Wheatstone LNG projects, Woodside's Pluto LNG or Shell's Prelude LNG. No royalties are paid by most projects because they are located offshore, placing them under Commonwealth jurisdiction, and the Commonwealth Government has chosen not to impose royalties on these projects. As a result, a weak PRRT regime means the Australian public is denied a fair return either through the more traditional royalty regime (as occurs with other mining operations such as iron ore or coal), or through the PRRT regime.

In the 2023-24 Budget, Treasurer, Jim Chalmers announced that the government was changing the PRRT to limit the "proportion of petroleum resource rent tax assessable income that can be offset to a maximum deduction of 90 per cent".[5] These changes were expected to raise an extra $2.4bn over the forward estimates. This announcement came after consultation with the gas companies in which Treasury presented three proposed changes, of which the 90% cap was the least favoured by Treasury.[6] It was, however, the one most favoured by the gas industry. On the day the Treasurer announced the changes, despite notionally increasing the amount of the PRRT to be raised over the next four years by 30%, the peak gas industry body announced that there should be bipartisan support for the changes suggesting that the changes would have minimal material effect.[7]

By the December 2023 Mid-year Economic and Fiscal Outlook the extra $2.4bn in revenue expected to be raised was revised down to zero due to changes in labour and other costs despite Treasury now projecting higher oil prices than in the May Budget.[8] To be clear, according to Treasury, even though the oil price has risen since the changes were announced, the new regime will collect no new extra revenue.

On the surface these changes are to be welcomed, however, they do not go far enough to ensure that the gas industry pays a fair share of tax given the large profits it is generating The notional $2.4 billion of extra revenue needs to be considered in the context of overall profits from oil and gas production. According to the Australian Tax Office (ATO), over the past five years assessable petroleum revenue has averaged $34 billion per year and PRRT

[5] Jones (2023), *Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023*, Second Reading Speech, https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F27181%2F0053%22.

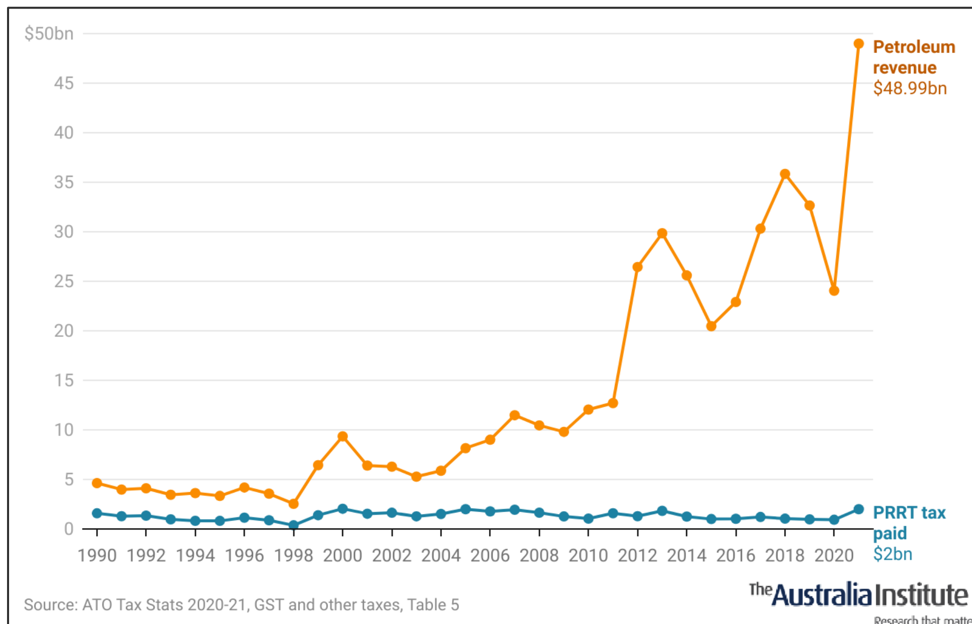
[6] Parliament of Australia (2023), *Order of 15 June 2023 (246) relating to petroleum resource rent tax - Review of gas transfer pricing*. https://www.aph.gov.au/Parliamentary_Business/Tabled_Documents/2849

[7] AEP (2023) *Media Release: APPEA statement on changes to the Petroleum Resource Rent Tax (PRRT)* https://energyproducers.au/all_news/media-release-appea-statement-on-changes-to-the-petroleum-resource-rent-tax-prrt/

[8] Treasury (2023), *2023-24 Mid-Year Economic and Fiscal Outlook* https://budget.gov.au/content/myefo/

revenue $1.2 billion a year, representing just 3.6% of petroleum revenue, as shown in Figure 1 below: [9]

### Figure 1. Growth in assessable petroleum revenue vs PRRT revenue

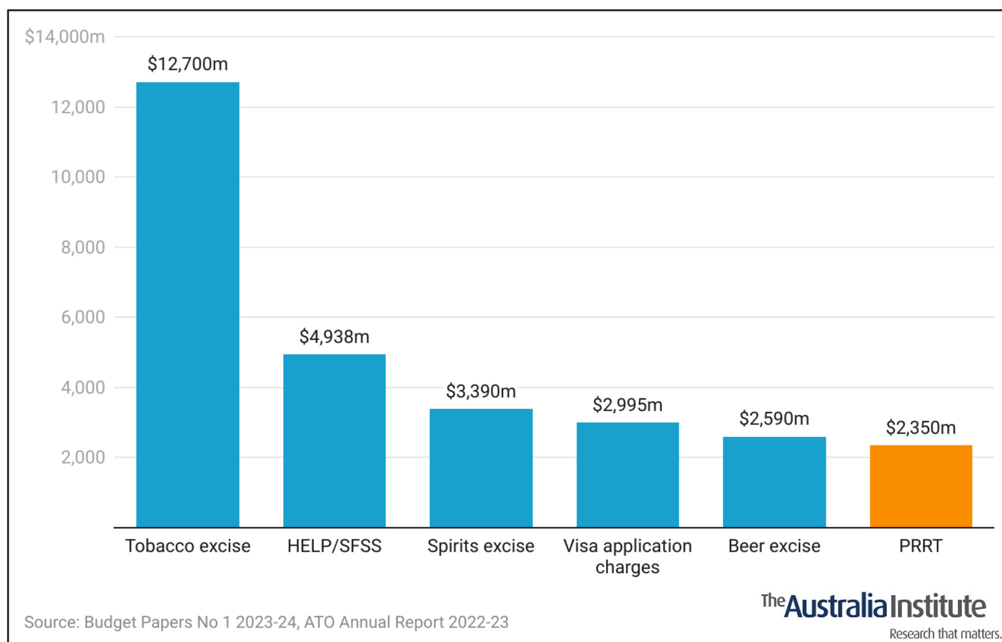



The poor performance of the PRRT shown in Figure 1 is even worse when considered in real terms. Adjusting for inflation, real PRRT revenue has fallen from $3.4 billion in 1990-91 to $2 billion in 2021-22, while real assessable petroleum revenues have grown from $9.9 billion to $49 billion a year.

While the PRRT has the potential to be a major revenue source for the Commonwealth Government, the current arrangements mean that it collects less revenue than tobacco or beer excises, or even that paid in HELP/SFSS debts as shown in Figure 2 below:

[9] ATO (2023) *Taxation statistics 2020-21 - GST and other tax statistics,* https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2020-21

**Figure 2. Commonwealth Government revenue from various taxes, 2022-23**




While the discussion of PRRT is often focussed on the necessity of encouraging the exploration and production of petroleum, the government must also recognise that more exploration and extraction of gas is not consistent with action on climate change that accords with the science. The taxation of the gas industry should both provide a fair return on the profits being generated, but also account for the damage fossil fuel emissions are doing to the planet and which create significant costs to Australia's economy. If the Australian Government is serious about limiting dangerous climate change, then it should not support a tax structure designed to encourage more mining of fossil fuels but rather should ensure those companies shoulder a requisite share of the costs of transitions to a zero emissions economy.

Moreover, a true super-profits or windfall profits tax would not affect investment decisions. As Novel Prize winning economist, Jospeh Stiglitz said in 2022 when discussing the prospect of a super profits tax on Australian gas companies, "a super-profits tax would not lead to less investment in gas, that's the almost certain outcome. It would transfer money from the foreign owners of the gas to Australians, making Australia richer".[10]

This paper proposes a range of different ways to operate the PRRT that would both provide a fairer return to Australians and end the gift of windfall profits to gas companies who have gamed the PRRT while producing fossil fuels for too long.

[10] Denniss (2022), "Joseph Stiglitz on how to make Australia richer", *The Saturday Paper*, https://www.thesaturdaypaper.com.au/news/politics/2022/07/23/joseph-stiglitz-how-make-australia-richer?cspt=1660195748|fbcba60a3cbf043fed56781c91059d42

# Current operation of the PRRT and the government's proposed change

Currently the PRRT operates by levying a 40% tax on the taxable profits derived from the petroleum project. The ATO defines this "taxable profit" as the excess of assessable receipts over the deductible expenditure and transferred exploration expenditure. The PRRT applies only to the petroleum and gas sector and applies at the project level. That boosts the total tax take on super profits (or economic rents) to 58%.[11]

Unlike the company tax, all capital spending and other expenses are deducted, and any un-deducted capital spending can be carried forward into the next period often with an escalation (or uplift) factor which compounds capital deductions if they are carried forward from year to year. The applicable uplift factors are discussed below. So, by the time any PRRT may be payable, the capital cost deductions can be compounded forward to many times their original value. Only when the cumulative revenue has exceeded both the operating expenses and the compounded capital outlays is there deemed to be a taxable economic rent.

The critical issue is that, under present arrangements, no taxable economic rent exists until profit exceeds compounded capital outlays. This of course works against taxing rents early in the life of a project, and instead commonly sees PRRT applied at the precise point at which deductions are much higher than revenue so that super profits are unlikely to be taxed. [12]

The PRRT was also originally designed to apply for oil extraction – most notably in Bass Strait – but these days principally applies to offshore gas fields for gas which is converted into LNG. Importantly, however, the PRRT is levied on the extraction stage, and not on the point at which LNG is sold. Because many companies that extract the gas also are the ones who convert it into LNG, a "gas transfer price" (GTP) needs to be set to calculate the "price" of the gas when it is liquified into LNG.

Currently a method known as the "Residual Pricing Method" (RPM) is used. As Treasury noted in its briefings to gas companies, "the RPM allocates part of the price received for LNG to the upstream (PRRT project) and part to the downstream (liquefaction plant). A return on capital and allowance for operating costs is then provided to the upstream and

[11] That includes the 40% PRRT itself plus the company tax on the remaining profit being 18% (30% by 60% of the remaining profit).

[12] Richardson (2022), *Reforming the Petroleum Resource Rent Tax: A proposal to change its structure*, https://australiainstitute.org.au/report/reforming-the-petroleum-resource-rent-tax/

downstream. If there is any residual value, this is typically allocated equally between the two sides".[13] This essentially halves the value of rent that is to be taxed.

The Treasury analysis found that that the RPM was not an "an internationally recognised transfer pricing method" and that it operates under a "particularly unrealistic" assumption that "the upstream part of the business bears all of the project losses in the event of low LNG prices but receives only half of the upside profits when LNG prices are high".[14]

The PRRT currently fails to deliver appropriate levels of tax to Australia because it was designed to tax oil not gas and thus it precludes economic rents of downstream (and most profitable) components of the LNG business, involves a transfer pricing measure that is not internationally recognised and has a taxing point at which companies are best able to use capital costs to reduce their taxable income.

That the PRRT has failed to adjust to the changing nature of the petroleum industry in Australia from oil to gas and LNG is evident from the complete split of revenue and production and PRRT and company tax revenue in the gas industry since the opening of the Gladstone terminal.

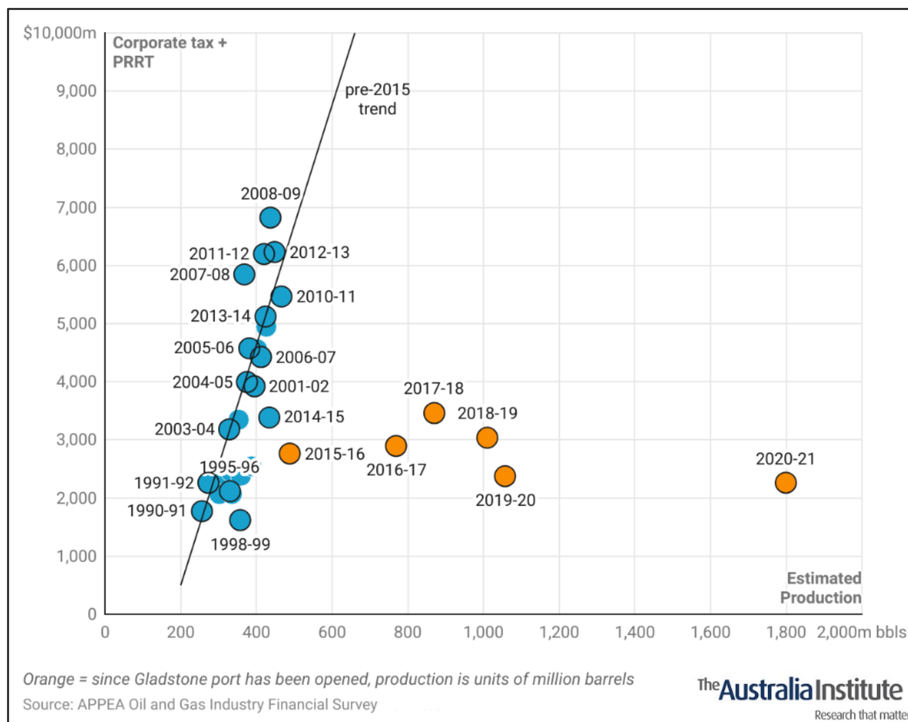
Prior to the opening of the Gladstone port and the subsequent increase in LNG production that also occurred with the beginning of the Ichthys LNG project in July 2018 and the shipping of the first LNG cargo from the Prelude floating LNG facility in 2019 there was a strong correlation between both the level gas industry corporate tax revenue and PRRT and both production and industry revenue (see Figures 3 and 4).[15]

[13] Richardson (2022), *Reforming the Petroleum Resource Rent Tax: A proposal to change its structure*

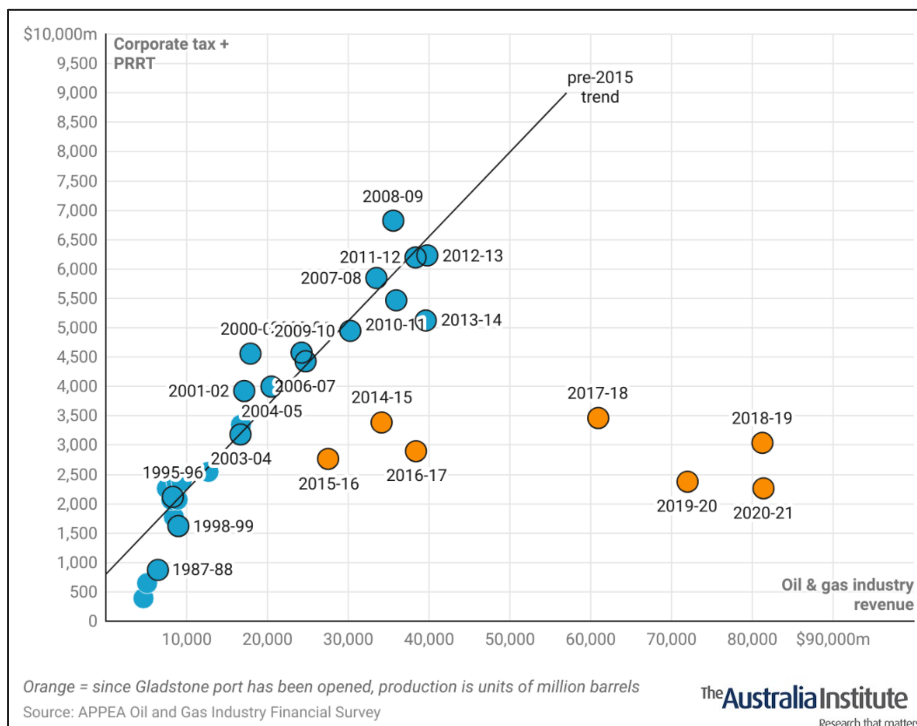
[14] Richardson (2022), *Reforming the Petroleum Resource Rent Tax: A proposal to change its structure*

[15] Shell (2019), "*First LNG Cargo shipped from Prelude FLNG*" Media Release, https://www.shell.com/news-and-insights/newsroom/news-and-media-releases/2019/first-lng-cargo-shipped-from-prelude-flng.html

## Figure 3. Oil and gas industry production, company tax & PRRT: 1990-2021



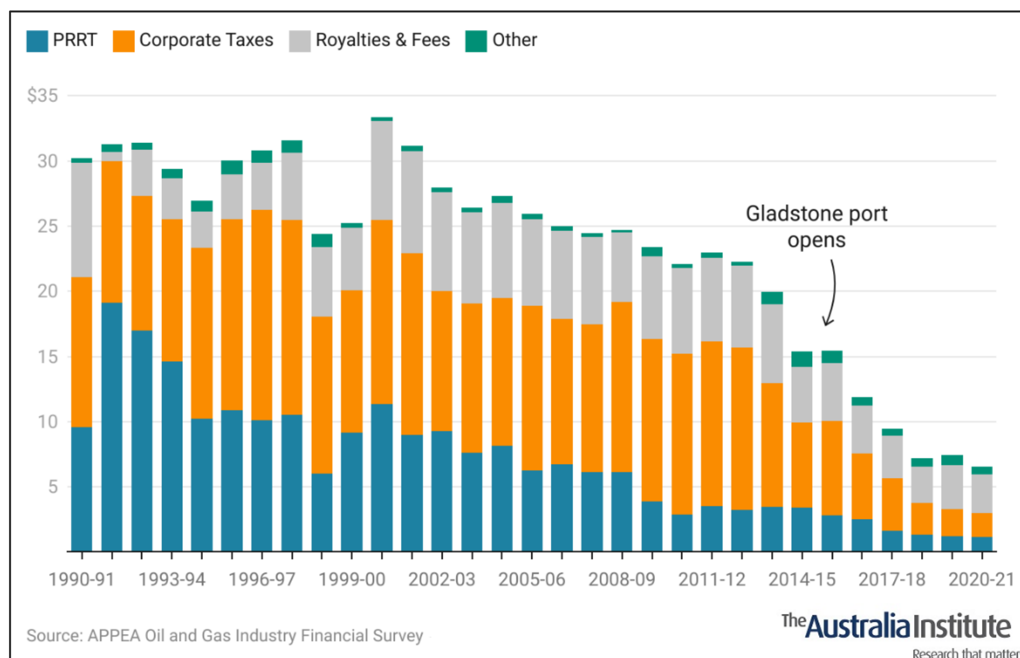

## Figure 4. Oil and gas industry revenue, company tax & PRRT: 1987-2021




The argument that the exclusion of onshore LNG projects from the PRRT is covered by their inclusion in royalty regimes of various states (notably Queensland) is not borne out by the overall level of corporate taxation, PRRT and royalties paid by the gas industry. The total level of taxes and fees has declined as a share of revenue so greatly that, as Figure 5 shows,

while before the opening of the Gladstone port the gas industry would routinely pay over $25 in tax and royalties per $100 of industry revenue, now it is just above $5.

**Figure 5. Taxes and fees paid by the oil and gas industry per $100 of revenue**




## THE GOVERNMENT'S THREE PROPOSED CHANGES

The Treasury review, and subsequent documents tabled to the Senate, showed that Treasury proposed three policy change options:[16]

- The first of these changes amounted to a restructuring of the PRRT to directly address the undervaluing of the gas in the transfer pricing process. This was Treasury's preferred option and involved a netback only pricing method.
- The second option retained the RPM but modified the profit split between upstream and downstream to allow for a notional return to the downstream. Treasury has not provided an estimate for revenue under either of these two measures.
- A third option, which was presented to gas company representatives, proposed capping the deduction to "80-90 per cent" of assessable PRRT income. Crucially Treasury noted in its presentations to gas company representatives that this proposal was "separate to the GTP Review and has not been endorsed by Government".

[16] Parliament of Australia (2023), *Order of 15 June 2023 (246) relating to petroleum resource rent tax - Review of gas transfer pricing,* https://www.aph.gov.au/Parliamentary_Business/Tabled_Documents/2849

# THE GOVERNMENT'S CURRENT PROPOSAL

After consultation with oil and gas companies, the Commonwealth Government chose a 90% cap on allowable deductions.[17] However, the large up-front costs of LNG facilities and the generous treatment of these costs within the PRRT system mean that most LNG companies have banked PRRT deductions that can cover all relevant revenue in any given year. In the 2023-24 Budget, Treasury estimated that the changes would increase PRRT receipts by $2.4 billion over the 5 years from 2022-23. Based on the Budget estimates this would constitute a nearly 30% increase in PRRT raised over that period. Such an increase, were it a true reflection of ongoing increased taxation of the gas industry, would have been expected to be met with loud criticism from the industry.

In reality, the changes are so mild that this became the preferred option of the gas industry, and lobby group Australian Energy Producers (AEP) called for immediate "bipartisan support".[18] It is clear that the proposed changes to the PRRT will make no material difference to the level of revenue that is raised. This is why the Treasurer and other members of the government are careful to note that the changes proposed in this legislation would only lead to "fairer" or "bigger" returns "sooner". The changes would not raise the quantum of PRRT revenue, merely lead to a shift of the timing of when the tax would be paid, from later to sooner.

The Budget papers reveal that even the relatively small gains from the changes to the PRRT are unlikely to be realised. Just seven months after the 2023-24 Budget forecast, all of these gains were wiped out by the 2023-24 mid-year economic and fiscal outlook (MYEFO).[19] The MYEFO noted that "petroleum resource rent tax receipts have been revised down by $0.8 billion in 2023–24 and $2.4 billion over the four years to 2026–27".[20] Figure 7 shows that the changes in estimated revenue from the introduction of the 90% cap are so trivial that total revenue from the PRRT over the 3 years from 2023-24 to 2025-26 is lower in the 2023-24 MYEFO than was estimated in the 2022-23 October Budget prior to the cap being proposed.

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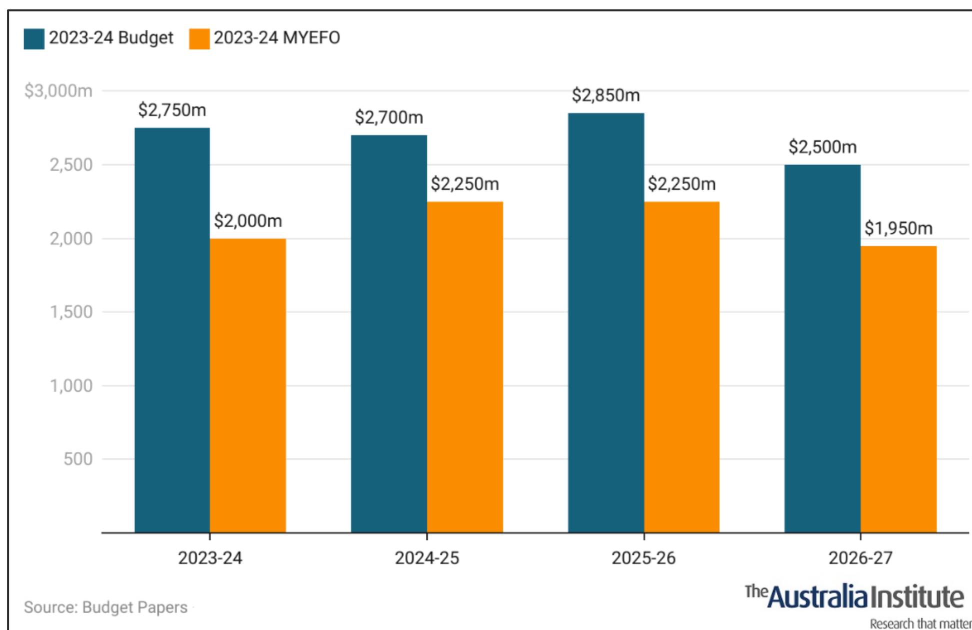
[17] Wright (2023) Greens say Chalmers chose 'watered-down' gas super-profits tax, *Sydney Morning Herald,* https://www.smh.com.au/politics/federal/greens-say-chalmers-chose-watered-down-gas-super-profits-tax-20230730-p5dsdx.html

[18] AEP (2023) *Media Release: APPEA statement on changes to the Petroleum Resource Rent Tax (PRRT)* https://energyproducers.au/all_news/media-release-appea-statement-on-changes-to-the-petroleum-resource-rent-tax-prrt/.

[19] Treasury (2023) 2023-24 Budget Paper Number 2. https://budget.gov.au/content/bp2/index.htm

[20] Treasury (2023) *Midyear Economic and Fiscal Outlook 2023-24* "Part 3: Fiscal Strategy and Outlook" https://budget.gov.au/content/myefo/download/myefo2023–24.pdf

**Figure 6. Budget estimates of PRRT revenue**




It is little wonder the oil and gas industry are supportive of the proposed changes to the PRRT given any increases in tax can disappear with parameter changes, even while the 2023-24 MYEFO estimates "higher Australian dollar oil prices compared to the 2023–24 Budget". Clearly changes to the PRRT which do not actually result in more revenue even when the estimates for gas prices increase are not adequate for Australia's needs.

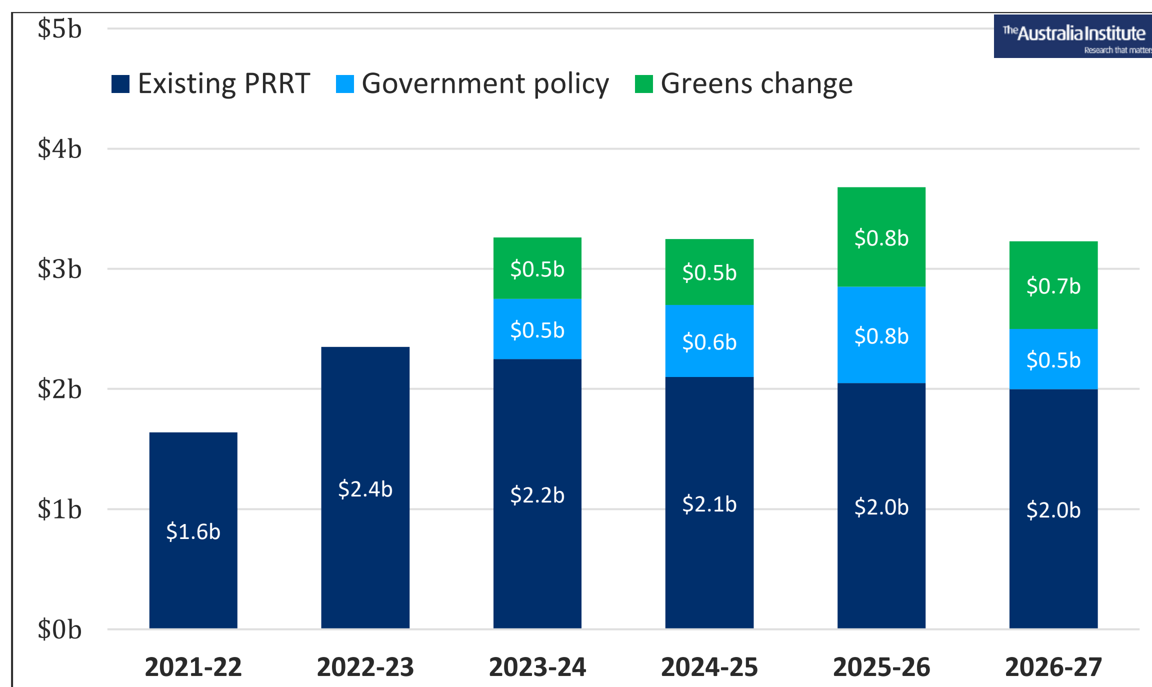
# Two stricter PRRT caps

## AN 80% DEDUCTION CAP

The government's decision to set a 90% cap was not only the weakest of the three options proposed by Treasury in its briefings to gas companies, but it was also the weakest version of the cap proposed. Treasury suggested a cap of 80%-90%. There is no economic basis for only choosing a 90% cap.

In 2023 the Greens proposed an 80% cap. Parliamentary Budget Office (PBO) analysis of the Greens proposal to cap allowable PRRT deductions at 80% of revenue suggests that it would generate $2.62 billion over the period 2023-24 to 2026-27, or an additional $654 million a year on average.[21] This would roughly double the impact of the 90% proposal. Figure 8 shows the proposed 80% and 90% increases on top of PRRT revenue forecasts under the current system.

**Figure 7. Current PRRT revenue forecast with 90% and 80% deduction caps**




Source: Analysis of Treasury (2023) 2023-24 Budget Paper Number 2 and Parliamentary Budget Office (2023), Lowering the PRRT deductions cap

As Figure 8 shows, the 80% deduction cap would generate a further modest increase to PRRT revenue, roughly doubling the impact of the 90% policy. An 80% deduction cap would

[21] Parliamentary Budget Office (2023), *Lowering the PRRT deductions cap* https://www.pbo.gov.au/publications-and-data/publications/costings/lowering-prrt-deductions-cap

increase PRRT revenue by 60% each year. In real terms, the 80% deduction cap would ensure that PRRT revenues increase slightly, from $2.35 billion in 2022-23 to $2.90 billion in 2026-27 in 2022-23 dollars.

## A 60% DEDUCTION CAP

While Treasury did propose a cap of up to 80%, there is no reason to be timid regarding imposing a deductions cap on a sector that has long used the PRRT regime to game the system. They have already benefitted over many years – not the least in the past decade – from the current ineffective and insufficient PRRT.

Lowering the cap on deductions even further would deliver greater revenue increases. Basic calculations are made in Table 2 below, assuming a linear relationship between the cap and the revenue gained.

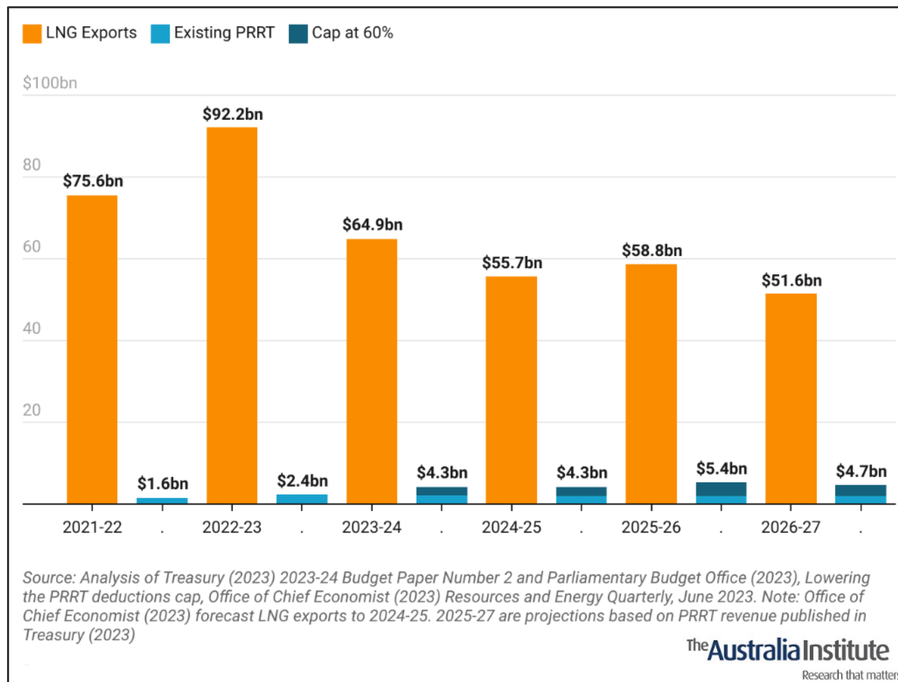
**Table 2. Estimated PRRT revenue by annual deductions cap, $ billion**

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|
| **90% cap (government's proposal)** | $0.5 | $0.6 | $0.8 | $0.5 |
| **80% cap** | $1.0 | $1.1 | $1.6 | $1.2 |
| **70% cap*** | $1.5 | $1.7 | $2.5 | $2.0 |
| **60% cap*** | $2.0 | $2.2 | $3.3 | $2.7 |

Note: * Source: Analysis of Treasury (2023) 2023-24 Budget Paper Number 2 and Parliamentary Budget Office (2023), Lowering the PRRT deductions cap

Table 2 shows that even with the deductions cap lowered to 60% the overall PRRT revenue increase remains below $3 billion per year. This is a very small sum compared to projected LNG exports earnings. Figure 9 shows that even with a 60% cap on allowable PRRT deductions, PRRT revenues remain modest compared with forecast revenues. A 60% cap would raise an estimated $7.8m more in revenue than the 90% cap is currently predicted to raise from 2023-24 to 2026-27.

## Figure 8. Deduction cap at 60% vs value of LNG exports




*Source: Analysis of Treasury (2023) 2023-24 Budget Paper Number 2 and Parliamentary Budget Office (2023), Lowering the PRRT deductions cap, Office of Chief Economist (2023) Resources and Energy Quarterly, June 2023. Note: Office of Chief Economist (2023) forecast LNG exports to 2024-25. 2025-27 are projections based on PRRT revenue published in Treasury (2023)*

# A Real Windfall Profits Tax

Changes to the PRRT deduction caps however continue to provide the opportunity for oil and gas industry accountants to game the system and run rings around the government. The government proposed 90% cap, for example, would not ensure that any future windfall gains, such as those produced due to the Russian invasion of Ukraine, are realised in appropriate returns in government revenue. Instead, we propose the Australian Government should reform the PRRT so that it is a true windfall profits tax wherein exceeding a threshold on the rate of return on the funds employed would trigger liability.[22]

Following the Russian invasion of Ukraine in 2022, hydrocarbon prices increased as shown by Australian export prices which increased from $885/tonne in the December 2022 quarter and peaked at $1,291/tonne in the Dec 2023 quarter. A true windfall profits tax would have captured profits made during these times. Under existing arrangements, where a mine is quickly developed to take advantage of high commodity prices with significant profits in the first couple of years of production, there is a very good chance it will never have a PRRT liability. Thus, it is crucial that any true windfall profits tax can capture large economic rents whenever they occur in the cycle of the project.

An important feature of the PRRT is that it should not affect behaviour of those investing in mining projects. That means, in principle, the PRRT can be set at high levels without affecting how the mining industry operates. The Australian Government could consider going higher, perhaps up to the 90% effective tax that has applied in Norway. However, a tax that truly captured windfall profits at a rate of 40%, consistent with the current PRRT rate, would be preferable to the current regime.

[22] Richardson (2022) "*Reforming the Petroleum Resource Rent Tax*" https://australiainstitute.org.au/report/reforming-the-petroleum-resource-rent-tax-

# Potential uses of additional PRRT revenue

Each of the adaptations of the PRRT cap presented here would produce a significant increase in revenue compared to the existing PRRT. A 60% cap would produce significantly more revenue than would the government's proposed 90% cap. The changes in revenue under the proposed arrangements are in Table 5.

**Table 3. Estimates of PRRT revenue**

| | Current PRRT | 90% Cap (Govt proposal) | 80% cap | 60% cap |
|---|---|---|---|---|
| 2023-24 | $2.25bn | $2.75bn | $3.26bn | $4.25bn |
| 2024-25 | $2.10bn | $2.70bn | $3.25bn | $4.30bn |
| 2025-26 | $2.05bn | $2.85bn | $3.68bn | $5.35bn |
| 2026-27 | $2.00bn | $2.50bn | $3.23bn | $4.70bn |
| Total | $8.40bn | $10.80bn | $13.42bn | $18.60bn |
| **Increase compared with current** | **NA** | **$2.40bn** | **$5.02bn** | **$10.20bn** |
| **Annual increase** | **NA** | **$0.60bn** | **$1.26bn** | **$2.55bn** |
| **Increase compared with 90% cap** | **NA** | **NA** | **$2.62bn** | **$7.80bn** |
| **Annual increase** | **NA** | **NA** | **$0.66bn** | **$1.95bn** |

Source: 2023-24 Budget Papers, PBO, The Australia Institute

The Australia Institute
Research that matters.

Source: Current PRRT and 90% cap derived from Treasury (2023) and PBO (2023) 80% and 60% cap estimates based on pro-rating revenue impacts from PBO (2023) and Treasury (2023b). Windfall profits tax based on authors' calculations.

While modest in the context of industry revenue, the additional revenue raised by lowering the deduction cap on the PRRT to 80% or 60% could be used for a range of purposes to improve social and environmental outcomes. As shown in Table 6, analysis of the ABS Input-Output tables suggests that an extra $1.26bn year directed to *primary and secondary*

*education* could employ an extra 8,543 staff.[23] The same expenditure could employ an extra 6,384 workers in the *residential and aged care* sector, or 8,039 workers in the *health care services* industry.

**Table 4. Full-time equivalent staff able to be employed from increase revenue in PRRT relative to the current PRRT regime.**

| Sector | 80% cap ▲ | 60% cap |
|---|---|---|
| Technical, vocational & tertiary education services | 5,145 | 10,412 |
| Residential care and social assistance services | 6,384 | 12,920 |
| Health care services | 8,039 | 16,270 |
| Primary and secondary education services | 8,543 | 17,290 |

Source: ABS Input-Output Tables

The Australia Institute
Research that matters.

Given the gas industry is a major contributor to greenhouse gas emissions it is only just that it should contribute towards the transition to net-zero. Jim Stanford and Charlie Joyce have estimated that to match the US Government Inflation Reduction Act spending on energy, the Australian Government would need to commit between $8.3bn and $13.8bn a year to clean energy.[24] Investment in the MacIntyre wind farm project in Queensland is currently at $4bn, and is set to produce 2,000MW of power, enough to power 1.4m households.[25] The increased revenue from an appropriate cap would arguably be able to raise enough extra revenue to fund a wind farm project the size of the MacIntyre Project every other year.

[23] ABS (2024) *Australian National Accounts: Input-Output Tables 2021-22,* https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables/

[24] Joyce and Stanford (2023) *Manufacturing the Energy Revolution,* https://australiainstitute.org.au/report/manufacturing-the-energy-revolution/

[25] Hannam (2023), "Queensland windfarm to provide enough power for 1.4m homes with new $2bn investment", *Guardian Australia*, https://www.theguardian.com/australia-news/2022/nov/28/queensland-windfarm-to-provide-enough-power-for-14m-homes-with-new-2bn-investment.

# Conclusion

The PRRT has long failed to deliver a proper and fair return to Australians. Even during the recent gas boom that occurred due to the Russian invasion of Ukraine, the PRRT failed to produce any significant increase in revenue. In response to clear community dissatisfaction, both the current and previous government have reviewed PRRT operations. However, in selecting an alternative, the government has chosen a model favoured by the gas industry, a 90% cap on allowable deductions, which is the least likely to raise any extra revenue over the long-term. The government's own Budget figures now suggest that the miniscule forecast extra revenue to be raised from this policy has been erased due to changes in economic parameters, even with higher oil prices than were expected in the 2023-24 Budget.

In this report, we propose two stricter caps than the government has proposed to Parliament. An 80% or 60% would raise more revenue than the government's proposal, although they would admittedly retain current structural issues that allow gas companies to navigate the PRRT to their benefit.

A third alternative is for the government to make the PRRT a true windfall profits tax. This would involve taxing the profits accrued when prices go above a set trigger point. Such a tax would remove the ability of the gas industry to game the PRRT as it currently does in order to avoid being liable to pay PRRT.

Despite the fact that Australia needs to transition to a net zero emissions economy as a matter of urgency, the tax system continues to encourage fossil fuel investment. Instead, the tax burden is shifted elsewhere, such as onto students paying for higher education. Meanwhile, the fossil fuel industry evades its responsibilities and fails to contribute a fair share to the transition of the economy to net zero. Similarly, by failing to implement a rigorous and fair model for taxing the enormous profits of the fossil fuel industry, the Australian Government evades its responsibilities to the environment, the economy and the Australian people.