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How to work out PRRT

How an entity calculates the petroleum resource rent tax (PRRT) liability for a project.

Last updated 20 August 2024

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About PRRT liability

Petroleum resource rent tax (PRRT) liability is calculated on the taxable profit the entity makes from an interest in a petroleum project in a year of tax.

Taxable profit is calculated by subtracting certain deductible expenditure and transferred exploration expenditure from the assessable receipts derived from the project interest.

An entity's PRRT liability is levied at 40% of the taxable profit made from its interest in the project.

If an entity holds an interest in an exploration permit or retention lease, it will not have a liability to pay PRRT until a production licence is derived from that interest and commercial production starts.

Framework for calculating PRRT liability

The basic framework for calculating a PRRT liability is:

- assessable receipts – deductible expenditure – transferred exploration expenditure = taxable profit
- taxable profit × 40% = PRRT liability.

If assessable receipts exceed deductible expenditure and transferred exploration expenditure, there is a taxable profit. This amount is taxed at 40%.

If deductible expenditure exceeds assessable receipts, there is no taxable profit and no PRRT liability. Any unused deductible expenditure is uplifted and carried forward and will be deducted against future assessable receipts derived in later years.

From 1 July 2023, a deductions cap may apply to an entity in relation to a petroleum project and a year of tax if:

- the entity derives assessable petroleum receipts or assessable tolling receipts
- the entity has no taxable profit but for the application of the deductions cap
- sales gas is or will be produced from petroleum recovered from the project
- the entity is a party to an arrangement, as a result of which it is intended that the sales gas be wholly or primarily produced into LNG
- the entity regularly or consistently enters into such arrangements.

When the deductions cap applies, the entity will be taken to have a taxable profit of 10% of the assessable receipts they derived in relation to the project and the year of tax (the denied deduction amount). This effectively limits the entity's deductible expenditure in respect of the project and year of tax to the value of 90% of assessable receipts.

Amounts that are unable to be deducted because of the deductions cap are carried forward and uplifted at the Government long-term bond rate as augmented denied deductible expenditure.

For more information, see:

- PRRT concepts
- PRRT assessable receipts

- PRRT deductible expenditure
- PRRT deductions cap
- PRRT updates.

Payment of PRRT liabilities

Entities with an interest in a production licence that is in commercial production are required to lodge an annual *Petroleum resource rent tax (PRRT) return* (NAT 9849) about their PRRT liability.

An entity is required to pay its PRRT liability in three cumulative quarterly instalments with a final payment when it lodges its annual PRRT return.

The quarterly PRRT instalment is calculated using the taxable profit attributed up to the end of the instalment period.

Where the PRRT instalments paid exceed the assessed PRRT liability for the year, there will be a PRRT refundable amount when the PRRT return is lodged.

Entities with an interest in an exploration permit, retention lease or a production licence that has not started commercial production are not required to lodge an annual PRRT return or pay quarterly PRRT instalments.

For more information, see **Lodging, reporting and paying for PRRT**.

QC 27322

PRRT assessable receipts

Certain receipts are assessable under PRRT. The most significant assessable receipts is when petroleum is sold.

Last updated 10 December 2024

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Assessable receipts

Commercial recovery of petroleum is the most significant assessable receipts that result from a petroleum project. These are referred to as assessable petroleum receipts. They generally arise when recovered petroleum is sold before it is processed or after some preliminary processing has been undertaken.

Certain other kinds of receipts are also assessable under the petroleum resource rent tax (PRRT). Broadly, these receipts are assessable to ensure there is symmetry in the PRRT as they generally arise from amounts that have been previously claimed as a deduction. For example, the consideration received from the disposal of property used in a petroleum project is assessable as the original purchase is deductible under the PRRT.

There is no revenue or capital distinction in the PRRT. Therefore, receipts of a revenue or capital nature may be assessable under the PRRT.

For more information, see **PRRT concepts**.

Derivation of assessable receipts

Assessable receipts derived in relation to a petroleum project need to be taken into account in the financial year in which they are receivable or, in certain cases, when they are deemed to be receivable.

As assessable receipts are derived when they are receivable or deemed to be receivable, they may be derived before the project commences (that is, before a production licence comes into force) or after it has ceased.

Broadly, assessable receipts from the North West Shelf project derived from 1 July 2012 will be assessable.

Types of assessable receipts

There are 7 types of assessable receipts for petroleum projects:

- petroleum
- tolling
- exploration recovery
- property
- miscellaneous compensation
- employee amenities
- incidental production

Assessable petroleum receipts

Assessable petroleum receipts are derived when consideration becomes receivable from the sale of a marketable petroleum commodity (MPC). Assessable petroleum receipts are the consideration receivable for the sale less any expenses payable in relation to the sale.

An MPC is a product produced from petroleum (for example, stabilised crude oil, sales gas and condensate) that is in its final form for the purpose of either sale, use as feedstock for conversion to another product or direct consumption as energy. However, it does not include a product that was produced from an MPC.

In a situation where the MPC is not sold but it becomes an excluded commodity, the assessable petroleum receipts represent the market value of the MPC before it becomes or became an excluded commodity. Where there is insufficient evidence of the market value, the Commissioner of Taxation may determine a fair and reasonable amount to be the assessable petroleum receipts.

An excluded commodity is an MPC that has been sold, further processed or treated after being produced, moved from the place of its production other than to an adjacent storage site or moved from a storage site adjacent to the place of production.

Special rules

Special rules apply in calculating assessable petroleum receipts from sales gas produced in an integrated gas-to-liquid (GTL) operation or an integrated gas-to-electricity (GTE) operation whereby the sales gas is further processed into a liquefied product or consumed in the commercial production of electricity.

For more information, see:

- Petroleum Resource Rent Tax Assessment Regulations 2024 for the special rules
- TR 2008/10 – *Petroleum resource rent tax: application of Petroleum Resource Rent Tax Assessment Regulations 2005 to an integrated gas-to-liquid operation.*

Assessable tolling receipts

Assessable tolling receipts are consideration receivable for the processing of internal or external petroleum in relation to a petroleum project.

Internal petroleum is petroleum recovered from a production licence area of the project. For example, a joint venturer who owns the processing facility may process the share of petroleum of one or more other venturers.

External petroleum is petroleum recovered from an area other than the production licence area of the project. For example, petroleum recovered from project A is processed in the processing plant of project B.

Assessable exploration recovery receipts

Assessable exploration recovery receipts are derived in a similar manner as assessable petroleum receipts, except that they are derived from petroleum (or an MPC produced from the petroleum) recovered from the eligible exploration or recovery area (other than a production licence area) in relation to a petroleum project. In other words, they relate to recovery of petroleum from the area of an exploration permit or a retention lease.

Assessable property receipts

Assessable property receipts include certain amounts receivable in respect of the disposal, loss or destruction of property for which a deduction for capital expenditure (being eligible real expenditure) was incurred in relation to the project.

Assessable property receipts include all of the following amounts:

- consideration receivable on disposal of project property
- the market value of property on termination of its use in the project
- insurance payments for loss or damage to project property
- consideration receivable for hiring, leasing out or granting of a right to use project property
- consideration receivable for the provision of information obtained by incurring eligible real expenditure in relation to the project (for example, amounts receivable from sale of information obtained from a survey, appraisal or study).

Where property has been purchased for use partly in relation to a project (and accordingly only that proportion of capital expenditure has been claimed as eligible real expenditure of the project), only a corresponding proportion of the receipts from the disposal of that property (or other things referred to above) will be included as assessable property receipts in relation to the project.

For more information, see **PRRT deductible expenditure**.

Assessable miscellaneous compensation receipts

Assessable miscellaneous compensation receipts include amounts receivable by way of insurance, compensation or indemnity in respect of all of the following:

- the loss or destruction (or in respect of the loss of any profit caused by the loss or destruction) of petroleum before an MPC had been produced from the petroleum
- the loss or destruction (or in respect of the loss of any profit caused by the loss or destruction) of an MPC before it becomes an excluded commodity
- the loss of any amounts that would otherwise have been assessable receipts in relation to a project.

Assessable miscellaneous compensation receipts also include amounts receivable by way of refund, rebate, discount, commission, compensation or indemnity received in relation to eligible real expenditure incurred in relation to a project.

Assessable miscellaneous compensation receipts will include grossed up amounts of refunds of resource tax expenditure for the North West Shelf project.

Refunds of resource tax expenditure

The North West Shelf project is subject to certain Commonwealth, state and territory excise and royalties (resource tax expenditure).

From 1 July 2012, resource tax expenditure is creditable against the PRRT liability of the North West Shelf project. This is achieved by grossing up payments of resource taxes by the PRRT rate that is then deductible against assessable receipts of the project.

Entities may be entitled to a refund where there has been an overpayment of a royalty or excise. In these circumstances the refund will be grossed up (by dividing it by the PRRT rate) and will be treated as an assessable miscellaneous compensation receipt in the year it is received.

However, refunds received after 1 July 2012 that relate to petroleum extracted before 1 July 2012, will not be assessable.

Assessable employee amenities receipts

Amounts receivable for or in respect of the provision of employee amenities in respect of which eligible real expenditure was incurred, are assessable employee amenities receipts.

The term 'employee amenities' means provision of non-profit housing, health, education, recreation, welfare or similar facilities and services (including provision of meals) to project employees or their dependents.

For more information, see **PRRT deductible expenditure**.

Assessable incidental production receipts

Consideration receivable from the sale of incidental products other than petroleum or an MPC which have been recovered, extracted or produced using operations, facilities and other things that are related to the petroleum project and for which eligible real expenditure was incurred, will be treated as assessable incidental production receipts.

Examples include consideration receivable from the sale of both:

- water from a water treatment facility that is an integral part of a petroleum project
- excess electricity that is produced as part of a petroleum project.

Assessable incidental production receipts also include consideration receivable from the sale of services relating to carbon capture and storage provided to another entity using operations, facilities and other things of the petroleum project and for which eligible real expenditure was incurred.

For more information, see **PRRT deductible expenditure**.

Receipts which are not assessable receipts

Some receipts are not assessable for PRRT purposes, particularly those receipts that relate to expenditure which has been categorised as excluded expenditure for PRRT purposes. Examples include:

- amounts received as loans, or in respect of loans made
- receipts of interest and capital repayments received from borrowers
- share capital received as shareholders' funds
- dividend or bonus shares received from associated companies
- private override royalty income
- proceeds from the sale of interests in an exploration permit, retention lease or production licence.

For more information, see **PRRT deductible expenditure**.

QC 27323

Apportionment of PRRT payments for procured services

How to apportion payments for PRRT which are made to procure services from related and unrelated entities.

Last updated 18 June 2020

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Section 41 of the *Petroleum Resource Rent Tax Assessment Act 1987* (PRRTAA) is a deeming provision that only applies to the extent that a payment is made by a procuring entity to procure a service provider to carry on or provide project activities of a kind referred to in sections 37, 38 or 39 of the PRRTAA on the procuring entity's behalf.

The agreement between the parties may specify that some project activities will be provided by the service provider as an agent for the procuring entity in limited circumstances. If a payment is made subject to an agency agreement, section 41 of the PRRTAA does not apply.

If section 41 of the PRRTAA applies, the procuring entity is taken to have carried on the project activities itself. It is also taken to have made the payment or part payment in carrying on those activities.

Section 41 of the PRRTAA also deems that the payment is taken to have certain characteristics before it is tested against the requirements of deductibility (sections 37, 38 and 39 of the PRRTAA) and the excluded expenditure provisions (section 44 of the PRRTAA). These deeming rules differ, depending on whether the procuring entity and the service provider are unrelated or related. If the entities are:

- unrelated – the payment to procure project activities is taken to have the same character and nature as the project activities procured
- related – the payment to procure project activities is taken to have the same character, nature and amount as the actual expenditure incurred by the service provider in carrying on those activities. This is referred to as the look-through approach.

The procuring entity will not need to use the look-through approach to work out the character, nature and amount of expenditure to the extent that a payment is made to a related service provider for the use of property (on which capital expenditure was incurred). Such payments are taken to have the same character and nature as the project activities procured (as if the entities were unrelated).

The look-through approach is not applied to payments made before 1 July 2013.

This may arise, for example, if the service provider is procured to carry on project activities across a number of projects (including proposed projects) or to also provide non-project related activities.

Find out about:

- Reasonable method of apportionment
- When entities are related
- Payments to unrelated entities
- Payments to related entities
- Joint venture and other service agreements

Reasonable method of apportionment

An entity should choose a reasonable basis of apportionment that is supported by documentation. There is no prescribed method to apportion these payments; however, we do not generally consider a notional or arbitrary method of apportionment to be a reasonable basis.

If an entity, for example, makes a payment to procure project activities for a number of projects, we would not generally accept allocating the payment equally across the projects as a reasonable basis of apportionment, unless there is evidence to support that it is appropriate in the circumstances.

We expect that the service agreement between the entities provides information that assists a procuring entity to apportion these payments. If the basis for apportionment is not clear from the terms or operation of the contract or agreement, other documentation may be required.

Other documentation that may assist in working out a reasonable method of apportionment may include:

- exploration work programs
- field development plans
- drilling schedules
- employee time-writing records
- production development plans
- production operation plans.

Once the payment has been apportioned to identify the part of the payment that relates to the procurement of project activities, the deeming rules in section 41 of the PRRTAA are applied to that portion of the payment.

The deeming rules in section 41 of the PRRTAA differ, depending on whether the procuring entity and the service provider are unrelated or related. This means a procuring entity needs to work out if it is related or unrelated to the service provider.

When entities are related

A service provider is related to the procuring entity for the purposes of section 41 if it either:

- holds an interest in the same petroleum project for which it is providing project activities – for example, the service provider is a joint venture participant in and operator of the project
- is connected to the procuring entity if they are tested under section 328-125 of the *Income Tax Assessment Act 1997* (ITAA 1997).

Broadly, entities are connected with one another if either of the following applies:

- either entity controls the other entity
- both entities are controlled by the same entity.

Control of an entity can be direct or indirect and includes control exercised by an affiliate. An affiliate is an individual or a company that acts, or could reasonably be expected to act, according to the entity's directions or wishes, or in concert with the entity to control another entity.

An entity (the first entity) directly controls another entity (the controlled entity) if the first entity, its affiliates or both the entity and its affiliates, have the right to receive at least 40% of any distributions of income or capital of the controlled entity. If the controlled entity is a company, control also arises if the first entity, its affiliates or both have shares and other equity interests in the controlled entity that give them at least 40% voting power in the controlled entity.

The indirect control test is designed to look through business structures that include interposed entities – for example, if an entity (the first entity) directly controls a second entity, and the second entity either directly or indirectly controls a third entity, the first entity is taken to control the third entity. However, the indirect control test does not apply if the second entity is a public entity or is a company where the shares are owned by a public entity.

Example: Working out whether entities are connected

Company A has a 60% shareholding in Company B (which is not a public company). Company B has a 50% shareholding in Company C. This means:

- Company A is connected with Company B because it directly controls Company B
- Company B is connected with Company C because it directly controls Company C.

Company A is connected with Company C because it indirectly controls Company C (as Company A directly controls Company B, and Company B directly controls Company C).

Payments to unrelated entities

If the entities are unrelated, the procuring entity's payment to the service provider is taken to have the same character and nature as the project activities procured. The payment is then tested against the requirements of deductibility (sections 37, 38 or 39 of the PRRTAA) and the excluded expenditure provisions (section 44 of the PRRTAA).

The payment or part payment to procure the project activities is deductible if the requirements of deductibility are met and the activities procured do not constitute an item of excluded expenditure.

The underlying expenditure incurred by the service provider in providing the activities procured is not used to work out the character and nature of the payment if the entities are unrelated.

For the procuring entity to meet its record-keeping obligations, we expect that it would have (or have access to) documentation to show the character and the nature of the project activities procured from the unrelated service provider.

We expect that a key source document is the contract or service agreement between the procuring entity and the unrelated service provider. Other source documents that explain the setting, context and purpose of the transaction or arrangement may also be relevant, including any tender discussions, ongoing reviews of the provision of project activities, and reports commissioned under the arrangement.

Example: Payments made to procure petroleum project activities

Tidus Ltd (the procuring entity) has an interest in four offshore petroleum exploration permits known as the Alpha, Beta, Gamma and Delta exploration permits.

Tidus Ltd procures an unrelated service provider, Auron Ltd, to undertake seismic survey activities across all the exploration permit areas (which are of various sizes) under a single contract and at a fixed cost of $40 million.

Because each exploration permit is recognised as a separate petroleum interest for PRRT purposes, the $40 million payment that relates to the procurement of project activities needs to be apportioned among the four exploration permits. However, the contract between the parties does not specify how much of the fixed cost of $40 million is attributable to each exploration permit and does not require Auron Ltd to provide Tidus Ltd with such information.

In view of the different sizes of the exploration permit areas, Tidus Ltd works out that the payment should be apportioned based on the area (km^2) covered by the survey shoot in each exploration permit area, as opposed to arbitrarily apportioning $10 million to each exploration permit. In the absence of any evidence to the contrary, this approach is considered a reasonable basis of apportionment.

The area of the survey shoot conducted by Auron Ltd in the Alpha exploration permit represents 50% of the total area covered. As a consequence, 50% of the project activities Auron Ltd undertakes are attributable to this exploration permit – the other 50% is non-project activities in relation to this exploration permit.

Because the survey activities procured are project activities of a kind referred to in section 37 of the PRRTAA (exploration expenditure) and do not constitute an item of excluded expenditure, the whole $40 million payment is potentially deductible to Tidus Ltd. As a result, $20 million of the payment made to Auron Ltd is potentially deductible in relation to the Alpha exploration permit. The apportionment of the payment for the other exploration permits is dependent on the areas covered by the survey shoot in their respective exploration permit areas.

Because the entities are unrelated, the payment made by Tidus Ltd is taken to have the same character and nature as the project activities procured. As a consequence, there is no requirement for it to look through the payment to the underlying expenditure incurred by Auron Ltd in providing those activities.

No further apportionment of the amount of the payment that is attributable to the Alpha exploration permit (or the amounts of the payment attributable to the other exploration permits) is required, and the amount Tidus Ltd can claim as deductible expenditure in relation to each exploration permit is not reduced.

Payments to related entities

If the entities are related, the payment or part payment to procure project activities is taken to have the same character, nature and amount as the actual expenditure incurred by the service provider in carrying on the activities procured.

However, to the extent a payment to a related service provider is for the use of property (on which capital expenditure has been incurred) the payment or part payment is taken to have the same character and nature as the project activities procured.

The deeming in section 41 of the PRRTAA operates in the same manner as payments made by a procuring entity to an unrelated service provider. As a result, a procuring entity is only required to look through to the expenditure incurred by the related service provider to the extent the payment does not involve the use of property.

Where the look-through approach applies, any mark-up charged on the expenditure incurred by the related service provider in carrying on the project activities is not deemed to be incurred by the procuring entity. This is because the payment made by the procuring entity is taken to be the same as the actual expenditure incurred by the related service provider in carrying on the activities procured.

Also, any expenditure incurred by the related service provider that would constitute an item of excluded expenditure retains that character and nature when it is used to work out the character, nature and amount of the payment made by the procuring entity.

The procuring entity needs details of the expenditure incurred by the related service provider in order to look through to this expenditure. The level of detail required is similar to the information the procuring entity would need if it had incurred the expenditure itself and it was required to work out if the expenditure met the deductibility requirements. Support for this is found in the Explanatory Memorandum that accompanied the *Tax Laws Amendment (2013 Measures No. 2) Bill 2013* where it states [at 6.19]:

Requiring PRRT taxpayers to apply a look-through approach to third party payments would require the third party to provide details of all the expenditure incurred in providing the service, including commercial-in-confidence information, in order for the taxpayer to determine the extent to which the payment was deductible.

After the deeming in section 41 of the PRRTAA has been applied to the payment, it is then tested against the requirements of deductibility (sections 37, 38 or 39 of the PRRTAA) and the excluded expenditure provisions (section 44 of the PRRTAA).

For the procuring entity to meet its record-keeping obligations, we expect that it would have (or have access to) documentation to show how the expenditure incurred by the related entity meets the requirements of deductibility and is not excluded expenditure.

This means the procuring entity may need to obtain or access other source documents apart from the contract or service agreement between the entities that may originate from the related service provider. These other source documents are similar to those a procuring entity would maintain if it had incurred the expenditure itself, including job orders and invoices, job descriptions and other relevant cost information.

Example: Project activities procured from a related entity include the use of property

Assume the same facts as example 1 above except that Auron Ltd is related to Tidus Ltd. Also assume that some of the activities procured under the contract relate to the use of property by Auron Ltd.

In the absence of any evidence to the contrary, the apportionment of the payment based on the area (km2) covered by the survey shoot in each permit area continues to be considered a reasonable basis of apportionment. However, further apportionment is required to establish the extent that the payment relates to the use of property on which capital expenditure was incurred. If the payment relates to the use of property, it is deemed to have the same character and nature as the project activities procured.

The remaining portion of the payment made by Tidus Ltd is taken to have the same character, nature and amount as the expenditure incurred by Auron Ltd in carrying on the activities procured.

Tidus Ltd obtains documentation from Auron Ltd that shows that $10 million of the $40 million fixed charge related to project activities involving the use of property. This amount continues to be deductible to Tidus Ltd.

In relation to the remaining $30 million of the payment, the documentation requested shows that Auron Ltd only incurred $27 million of expenditure in providing the project activities, with $3 million representing a mark-up of that expenditure. The documentation also shows that $1 million of this expenditure would be considered as excluded expenditure had Tidus Ltd incurred that expenditure. As a consequence, only $26 million continues to be deductible to Tidus Ltd.

The amount of the payment to be apportioned across the four exploration permits is $36 million (the $40 million payment, less the $3 million mark-up, less the $1 million excluded expenditure).

As a result, $18 million of the payment made to Auron Ltd is deductible in relation to the Alpha exploration permit. Similar reductions occur in relation to the other exploration permits on a proportional basis due to the exclusion of the mark-up and the excluded expenditure.

See also:

- Apportionment of PRRT deductible expenditure

Joint venture and other service agreements

We acknowledge that the vast majority of petroleum projects in Australia are carried out by joint ventures under a joint venture operating agreement (JVOA).

If the operator under the JVOA carries on or provides project activities in relation to a petroleum project on behalf of the joint venture participants, the operator and the participants are related for the purposes of section 41 of the PRRTAA.

As a result, each joint venture participant's proportionate share of the amounts payable under the JVOA are taken to have the same character, nature and amount as the operator's expenditure incurred in carrying on the project activities.

This may mean operators that provide expenditure statements to joint venture participants are required to provide a more detailed breakdown of expenditure than may have been previously required for participants to meet their PRRT obligations. Billing statements may need to identify circumstances where participants are not charged on a cost recovery basis, because participants are only able to claim payments to the extent that they are equal to the actual expenditure incurred by the operator in carrying on the activities procured.

If an operator engages another entity that it is connected with (a connected third entity) to carry on activities of the project, the joint venture participants in the project may need details of the connected third entity's expenditure in providing these activities to meet their PRRT obligations.

Other service agreements between group entities

An entity that is either a participant in a joint venture or has the sole interest in a petroleum project may also enter into an agreement to engage a group entity to undertake project activities on its behalf.

If the procuring entity and its group entity are related for the purposes of section 41 of the PRRTAA, the procuring entity's payment is taken to be of the same character, nature and amount as the expenditure of the group entity. In these circumstances, a related group entity may be required to provide a more detailed breakdown of its expenditure than may have been previously required for the procuring entity to meet its PRRT obligations.

If the related group entity engages another entity that it is connected with (a connected third entity) to carry on activities of the project, the procuring entity may need details of the connected third entity's expenditure in providing these activities to meet its PRRT obligations.

Connected third entities engaged by a service provider

If a service provider is related to the procuring entity and it engages another entity that it is connected with (a connected third entity) to carry on or provide project activities on behalf of the procuring entity, the connected third entity is also related to the procuring entity.

This means that the payment or part payment that relates to the project activities provided by the connected third entity is taken to have the same character, nature and amount as the actual expenditure incurred by the connected third entity in carrying on the activities procured.

Therefore, a procuring entity is required to look through to the expenditure incurred by the connected third entity to the extent the payment does not involve the use of property.

Example: Service provider engages a connected third entity to provide project activities

Juno Limited holds a 30% interest in a petroleum project. The remaining interest is held by Vesta Limited, an unconnected entity which is also the joint venture operator responsible for project operations.

Juno Limited makes payments to Vesta Limited for its proportionate share of the project activities carried out by Vesta Limited. Juno Limited and Vesta Limited are related entities for the purposes of section 41.

Vesta Limited makes payments to Ceres Pty Ltd, a wholly owned subsidiary, to carry out all of the project activities in relation to the project.

Because Vesta Limited is procuring project activities from a connected third entity (Ceres Pty Ltd) on behalf of a related entity (Juno Limited), the payments made by Juno Limited to Vesta Limited have the same character, nature and amount as the actual expenditure incurred by Ceres Pty Ltd in carrying on the activities procured.

Expenditure exceeding payment

If a related service provider, or an entity connected with the service provider, incurs more expenditure than the payment it receives for carrying on project activities (and which does not relate to the use of property), the amount of its expenditure is taken not to exceed the procuring entity’s payment. This means the service provider or connected entity's expenditure is capped to the amount of the procuring entity's payment.

Sections 37, 38, 39 and 44 also apply in relation to that expenditure as if it were reduced to the same extent.

Example: Reduction of expenditure on a proportionate basis

Hestia Pty Ltd makes a payment of $100,000 to a related entity, Artemis Pty Ltd, to procure project activities other than in relation to the use of property. Artemis Pty Ltd incurs $125,000 in carrying on the project activities – $12,500 of this expenditure is excluded expenditure under section 44.

The amount of the payment under section 41 is capped to $100,000 because this is how much Hestia Pty Ltd actually paid Artemis Pty Ltd. In addition, as excluded expenditure accounted for 10% of the $125,000 incurred by Artemis Pty Ltd, Hestia Pty Ltd removes excluded expenditure from the payment it made to the same extent (10%). It works out the amount of excluded expenditure from the payment as follows:

- $12,500 ÷ $125,000 × 100% = 10%
- 10% × $100,000 = $10,000

$10,000 of the amount of the $100,000 is taken to be excluded expenditure (section 44).

Hestia Pty Ltd similarly reduces the expenditure deductible under sections 37, 38 and 39 – for example, if 50% of the $125,000 of expenditure incurred by Artemis Pty Ltd is deductible under section 37, Hestia Pty Ltd can only include 50% of the $90,000 payment as deductible expenditure.

QC 38248

PRRT deductible expenditure

Information on the different categories of eligible real expenditure for the petroleum resource rent tax (PRRT).

Last updated 21 June 2024

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Deductible expenditure

An entity's deductible expenditure (or eligible real expenditure) for a petroleum project includes expenditure that has a close or quite direct connection to a petroleum project.

It may be of a capital or revenue nature and is deductible in the year the payment is liable to be made.

If deductible expenditure exceeds the assessable receipts derived during the year, the excess is uplifted and carried forward so it can be deducted against assessable receipts derived in future years.

The calculation is explained in **How to work out PRRT**.

Eligible real expenditure

There are 5 broad categories of eligible real expenditure:

- exploration expenditure
- general project expenditure
- resource tax expenditure
- starting base expenditure
- closing-down expenditure.

Carried-forward undeducted expenditure

Eligible real expenditure (other than closing-down expenditure) that an entity has not deducted against assessable receipts derived in the year the expenditure was incurred can be uplifted and carried forward. This means it can be deducted against assessable receipts derived in later years.

The uplift rate for expenditure that remains undeducted at the end of a year is worked out according to its class and the time when it was actually incurred.

Depending on the class of expenditure, undeducted expenditure can be uplifted using the:

- gross domestic product (GDP) factor rate for the relevant year, or
- long-term bond rate (LTBR) for the relevant year.

From 1 July 2019, new uplift rates apply to certain categories of carried-forward undeducted expenditure.

Some exploration expenditure may also be transferable between petroleum projects.

Classes of expenditure and order of deductibility

There are 10 classes of deductible expenditure for PRRT.

From **1 July 2019**, the following amendments apply:

- 'class 2 augmented bond rate (ABR) general expenditure' is relabelled as 'class 2 uplifted general expenditure'
- 'class 2 ABR exploration expenditure' is relabelled as 'class 2 uplifted exploration expenditure'.

All unused exploration expenditure from this date is augmented at either LTBR plus 5% or the GDP factor rate, as listed in PRRT augmentation and GDP factor rates.

The entity may incur an amount of augmented denied deductible expenditure:

- from 1 July 2024
- in the year of tax immediately after the first year in which an entity is taken to have a taxable profit from the PRRT deductions cap, whichever is later.

For all classes of deductible expenditure (excluding closing-down expenditure), the total expenditure for a year includes:

- expenditure actually incurred in the year, and
- the uplifted, undeducted expenditure from any previous years.

The total expenditure for each class is offset against available assessable receipts in the following order:

1. Class 1 ABR general expenditure
2. Class 1 ABR exploration expenditure
3. Class 2 uplifted general expenditure (previously class 2 ABR general expenditure)
4. Class 1 GDP factor expenditure
5. Class 2 uplifted exploration expenditure (previously class 2 ABR exploration expenditure)
6. Class 2 GDP factor expenditure
7. Resource tax expenditure
8. Starting base expenditure
9. **Augmented denied deductible expenditure** (from 1 July 2024)
10. Closing-down expenditure.

Exploration expenditure

Exploration expenditure is expenditure (other than excluded expenditure) an entity incurs in, or in connection with, exploration for petroleum in the eligible exploration or recovery area in relation to a petroleum project. Activities that give rise to exploration expenditure include undertaking seismic surveys or spudding an exploration well in an exploration permit area.

For more detail about the meaning of 'involved in or in connection with', see **TR 2014/9** *Petroleum resource rent tax: what does 'involved in or in connection with exploration for petroleum' mean?*

The definition of eligible exploration or recovery area depends on the circumstances of the petroleum interest. If the production licence was:

- derived from an exploration permit and granted after 30 June 2008, the relevant area is the entire exploration permit area up to the time the production licence is granted
- derived from a retention lease, the relevant area is the entire exploration permit area up to the time the retention lease is granted.

From the day the production licence or the relevant retention lease is granted, the relevant area only includes the production licence area or the retention lease area.

Whether an incurred expenditure is 'exploration expenditure' or 'general project expenditure' is not worked out simply by the fact that an entity holds an interest in an exploration permit or retention lease or production licence. Instead, it is a question of fact to be worked out taking into account all the circumstances of the expenditure. Not all expenditure relating to an exploration permit is exploration expenditure.

Exploration expenditure can be classified into several different classes of expenditure, depending on when it was incurred and the time when the production licence came into force or was issued.

From 1 July 2019, 'class 2 ABR exploration expenditure' is relabelled as 'class 2 uplifted exploration expenditure'. Exploration expenditure incurred on or after 1 July 2019 is subject to new uplift rates.

The information below will help you classify and determine the uplift rate of exploration expenditure.

Exploration expenditure incurred before 1 July 1990

For exploration expenditure incurred before 1 July 1990:

- If the exploration expenditure was incurred less than 5 years before the production licence was issued, it is class 1 augmented bond rate (ABR) exploration expenditure. The uplift rate is LTBR plus 15%.
- If the exploration expenditure was incurred more than 5 years before the production licence was issued, it is class 1 GDP factor expenditure, and the uplift rate is the GDP factor.

Exploration expenditure incurred from 1 July 1990 to 30 June 2019

For exploration expenditure incurred from 1 July 1990 to 30 June 2019:

- If the exploration expenditure was incurred less than 5 years before the start of the financial year when the production licence was issued or the production licence notice was issued (whichever is earlier), it is class 2 ABR exploration expenditure. The uplift rate is LTBR plus 15%. From 1 July 2019, the uplift rate for any **undeducted expenditure balance in this category** becomes **LTBR plus 5%.**

- If the exploration expenditure was incurred more than 5 years before the start of the financial year in which the production licence was issued or the production licence notice was issued (whichever is earlier), it is class 2 GDP factor expenditure, and the uplift rate is the GDP factor. From 1 July 2019, the uplift rate for any unused balance remains the same at GDP factor.

Exploration expenditure incurred from 1 July 2019:

All exploration expenditure incurred on or after 1 July 2019 is subject to an uplift rate equal to:

- the LTBR plus 5% until the financial year that is 10 years after the year in which the exploration expenditure is incurred
- then, an uplift rate equal to the GDP factor.

Transfer of exploration expenditure

Class 2 uplifted exploration expenditure and class 2 GDP factor expenditure may be transferable to:

- another petroleum project of the entity, or
- a petroleum project of another entity within the same wholly owned group.

The project to which exploration expenditure is transferred is referred to as the receiving project.

Transfer of exploration expenditure before 1 July 2019

Before 1 July 2019, the uplift rate for transferred exploration expenditure is either the LTBR plus 15%, or the GDP factor rate, depending on the date the expenditure was incurred and the application date of the receiving project's production licence.

Transfer of exploration expenditure from 1 July 2019

From 1 July 2019, all exploration expenditure transferred between petroleum projects is subject to an uplift rate equal to:

- the LTBR plus 5% until the financial year that is 10 years after the year in which the exploration expenditure is incurred
- the GDP factor, from that financial year.

For more detail, see **Transfers of PRRT exploration expenditure**.

General project expenditure

General project expenditure is expenditure (other than excluded, exploration or closing-down expenditure) incurred to prepare for, to carry on or to provide particular operations, facilities and other things comprising the project. This includes the recovery of petroleum from the production licence area and any further activities (including processing, treatment, movement and storage) up to a point when a marketable petroleum commodity is produced and an assessable petroleum receipt is derived.

General project expenditure also includes expenditure incurred on providing services (like water, electricity, and communication) and employee amenities that are not conducted for the purposes of profit-making.

Examples of general project expenditure include expenditure on production platforms, drilling plant and equipment and pipelines to transport petroleum from the well head to a reception point.

General project expenditure can be classified into several different classes of expenditure, depending on when it was incurred and when the production licence came into force or was issued.

From 1 July 2019, class 2 ABR general expenditure is relabelled as class 2 uplifted general expenditure.

The information below will help you classify and determine the uplift rate of general project expenditure.

General project expenditure incurred before 1 July 1990

For general project expenditure incurred before 1 July 1990:

- If the general project expenditure was incurred less than 5 years before the production licence was issued, it is class 1 ABR general expenditure. The uplift rate is LTBR plus 15%.
- If the general project expenditure was incurred more than 5 years before the production licence was issued, it is class 1 GDP factor expenditure and the uplift rate is GDP factor rate.

General project expenditure incurred from 1 July 1990

For general project expenditure incurred from 1 July 1990:

- If the general project expenditure was incurred less than 5 years before the production licence was issued or the production licence notice was issued (whichever is earlier) and the production licence was applied for prior to 1 July 2019, it is class 2 uplifted general expenditure. The uplift rate is LTBR plus 5%.

- If the general project expenditure was incurred less than 5 years before the production licence was issued or the production licence notice was issued (whichever is earlier) and the production licence was applied for on or after 1 July 2019, it is class 2 uplifted general expenditure. The uplift rate is LTBR plus 5% until the financial year that is 10 years after the financial year in which the project first derives assessable petroleum receipts. From that financial year, the uplift rate is LTBR.
- If the general project expenditure was incurred more than 5 years before the production licence was issued, it is class 1 GDP factor expenditure and the uplift rate is GDP factor rate.

General project expenditure is not transferable between petroleum projects.

Closing-down expenditure

Closing-down expenditure is expenditure incurred in closing down a petroleum project, for example, the cost of removing a drilling platform from the site. It specifically includes expenditure on environmental restoration of a project site that has been closed down.

Closing-down expenditure is not uplifted. Instead, an entity may be entitled to a tax credit if there is excess closing-down expenditure in a year of tax (the sum of the closing-down expenditure and any other deductible expenditure exceeds the assessable receipts derived in that year).

This closing-down tax credit is the lesser of the following:

- an amount equal to 40% of the excess closing-down expenditure for the year of tax
- the total amount of PRRT paid or payable in relation to the petroleum project in previous years, reduced by any previously allowable closing-down tax credits in relation to the petroleum project.

Closing-down expenditure is not transferable between petroleum projects.

Resource tax expenditure

This category of eligible real expenditure applies **from 1 July 2012**. Resource tax expenditure only applies to the North West Shelf project, as certain Commonwealth and state resource taxes (excise and royalties) apply to this project.

These resource taxes are creditable against the assessable receipts of petroleum projects to avoid double taxation. This is achieved by grossing up payments of resource taxes in relation to a petroleum project by the PRRT rate, which is then deductible against assessable receipts of that petroleum project.

Any resource tax expenditure incurred after 1 July 2012 in relation to petroleum recovered before 1 July 2012 is not deductible.

If an entity has no remaining assessable receipts after deducting all higher-ranked deductible expenditure, the excess resource tax expenditure is uplifted for use in later years. The uplift rate is LTBR plus 5%.

Resource tax expenditure is not transferable between petroleum projects.

Starting base expenditure

From 1 July 2019, PRRT stopped applying to onshore petroleum projects. As a result, starting base expenditure is only relevant to the North West Shelf project.

If an entity has no remaining assessable receipts after deducting all higher-ranked deductible expenditure, the excess starting base expenditure is uplifted for use in later years of tax. The uplift rate is the LTBR plus 5%.

Starting base expenditure is not transferable between petroleum projects.

Augmented denied deductible expenditure

This category of expenditure applies in relation to certain LNG projects:

- from 1 July 2024
- in the year of tax immediately after the first year in which an entity is taken to have a taxable profit from the PRRT deductions cap,

whichever is later.

If an entity is subject to the deductions cap in relation to a petroleum project and year of tax, the entity will be taken to have a taxable profit (and denied deduction amount) equal to 10% of the assessable receipts derived by the entity.

If, for a petroleum project and a financial year (known as the assessable year), an entity:

- has a denied deduction amount, and
- the sum of the deductible expenditure incurred by the entity and any **transferred exploration expenditure** equals or exceeds the assessable receipts derived for the assessable year (known as the excess), then
- the entity will be taken to incur an augmented denied deductible expenditure amount on the first day of the next financial year.

The augmented denied deductible expenditure amount taken to be incurred by the entity for the project on the first day of the next financial year is:

- the sum of
  - so much of the excess that does not exceed the augmented denied deductible expenditure (if any) incurred by the entity for the project in the assessable year, and
  - the denied deduction amount, and
- the above sum is uplifted at the long-term bond rate for the assessable year.

Augmented denied deductible expenditure can be carried forward indefinitely.

Additionally, augmented denied deductible expenditure incurred by a person in relation to a project and year of tax includes amounts transferred under Division 5 of Part V of the PRRTA Act, which deals with the transfer of entitlements to assessable receipts.

For more information, see **PRRT Deductions cap**.

Other specific deductible expenditure

Some amounts of expenditure are specifically deductible under PRRT, including:

- native title payments
- environmental expenditure.

Native title payments

Native title payments to landowners are deductible to the extent they are liable to be made in relation to securing access to land for the operations, facilities and other things comprising a petroleum project.

Private override royalties are payments to a party other than payments made under a state or territory law. They are, in effect, a profit-sharing agreement. These payments are excluded expenditure and not deductible for PRRT purposes.

To ensure that eligible native title payments are not considered to be excluded expenditure as private override royalties, from 1 July 2012, the definition of excluded expenditure has been modified.

Therefore, compensation payments to certain parties for carrying on or providing (in an area) the operations, facilities or other things comprising a petroleum project are deductible as eligible real expenditure. The parties are:

- native title holders
- native title claimants
- people who hold a right (under an Australian law dealing with the rights of Aboriginal and Torres Strait Islander people in relation to land and waters).

Environmental expenditure

Governments have regulatory requirements in relation to the environment. Such requirements may arise before, during and after the life of a petroleum project.

Any expenditure incurred for an environmental purpose in relation to carrying on or providing the operations, facilities and other things comprising a petroleum project is deductible as either exploration, general project or closing-down expenditure depending on when it is incurred.

Excluded expenditure

Certain expenditure is specifically excluded from being deductible for PRRT. This is referred to as excluded expenditure, and includes the following:

- interest and principal repayments on borrowings
- interest components of hire-purchase payments
- dividend payments
- share issue costs
- private override royalties (other than certain eligible native title payments)
- equity capital repayments
- payments to acquire (other than by grant) an interest in an exploration permit, retention lease, production licence, pipeline licence or access authority
- payments to acquire interests in petroleum project profits, receipts or expenditures
- income tax and goods and services tax payments
- indirectly incurred administrative or accounting costs, salary, wages or other work costs
- payments for land and buildings used for administrative or accounting purposes if the land or buildings are not located at, or adjacent to the project site.

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