



Australian Government

Australian Taxation Office

Understanding the scope and definition of petroleum exploration – nearing the end of the journey?

Presented by Kenneth Wee, Assistant Commissioner - TCN, Australian Taxation Office / 17 November 2017

First ... some (wise) sayings

It is good to have an end to journey toward; but it is the journey that matters, in the end.

Ursula K. Le Guin, The Left Hand of Darkness

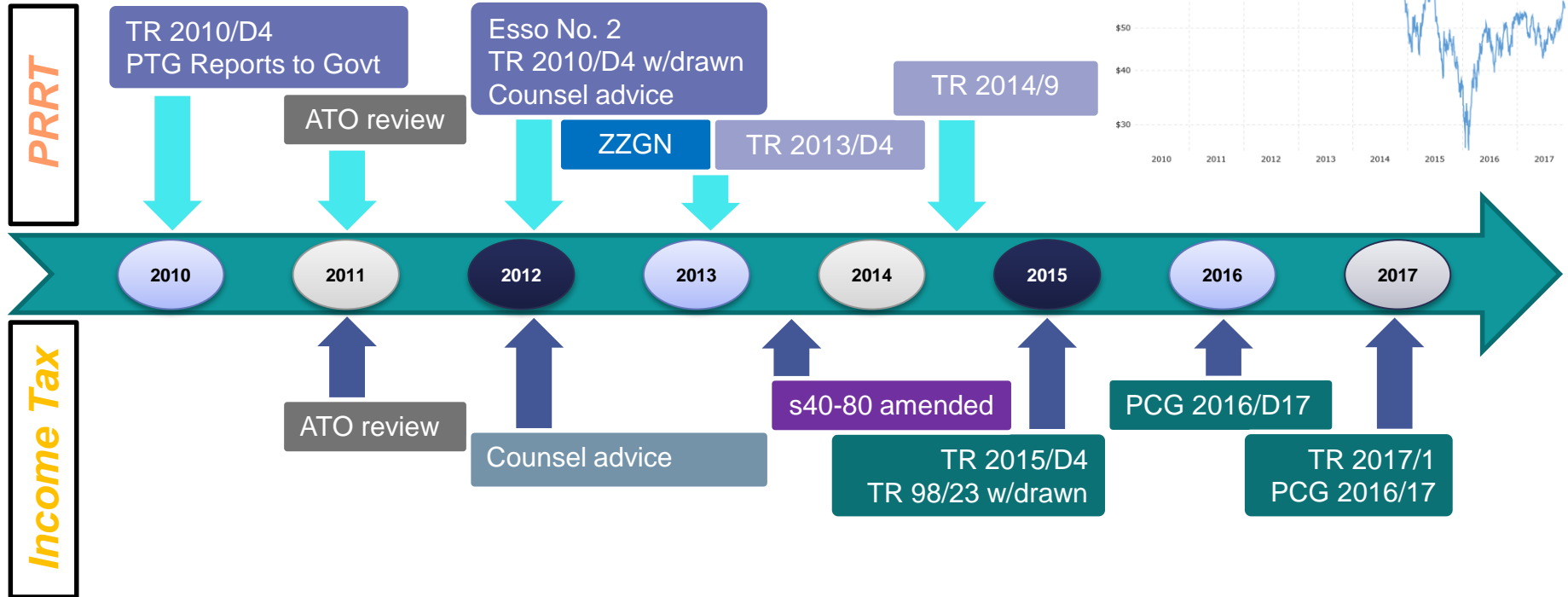
The seeker embarks on a journey to find what he wants and discovers, along the way, what he needs.

Wally Lamb, The Hour I First Believed

Are we there yet? Are we there yet? Are we there yet?

The Simpsons (and many others)

The timeline of the recent history



Where has the journey taken us?

PRRT: exploration (project-by-project)

Ordinary meaning: s37(1)(a) PRRTAA 1987 [TR 2014/9]

Discovery

Appraisal

Connected acts

Extended meaning: s37(1)(b) & (c) PRRTAA 1987

Petroleum recovery from **ERA** (except PLA), transportation, storage, processing/treatment up to MPC taxing point and related amenities, services or facilities, and including processing of internal/external petroleum

ERA = eligible exploration or recovery area

PLA = production licence area

MPC = marketable petroleum commodity

Where has the journey taken us? (cont'd)

Income tax: exploration [TR 2017/1]

Ordinary meaning: s40-730(4) ITAA 1997

Discovery

Appraisal

Connected acts

Extended meaning: s40-730(4) ITAA 1997

Economic feasibility

Except development drilling and operations in working a mine or field

Division 40 not a code, section 8-1 ITAA 1997 applies if eligible

ATO objectives

and how did we fare ...

- Clearly stated principles – understood and applied by industry and ATO
- Brevity in exposition
- Practical and realistic contemporary examples testing the margins and boundaries
- Explains ATO's areas of concerns
- Provides practical ways to comply and options for 'swimming between the flags'
- Less disputation, easier and more cost-effective compliance; ATO resources better targeted to high risk behaviours and areas
- Agreed framework of principles and approaches before filling in the details
- Co-design and collaborative: O&G industry's extensive inputs into examples, drawing on practical expertise and insights
- Identifies indicators and book-ends e.g. commitment or decision to mine, LLI, early execution costs
- Reflects commercial and operational realities of evolving industry and business practices
- Income tax PCG focussing on governance and risk-flags, complemented by AUPs

Where to from here?

Some emerging and topical issues

Income Tax

- 'Use' for exploration or prospecting (s40-80) and other purposes (s40-60)
- Revenue/capital and too early/too soon
- If not s8-1 or s40-80/40-730 deductible, then what?
 - Project pools?
 - s40-880?

PRRT

- Practical application to onshore CSG and other unconventional

Thank you
