



# Key recommendations

## **2021/2022 Federal Pre-Budget Submission**

**January 2021**



# Recommendations that promote long-term jobs and investment

Proposal	Key points	Recommendation
<p><b>1 Encourage employment and job creation by making it clear salary and wage costs are immediately deductible for all industries.</b></p>	<ul style="list-style-type: none"> <li>• Salary and wages represent a significant proportion of costs for capital-intensive industries like Australia’s oil and gas and other key industries.</li> <li>• While these costs are immediately deductible for many businesses, capital-intensive industries are often required by the Australian Taxation Office (ATO) to capitalise salaries and wages into the cost of an asset.</li> <li>• Making an assessment on the tax deductibility of salary and wages costs to a capital-intensive industry or project is not an easy task. Compliance is dependent on how the facts and circumstances are interpreted by the ATO and is often impractical, time-consuming, and overly complex.</li> <li>• The compliance burden placed on companies to substantiate positions results in long-running disputes with the ATO that are costly to resolve, and sometimes do not offer precedent or clarity for other taxpayers to follow.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage employment and job creation by ensuring it is clear salary and wage costs are immediately deductible for all industries, thereby removing ambiguity for capital-intensive industries like infrastructure, mining, utilities distribution and transmission, agriculture, construction and oil and gas..</li> </ul>
<p><b>2 Promote investment through the introduction of investment allowance(s) to encourage investment, increase employment opportunities, promote domestic spending by lowering the overall cost of projects.</b></p>	<ul style="list-style-type: none"> <li>• Immediately introducing an investment allowance will incentivise investment and encourage domestic spending. It will stimulate growth in capital availability, wages, and GDP in the same way as a company tax cut, while also raising national income.</li> <li>• The proposal and recommendations support attracting new capital spend and ensure fairness and equity by removing any perception that owners of capital previously expended within the country obtain improved project returns for past, as opposed to new, investment decisions.</li> <li>• Whilst on the surface investment allowances would result in a mere timing difference, the timing benefit helps improve the project economics for long-life, capital-intensive projects where significant expenditure occurs before a revenue stream is available. This means asset value and depreciation are less impacted by the time value of money, improving net present values and internal rates of return.</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce a broad-based investment allowance applicable to all capital expenditure incurred between budget night and 30 June 2025 by:             <ul style="list-style-type: none"> <li>• a one-off allowance in the first year that depreciation commences (say 20 per cent) without altering tax depreciation schedules or effective lives, <i>or</i></li> <li>• allow a gross up (say 20 per cent) of the asset’s value such that a company can depreciate 120 per cent of the asset value over its useful life.</li> </ul> </li> <li>• Shorten the effective life of infrastructure, construction, and development assets by five years.</li> <li>• Introduce a notional work in progress category for capital assets written down over 20 years.</li> <li>• Expand the scope and broaden access to the temporary full expensing measure.</li> </ul>

# Recommendations that promote the efficient use of infrastructure

Proposal	Key points	Recommendation
<p><b>3 Remove barriers to business project restructuring by reforming the rules around transactions involving swaps of permits and existing infrastructure in Australia, making them tax neutral.</b></p>	<ul style="list-style-type: none"> <li>• There is an immediate need to develop discovered gas resources and ensure the economic life of existing infrastructure is maximised. However, there can be significant challenges in aligning the operational and commercial interests of project participants, including significant taxation impacts.</li> <li>• This proposal could also allow the pooling or potential combination of a singular uneconomic resource by allowing for restructuring into a combined resource that improves economic viability.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure that transactions involving swaps of permits and existing infrastructure in Australia, to the extent value has been merely exchanged, are tax neutral.</li> </ul>
<p><b>4 Improve investment and supply certainty by amending the <i>Petroleum Resource Rent Tax (PRRT) Assessment Act 1987</i> to link a petroleum project to a production licence where a production licence may revert to a retention lease.</b></p>	<ul style="list-style-type: none"> <li>• In commercial practice, a petroleum project can go from having a retention lease to a production licence, and back to a retention lease. Yet the legislation does not contemplate this.</li> <li>• The inability to access deductible expenses has the potential to make further investment in a project sub-economic, leading to a premature closing down of a project or stranding of assets.</li> <li>• This proposed simple legislative amendment can unlock more investment and supply, particularly to the east coast gas markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Amend the PRRT to include reversion scenarios into the operation of sections 4 and 5 of the PRRT Act, <i>or</i></li> <li>• Amend section 20 of the PRRT Act to link interests through the project combination.</li> </ul>
<p><b>5 Increase investment certainty and maximise the efficient use of infrastructure by closing out the PRRT Gas Transfer Pricing Review without change.</b></p>	<ul style="list-style-type: none"> <li>• Announced as part of the Callaghan Review into the design of the PRRT, the review into the gas transfer pricing rules has been ongoing since April 2019. Extensive consultation and multiple submissions have highlighted that the design of the PRRT gas transfer pricing regime was purpose-built for Australia’s oil and gas industry and appropriately reflects the integrated nature of projects in Australia.</li> <li>• The gas transfer price methodology was purpose-built for Australia’s oil and gas industry and appropriately reflects the nature of integrated projects in Australia.</li> <li>• The ongoing uncertainty with the review’s potential outcomes and how they apply to existing and potential projects is impacting the industry’s confidence and potentially delaying investment decisions at a time when the economy needs investment to create jobs and stimulate economic recovery.</li> </ul>	<ul style="list-style-type: none"> <li>• Consideration should be given to confirming this review has been closed out without any amendments to the PRRT legislation to provide the fiscal certainty that is critical for future investment confidence and jobs</li> </ul>

# Other opportunities to support investment certainty and jobs

Proposal	Key points	Recommendation
<b>6 Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)</b>	<ul style="list-style-type: none"> <li>The current consultation on the EPBC Act is an area that would benefit from deregulation.</li> <li>Overlapping regulations are causing unnecessary cost and time delays to project approvals and could be significantly streamlined.</li> <li>Likewise, the rigidity of current approvals processes is also burdensome, and does not take the diversity of projects into adequate consideration, applying an impractical 'one-size-fits-all' approach.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure streamlining occurs to support project investment.</li> </ul>
<b>7 Decommissioning Framework</b>	<ul style="list-style-type: none"> <li>Decommissioning is an important aspect of rehabilitation and the measures introduced should promote positive outcomes.</li> <li>It is important that a whole-of-government approach is taken to ensure good policy and regulations are developed.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure Australia remains internationally competitive for oil and gas investment, the offshore decommissioning framework must meet the dual imperatives of protecting the environment while ensuring maximum value can be extracted from oil and gas assets.</li> </ul>

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