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TSI Submission to the Select Committee on the Taxation of Gas Resources

The Superpower Institute ('TSI') welcomes the opportunity to make this submission to the Select Committee's consultation process, and any further opportunities to contribute to its work.

Overview

The case for reforming Australia's gas taxation arrangements was very strong prior to the conflict in Iran. Instability in global fuel supplies and substantially elevated prices have only strengthened the need for Australia to access benefits from the sale of gas resources owned by the Australian people.

Australia's average return of around 18 per cent of gas sector profits is well below the global norm of between 75 and 90 per cent. Australia has forgone around $80 billion in government revenue since Russia invaded Ukraine and has missed out on more than $2 billion since the start of the Iran war.

Replacing the PRRT with a Fair Share Levy (FSL) on the profits of gas producers would deliver immediate and lasting benefits for Australians: a much stronger federal budget, higher productivity and enhanced welfare.

An FSL, unlike other forms of gas taxation, would not distort the amount of gas exported so would preserve Australia's regional trade relationships in a delicate geopolitical context.

Research commissioned by TSI shows 87 per cent of Australians support a fair share of gas profits for Australians. Now is the time to introduce the FSL as otherwise Australians will miss out on a fair share of the current windfall profits being made.

Australia's gas resources tax regime is ineffective and insufficient

Gas projects are subject to state royalties and Australia's corporate tax; offshore projects are also subject to the federal Petroleum Rent Resource Tax (PRRT).[1] The PRRT was introduced in 1988 to capture the very large economic 'rents' that gas and oil projects generate from Australia's publicly-owned resources.

[1] Excluding projects in the Joint Petroleum Development Area.

Companies secure these rents because they are granted an exclusive licence to extract and process a high-value product. These rents are reflected in large profits, above the 'normal' profits companies usually need to attract investment. Australia significantly undertaxes gas and oil profits compared to other countries.

Between 2019-20 and 2023-24, Australian state and federal governments took around 18 per cent of profits from the oil and gas sector, calculated on a cashflow basis, through a combination of the corporate tax, royalties, and the PRRT.[2]

Most major fossil fuel exporting countries capture the large majority of rents through taxes on fossil fuels and/or direct ownership, converting profits into national wealth. In the Middle East, Africa, the Americas, Norway and in the UK, governments typically take around 75-90 per cent or more of fossil fuel profits (Figure 1).[3]

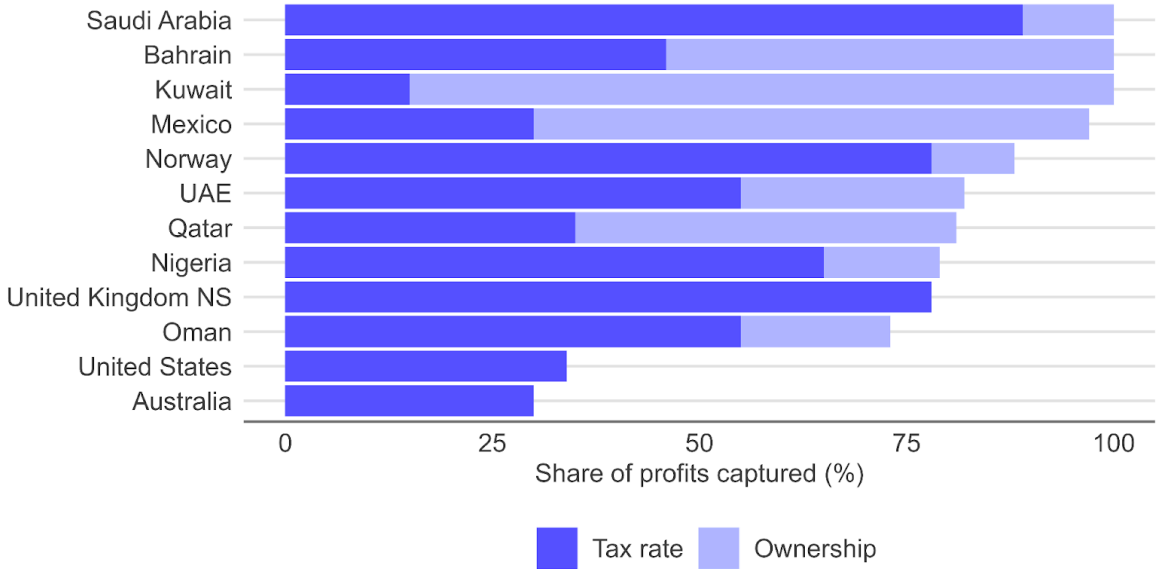

Figure 1. Other countries retain a much higher share of fossil fuel profits than Australia

Notes: Including profits from the the oil, gas, and coal sectors. The share captured from the gas and oil sector is 18 per cent. 'Profits' refers to economic profits (rents) calculated on a cashflow basis, not accounting profits – the appropriate benchmark when comparing to peer countries, such as Norway and the UK. Share of profits attributed to ownership are based on a nation's ownership share of major fossil fuel companies and those companies' share of national production. Estimate for Australia based on data for financial years 2019-20 to 2023-24.

Source: TSI analysis.

[2] 'Profits' refers here to economic profits (rents) calculated on a cashflow basis, not accounting profits – the appropriate benchmark when comparing to peer countries, such as Norway and the UK. Share of profits attributed to ownership are based on a nation's ownership share of major fossil fuel companies and those companies' share of national production. Estimate for Australia based on data for financial years 2019-20 to 2023-24. See Appendices in *The Case For Pricing Pollution* for more detail.

[3] See Appendix A.1, p 66: *The Case For Pricing Pollution* for more detail.

The PRRT allows project tax deductions to be uplifted at high rates and carried through time, with companies acquiring a 'tax shield' that reduces or eliminates their tax obligations in profitable years. As Treasury has noted, the PRRT is poorly suited to Australia's LNG industry, and will never capture the expected revenues:

> *The PRRT has been found to be better suited to oil projects rather than LNG projects since the accumulation of a large stock of carry-forward deductions, compounded by uplifting, can defer the payment of PRRT indefinitely.*[4]

The PRRT does not earn sufficient public revenues from Australia's gas resources.

A two-way cashflow tax is the best way to tax resources

Two-way cashflow taxes take a fixed share of profits or losses each year, preventing the accumulation of tax shields. They are 'economically neutral' because they tax profits rather than production. They do not increase export prices because they take a 'two-way' fixed share of profits and losses. They preserve the rate of return on new projects and do not deter investment. They are regarded by taxation economists as international best practice.

Neutrality of the instrument for gas taxation is important because it does not distort the amount of gas that is made available. Other forms of tax - flat percentage based taxes, windfall profits taxes and royalties - do not share this attribute.

The Norwegian Government uses a two-way cashflow petroleum tax to take 71.2 per cent of profits or losses as they occur each year. This is on top of the standard 22 per cent corporate tax, resulting in a combined marginal tax rate of 78 per cent. As the AFR wrote in 2010, the oil sector "loves high-tax Norway."[5]

In contrast with Australia's taxation of gas resources, Norway's two-way cashflow tax generates substantial revenues. While Australian and Norwegian fossil fuel industry revenues were of comparable scale in 2023, Australian government receipts were less than a third of Norway's. In the more ordinary years prior to the windfall profits of the early 2020s, Australia reaped less than 10 per cent of Norway's revenue (Figures 2a and 2b, page 4).

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[4] Treasury, *Petroleum Resource Rent Tax: Review of Gas Transfer Pricing Arrangements - Final Report to the Treasurer*, 4.
[5] Winestock, 'Oil Sector Loves High-Tax Norway'.

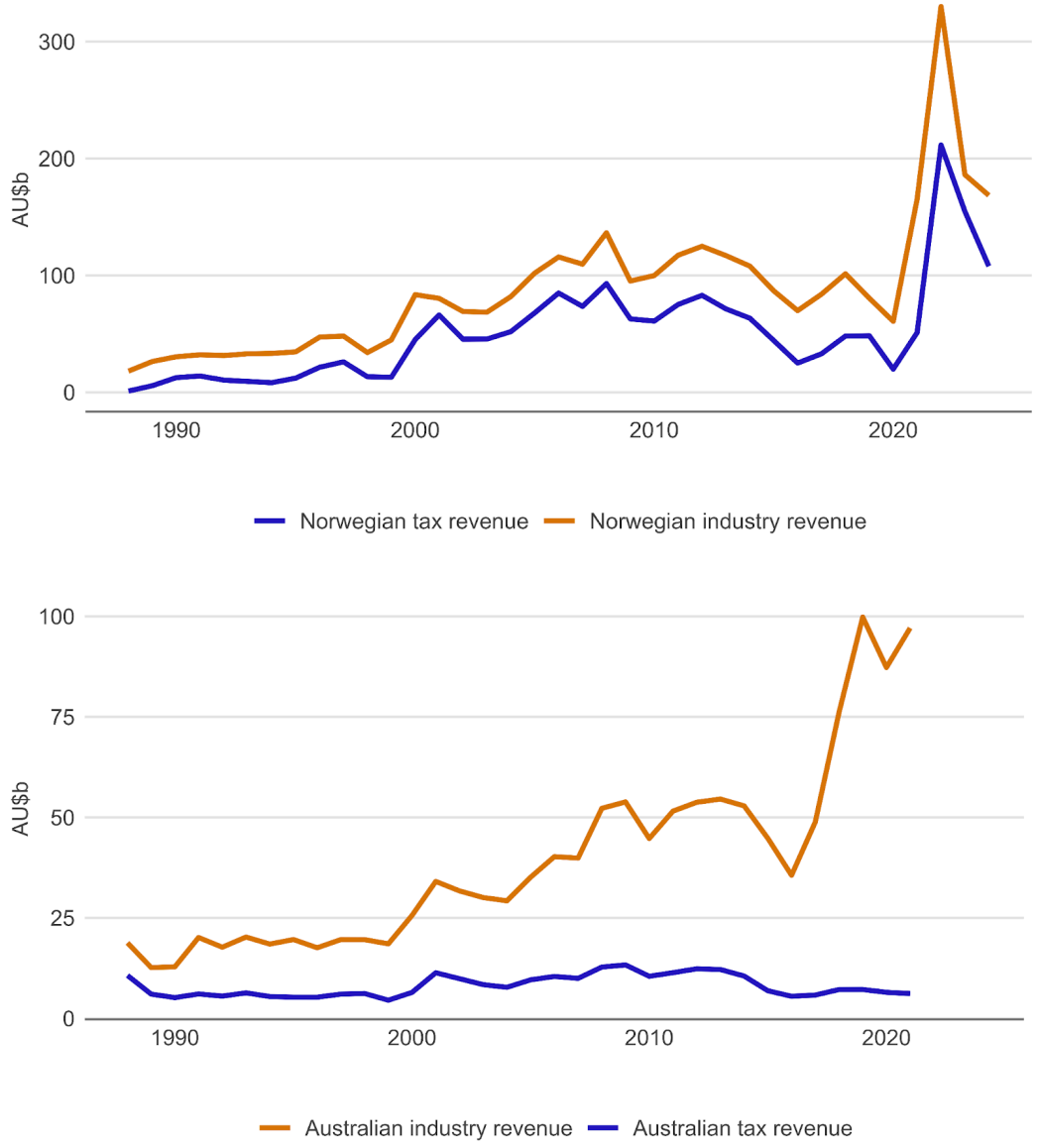

Figure 2a: Norway retains a large share of fossil fuel revenues

Notes: Norwegian revenue only includes exports of oil, gas and condensate by calendar year. Norwegian tax revenue includes corporate tax, "special tax", royalties, area fees, and dividends from State-owned producers. Revenue is given in 2025 NOK multiplied by 0.15 (the current NOK/AUD exchange rate). The sharp lift in revenue in 2021-22 reflects the effects of the Ukraine War.
Source: Norsk Petroleum (2025)[6]

Figure 2b: Australia does not retain a large share of fossil fuel revenues

Notes: Australian tax revenue includes PRRT, production excise, royalties and fees, corporate taxes, and other taxes and fees. This accounts for total revenue and taxes paid by oil and gas companies surveyed by the Australian Energy Producers Financial Survey by financial year. Revenue is given in 2024-25 AUD.
Source: Australian Energy Producers (2022)[7]

[6] Norwegian Petroleum, 'The Government's Revenues'; Norwegian Petroleum, 'Exports of Norwegian Oil and Gas'.

[7] Australian Energy Producers, 'APPEA Oil and Gas Industry Financial Survey: Results from 1987-88 to 2020-21'.

TSI proposes a 'Fair Share Levy' to replace the PRRT

TSI proposes a Fair Share Levy (FSL), a 40 per cent two-way cashflow levy.[8] The 40 per cent rate is the same as the PPRT, and would apply above standard corporate taxes. The standard 30 per cent corporate tax rate applied to the corporate tax base would be subtracted from their taxable income, and the 40 per cent FSL applied to remaining cashflow losses or profits. The combined rate would be 58 per cent, still at the lower end of international norms.

The FSL corrects the failures of the PRRT, which was intended but has failed to capture 40 per cent of the rents of the oil and gas industry. A FSL would realise the original intention of the PRRT by giving Australians a fairer share of the value created from Australian gas resources.

The Benefits of a Fair Share Levy

A FSL would strengthen the budget

The average annual revenue from a FSL would be $13 billion between 2026 and 2050, including a five-year transition period. Our proposed transition arrangements strike a balance between recognising investments made under the PRRT, and generating revenue for the Australian public. We estimate annual deductions would reduce initial FSL revenues by approximately $9.5 billion per year during a transition period.

During the five year transitional payout period, average revenue is $8.2 billion. Revenue peaks at $18.2 billion in 2031, before declining to around $8.3 billion in 2050 as gas production declines with the world moving to net zero (Figure 3).

[8] Often referred to as a ‘Brown’ tax. See Garnaut et al., ‘Replacing Corporate Income Tax with a Cash Flow Tax’.

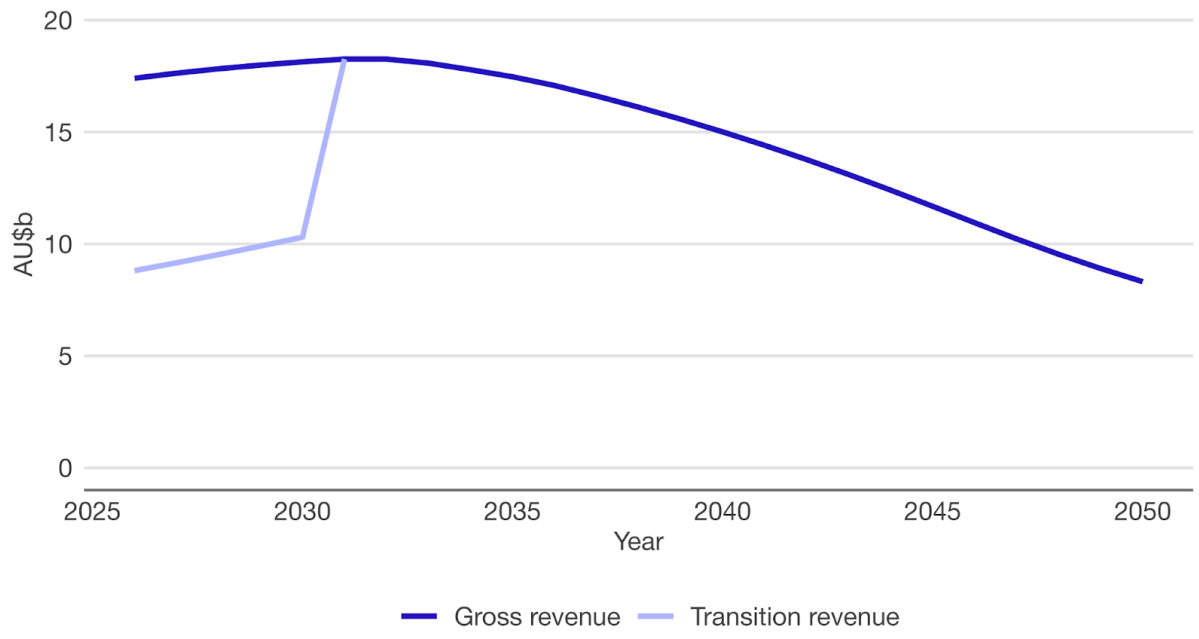

Figure 3. Gross revenue from a Fair Share Levy

Notes: The decline in revenues is due to global decarbonisation; export volumes are unaffected by the FSL. If demand for Australian LNG remains stronger than modelled in our decarbonisation scenario, revenue would remain strong. See Appendix of *The Case For Pricing Pollution* for more details on transition adjustments.
Source: TSI analysis.

The FSL would get a fair share for Australians during periods of high international gas prices. Under the PRRT, when high international prices lift gas company profits, tax shields reduce or eliminate tax obligations.

Under the FSL, government revenue would have increased by more than $2 billion since the start of the Iran crisis – significantly more than the $1.4 billion the PRRT raised annually over the last five years. Had an FSL been in place between 2020 and 2024, when Russia's invasion of Ukraine lifted international gas prices, a FSL would have raised around $80 billion in additional revenue compared to the PRRT.

A FSL would be good for productivity and welfare

Taxes on economic rents are an extremely efficient way to raise revenue because they do not distort prices or investment decisions. This minimises the economic and productivity 'drag' on the economy compared to nearly all other types of tax (Figure 4).

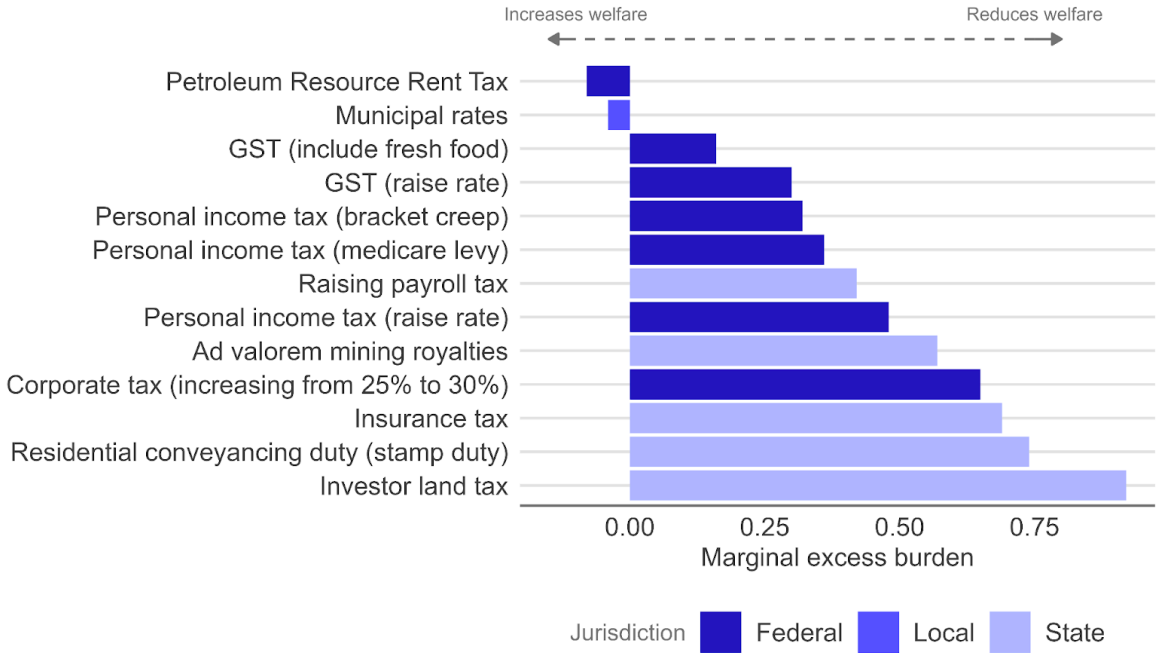

Figure 4: Taxes on economic rents impose the lowest welfare burden on society
Notes: The PRRT is an example of a rent tax. The marginal excess burden (MEB) of 'bracket creep' is created when growing incomes push people into higher tax brackets, holding tax rates fixed. The MEB of 'personal income tax' (raise rate) is based on a 0.28 per cent across-the-board increase in income tax (a 1 per cent increase in the average income tax of 28 per cent).
Sources: Productivity Commission (2025)[9]

The welfare impact of a FSL is exceptionally positive. This is because profits from the Australian oil and gas industry are overwhelmingly exported to foreign shareholders. When these profits are taxed, Australians get the welfare benefits from public revenue as well as an additional fiscal multiplier effect—each dollar of tax circulating in the economy generates additional economic activity.[10]

We estimate that every dollar raised via the FSL leaves Australians $1.20 better off.[11] At its peak, annual benefits from the FSL are equivalent to about $1,541 per household.

A FSL would protect trade relationships

TSI has compared the FSL with a tax on gas exports.

[9] Murphy, *Corporate Tax Reform Modelling Scenarios: First Stage Report*, 13.

[10] Treasury reports that the PRRT, as a rent tax, has a marginal excess burden of -0.1, based on an assumed 10 per cent foreign-owned share across all industries. Foreign ownership is higher in the oil and gas industry. The CGE result for the FSL, measured in welfare gain per dollar of revenue, reflects the combination of a high share of foreign ownership of firms exploiting Australian resources, as well as an additional fiscal multiplier effect.

[11] With foreign ownership of fossil fuel firms at least 85 percent. Murphy, *Efficiency of the Tax System: A Marginal Excess Burden Analysis*. The gain from the FSL exceeds $1 of consumption per dollar of FSL revenue because of fiscal multiplier effects: raised consumption induces increased economic activity, further raising consumption.

TSI favours the FSL because an export tax would raise the price of gas exports, threatening relationships with trading partners who depend on Australia for their energy needs. In the short term this will encourage Australia's trade partners to switch to other suppliers, and in the longer term it will threaten the international relationships that will support an emerging trade in green exports.

The FSL will not have this effect and so is a more geopolitically sensitive way to raise revenue from Australia's gas production and export. The FSL suits the current environment.

Increasing taxation on fossil fuels is extremely popular

There is extremely strong public support for taxes that secure a better return from Australia's gas resources.

In October 2025, The Superpower Institute commissioned Redbridge Group to conduct national quantitative and qualitative research into community attitudes to climate action, cost of living, and economic reform.

Nearly nine in ten voters – 87 per cent – agree with the principle of getting a fairer return, with strong and consistent support across voting intention, age groups, income levels, regions, and levels of financial stress.

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