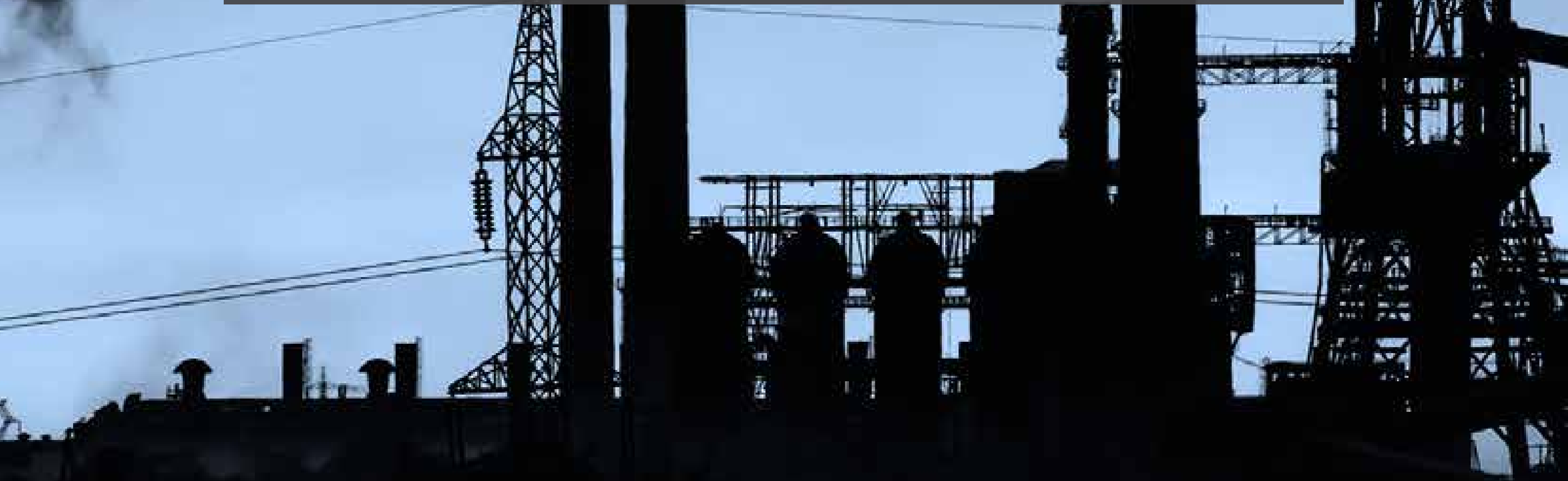
INTO THIN AIR

The tax rorts of Australia's greediest gas giants

Gas corporations operating in Australia are cheating their way out of the Petroleum Resources Rent Tax and funnelling billions offshore through the debt loading loophole.

This report examines these tax rorts, drawing on case studies of two of Australia's most notorious dirty energy tax dodgers.



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KEY FINDINGS

If Australia fixed our broken Petroleum Resource Rent Tax (PRRT) and instituted a world-class royalty scheme on our gas and oil reserves, it would generate $52 billion in additional tax revenue over four years.

Over a ten year period, this would be enough to reverse every last cent of the Turnbull Government's cuts to local hospitals and fully fund Gonski needs-based school funding reform – twice over.

Meanwhile if Australia closed the debt loading loophole, between 2012-15, gas giants Chevron and ExxonMobil alone would have paid an additional $2.69 billion in tax.

This stolen tax revenue is enough to pay the salaries of 44,163 nurses. That's the equivalent of an additional 60 nurses at every acute care public hospital in Australia.[1,2]

AUSTRALIA'S GREEDIEST GAS GIANT

Chevron

In 2014-15 Chevron made over **$3 billion** in Australian revenue and paid their global CEO **USD$26 million.**[3,4]

In the same period they paid...

$0 **CORPORATE TAX**[4]

$0 **PETROLEUM RESOURCE RENT TAX**[4]

HOW TO FIX OUR BROKEN PRRT

The PRRT is intended to ensure dirty energy corporations fairly compensate the Australian people for the massive profits they make on the back of domestic oil and gas supplies.

The PRRT rate is set at 40% of the profit made on the oil and gas extracted and sold.

> **Australian Tax Office figures show that Chevron paid $0 PRRT in both 2013-14 and 2014-15.**[5]
>
> **And they're not alone – 95% of all Australian oil and gas projects paid no PRRT whatsoever in 2014-15.**[6]

Clearly, the PRRT is broken – and it's our local schools and hospitals that are losing out. The Turnbull Government urgently needs to look at world-class oil and gas royalty schemes to put an end to dirty energy tax rorting.

These world-class royalty schemes tax oil and gas at point of sale rather than on profit, which can easily be eliminated using loopholes and accounting tricks.

THE USA OFFSHORE ROYALTY SYSTEM

Introduced by George W Bush in 2008, this scheme sets a flat rate of 18.75% on all revenue from oil and gas.

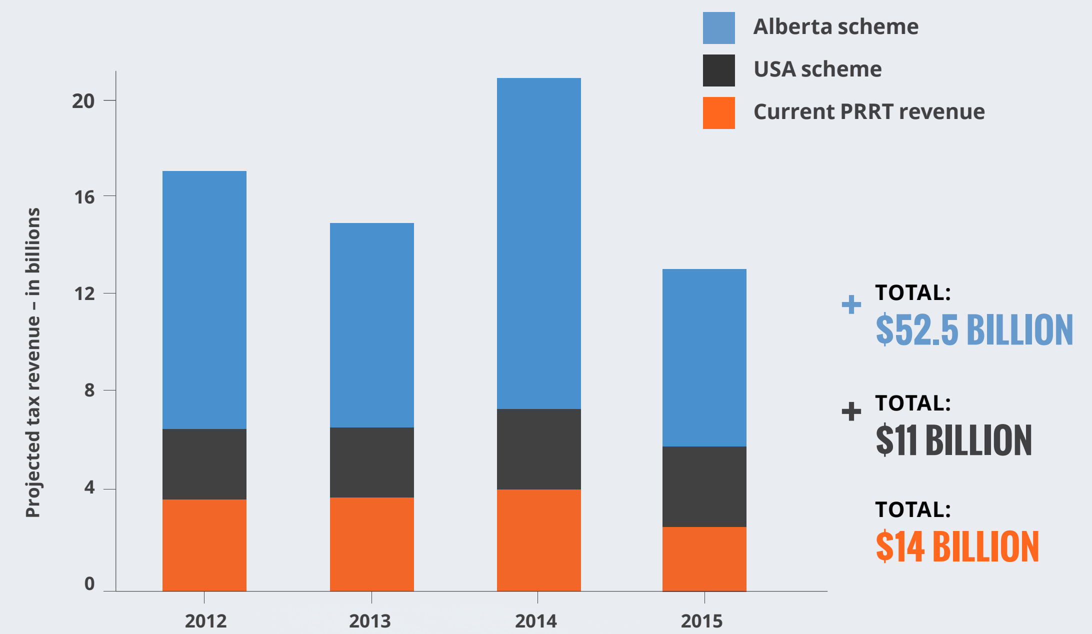
> **If Australia had adopted the US royalty system, it would have generated an extra $11 billion in tax revenue between 2012 and 2015.**

THE ALBERTA, CANADA ROYALTY SYSTEM

This scheme sets a progressive tax rate that ranges from 5%-36%, depending on petroleum type and market price. It took effect on 1 January 2017.

> **If Australia had adopted Alberta's royalty system, it would have generated an extra $52 billion in tax revenue between 2012 and 2015.**

ADDITIONAL REVENUE FROM PRRT REFORM



Methodology: Data comes from the APPEA Financial Survey 2014-15. The survey reports aggregated data for the oil and gas industry on production volumes, revenue from oil and gas sales, total industry assets, net profits, selected non-tax costs and taxes. This analysis applied royalty rates of the USA and Alberta, Canada schemes to the production volumes and estimated realised prices reported by the Australian industry.

DEBT LOADING: THE ONGOING SCANDAL

The biggest tax rort used by dirty energy companies is called 'debt loading', also known as 'thin capitalisation'.

Debt loading is a process whereby an overseas multinational lends capital to their Australian operation at an artificially inflated interest rate. Profits made in Australia are then used to 'repay' the loan interest, sending the money offshore.

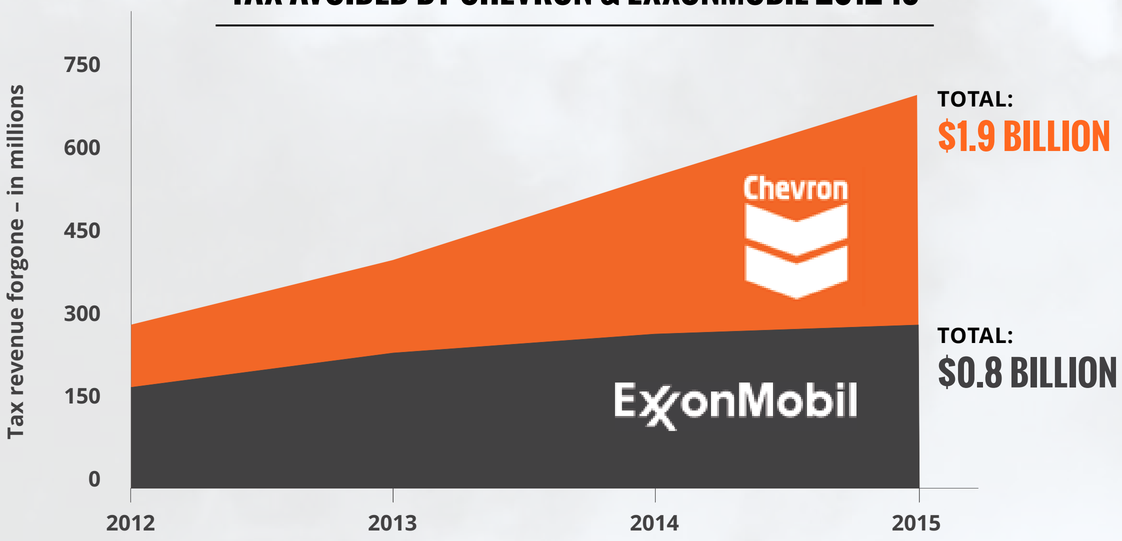
Between 2012-2015, Chevron used the debt loading loophole to avoid contributing $1.89 billion in tax.

In the same time period, ExxonMobil robbed the Australian people of a further $804 million.

And they're not the only ones. While this report only looked at two case studies, it certainly raises the question: How many of the other 58 oil and gas corporations operating in Australia are also dodging billions in tax?

The Turnbull Government should follow Hong Kong's example and close the debt loading loophole, by removing the tax deductibility of interest payments made to related offshore subsidiaries.

TAX AVOIDED BY CHEVRON & EXXONMOBIL 2012-15



Methodology: Data comes from the IBIS World Industry and Company Research database, which provides financial statements for the most recent five year period. The data was converted into AUD at the balance date. The data was verified against actual financial statements for two years. The effective interest rate for each global group was calculated from the consolidated financial statements of the ultimate parent companies. It was then compared with an estimate of the tax revenue that would be generated by disallowing interest deductions for related party transactions.

Congratulations to 2,236 GetUp members who chipped in to fund this report

This report was produced in consultation with Professor Roman Lanis, Ross McClure and Dr Brett Govendir from the University of Technology School of Accounting. It is a summary of their full report, 'Evaluation of the Petroleum Resource Rent Tax and Debt Loading in Australia – 2012 to 2016'.

Check out the full report here: **getup.org.au/greedy-gas-full-report**

[1] What do nurses earn? Health Times, 29 March 2017
[2] How many hospitals are there? Australian Institute of Health and Welfare, 2017
[3] Chevron CEO Watson Paid $26 Million in 2014, Wall Street Journal, April 9, 2015
[4] ATO corporate tax transparency data 2014-15
[5] ATO corporate tax transparency data 2013-14 and 2014-15
[6] Only 5% of oil and gas companies pay resource tax, Sydney Morning Herald, 11 October 2016