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8 May 2020

Board of Taxation Secretariat
The Treasury – Melbourne Office
Level 6, 120 Collins Street
Melbourne VIC 3000

(via email: CGTRollovers@taxboard.gov.au)

Dear Craig & Ann-Maree,

RE: Board of Taxation Consultation – Review of CGT Rollovers

Executive Summary

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing companies actively engaging in oil and gas exploration and production in Australia. APPEA's members have invested $350 billion over the past decade in developing projects, account for more than 90 per cent of Australia's oil and gas production, support 80,000 jobs both directly and indirectly, made $77 billion in to governments and they continue to support the delivery of infrastructure and the development of regional Australia.

APPEA supports policy aimed at simplifying the tax regimes applicable to Australian companies. We therefore welcome the Board of Taxation's ("the Board") review of capital gains tax (CGT) roll-overs. It is the view of APPEA that that many of the existing roll-overs should remain.

APPEA also supports the policy considerations outlined in the Consultation Paper.[1] We acknowledge that the Board's ability to *"consider whether there would be benefit in providing additional categories of roll-overs"* will be critical in the current economic climate. Arguably, there has never been a more important time to ensure that barriers to sustained investment be removed.[2]

Consistent with principle 4 of the Consultation Paper, APPEA proposes that CGT roll-over relief be extended to allow roll-over relief to be applied to the swap, between joint venture participants, of interests in permits and relevant infrastructure where the value of the swapped interests is equal.[3] Tax policy should not discourage joint venture entry or exit facilitated through asset swaps to the extent value is merely exchanged within Australia.

The oil and gas industry in Australia is evolving and it will be in the national interest to capture the next wave of investment. This next wave requires the development of under-utilised resources

[1] Refer to consultation question 1 in the Consultation Paper on page 16.
[2] Consultation Paper, page 3
[3] This proposal is also in line with the principles that underpin Subdivisions 124-M and 124-S of the *Income Tax Assessment Act 1997* - All legislative references herein will refer to the *Income Tax Assessment Act 1997* unless otherwise stated.

through existing downstream infrastructure. This is also more capital efficient than the development of standalone “greenfields” projects.

The absence of a CGT roll-over for these circumstances may distort commercial decision-making for investment decisions. It may result in productive infrastructure being abandoned and resources becoming stranded without being monetised. The proposal put forward by APPEA will ensure that joint venture entry or exit can be facilitated through asset swaps without compromising the integrity and underlying principles of the tax system.

The Oil and Gas industry in Australia

Given Australia’s vast size, remote terrain and distance from markets (both domestic and export), many permit areas with discovered resources cannot, of themselves, justify (commercially and economically) the high cost of exploration and development activities. As a result, joint ventures are traditionally formed to develop new projects. Joint ventures allow the industry to aggregate neighbouring projects, to pool capital, to access technical expertise and to share risk. The formation of joint ventures often entails the swapping of assets (predominantly petroleum permits) so that participants have a proportionate share in each project’s assets.

Joint ventures have inherent inflexibility as they generally require unanimous decision making. This increases the potential for delay or deadlock in projects where not all participants can agree on a joint direction. At times, it is appropriate for a joint venture participant to exit to allow the remaining participants to progress a project.

Facilitating the entry of a new joint venture participant through the swap of a promising petroleum permit for a share in existing infrastructure, of equivalent value, will have the benefit of expediently aligning all participant interests. This avoids the need for protracted negotiations on tariff rates, tolling and other contractual terms.

Exits can be facilitated where the “leaving participant” is compensated with an interest in another Australian petroleum asset (permit or infrastructure). This is attractive for both the leaving and remaining participants as capital raising costs can be avoided.

Large-scale resource projects should be owned by those participants most likely to succeed with a cost-effective development. The unprecedent investment of the past decade has resulted in substantial downstream infrastructure being constructed. This infrastructure can be used or expanded to unlock under-utilised resources (i.e. “stranded gas”) in a more capital efficient way.

APPEA believes tax policy should not discourage joint venture entry or exit facilitated through asset swaps to the extent value is merely exchanged within Australia.

<u>*2013-14 budget reforms and the need for additional roll-over relief*</u>

Prior to 2013, where certain conditions were met, the cost of acquiring an interest in a petroleum permit from another taxpayer was immediately deductible. This treatment generally made petroleum permit swaps tax neutral. Following the 2013-14 Federal Budget, immediate deductibility was replaced with deductibility over 15 years or the project's effective life. The change in law was to prevent taxpayers receiving an immediate deduction for acquisitions of project interests which were in the late stages of exploration/feasibility, and therefore in substance more akin to the purchase of a revenue producing asset.

This also had the unintended consequence of discouraging investors from swapping assets in a way that facilitates resource development. After the 2013-14 Federal Budget announcement, the petroleum industry advocated for roll-over relief for commercial transactions involving interest realignments (i.e. transfers of interests in permits within a project) and permit swaps (i.e. an exchange of interests in permits that are not part of the same petroleum project). Relief was sought on the basis that these transactions were not the threat to the revenue that the law change was intended to cover.

In response, the Government implemented roll-over relief for interest realignments within projects but not for permit swaps across projects. Since that time, the imperative for the development of "stranded gas" through existing infrastructure has become more pressing. This is because downstream infrastructure is approaching ullage. However, with the right fiscal settings, this infrastructure can be used or expanded to unlock that "stranded gas".

APPEA's policy proposal for asset realignment roll-over relief

Roll-overs are designed to defer the recognition of a capital gain or loss. APPEA acknowledges that the principles and parameters than underpin roll-over relief are critical from both an equity and efficiency perspective.

CGT roll-overs in Australia predominantly focus on situations where no change occurs in the underlying ownership of the asset or where the assets are involuntarily disposed of. However, relief is also made available where value is merely exchanged in Australia. Examples include scrip for scrip exchanges, exchanges of units or shares, and the replacement of depreciating assets.[4]

It is on this basis that APPEA makes the case that the swapping of interests in permits and existing infrastructure – which is merely the exchange of value within Australia as a precursor to value creation by the oil and gas industry in Australia – should also be subject to roll-over relief.

This basis draws on the justification for the enactment of Subdivision 124-M – where it was identified in the accompanying *Explanatory Memorandum*:

> *"The existing CGT provisions are an impediment to corporate acquisition activity in Australia."*[5]

[4] Division 124. Subdivision 124-M was introduced as part of the *New Business Tax System (Capital Gains Tax) Bill 1999*.
[5] Paragraph 2.3, Explanatory Memorandum to *New Business Tax System (Capital Gains Tax) Bill 1999.*

and that

> *"the roll-over will enhance the functioning of, and value creation by, the corporate sector in Australia."*[6]

Under Subdivision 124-M, a shareholder in a target company is permitted to defer the capital gain[7] when its shares in that target company are exchanged (i.e. "swapped") for shares in another company.[8]

It is APPEA's proposal that the roll-over relief conceptualised in Subdivision 124-M be extended to the swapping of interests in permits and existing infrastructure. As with the justification provided for the enactment of Subdivision 124-M, APPEA believes this proposal will enhance the functioning of, and value creation by, the oil and gas industry in Australia.

To achieve this proposal, the appropriate deferral of the taxing point needs to be recognised. APPEA recommends the following principles be adopted:

- A CGT event needs to occur in relation to post-CGT interests
- Roll-over relief is made voluntary and only provides relief from the operation of Parts 3-1 and 3-3 to the extent a swapping of interest occurs where no economic gain or loss is realised
- Where roll-over relief is taken, the first element of the cost base of the interest in the asset received is taken to be the cost base off the interest in the asset provided (with adjustments made accordingly for any cash component provided/received)
- To the extent cash or cash equivalent (i.e. ineligible proceeds) is provided or received in addition to the swapping of interests (reflective of difference in the value of the interests exchanged) such amounts will be subject to taxation as per the current law, and
- Where integrity concerns remain, these can be addressed with the introduction of a notional interest test which would include objective requirements such as minimum dollar value threshold or ministerial approval.

These principles can be achieved by amending section 40-363 to broaden the definition of an "interest realignment arrangement". Further consideration would need to be given to consequential adjustments required in other legislation such as the *Petroleum Resource Rent Tax Assessment Act 1987*.

Attachment A to this submission contains generic case studies and examples that illustrate the types of transactions that could be facilitated within the principles and parameters of this proposal.

[6] Paragraph 2.5, Explanatory Memorandum to *New Business Tax System (Capital Gains Tax) Bill 1999.*
[7] Assuming a capital gain would otherwise arise on this disposal.
[8] It is acknowledged that the other company must acquire a minimum percentage of the shares in the target company.

The benefits unlocked by asset realignment roll-over relief

As set out above, facilitating the entry or exit of new joint venture participant through asset swaps will have the benefit of expediently aligning all participant interests so that development can proceed. The benefits of alignment to project schedules (i.e. time to first production) should not be underestimated. Expedient alignment avoids the need for protracted negotiations on tariff rates, tolling and other contractual terms. The leaving and remaining participants also avoid unnecessary capital raising costs – increasing project efficiency.

For example, in 2012 Chevron and Shell swapped out interests in the Clio and Browse gas fields. This swap may not have proceeded after the 2013-14 Federal Budget given the large upfront cash payments that would have been required to meet both parties' tax obligations. That transaction reduced the number of participants in the Browse joint venture, allowing it to progress its development studies without Chevron. In exchange, Chevron took 100% interest in Clio, a reservoir located next to the Chevron operated Gorgon and Wheatstone fields, and therefore a prime backfill/expansion option for either of those projects.

This swap provided benefits to both Chevron and Shell as well as the broader economy by removing commercial barriers to the further development of both fields. In 2020, offshore resources first discovered in 1974 are a step closer to commercialisation through existing infrastructure on the west coast of Australia.

Other gas resources exist in proximity and would likely need to be commercialised through the same infrastructure.[9] This is because many such resources are unlikely, of themselves, to be of a scale to justify (commercially and economically) the high cost of exploration and development activities. However, challenges to aligning the interests of all participants remain.

The scale of the potential benefits are significant and can be appreciated by understanding some of the next likely projects that will progress to an investment decision. In a report completed by ACIL Allen Consulting on the economic impacts of the Browse Project [10] it was estimated that the direct contribution to the Australian economy would include:

- AU$36 billion in capital expenditure in Western Australia
- 1,800 jobs during peak construction activities with around 720 operations jobs being created or sustained during operations
- AU$493 million of annual average operational expenditure in Western Australia, and
- Almost $63 billion of total taxation and royalty payments to contributed to governments as a result of the proposed project.

[9] **Attachment B** to this submission provides a diagrammatic overview of the estimated amount of hydrocarbon resource deposits and key population centres in Australia, with reserves able to be developed being aided by this proposal.

[10] ACIL Allen Consulting, *Browse and North West Shelf Extension – Economic Impact Assessment 2019,* https://www.acilallen.com.au/uploads/files/page/31/BrowseDevelopmentSummaryBrochure-<1562111138.pdf> (last accessed 30 March 2020).

In another reported completed by ACIL Allen Consulting on the economic impacts of the proposed development of the Scarborough gas field[11] estimated that the direct contribution to the Australian economy would include:

- AU$15.8 billion in capital expenditure in Western Australia
- 3,200 jobs during peak construction activities with around 600 operations jobs being created or sustained during operations,
- AU$348 million of annual average operational expenditure in Western Australia which is the equivalent of the average retail spending of 27,000 Western Australian residents each year, and
- Almost $19 billion of total taxation and royalty payments to contributed to governments as a result of the proposed project.

Whilst these two projects would not rely on APPEA's proposal, it reflects the significant potential benefits that can be unlocked by removing commercial barriers. This will enhance access to multi-user infrastructure and lower development costs. All this can be achieved without compromising the integrity and underlying principles of the tax system. It will ensure the benefits of the past can be replicated into the future.

Revenue impacts of asset realignment roll-over relief

APPEA's proposal to provide roll-over relief for the swapping of interest in permits and existing infrastructure would not pose a significant threat to the revenue due to the symmetry being created by the proposal. Where swaps occur with no cash or cash-like component there are no upfront deductions being claimed to reduce the taxable income and the tax liability its only deferred, not removed.

The proposal is also consistent with the then Treasurer's Press Release accompanying the 2013-14 Federal Budget where it was clear that income tax relief should be considered for both interest realignments and permit swaps:

> *"[A]n industry practice to swap exploration or retention lease tenements with other companies to consolidate holdings and facilitate better infrastructure development"*

and that the Government would:

> *"[C]onsult with industry to identify any circumstances in which an interest acquired through the exchange of mining rights should receive concessional tax treatment because the transaction does not give rise to integrity concerns."*

Comparisons with rollover relief in other overseas jurisdictions

The proposal outlined by APPEA in this submission is not unique as it also draws similarity not only with roll-over rules in the United States of America ("US") and the United Kingdom ("UK"). These roll-

[11] ACIL Allen Consulting, *Proposed development of Scarborough – Economic Impact Assessment 2019,* <https://www.acilallen.com.au/uploads/files/page/31/Scarborough-Development-Summary-Brochure-1562111066.pdf> (last accessed 30 March 2020)

over rules exist because the tax law recognises that the roll-over event is not the appropriate taxing point.

The United States

The US has a “Like Kind Exchange” rule which effectively allows taxpayers to exchange certain like-kind property (such as exploration, retention and production tenures) to defer gains until the full benefits are realised. Importantly and consistent with the principles outlined by APPEA in this submission, the property exchanged must be of the same nature or class of asset - For example, a non-producing interest could not be swapped for a production interest.

Where an entity partakes in the exchange of like-kind property, the property obtained in the exchange will take on the cost base of the original asset thereby preserving the any unrealised gains accrued to the point of the exchange. Any cash consideration is taxed at the point where assets are exchanged and does not qualify for any form of deferral. When the replacement property is ultimately sold, the original deferred gain plus any additional gain realised since the exchange of the asset (i.e. the replacement property) is subject to tax.

Swaps of permit interests in undeveloped areas are also deemed to take place for zero consideration, to the extent that the consideration is in the form of another permit relating to another undeveloped area.

It is also worth highlighting that recently enacted tax reforms in the US have, in any event, also allowed for the immediate deduction of the cost of certain capital assets.

The United Kingdom

In the UK, legislation was introduced in 2009 to facilitate the tax-free exchange of petroleum licences. Under these rules, where North Sea licences are exchanged and no cash consideration is involved, no gain (or loss) is brought to account for tax purposes to the extent the value of the licence acquired is equal to the value of the licence disposed.

In 2014, further reinvestment relief was provided to the oil and gas sector. Chargeable gains arising on the disposal of UK petroleum assets are exempt if the disposal proceeds are reinvested in either UK petroleum assets or qualifying exploration and appraisal expenditure in the UK.

Concluding remarks

Industry investment over the past decade has positioned Australia as a leader in the global gas market. We can further capitalise on growth within the Asian region as the demand for energy increases from industry and households in the region. Maintaining our international competitiveness, while operating within a relatively high-cost local environment with a complex domestic regulatory framework, places pressure on our ability to secure the funds necessary to underpin the next wave of investment.

APPEA's proposal will assist with unlocking resources by removing commercial barriers. This will enhance access to multi-user infrastructure and lower development costs.

All this can be achieved without compromising the integrity and underlying principles of the tax system.

We look forward to further discussing this proposal with you in further detail. If you have any queries or for further information you can me on 0403 152 157 or at sstaples@appea.com.au.

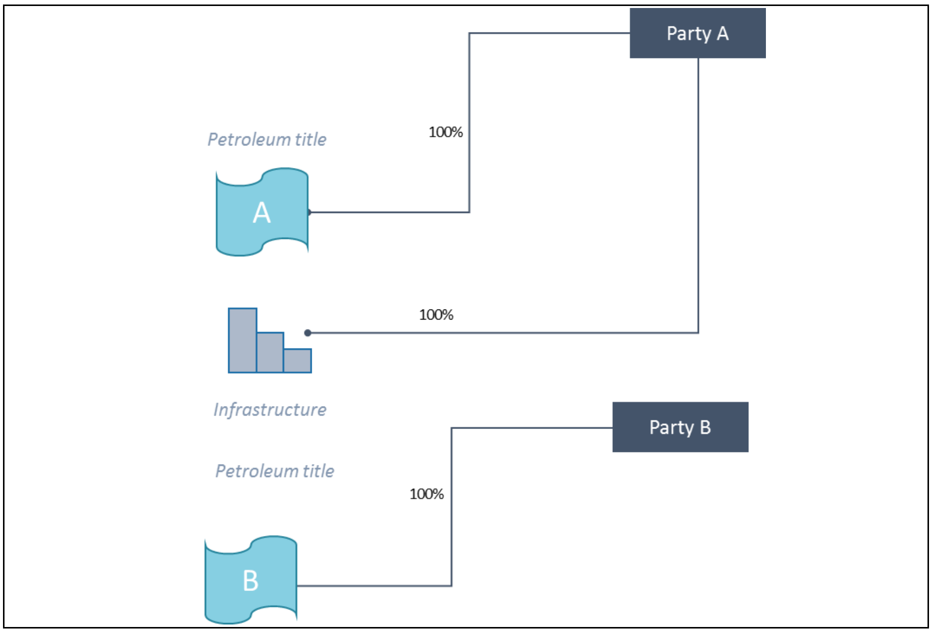
Yours sincerely

Simon Staples
Director - Commercial

ATTACHMENT A: Case Studies & Examples

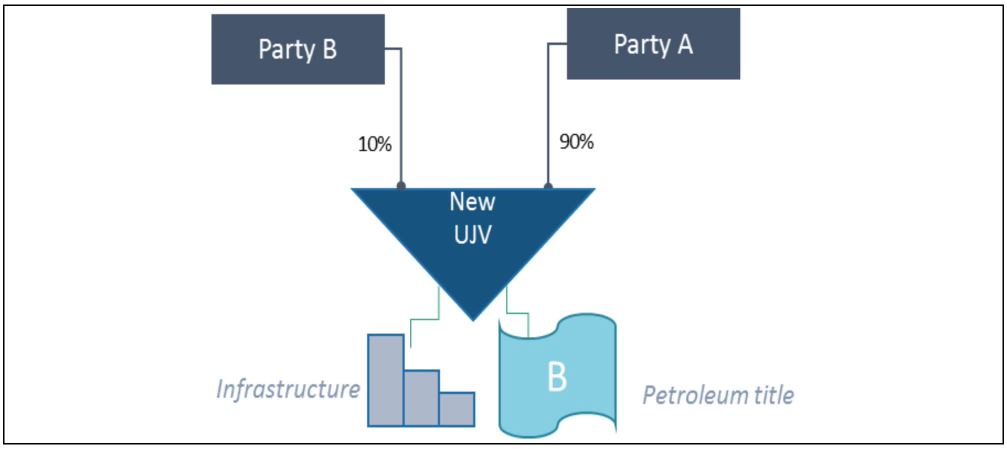
Case Study 1

1. Party A has interests in a petroleum title and related infrastructure with capacity/approaching ullage.
2. Party B has an interest in a separate undeveloped petroleum title.
3. Party A and Party B would like to consolidate interests, such that a new joint venture is formed where:
   - Party A's interest in the new joint venture is say, 90%, **and**
   - Party B's interest is 10%.
4. The percentage interests are agreed between the parties, acting at arm's length, based on interpretation of reservoir data and valuations of infrastructure.



To facilitate this outcome

1. Party A and Party B enter into a new common joint operating agreement (New UJV) covering Petroleum title B and the infrastructure.
2. These transactions would assist with alignment of commercial objectives given the owners of the infrastructure would also have ownership in the petroleum titles.

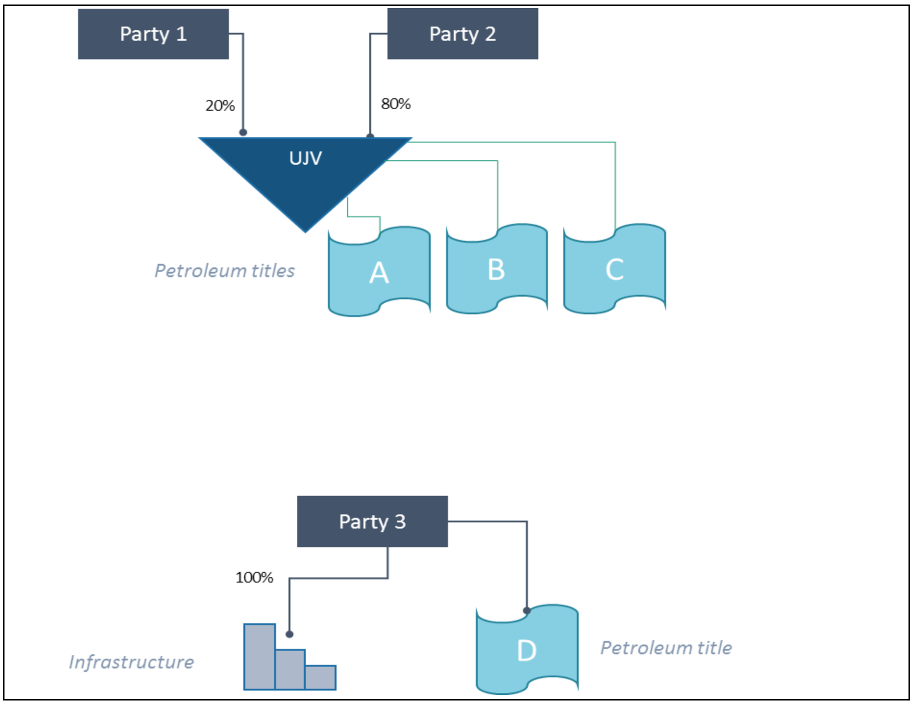


<u>Taxation outcomes under APPEA's proposal vs current legislation</u>

Under APPEA's proposal	Under the existing legislation
▪ Both parties voluntarily elect to use rollover relief. ▪ No capital gain or balancing adjustment arises under the transfers of interests in the petroleum titles, infrastructure or on creation of operating agreements. ▪ A portion of Party B's existing cost base in title B is transferred to its newly acquired interest in the infrastructure. ▪ A portion of Party A's existing cost base in the infrastructure interest is transferred its newly acquired interest in title B. ▪ No assessable receipts on the transfer of the interest in the infrastructure should be recognised for purposes of PRRT. ▪ Transfers of interests in Petroleum titles are not currently taxed under PRRT	▪ Rollover relief does not exist creating asymmetric outcomes despite the transactions merely facilitating an exchange in value. ▪ The swapping of a portion of Party A's interest in infrastructure would give to a capital event or balancing adjustment. Party A's cost base of the newly acquired interest in title B would be deductible in accordance with Division 40 (over 15 years). ▪ The swapping of a portion of Party B's interest in title B would give to a capital event or balancing adjustment. Party B's cost base of the newly acquired interest in infrastructure would be deductible in accordance with Division 40.

Case Study 2

1. Party 1 and Party 2 have interests in a range of separate undeveloped petroleum titles.
2. Party 3 has an interest in infrastructure with spare capacity/approaching ullage but which could be used to process the reserves in those titles.
3. Party 1 has no desire to develop Petroleum titles A or B, but considers Petroleum title C highly prospective.
4. Party 1 would consider exchanging its 20% interest in Petroleum titles A and B for Party 2's 80% interest in Petroleum title C
5. Party 2 and Party 3 would like to consolidate interests in Petroleum titles A and B for development and processing through Party 3's infrastructure, such that a new joint venture is formed where:
   - Party 3's interest in the new joint venture is say; 70%, and
   - Party 2's interest is 30%; and
   - Party 3's interest in Petroleum title D is unaffected.
6. The percentage interests are agreed between the parties, acting at arm's length, based on interpretation of reservoir data and valuations of infrastructure.

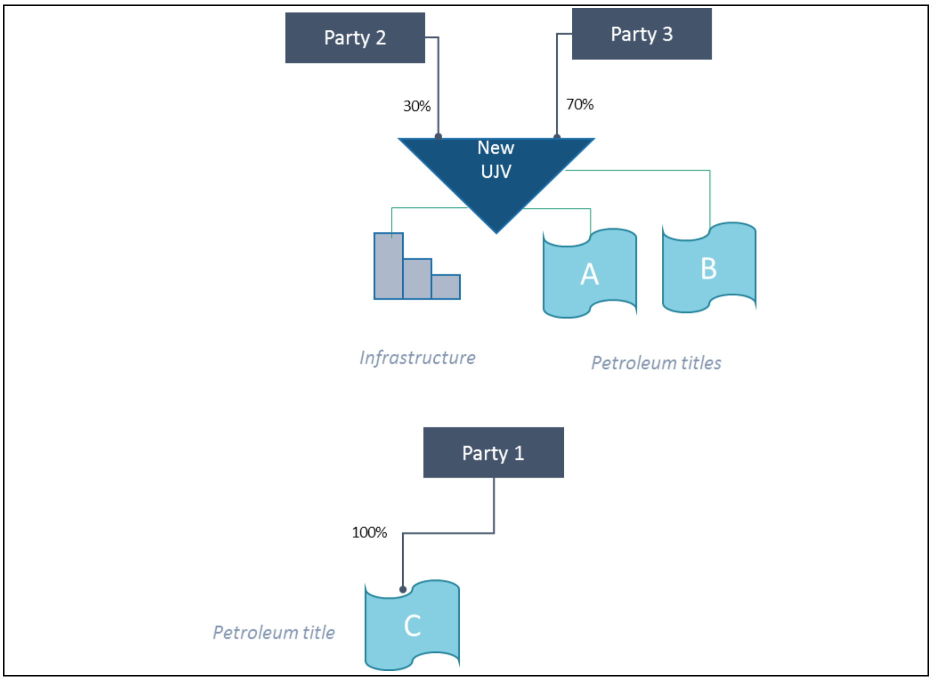


To facilitate this outcome:

Party 1 exchanges its 20% interests in Petroleum titles A and B for Party 2's 80% interest in Petroleum title C and their JV is thereby terminated.

1. Party 2 and Party 3 enter into a new common joint operating agreement (New UJV) covering Petroleum titles A and B and the related infrastructure.

2. These transactions would assist with alignment of commercial objectives given the owners of the infrastructure would also have ownership in the petroleum titles.



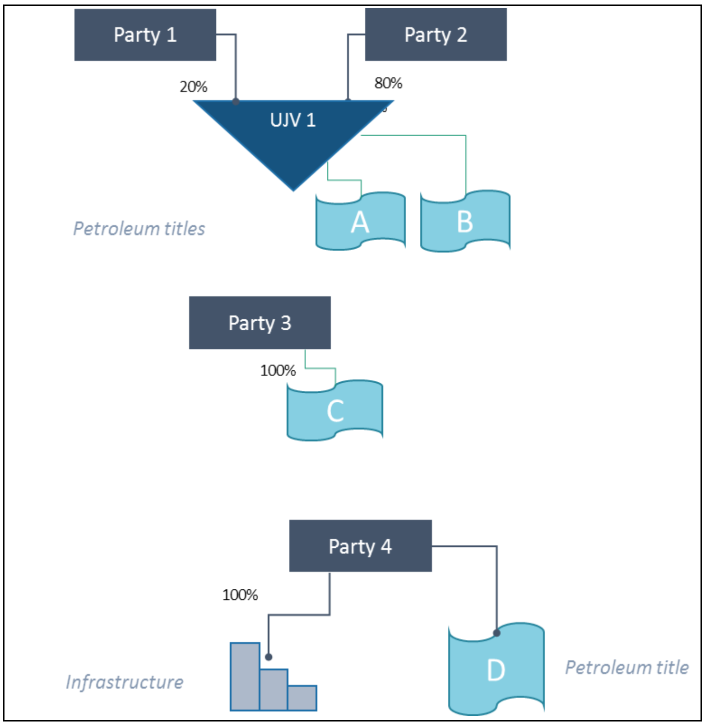
Taxation outcomes under APPEA's proposal vs current legislation

Under APPEA's proposal	Under the existing legislation
▪ All parties voluntarily elect to use rollover relief ▪ No capital gain or balancing charge arises under the transfers of partial interests in the petroleum titles, infrastructure or on the creation of the operating agreements. ▪ Party 1's existing cost base in titles A and B (if any) is transferred to its newly acquired interest in title C. ▪ Party 2's existing cost base in title C (if any) is transferred to its newly acquired interests in titles A and B. ▪ The portion of Party 3's cost base in the infrastructure interest disposed of is transferred to its newly acquired interests in titles A and B. ▪ The portion of Party 2's cost base in titles A and B is transferred to its newly acquired interest in the infrastructure.	▪ Rollover relief does not exist creating asymmetric outcomes despite the transactions merely facilitating an exchange in value. ▪ The swapping of a portion of Party 1's interests in titles A and B (if any) swapped results in a capital event or balancing adjustment. The cost base of Party 1's interests acquired in title C is deductible in accordance with Division 40 (over 15 years). ▪ The swapping of a portion of Party 2's interest in title C results in a capital event or balancing adjustment. The cost base of Party 2's interests in titles A and B is deductible in accordance with Division 40 (over 15 years). ▪ The swapping of a portion of Party 3's interest infrastructure results in a capital event or balancing adjustment. The cost base of Party 3's interests acquired from in

▪ No assessable receipts on the transfer of the interest in the infrastructure should be recognised for purposes of PRRT. ▪ Transfers of interests in Petroleum titles are not currently taxed under PRRT.	titles A and B is deductible in accordance with Division 40 (over 15 years) ▪ The subsequent swapping of a portion of Party 2’s newly acquired interests in titles A and B would then result in a capital event or balancing adjustment. The cost base of Party 2’s interests in infrastructure is deductible in accordance with Division 40

Case Study 3

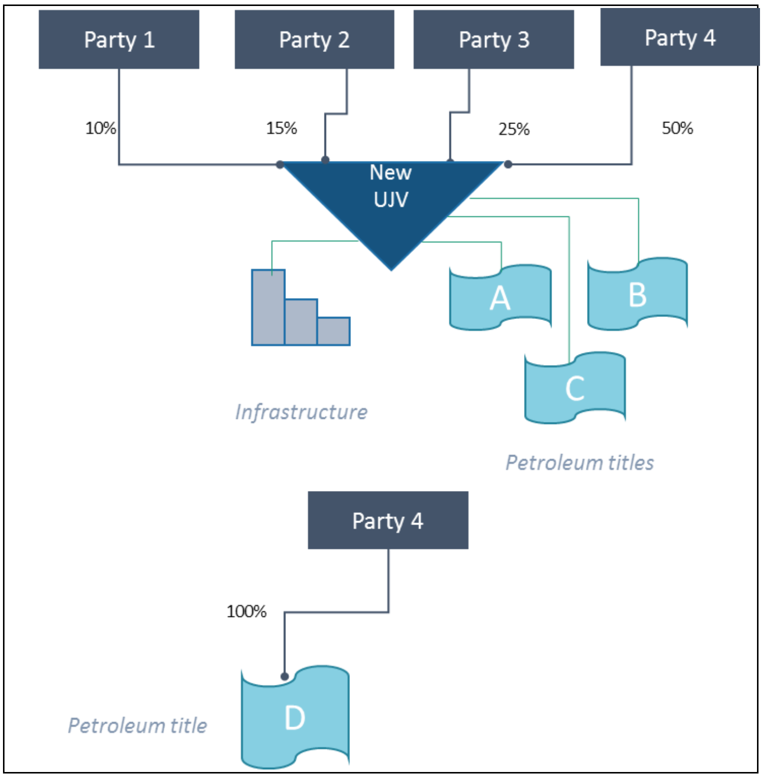
1. Party 1 and Party 2 have interests in a range of separate undeveloped Petroleum titles. Party 3 also has an interest undeveloped Petroleum title.
2. Party 4 has an interest in infrastructure with spare capacity/approaching ullage but which could be used to process the reserves in those titles.
3. Party 1 and Party 2 would consider exchanging an interest in Petroleum titles A and B for an interest in Party 3's Petroleum title C. A new joint venture would be created with a sufficient cumulative resource – to enable an approach to Party 4.
4. Party 1, 2, 3 and 4 would like to process hydrocarbons through Party 4's infrastructure, and create a joint venture with aligned interests across titles and infrastructure:
   - Party 1's interest is say, 10%,
   - Party 2's interest is 15%;
   - Party 3's interest is 25%;
   - Party 4's interest is 50%; and
   - Party 4's interest in Petroleum title D is unaffected.
5. The percentage interests are agreed between the parties, acting at arm's length, based on interpretation of reservoir data and valuations of infrastructure.



To facilitate this outcome:

1. Parties 1, 2 and 3 exchange interests in Petroleum titles A, B and C – a new JV is created.
2. Parties 1, 2 and 3 then exchange interests in petroleum titles with Party 4's interest in infrastructure, enter into a new common joint operating agreement (New UJV).

3. These transactions would assist with alignment of commercial objectives given the owners of the infrastructure would also have ownership in the petroleum titles.



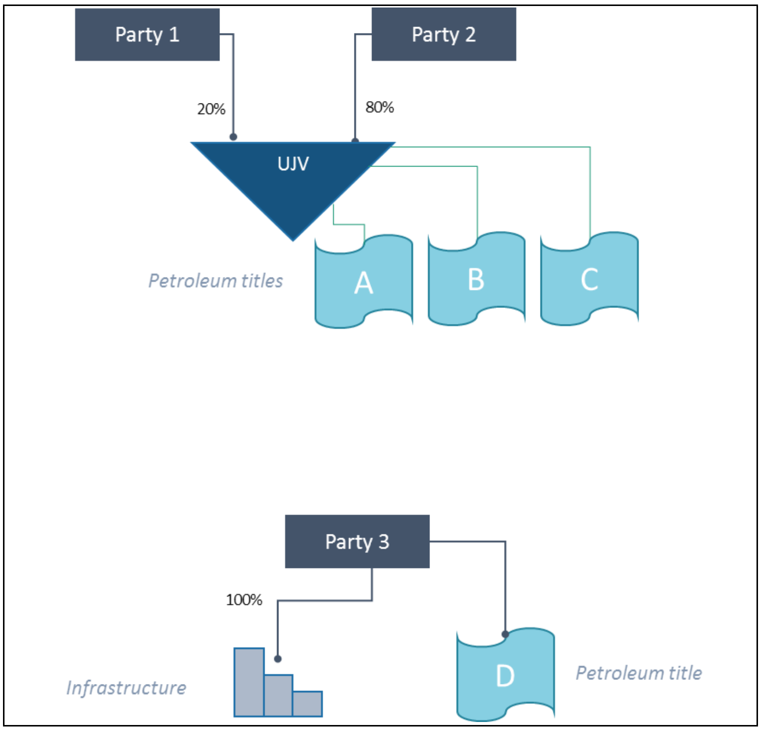
<u>Taxation outcomes under APPEA's proposal vs current legislation</u>

Under APPEA's proposal	Under the existing legislation
▪ No capital gain or balancing charge arises under the transfers of partial interests in the petroleum titles, infrastructure or on the creation of the operating agreements. ▪ The portion of Party 1's cost base in titles A and B (if any) is transferred to its newly acquired interest in title C. ▪ A portion of Party 2's cost base in title A and B (if any) is transferred to its newly acquired interest in title C. ▪ A portion of Party 3's cost base in title C (if any) is transferred to its newly acquired interests in title A and B. ▪ A portion of Party 4's cost base in the infrastructure interest disposed of is transferred to its newly acquired interests in titles A, B and C.	▪ Rollover relief does not exist creating asymmetric outcomes despite the transactions merely facilitating an exchange in value. ▪ The swapping of a portion of Party 1's interest in titles A and B (if any) results in a capital event or balancing adjustment. The cost base of Party 1's interests acquired in title C is deductible in accordance with Division 40 (over 15 years). ▪ The swapping of a portion of Party 2's interest in titles A and B (if any) results in a capital event or balancing adjustment. The cost base of Party 2's interests acquired in title C is deductible in accordance with Division 40 (over 15 years). ▪ The swapping of a portion of Party 3's interest in title C (if any) results in a capital

▪ The portion of Party 1, 2 and 3’s cost base in titles A, B and C is transferred to its newly acquired interest in the infrastructure. ▪ No assessable receipts on the transfer of the interest in the infrastructure should be recognised for purposes of PRRT. ▪ Transfers of interests in Petroleum titles are not currently taxed under PRRT.	event or balancing adjustment. The cost base of Party 3’s interests acquired in titles A and B are deductible in accordance with Division 40 (over 15 years). ▪ The swapping of portion of Party 4’s interest in the infrastructure results in a capital event or balancing adjustment. The cost base of Party 4’s interests acquired in titles A,B and C are deductible in accordance with Division 40 (over 15 years). ▪ The costs base of Parties 1,2 and 3’s newly acquired interest in the infrastructure is deductible in accordance with Division 40.

Case Study 4

1. This case study 4 contains the same facts and background as case study 2 above, excepting that:
   – In addition to the interests in Petroleum titles, cash consideration amounting to $100 million is paid to Party 3 by Party 2 for the disposal of a 30% interest in the infrastructure; and
   – The value of the 70% interests in the Petroleum titles held by Party 2 was agreed between the parties as $50 million; and
   – The tax written down value of the 30% interest in the infrastructure is $40 million for Party 3.
2. The percentage interests and cash consideration are agreed between the parties, acting at arm's length, based on interpretation of reservoir data and valuations of infrastructure.



Taxation outcomes under APPEA's proposal vs current legislation

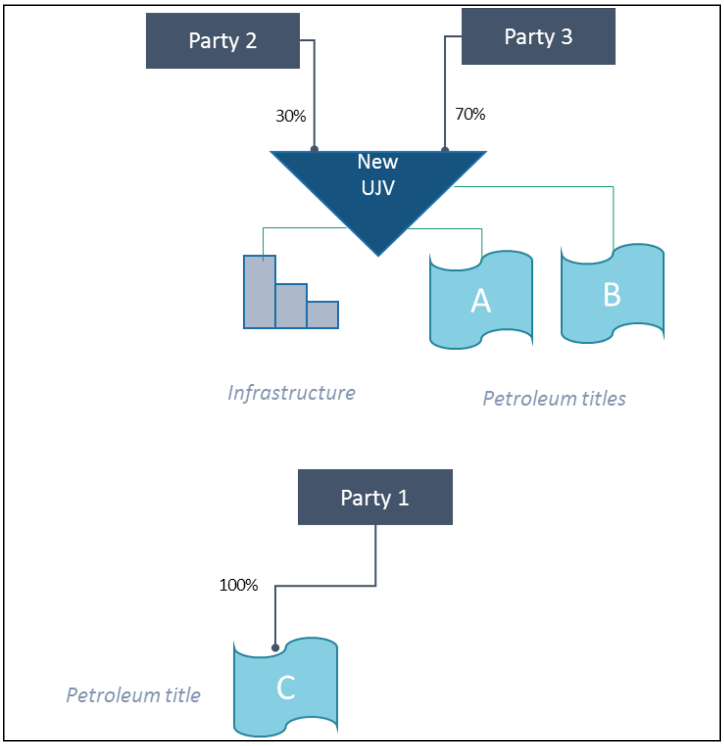
This case study contains the same recommended tax outcomes as case study 2 above, excepting that for corporate income tax purposes:

- Party 3 is taxable upfront on the $100 million received;
- Party 2's cost base in its newly acquired interest in the infrastructure will include the $100m cash component and this component will be depreciated in accordance with the depreciating asset rules (i.e. over the effective lives of the underlying assets in which Party 2 has acquired a 30% interest);
- In addition, the portion of Party 2's cost base in titles A and B disposed of is also transferred to its cost base in its newly acquired infrastructure.
- Party 3's cost base in the infrastructure disposed of ($40m) is transferred to its newly acquired interests in titles A and B.

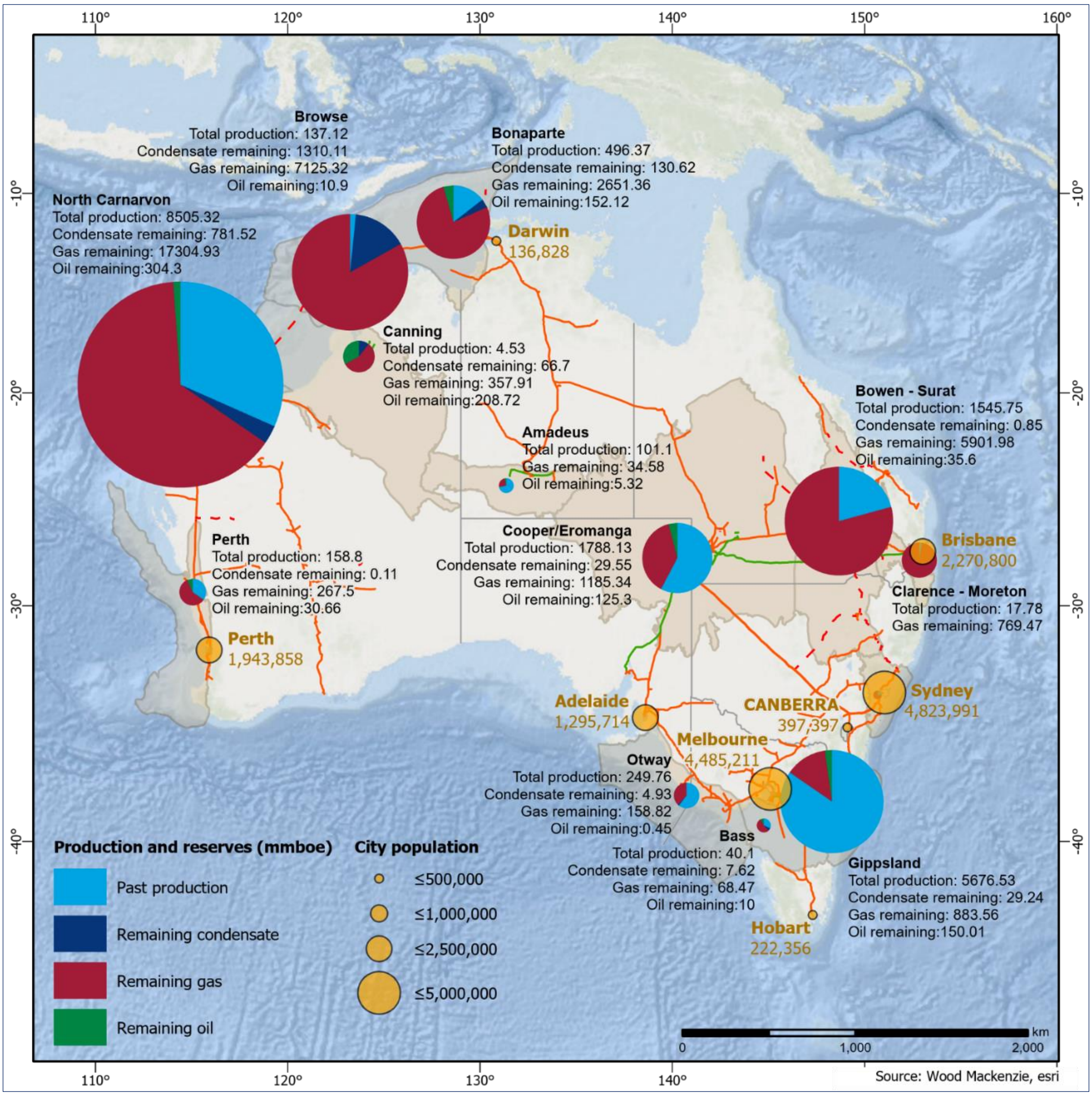
In addition to the recommended tax outcomes as case study 2 above, for PRRT purposes:

- Only Party 3 recognises the $100 million received as assessable receipts; and
- Only Party 2 recognises the $100 million as general project expenditure.

Transfers of interests in Petroleum titles are not currently taxed under PRRT.



ATTACHMENT B: Hydrocarbon resource deposits and key population centres in Australia.



Source: Wood Mackenzie 2020.