

16 April 1999

The Secretary  
Review of Business Taxation  
Department of the Treasury  
Parkes Place  
CANBERRA ACT 2000

Dear Sir

**Submission on “A Platform for Consultation”**

This submission is limited to the discussion in “A Platform for Consultation” on Accelerated Depreciation, including the trade-off between accelerated depreciation and company tax. Please note that Appendix 1 of this submission is to be treated as Confidential.

In general terms, Santos Limited supports the proposed trade-off between accelerated depreciation and company tax. This support is subject to three important qualifications.

**1. The Continued Immediate Deductibility of Exploration Deductions**

It is understood that the references to accelerated depreciation in “A Platform for Consultation” do not include exploration expenditure. This is considered to be appropriate. Exploration expenditure has a fundamentally different risk and purpose than expenditure on plant. The immediate deductibility of exploration

expenditure is a critical component of the exploration decision and any change to the tax treatment would result in reductions in exploration expenditure. Should any change in exploration deductibility be proposed Santos Ltd would wish to make further submissions.

## **2. Long Term Off-Shore Gas Projects**

It is submitted that off-shore gas projects, with a life of 20 or more years, should be subject to a separate capital expenditure regime to ensure continued investment in this important sector. Such a regime would maintain the current rates of tax depreciation.

The tax regime proposed would assist projects to pass investment hurdle rates and result in incremental investment in Australia. Individual projects involve investment in project facilities in excess of \$500 million. Domestic gas projects can result in import substitution (imported oil for domestic gas). A substitution of oil for gas also has environmental benefits and is consistent with Australia's Greenhouse Strategy.

The proposal should not significantly affect the simplicity of the tax system. The required provisions of the tax legislation would be used by a limited number of sophisticated users consisting of taxpayers, the Australian Taxation Office and policy advisers in the Department of Industry, Science and Resources.

Such a tax regime is required to recognise the high capital investments in gas projects, the impact of competitive gas pricing on project economics and the long pay-back period of projects. Each of these factors contributes to low levels of return on investment. The higher levels of tax payment resulting from a loss of accelerated depreciation in the early years before project pay-back also reduces return and threatens project viability.

Further information on an actual project in support of this submission is attached as Appendix 1. Because of the confidential nature of this information, Appendix 1 is to be treated as **Confidential** in accordance with the guidelines set out on page xiii on "A Platform for Consultation."

It would be a strange outcome of Government Policy for the PNG to Australia gas project to proceed because of Federal Government financial support (a \$100 million package has been announced) but equivalent Australian projects do not proceed because of tax impositions.

### **3. Stability of the Rate of Tax**

A concern with the trade-off between accelerated depreciation and the rate of company tax is the relative ease with which the company tax rate can be increased. The maintenance of a stable tax system should be noted.

The contact person for this submission is Mr. M J Lawry, Manager Group Taxation. Contact details are Telephone (08) 8218 5154, Fax (08) 82185201, E-mail Michael.Lawry@Santos .com.au.

Yours faithfully

(signed)

**J W McArdle**

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