



Apportionment of PRRT deductible expenditure

How to apportion a payment under the PRRT law to work out the extent that it is deductible expenditure.

Last updated 28 May 2025

Apportionment of payments

When payment may need to be apportioned and how to choose a reasonable base of apportionment.

Apportionment practices

Practices that may help an entity apportion a payment.

Record keeping

What records you need to keep as evidence of the apportionment or substantiation of deductible expenditure

Examples of apportionment

We have provided a number of examples of apportioning PRRT deductible expenditure.

Apportionment of payments

When payment may need to be apportioned and how to choose a reasonable base of apportionment.

Last updated 28 May 2025

Broadly, payments are deductible to the extent to which they are made in carrying on or providing petroleum project activities. As a result, a payment may need to be apportioned where it is not wholly made in carrying on or providing the petroleum project activities. This may occur if an entity splits or allocates a payment between:

- petroleum project activities, non-petroleum project activities and excluded expenditure
- more than one petroleum project, exploration permit, or retention lease of the entity
- multiple commodities within a petroleum project
- exploration, general project and closing-down expenditures within a petroleum project.

Project activities include:

- operations and facilities involved in, or in connection with, exploration for petroleum
- preparatory activities, including carrying on any feasibility or environmental studies
- recovery of petroleum (including gas) from the relevant production licence area
- processing or treatment of petroleum
- moving or storing petroleum or a marketable petroleum commodity (MPC) up to the point that the petroleum
 - is sold
 - an MPC is produced from the petroleum that is sold

- an MPC is produced from the petroleum that becomes an excluded commodity otherwise than being sold
- services, facilities for services, and employee amenities.

There is no prescribed method for apportioning payments for PRRT and there may be more than one approach available. If there is more than one reasonable method, an entity needs to choose the most relevant and reasonable basis which needs to be supported by appropriate records.

However, we do not consider a notional or arbitrary basis for apportioning a payment to be a reasonable basis for apportionment, unless there is evidence to support that it is appropriate in the circumstances.

We consider the following practices will assist an entity when choosing a reasonable basis of apportionment:

- apply a methodical and consistent approach to classifying and apportioning the expenditure
- maintain records that describe the activities which show the extent and nature of the activities, and the connection to the project activities
- maintain records of calculations and the steps undertaken to support its choice of a reasonable basis
- use reliable data
- keep information to support the reasoning and justification of any estimates made
- consider whether there is a correlation between the basis of apportionment and the expenditure.

QC 37839

Apportionment practices

Practices that may help an entity apportion a payment.

Last updated 28 May 2025

On this page

Reliable systems, processes, procedures and policies

Relevance of the apportionment methods used

Keeping up to date

Additional principles to assist apportionment

The following practices may help an entity apportion a payment:

- use [reliable systems, processes, procedures and policies](#) to capture and record the payment
- check the [relevance of the apportionment methods used](#) in working out the apportioned amount of the payment
- [keeping up-to-date](#) systems, processes, procedures, policies and the apportionment methods and conducting ongoing reviews.

Reliable systems, processes, procedures and policies

An entity often has established systems, processes, policies and procedures in place to meet its contractual, income tax and accounting obligations.

However, these systems may not accurately capture the information needed to meet an entity's PRRT obligations. As a result, existing systems and processes need to be reviewed to work out if they are sufficient to meet an entity's PRRT obligations.

If they are not sufficient, further systems and processes are required, which need to be clearly documented. One area where payments may need to be apportioned is staff costs.

In the absence of evidence to the contrary, the job descriptions and functions performed by employees engaged in a technical role, such as petroleum engineers and geologists (technical staff), may be sufficient to work out if there is a close and direct connection between the nature of the activities they perform and the carrying on or providing of the operations and facilities of a petroleum project.

Payments for the salary costs of technical staff need to be allocated across petroleum projects (or proposed projects) if they work on a number of different projects. Further systems and processes may be needed to perform this allocation because it may not be required for other purposes, such as for accounting and income tax.

Payments for the salary costs of technical staff may also need to be apportioned if they are engaged in other activities that do not have a close and direct connection to the operations and facilities of a petroleum project. For example, salary costs for technical staff also engaged in downstream activities such as oil refinery and liquefied natural gas (LNG) operations need to be apportioned, because only part of the payment for these costs that relates to project activities may be deductible.

One example of records that may assist an entity to apportion payments for staff costs are time-writing records kept by employees. Other records and information that may assist in apportioning these payments include:

- emails
- calendar or diary entries
- hand-written documents, such as notepads
- description and nature of the activities undertaken
- written reports.

Staff in non-technical roles may also be involved in petroleum projects, such as employees from management, human resources, legal and finance departments (non-technical staff). However, it may not be clear from their job description and functions if their activities have a close or quite direct connection to carrying on or providing the operations and facilities of a petroleum project.

An entity may be required to keep further records to demonstrate that payments for non-technical staff costs are made in carrying on or providing the operations and facilities of a petroleum project. Records that may assist include:

- summaries of the tasks and activities performed
- written reports and notes, including field and personal notes
- progress reports

- action plans.

Non-technical staff may be engaged in project activities as well as non-project activities. If this happens, the salary costs of non-technical staff need to be apportioned, because only part of these payments will be made in carrying on or providing the operations and facilities of the petroleum project. These payments also need to be allocated across petroleum projects if employees are working on a number of different petroleum projects.

Further systems and processes may be required to ensure these payments are apportioned appropriately and allocated to each individual petroleum project (or proposed project), because this level of apportionment may not be needed for income tax or accounting purposes.

Payments made for non-technical staff costs also need to be reviewed to verify that they are not an item of excluded expenditure. For example, payments of administrative and accounting costs, wages and salaries, or other work costs incurred indirectly in carrying on or providing petroleum project activities are specifically excluded under the PRRT.

Example 1: apportioning costs for non-technical staff

Employees from Whipstock Ltd's legal department frequently provide services to a number of different petroleum projects. These services include drafting and reviewing contracts for technical staff and suppliers.

Even though the nature of these activities may indicate a close and direct connection with the operations and facilities of a petroleum project, the employees also provide other services, such as patent or copyright protection. Whipstock Ltd identifies that these activities are not related to petroleum project activities.

Whipstock Ltd needs systems and processes in place to identify the extent to which payments for legal staff costs are made in carrying on or providing the operations and facilities of each petroleum project. Apportioning these payments needs to be done on a reasonable basis that may include identifying the time

spent by legal staff on activities that have a close or quite direct connection to the operations and facilities of each petroleum project. This may be demonstrated by time-writing records or other records, including minutes of meetings, reports, diary entries or emails.

In these circumstances, apportioning these payments based on the time spent by technical staff on each project is not considered to be a reasonable method of apportionment because there is no reasonable link between the activities of the legal staff and the activities of technical staff on each petroleum project.

Example 2: apportioning costs for supporting staff

Roustabout Ltd uses an existing system to capture payments for the salary costs of an employee providing support services to a number of petroleum engineers working on several petroleum projects. The employee's job description and function, together with other records, establishes that the employee is solely engaged in providing support services that assist the engineers in their project activities.

Roustabout Ltd has appropriate systems and processes in place that identify the time spent by the engineers on activities that have a close or quite direct connection to the operations and facilities of each petroleum project. As a result, it can allocate payments for the salary costs of the employee providing support services to each project on the same basis as the time spent by the engineers on each project, because there is a reasonable link between the activities of the employee and the activities of the engineers on each project.

However, if the employee carries on other activities, such as supporting other staff that are not engaged in project activities, Roustabout Ltd needs other systems and processes to establish a reasonable basis of apportionment.

Allocating corporate overheads as part of staff costs

If general office costs and overheads, such as administration and accounting costs, are charged to a petroleum project by existing systems and processes (such as for accounting purposes), they need to be reviewed to ensure that:

- there is a close or quite direct connection to carrying on or providing petroleum project activities
- they are not an item of excluded expenditure for PRRT purposes.

For example, payments of administration and accounting costs, or of wages, salary or other work costs that are incurred indirectly in carrying on or providing petroleum project activities are specifically excluded under the PRRT.

Relevance of the apportionment methods used

Generally, a method of apportionment involves applying a basis or unit of measurement to split or allocate a payment. The appropriateness of a basis or unit of measurement depends on the facts and circumstances of the situation. As a result, the use of a particular apportionment method may be appropriate for one type of payment, but not appropriate for others.

For example, detailed time-writing records to apportion a salary paid to an employee (including other associated work costs sufficiently connected to the petroleum project) may be appropriate if that employee works across multiple petroleum projects.

However, in apportioning the maintenance cost of a motor vehicle for a petroleum project, it is more appropriate to review the cost code for the maintenance of a fleet of motor vehicles and the records of distance travelled and logged for motor vehicles used by that employee.

A reasonable basis of apportionment should take into account the entity's specific facts and circumstances. However, there is no requirement to exhaustively review and analyse all the possible methods of apportionment.

Keeping up to date

An entity needs to:

- regularly review the systems, processes, policies, procedures and apportionment methods used
- perform an immediate review if there is a significant change in the entity's circumstances that may affect its PRRT liability.

These practices help ensure that proper controls and assurances are in place to ensure the appropriate apportionment of payments, which enable an entity to continue to comply with its PRRT obligations.

An entity may consider a review if:

- it acquires an interest in a new petroleum project, or an additional interest in an existing petroleum project
- an existing petroleum project is discontinued
- a petroleum project has a significant expansion (such as acquisitions or extension of pipeline operations) or disposals of major project assets
- a new product is produced or there is a change to the petroleum recovered and the MPC produced, including variations to value or supply chains, that affect the boundaries of petroleum project activities or non-petroleum project activities
- systems that affect the capturing and recording of payments change
- there is an alteration to the petroleum project activities that results in
 - a different point that the petroleum is sold or a MPC becomes an excluded commodity
 - changes to the circumstances of the sale of project petroleum, or the way that a MPC becomes or became an excluded commodity
- a material alteration to relevant contractual arrangements
- a material variation to an entitlement to assessable receipts from a petroleum project, such as farm-in and farm-out arrangements.

An entity also needs to use sound governance and risk management systems, processes, policies and procedures to ensure the appropriate apportionment of payments.

For example, an entity needs to regularly review its time-writing records to ensure it continually identifies the extent of the activities of employees on various petroleum project activities in an appropriate manner. The use of internal controls, including undertaking regular reviews to verify, cross-check and quality assure these records, is also considered good practice.

Additional principles to assist apportionment

Accounting, financing and economic principles may be used to help apportion a payment. However, if an entity only applies these principles, it may not correctly apportion the payment for PRRT purposes. As a result, it may need to take additional steps to work out the correctly apportioned amount.

For example, an entity has existing records that provide an initial estimate of the labour hours needed by its engineers for its two petroleum projects. The records show that each petroleum project needs 2,000 labour hours. At the end of the year, the entity reviews the timesheets, employment contracts and job schedules of its engineers for each petroleum project. The review shows that 2,500 labour hours were incurred on one petroleum project, and 1,500 on the other petroleum project.

The review of the records shows the extent that the payments for employee salaries were incurred in relation to each project they worked in. This is information that is needed for PRRT purposes, but may not be relevant to other tax obligations.

Joint ventures and apportionment

The vast majority of petroleum projects in Australia are carried out by joint ventures under a joint venture operating agreement (JVOA).

Most JVOAs have detailed accounting procedures that include rules about how the operator of the joint venture can charge costs to the joint venture account, and includes methods of apportioning costs between costs incurred for joint venture activities and costs incurred for other activities of the operator.

Using the JVOA may be a suitable starting point in working out the method of apportionment for PRRT purposes. Because the apportionment method set out in the JVOA or accounting procedures

has been agreed between independent parties (the operator and non-operators in the joint venture) for apportioning costs, it should be reviewed to ensure it is a reasonable basis for apportionment for PRRT purposes. The method of apportionment needs to relate to the specific facts and circumstances of the entity.

When accounting for joint venture costs for PRRT purposes, each party to the joint venture needs to ensure that the expenditure incurred meets the relevant requirements for deductibility.

This information only relates to an entity that makes a payment in carrying on or providing the petroleum project activities, for example, if a joint venture operator incurs expenditure for the project as an agent for the joint venture participants.

Other rules apply if an entity makes a payment to procure another person (such as the operator) to carry on or provide the petroleum project activities on behalf of the entity.

For related information, see

- Apportionment of PRRT payments for procured services.

QC 37839

Record keeping

What records you need to keep as evidence of the apportionment or substantiation of deductible expenditure

Last updated 28 May 2025

An entity needs to keep records that record and explain all transactions and other acts it (or another entity) engages in that are relevant to working out its PRRT liability for each interest it has in a petroleum project. An entity that holds interests in exploration permits and retention leases also needs to keep records to meet its future PRRT obligations.

This means that payments, and any method used to apportion payments, need to be able to be substantiated for the purpose of working out deductible expenditure in relation to a petroleum project.

Not keeping these records is an offence of strict liability under the PRRTAA.

We encourage an entity to keep the following records as evidence of the apportionment or substantiation of deductible expenditure for a project:

- project development timelines and plans
- contracts, agreements and invitations to tender
- job orders and invoices
- lifting schedules
- joint venture billing statements and other records and statements
- job descriptions and duty statements of employees
- time-writing documents which provide details of the activities undertaken, such as timesheets
- account coding policies and procedures
- applications for exploration permits, retention leases and production licences
- reports, plans and statements required for regulatory and environmental purposes, for example, exploration work programs, field development plans, environmental impact statements, native title agreements and so on
- tax working papers, financial statements and meeting minutes, including those involved with the board and relevant committees
- secondary records, including documents that explain the entity's financial position on a regular basis throughout the year, for example, journals, ledgers and so on
- other documents that establish the nature and character of the activities undertaken, or the use of property purchased by the entity, for each interest in a petroleum project, retention lease or exploration permit.

For more detailed information, see **PRRT record keeping**.

Examples of apportionment

We have provided a number of examples of apportioning PRRT deductible expenditure.

Last updated 28 May 2025

On this page

Example 1: water treatment facility costs and insurance premium

Example 2: integrated gas-to-liquids operation

Example 3: native title payments

Example 4: offshore petroleum recovery with onshore processing and liquefaction

Example 1: water treatment facility costs and insurance premium

Knight Ltd is the operator and participant (50%) of an unincorporated joint venture that governs (among other things) the operations of two petroleum projects (Earth and Moon) that are not combined projects. Lewis Ltd is the other participant (50%) and is not connected with Knight (within the meaning of section 328–125 of the *Income Tax Assessment Act 1997*).

The joint venture agreement states that the obligations of each participant in respect of joint venture expenditure are only to the extent of their respective interests in the projects, that is, an equal share for both Knight Ltd and Lewis Ltd. It also states that Knight Ltd will incur expenditure as agent for all participants in the projects.

To meet statutory environmental requirements, Earth and Moon share a water treatment facility that is necessary and integral to the operations of each petroleum project.

In the tax year ending 30 June 2019, the volume of waste water separated from recovered petroleum was measured as 35 gigalitres (20 gigalitres originating from Earth project, and 15 gigalitres originating from Moon). This volume of water is sent for treatment via pipelines to the facility that Knight Ltd constructed as part of its commitment and legal requirement to a sustainable environment.

For that tax year, Knight Ltd made payments on behalf of the joint venture participants totalling \$350,000, which relate solely to processing and treating the waste water, for which they kept records, including the volume of water flow.

Both Knight Ltd and Lewis Ltd kept these records, as well as maintaining their own records in order to substantiate and work out their respective PRRT liabilities from the two petroleum projects.

Knight Ltd also insured the four petroleum recovery wells against industrial accidents on behalf of the joint venture participants, for which it paid Hodge Industry Insurers an annual premium of \$1.3 million. The premium is based on the estimated insured values of the wells (\$1 billion) as follows:

- \$200 million each for wells 1, 3 and 4
- \$400 million for well 2.

These insured values are based on a detailed risk and economic assessment of the costs to replace the wells. Knight Ltd kept records of the insurance policy and the risk and economic assessments.

Apportionment by Knight Ltd

Since Knight Ltd incurred half of the \$350,000 payment as agent for Lewis Ltd, it can only claim a maximum of \$175,000 for processing and treating the waste water. As a result, it apportions the \$175,000 to the extent to which it has incurred it for Earth and to the extent to which it has incurred it for Moon.

Knight Ltd has control systems in place to monitor the volume of waste water flowing to and from the facility and uses the data to allocate the \$175,000 between the two petroleum projects. The allocation is based on the respective proportion of the total volume of waste water (35 gigalitres) as follows:

- Earth (20 gigalitres) – $20 / 35 \times \$175,000 = \$100,000$
- Moon (15 gigalitres) – $15 / 35 \times \$175,000 = \$75,000$.

Knight Ltd allocates the respective payments above in carrying on petroleum project activities in each project.

Similar to the water treatment costs, Knight Ltd recognises that it can only claim a maximum amount of \$650,000 for insuring the wells because half of the \$1.3 million dollar payment was incurred as agent for Lewis Ltd. As a result, it apportions the \$650,000 to the extent to which it is incurred for Earth and to the extent to which it is incurred for Moon.

Knight Ltd may apportion the amount based on the proportion of the total estimated insured values (\$1 billion) to repair and rebuild wells as follows:

- Earth (gas wells 1 and 2 for \$600 million) –
 $\$600 \text{ million} \div \$1 \text{ billion} \times \$650,000 = \$390,000$
- Moon (gas wells 3 and 4 for \$400 million) –
 $\$400 \text{ million} \div \$1 \text{ billion} \times \$650,000 = \$260,000$

Knight Ltd allocates the respective payments above in carrying on the petroleum project activities in each project.

Apportionment by Lewis Ltd

Lewis will make payments for PRRT purposes equal to half of the payments by Knight for the water treatment costs and the insurance premium because Knight is acting as an agent for Lewis.

Lewis Ltd needs to work out the most reasonable basis of apportionment looking at the facts and circumstances of its operations. It may be able to apportion the payments in the same way as Knight Ltd (if the facts and circumstances are similar) or it

may apportion the payments differently (if the facts and circumstances are materially different).

Example 2: integrated gas-to-liquids operation

Mitchell Recovery Ltd owns and operates the processing and liquefaction plant of an integrated gas-to-liquids operation. For the current year of tax, it makes salary payments of \$3 million for maintenance of the facilities, and \$1 million (payable in four quarterly amounts) for the purchase of electricity from the state grid for use in operating its facilities.

Mitchell Recovery Ltd reviewed its employees' time sheets and took into account relevant job descriptions, work undertaken and job schedules to identify that the \$3 million in salary payments for maintenance were based on a total of 30,000 labour hours. The labour hours were incurred by workers maintaining the facilities, which operated for a total of 300,000 machine hours. Mitchell Recovery Ltd found that the amount of time spent by the maintenance workers (in labour hours) and the salaries in maintaining the facilities are directly related to the operational time of the facilities (in machine hours).

Mitchell Recovery Ltd also reviewed the metered amounts of electricity consumption and established that the \$1 million payment was for a total of 100 megawatts used by the facilities. It found that the electricity consumption (in megawatts) and the electricity cost of operating the facilities are directly related to the operational time of the facilities (in machine hours).

However, some of the facilities being maintained or consuming electricity were only partially used for the petroleum project activities at the plant.

Apportioning payments

Mitchell Recovery Ltd apportions the \$3 million salary payments by working out the time spent by the workers in maintaining the

relevant facilities that are either being used solely or not being used solely in carrying on or providing the petroleum project activities. It works out that:

- \$1.5 million of the payments is allocated to the 15,000 labour hours identified as having been incurred on the processing facilities
- \$1 million of the payments is allocated to the 10,000 labour hours incurred on the liquefaction facilities.

The remaining salary payments of \$500,000 for the remaining 5,000 labour hours incurred in maintaining facilities to be apportioned between petroleum project and non-petroleum project activities at the plant can only be allocated using the 3:2 ratio (15,000 labour hours to 10,000 labour hours) if Mitchell Recovery Ltd demonstrates that the facilities are also being used in the same manner and proportion between those activities. It is only entitled to a deduction for the portion of that \$500,000 that can be demonstrated as being made in carrying on or providing the petroleum project activities.

Mitchell Recovery Ltd also apportions the \$1 million in electricity payments based on the megawatts used by the processing facilities and the liquefaction facilities.

Example 3: native title payments

Franklin Oil Ltd operates two platforms within a petroleum project to recover crude oil. The crude oil is pumped via pipelines to its onshore processing plant. The crude oil is then transported to a nearby refinery which is part of its non-petroleum project activities.

Under a land use agreement made under the *Native Title Act 1993*, Franklin Oil Ltd needs to pay an annual amount of \$200,000 to the native title owners for use of the land solely for its onshore petroleum processing plant and its refinery. For the 2018–19 year of tax, it made the payment to a trust fund that manages the native title payments.

Apportioning payments

Franklin Oil Ltd can allocate the \$200,000 payment arising from the land use agreement based on a ratio of the land area covered by native title that is used for the processing plant and the land area used for the refinery. That is, it can apportion the payment on an equal basis (a 1:1 ratio) of:

- \$100,000 based on the 10 hectares of the native title that constitutes the processing plant (petroleum project activities)
- \$100,000 based on the 10 hectares of the native title that constitutes the refinery (non-petroleum project activities).

As a result, \$100,000 of the payment by Franklin Oil Ltd is considered a deductible native title compensation payment in carrying on or providing petroleum project activities. The other \$100,000 is not deductible because it is for non-petroleum project activities.

Example 4: offshore petroleum recovery with onshore processing and liquefaction

Penguin Ltd is the sole owner and operator of a petroleum project involving recovering gas via subsea infrastructure from its two gas fields. The recovered gas is then transported via pipelines to its onshore integrated processing and liquefaction plant to produce LNG and condensate. The condensate produced in the facility is stored in a site adjacent to the processing area. The supplies needed to produce the LNG are stored in a site adjacent to the liquefaction area.

In the 2017–18 year of tax, Penguin Ltd makes a bulk purchase of five pieces of equipment for a total of \$1 million to track hazardous emissions and wastes as follows:

- three relating to the processing area (which relates to petroleum project activities)

- two relating to the liquefaction area (which relates to non-petroleum project activities).

The pieces of equipment are an integral part of the processing of the natural gas into either condensate or feedstock gas, and converting the feedstock gas to LNG by liquefaction.

Penguin Ltd also pays \$200,000 in salaries for security guards who monitor and patrol the respective sites that store the condensate and the supplies for the liquefaction operations. It reviews its land records to establish that the area of the condensate storage site is 30 hectares and the area of the storage site of the liquefaction supplies is 20 hectares. A review of the records logged of the time spent by the security guards in patrolling and monitoring the respective sites is directly related to the area.

Apportioning payments

Penguin Ltd looks at the purchase records for the five pieces of equipment and identifies that of the \$1 million payment, it paid:

- \$650,000 for the three pieces of equipment for use in the processing area
- \$350,000 for the two pieces of equipment for use in the liquefaction area.

As a result, Penguin Ltd apportions \$650,000 as a payment made in carrying on or providing the petroleum project activities, and \$350,000 for non-petroleum project activities.

Penguin Ltd apportions the \$200,000 in salary payments for the security guards based on the ratio of the respective area size of the site being monitored and patrolled (3:2) as follows:

- \$120,000 for the storage of the condensate
(\$200,000 × 3 / 5)
- \$80,000 for the storage of the supplies for the liquefaction operations (\$200,000 × 2 ÷ 5).

As a result, \$120,000 of the \$200,000 payment is made by Penguin Ltd in carrying on or providing the petroleum project

activities, and \$80,000 of the \$200,000 payment is for non-petroleum project activities.

QC 37839

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).