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Australians sharing in windfall LNG profits? A no-brainer

- *A tax on LNG exports amid surging global prices and the prospect of windfall profits could help fund cost-relief and fuel-shifting measures to protect Australian consumers exposed to rising oil prices.*
- *Surging LNG prices following Russia's invasion of Ukraine delivered windfall profits for LNG exporters from FY2021-22 to FY2023-24, but PRRT revenues per gigajoule of gas extraction increased by only a small amount.*
- *Several tax reform options could ensure a range of improved outcomes, particularly during windfall periods, with price-based royalties and a flat tax on revenues the most promising models.*

The war in the Middle East is just a month old, but it has already created a liquefied natural gas (LNG) supply crunch that has [almost doubled LNG prices](#) amid intense competition between buyers. Escalating attacks have damaged energy infrastructure across the region, including the world's largest LNG export plant in Qatar, which will constrict LNG supply well beyond the end of the conflict. The International Energy Agency (IEA) [expects](#) it will take six months or more to restore gas flow, and repairing the damaged LNG trains in Qatar is likely to take several [years](#).

The conflict is also “the largest supply disruption in the history of the global oil market”, as [explained](#) by Fatih Birol, executive director of the IEA. Oil is Australia's [largest](#) energy source, and the country has a very high [exposure](#) to oil shocks, with elevated oil prices likely until the conflict is resolved.

The Australian government has [reportedly requested](#) “Treasury modelling on options to impose a new levy on gas companies, as well as further changes to the Petroleum Resources Rent Tax [PRRT]”. A newly formed [Senate Select Committee](#) will assess the tax treatment of Australian oil and gas resources. This is not surprising given growing pressure for gas taxation reforms to ensure Australians receive a sufficient return from the extraction and sale of the nation's gas resources, and to provide funds for cost-relief and fuel-shift measures.



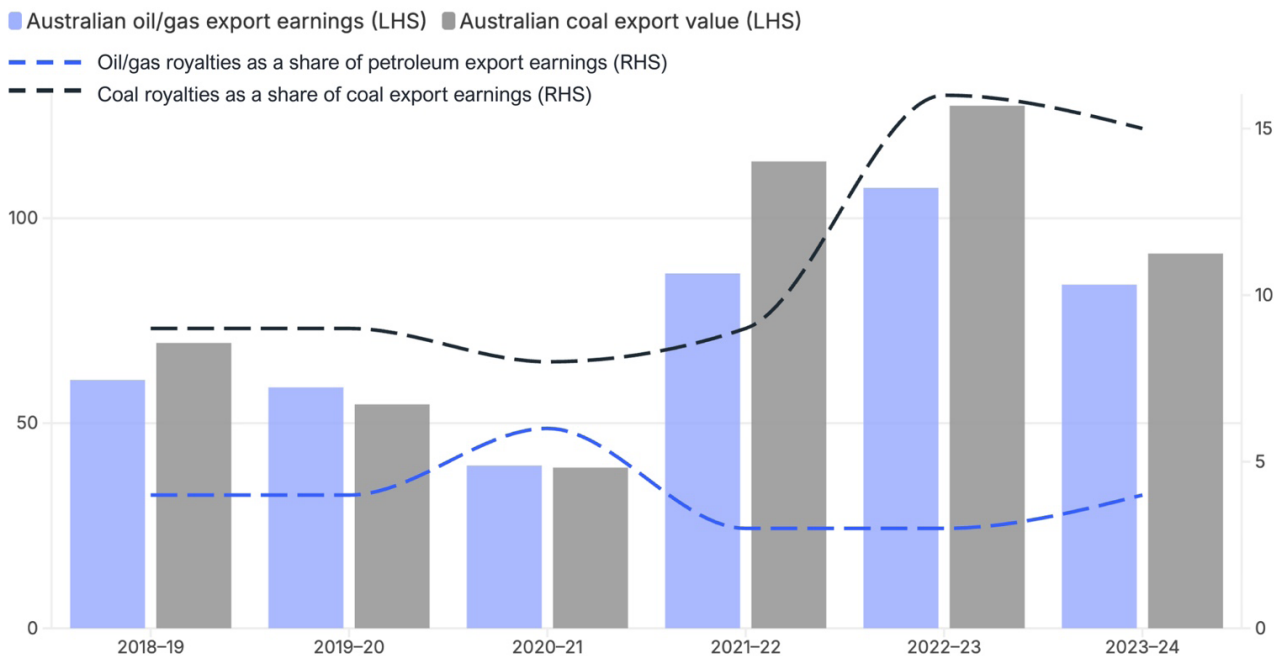
Australian LNG exporters will be one of the few domestic beneficiaries from the Middle East conflict, which will increase inflation globally and raise the prospects of global recession. Reforming taxation would allow some of these windfall benefits to flow to all Australians.

Pivotal moment for tax regime review

Rising LNG prices are likely to massively boost Australian LNG export earnings, as happened after Russia’s expanded invasion of Ukraine when oil and gas sector profits increased from AU\$13 billion in FY2020-21 to a staggering AU\$62 billion in FY2022-23 (Figure 1).

However, Australia’s taxation of LNG exports suggests that higher international prices will not fully translate into higher tax receipts. Australia’s oil and gas sector export revenues boomed on rising international LNG prices from FY2021-22 to FY2023-24, but this did not proportionately flow through to royalty revenue. Oil and gas royalties as a share of export earnings were lower in this period, when LNG prices peaked, than in years of more normal pricing.

Figure 1: Oil/gas and coal exports (AU\$ billion, left) vs royalties as a share of revenue (% , right)



Sources: [Australian Energy Producers \(AEP\) financial survey 2021, 2023, 2024 and 2025](#); [Queensland Government, Royalty revenue by commodity group 2023 and 2025](#); [NSW Government, Coal mining in NSW 2025](#); [Australian Government Resources and energy quarterly December 2025](#).

In contrast, coal royalties as a share of revenue doubled in FY2022-23 compared with FY2020-21 as prices rose and [Queensland reformed](#) its coal royalty regime. In total, coal royalties were four times higher than oil and gas royalties in times of elevated prices.

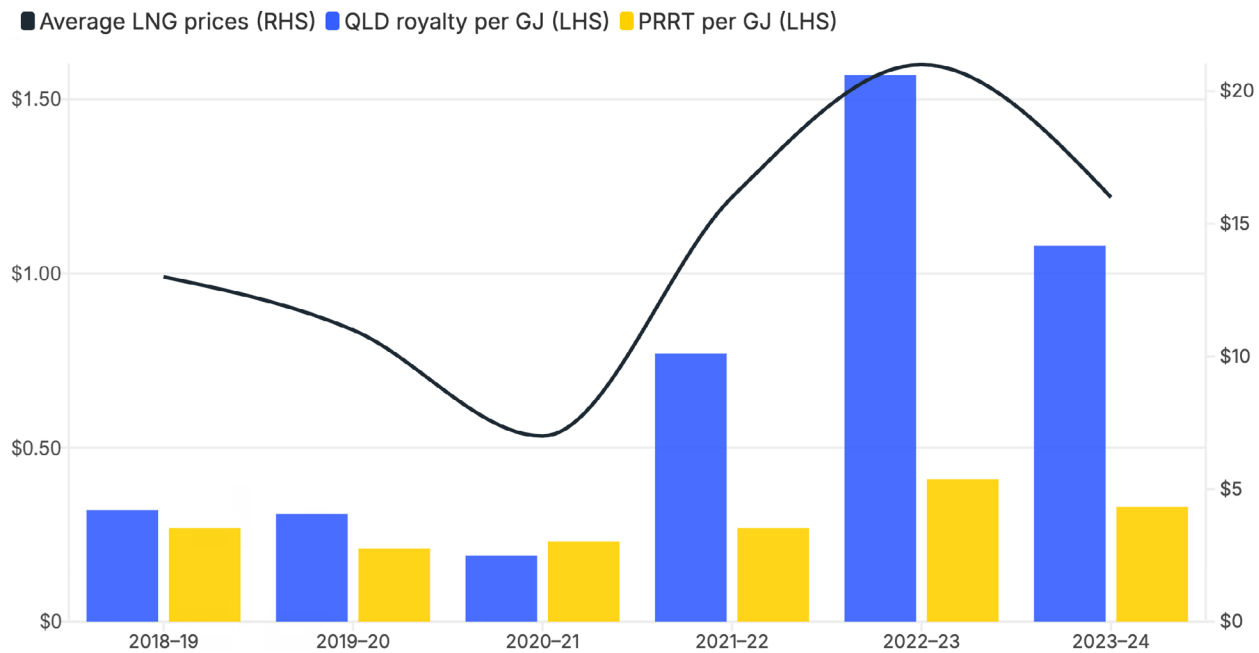
The relatively low tax rate during a period of windfall profits partly reflects low payments under the PRRT framework (noting companies subject to PRRT separately pay corporate tax, state excise and taxes, and other taxes). From FY2018-19 to FY2023-24, PRRT payments per gigajoule (GJ) of sale gas ranged from AU\$0.21 to AU\$0.41, well below royalties in Queensland, which were AU\$0.19-AU\$1.57/GJ of sale gas over the same period. Queensland’s royalty revenues increased materially in years where LNG exporters earned windfall profits (Figure 1).

IEEFA estimates that, in absolute terms, Queensland’s royalty revenue was higher than PRRT revenues when prices spiked in FY2022-23 and FY2023-24. This is despite gas production in Commonwealth waters (i.e. subject to the PRRT) being three times higher than Queensland’s



production in FY2022-23, and 2.75 times higher in FY2023-24.

Figure 2: Oil and gas sector royalty payments (left) and LNG prices (right), \$/GJ



Sources: [Australian Energy Producers \(AEP\) financial survey 2021, 2023, 2024 and 2025](#); [Queensland Government, Royalty revenue by commodity group 2023 and 2025](#); [Australian Government Resources and energy quarterly December 2025](#); [IEEFA](#).

As a profit-based tax, the PRRT allows LNG exporters to [carry losses forward](#), which effectively minimises tax obligations in the early years of LNG projects (though future payments increase once exporters recover their costs). While this framework is intended to incentivise investment, effectively it partly transfers construction risk to the Australian public (who have no ability to manage this risk). Most Australian LNG projects experienced construction delays and cost blowouts, which have delayed and decreased PRRT payments.

While Queensland’s gas royalty revenues are higher than those under the PRRT, they are still taxed at relatively low levels, with a [maximum marginal royalty](#) rate of 12.5% for prices above AU\$8/GJ. This is much lower than the [maximum marginal royalty](#) rate for coal in Queensland, at 40% when prices exceed AU\$300/tonne. Gas royalties in Queensland range from 2% to 12.5% of sales prices, with royalties for coal 7%-40%. In practice, Queensland’s gas royalties would be materially higher if royalty rates were similar to those applied to coal.

Surging oil prices, and the prospect of higher gas prices, are raising serious concerns about the impact on cost of living in Australia, with higher inflation potentially leading to increases in interest rates and mortgage payments for millions of households. The Reserve Bank has already [raised interest rates](#) in part due to events overseas, and there are concerns that higher fuel prices will flow through to [electricity markets](#).

Rising domestic gas prices in FY2022-23 pushed up gas and electricity bills for [households and industry](#), contributed to rising food costs, and created significant inflationary pressures, which, in turn, contributed to much higher interest rates. IEEFA estimates that the gas bill for industry in eastern Australia increased by AU\$3.2bn (or about 60%) from FY2018-19 (the final year of “normal” LNG pricing before the COVID19 pandemic and Russia’s invasion of Ukraine) to FY2022-23. This coincided with continued falls in domestic gas consumption and further industrial closures.



Notably, the impact on business gas costs was only a fraction of the extra profits earned by the oil and gas sector. In practice, this means that a relatively marginal increase in LNG taxation could have fully offset the domestic energy bill impacts (though businesses would also have faced higher costs for other inputs due to the broader impacts of higher gas prices on inflation).

There are growing calls for a new tax regime for Australia’s gas resources. In assessing the merits of existing settings, consideration will need to be given to projected future PRRT payments, and the merits of alternative tax frameworks that could be applied to Australia’s gas and LNG sector.

Options to reform gas and LNG taxation

Several taxation frameworks have been proposed in the debate over Australia’s gas and LNG taxation settings, including a flat tax on LNG exports, windfall profit taxes and a fair share levy (Table 1). Following the start of the Ukraine war, several European countries implemented windfall taxes, while others benefited from existing taxation arrangements. These options would likely complement existing tax arrangements, particularly corporate and state-based taxes (such as payroll tax).

Table 1: Gas and LNG taxation reform options

Taxation option	How it works	Tax rate	Proponents / Users
Flat tax on LNG exports	A flat tax rate applied to LNG export revenues.	25%	Various, including Australian Council of Trade Unions , Australian Greens , Australia Institute
Volume-based royalty	Gas companies will pay royalties based on volumes, not profit.	Not disclosed	One Nation
Windfall profit tax	A tax on profits or revenue above a set threshold when gas/LNG companies earn large, unexpected profits.	1.2%-100%	Grattan Institute : 100% above average domestic contract price EU : minimum 33% above 120% of average recent profits Czechia : 60% of profits above 120% of average recent profits UK : 38% tax on excess profits (additional to 40% tax on all profits)
Fair share levy	A Norway-style cashflow tax under which government shares profits and losses of gas and LNG projects. This involves rebates to industry when cashflows are negative.	40%	The Superpower Institute
Price-based royalty	Gas companies will pay royalties based on the price for gas sales, which allows rates to increase as prices rise.	Gas: 2%-12.5% Coal: 7%-40%	Queensland’s coal and gas royalty regime is based on prices.

Most promising taxation models

These are options Treasury will undoubtedly consider as part of its advice to the Australian government. In doing so, Treasury will need to carefully assess the merits of each option in an Australian context and the potential impacts on the gas industry (particularly on investment incentives). Treasury’s advice will be crucial as the government has a rare opportunity to reform tax settings to ensure all Australians earn a return from our non-renewable gas resources.



The gas industry, however, has already warned of adverse impacts on investment from further government intervention. This is a legitimate concern, but it will be important to critically review industry arguments. For example, IEEFA has found that [industry statements](#) on the [impact](#) of the increased Queensland coal royalties often did not accurately [represent reality](#).

IEEFA has identified several criteria that could be used to assess the relative merits of proposed options for taxation reform:

1. **Reflects value of gas:** provides a public return proportional to the value of gas extracted and sold (i.e. reflects the opportunity cost of gas extraction).
2. **Comprehensive:** addresses not only windfall profits but also reforms the inappropriate PRRT regime to ensure an appropriate tax level outside crises.
3. **Supports investment:** does not materially discourage investment in needed/profitable gas developments, and ensures project returns remain above hurdle rates.
4. **Captures windfall profits:** is high enough in case of windfall profits to provide funds at scale for cost-relief and fuel-shift measures, thereby ensuring wider public benefits.
5. **Simplicity:** is administratively simple and easy to implement.
6. **Unavoidable:** limited opportunities for avoidance through loopholes, such as carrying forward past losses, transfer pricing and profit shifting (particularly for international companies with interests in Australian LNG projects).
7. **Low taxpayer risk:** protects taxpayers from key risks they are unable to influence, such as project construction or execution risks.
8. **Revenue certainty:** models that tie taxes to prices, revenue or profit will inherently mean less revenue certainty, but this will mean higher revenue when LNG prices surge due to geopolitical events.

The various models that have been proposed will, in practice, differ in how well they perform under the criteria outlined above (Table 2).

Table 2: Performance of possible taxation models under key criteria

Criteria	PRRT	Flat LNG tax*	Volume royalty	Windfall profit tax*	Fair share levy	Price royalty
Reflects value of gas	✗	✓	✗	✓	✓	✓
Comprehensive	✗	✓	✓	✗	✓	✓
Minimal impact on investment	✓	✗	✗	✓	No impact	✓
Captures windfall profits	✗	✓	✗	✓	✓	✓
Simple	✗	✓	✓	✗	✗	✓
Unavoidable	✗	✓	✓	✓	✓	✓
Low taxpayer risks	✗	✓	✓	✓	✗	✓
Revenue certainty	✗	✗	✓	✗	✗	✗

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- Partial performance against criteria (i.e. a flat LNG tax will partially capture windfall profit taxes due to higher revenues).
- Assumes risks of transfer pricing and profit shifting risks for multinational gas companies are addressed in the design of a new taxation regime.
- Windfall profits may be captured, to an extent, if LNG projects have recovered previous costs and are eligible for PRRT obligations.
- Assumes access to debt financing is not affected, which may not be the case in practice if banks and financiers perceive there is a risk of governments not providing rebates during negative cash flow periods.
- No impact provided project returns remain above hurdle rates.

Note: *Likely to create stronger incentives for domestic gas supply.



This assessment shows the many drawbacks of the PRRT regime, with multiple proposed options representing an improvement. Several models are promising, with a majority of positives against the selected criteria. In particular, the flat LNG tax and price-based royalty perform the best. However, we note that different criteria might support other options.

IEEFA also notes that a price-based royalty could be informed by Queensland's coal royalty regime, rather than its gas royalty framework, as its higher marginal rates ensures a larger share of windfall benefits are effectively distributed to the Queensland public.

The fair share levy also performs relatively well (provided access to financing is not affected), but presents the key drawback of exposing taxpayers to paying subsidies to gas projects when they have negative cashflows. Politically, government may find it difficult to justify direct support for new gas projects. Windfall profit taxes also present some positives during periods of elevated prices, but would fail to ensure Australians receive a reasonable royalty return during periods of normal pricing. A volume-based royalty system would deliver certain revenue, but in practice would be a blunt instrument, unable to deliver upside when prices are elevated, while increasing investment risks.

Conclusion

The conditions are right to reform royalties on Australian LNG exports. The current system does not appear to be working, and prices are expected to be elevated for the foreseeable future. The Australian government has overwhelming public support for a new tax on LNG exports, which in part likely reflects growing awareness of the adverse economic impacts of high oil and gas prices. With Australian LNG exporters set to earn windfall profits for the second time in five years, the broader public is increasingly questioning the value to them.

Now is an opportunity to not just focus on the short-term opportunity to capture windfall profits, but to set up a system that will work better in all market contexts. The government needs to seriously consider reforming the nation's taxation of gas and LNG exports to ensure Australians share in the value of gas that belongs to all Australians.



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The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends, and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable, and profitable energy economy. www.ieefa.org

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