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SUBMISSION BY NEW ZEALAND GEOTHERMAL ASSOCIATION
ON AN OFFICIALS' ISSUES PAPER
ON THE TAX TREATMENT OF EXPENDITURE ON GEOTHERMAL WELLS

The following comments are made on behalf of the New Zealand Geothermal Association (NZGA) in response to the paper "The tax treatment of expenditure on geothermal wells - an officials' issues paper". The NZGA would like to thank officials for the opportunity to comment.

1. The fundamental issue is to **remove the doubt in the current legislation that costs of establishing an unusable geothermal well may not be deductible for income tax purposes.**
2. The NZGA agrees that all expenditure incurred in establishing a geothermal well must be deductible for income tax purposes.
3. For those geothermal wells that have an economic use the well establishment expenditure should be amortised/depreciated over time.
4. For those geothermal wells that are not usable for economic benefit the establishment cost should be allowable as a deduction for income tax at the time when it is determined that the well does not have an economic use.
5. On the issue as to whether or not there should be separate regimes for exploration and production phases, as proposed in the officials paper, NZGA defers to the views of its members, who are actively engaged in carrying out geothermal development projects.
6. Any changes to income tax legislation need to be clear to ensure that the uncertainty in the existing legislation is not compounded by further uncertainty.
7. The NZGA notes that the officials' paper indicates that the only use for geothermal wells is for the generation of electricity. This is not the case, as there are some circumstances when wells may be of economic value as a source of heat energy to industry.
8. The NZGA commends the officials on their efforts to clarify existing law.

Pat Brown
Strettons
On behalf of the Board and Executive of the New Zealand Geothermal Association
10 February 2006