Extractive Industries - Revenues

Emphasis on Petroleum operations

African Organisation of English-speaking Supreme Audit Institutions
Intended learning objectives

Be able to:

Present an overview of different revenue regimes

Understand how revenues are derived from petroleum operations

Distinguish between various revenues from Petroleum Operations and their materiality
Main revenue regimes

- Contract based system
- Concessionary/Licence system
- Technical service agreements
Main Revenue Regimes - Petroleum operations

Principal features

Production sharing system (PSA/PSC)
- Economic risk on Contractor (Petroleum Company)
- Available petroleum is shared between the parties
- Revenues (IOC petroleum profits) are taxed
  *Contractor owns a share of the resource once it is extracted:*
  Afghanistan, Azerbaijan, Libya*, Indonesia, Libya, Timor-Leste, Uganda

Concessionary/Licence system
- Economic risk on Government
- Revenues (IOC petroleum profits) are taxed
  *Contractor owns the resource in the ground*:*
  Norway, Brazil, Egypt, Tunisia, Colombia, Ghana*, Argentina

Technical service agreements
- Economic risk on Government
  *Contractor receives a fee for extracting the resource*
- Fees are taxed
  *Government owns the resources in the ground:*
  Iraq, Bolivia, Peru, Ecuador, Mexico, Philippines

* Norwegian system differs slightly
Direct and indirect Revenues

Contract based system - Petroleum operations

- Signature Fee (Bonus)
- Production Bonus
- Royalty
- Production Sharing - Profit petroleum
- (Annual) surface rental
- State participation/joint venture
- Income Tax/corporate Tax, Income Tax Act
- VAT, Value Added Tax Act
- Customs and Excise, Customs and Excise Duty Act...
## Contract based system - Petroleum operations

### Upstream – Exploration phase

<table>
<thead>
<tr>
<th>Stage</th>
<th>Type of taxes and obligatory payments to governments</th>
<th>Typical characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract negotiation and signature</td>
<td>Signature bonus</td>
<td>Normally payment of a fixed amount</td>
</tr>
<tr>
<td>Exploration activities and evaluation/appraisal</td>
<td>Exploration bonus</td>
<td>Normally payment of a fixed amount</td>
</tr>
<tr>
<td></td>
<td>Rent payments</td>
<td>Payments for the use of land/seabed</td>
</tr>
<tr>
<td></td>
<td>Tax levied on employees</td>
<td>Income taxes</td>
</tr>
<tr>
<td></td>
<td>Tax levied on service providers</td>
<td>Income taxes</td>
</tr>
</tbody>
</table>
## Contract based system - Petroleum operations

### Upstream – Development phase

<table>
<thead>
<tr>
<th>Stage</th>
<th>Type of taxes and obligatory payments to governments</th>
<th>Typical characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of infrastructure</td>
<td>Bonuses</td>
<td>Normally payment of a fixed amount</td>
</tr>
<tr>
<td></td>
<td>Rentals</td>
<td>Payments for the use of land/seabed</td>
</tr>
<tr>
<td></td>
<td>Taxes on employees and subcontractors</td>
<td>Same as taxes levied on employees and subcontractors above</td>
</tr>
<tr>
<td></td>
<td>Import duties and levies, VAT</td>
<td>Indirect taxes and levies</td>
</tr>
</tbody>
</table>
### Contract based system - Petroleum operations

#### Upstream - Production

<table>
<thead>
<tr>
<th>Stage</th>
<th>Type of taxes and obligatory payments to governments</th>
<th>Typical characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extraction, production, export</td>
<td>Royalties</td>
<td>Payment on the volume or value of the extracted resource</td>
</tr>
<tr>
<td></td>
<td>Bonuses and rentals</td>
<td>Same as bonuses and rentals above</td>
</tr>
<tr>
<td></td>
<td>Production sharing payments</td>
<td>Percentage of production – State share</td>
</tr>
<tr>
<td></td>
<td>Profit taxes and excess profit tax</td>
<td>Tax on income/profit</td>
</tr>
<tr>
<td></td>
<td>Export duties and export levies</td>
<td>Tax on value of exported resource</td>
</tr>
</tbody>
</table>
# Contract based system - Petroleum operations

**Upstream – Abandonment and decommissioning**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Type of taxes and obligatory payments to governments</th>
<th>Typical characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abandonment and decommissioning</td>
<td>Environmental fees or penalties</td>
<td>Fines or penalties for pollution</td>
</tr>
<tr>
<td></td>
<td>Taxes on employees and subcontractors</td>
<td>Same as taxes levied on employees and subcontractors above</td>
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</table>

For Abandonment and decommissioning stage, typical taxes and obligatory payments to governments include:
- Environmental fees or penalties
- Fines or penalties for pollution
- Taxes on employees and subcontractors
- Same as taxes levied on employees and subcontractors above
PSA/PSC – TIMELINE OF REVENUES

- **Award of PSA**
- **Exploration**
- **Appraisal/delimitation**
- **Development**
- **Start of production**

Government take:
- Government production share
- + JV profits
- + Royalty
- + Taxes
- + Signature Bonus
- + Data Fee
- + Production Bonus
- + Taxes
- + VAT
- + Customs, Excise

Contractor take

Profit Petroleum

Cost recovery «Cost Petroleum»

$
Contractual Petroleum Sharing - How?

Available petroleum*

<table>
<thead>
<tr>
<th>Cost Petroleum</th>
<th>Profit Petroleum</th>
</tr>
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<tbody>
<tr>
<td>Exploration Costs</td>
<td>IOC share</td>
</tr>
<tr>
<td>Development Costs</td>
<td></td>
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<tr>
<td>Production Cost</td>
<td></td>
</tr>
<tr>
<td>Abandonment Costs (accrued)</td>
<td></td>
</tr>
<tr>
<td>Total Costs (Governments view)</td>
<td></td>
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<tr>
<td></td>
<td>Government share</td>
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<tr>
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<td>Bonuses</td>
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<td>VAT</td>
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<td>State Participation</td>
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</tbody>
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Governments view

11
**Concessionary system - Revenues**

*Norwegian petroleum tax system – Tax rates*

**Income tax:** 22% tax rate *(Corporate tax)*

**Special tax:** 56% tax rate *(Resource rent/superprofit)*

**Total:** 78% tax rate
Concessionary system - Revenues

Norwegian petroleum tax system

Sales income (norm prices)
- Operating costs
- Depreciation
- Net financial costs

= Ordinary tax base liable to 22 per cent corporate tax

- Uplift ("extra depreciation")

= Tax base liable to the 56 per cent special tax
Norwegian tax system - specialities

Special tax – Economic Rent/Super Profit/Resource Rent
Normprice – fixed price on oil
Depreciation 16,67% per year
Friinntekt – 20,8% of development costs
Loss carry forward – interests - infinite
Allocation continental shelf/land – Similar TP
Exploration costs – refunds
Advanced tax - instalments
Petroleum tax
Assessment, Payments and accounting

Taxpayer (oil company)

Payment

Disbursements (Single account)

Payments (Single account)

Current acc. (Agresso)

Ledger (Agresso)

Assessment (OTO)
- Ordinary tax
- Special tax
- Installments
- Amendments

Collection (Calculation and addition of various interest)

Ministry of Finance
Auditor General
Central statistic office
Directorate of Taxes

Tax return/tax report

Consolidated accounts-balance of accounts

Notification
Tax statement

Reporting
Theory vs. reality

Tax evasion
  Criminal

Tax planning/tax avoidance
  Legal

Tax evasion

Tax planning/Tax avoidance
Transfer Pricing – the Incentives

- Foreign Tax Regimes (Direct) (low or non-tax rate)
- SAI’s Tax Regime (marginal tax rate 30%)
- Flow through Tax Regimes (tax rate 30%)
- Foreign Tax Regimes (Indirect) (low or non-tax rate)

- Income
- Expenses/Costs
**Exercise**

- What is your country`s principal revenue system for Petroleum operations?
- What is your country`s principal revenue system for other EI?
- What is your country`s corporate tax rate on Petroleum Operations?
- What direct and indirect revenues does your country receive from Petroleum Operations?