

# Extractive Industries - Revenues

Emphasis on Petroleum operations



# 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, Ghana\*, 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*

Stage	Type of taxes and obligatory payments to governments	Typical characteristic
Contract negotiation and signature	Signature bonus	Normally payment of a fixed amount
Exploration activities and evaluation/appraisal	Exploration bonus	Normally payment of a fixed amount
	Rent payments	Payments for the use of land/seabed
	Tax levied on employees	Income taxes
	Tax levied on service providers	Income taxes

# Contract based system - Petroleum operations

## *Upstream – Development phase*

Stage	Type of taxes and obligatory payments to governments	Typical characteristic
Development of infrastructure	Bonuses	Normally payment of a fixed amount
	Rentals	Payments for the use of land/seabed
	Taxes on employees and subcontractors	Same as taxes levied on employees and subcontractors above
	Import duties and levies, VAT	Indirect taxes and levies

# Contract based system - Petroleum operations

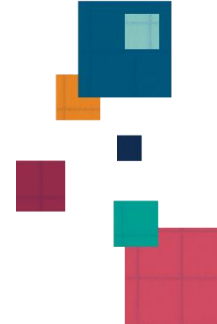
## *Upstream - Production*

Stage	Type of taxes and obligatory payments to governments	Typical characteristic
Extraction, production, export	Royalties	Payment on the volume or value of the extracted resource
	Bonuses and rentals	Same as bonuses and rentals above
	Production sharing payments	Percentage of production – State share
	Profit taxes and excess profit tax	Tax on income/profit
	Export duties and export levies	Tax on value of exported resource



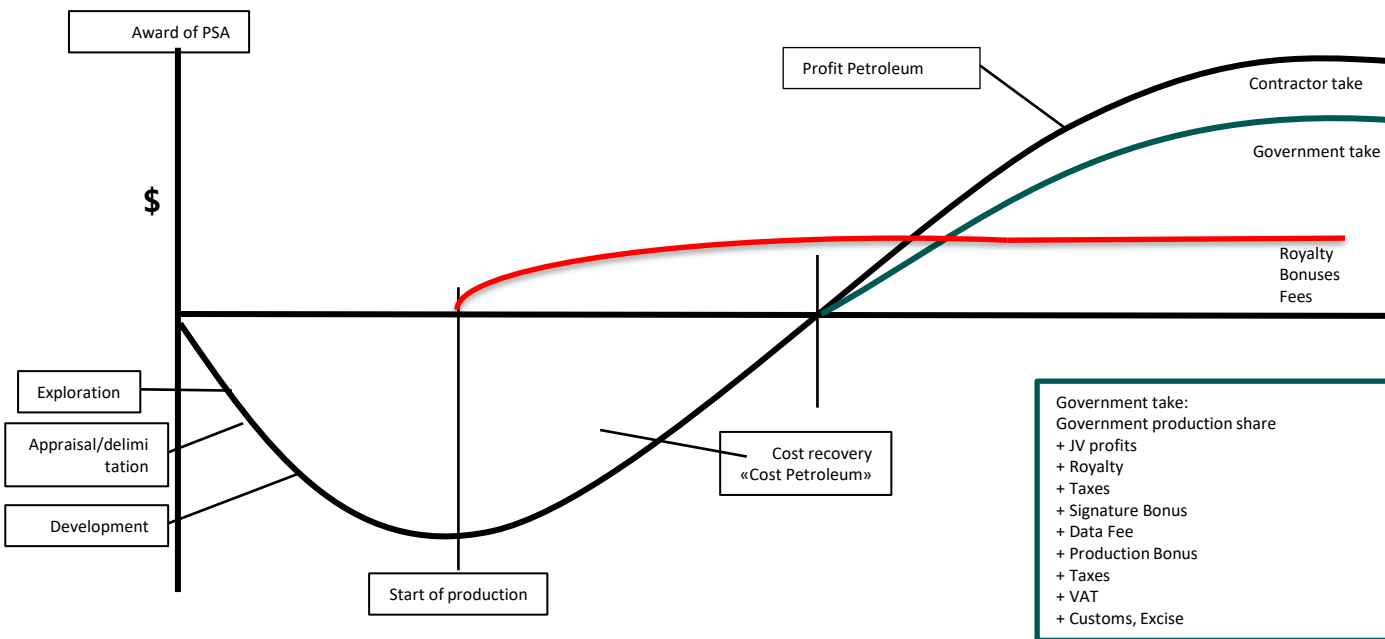
# Contract based system - Petroleum operations

*Upstream – Abandonment and decommissioning*



Stage	Type of taxes and obligatory payments to governments	Typical characteristic
Abandonment and decommissioning	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



# Contractual Petroleum Sharing - How?

## Available petroleum\*

### Cost Petroleum

### Profit Petroleum

Exploration Costs  
Development Costs  
Production Cost  
Abandonment Costs (accrued)

IOC share

Government share

Total Costs  
(Governments view)

Bonuses  
Taxes  
Fees  
Rentals  
Duties  
Excise  
VAT

State Participation

Government Take

# 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

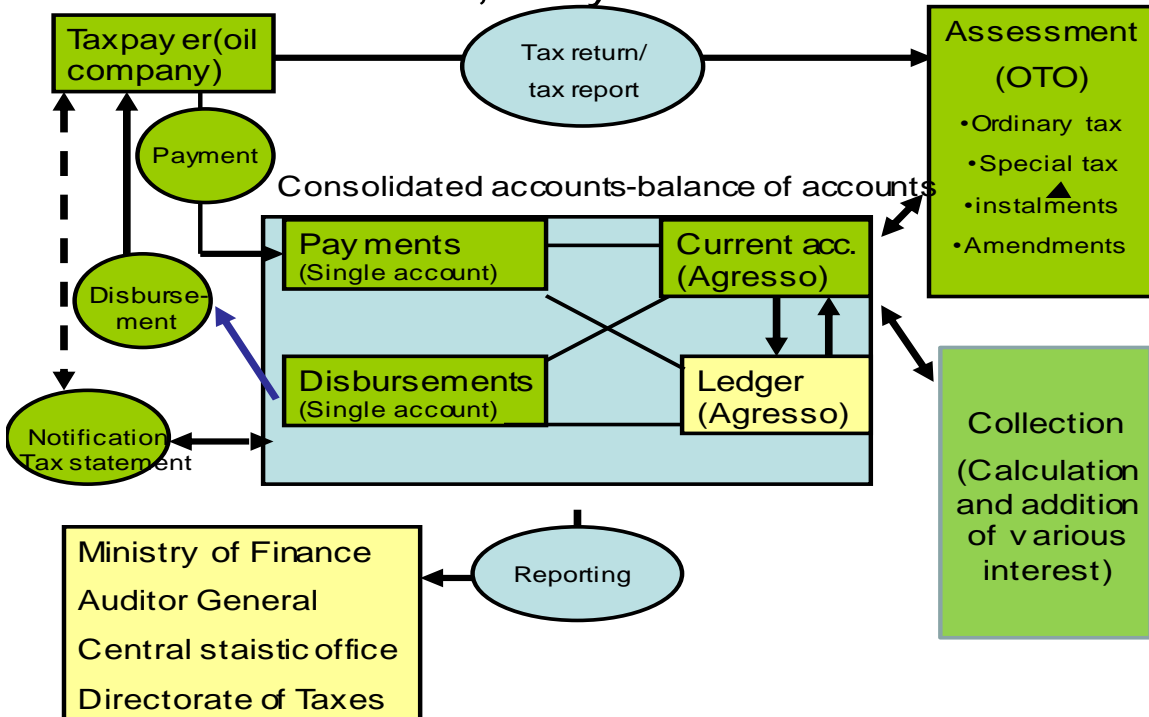
Exploration costs – refunds

Advanced tax - instalments

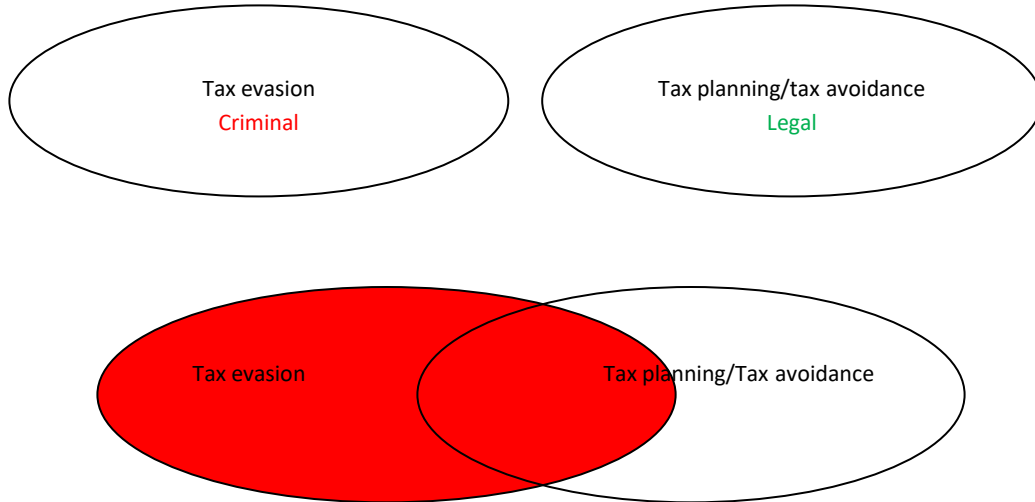


# Petroleum tax

## Assessment, Payments and accounting

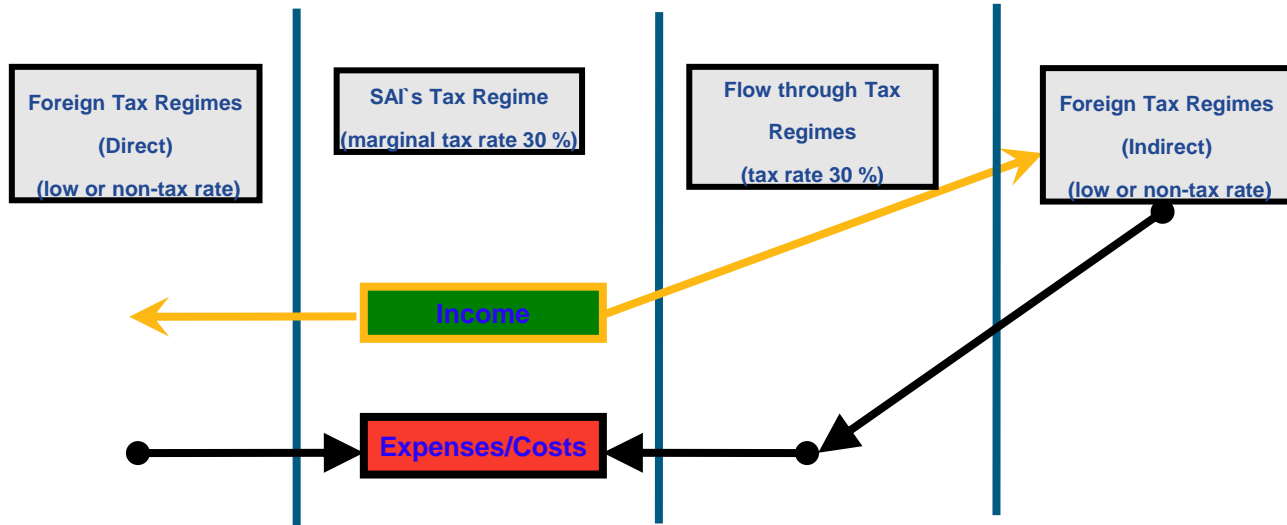


# Theory vs. reality





# Transfer Pricing – the Incentives

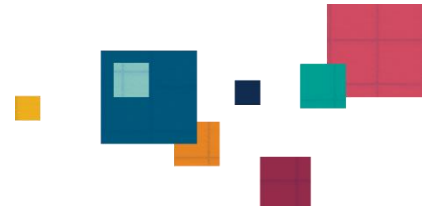


# Excercise

- 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 recieve from Petroleum Operations?



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