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# Africa Tax Dialogue

Cape Town, November 2016

# Changing environment in international tax

- BEPS
- Transparency
- Fiscal & corporate budgets

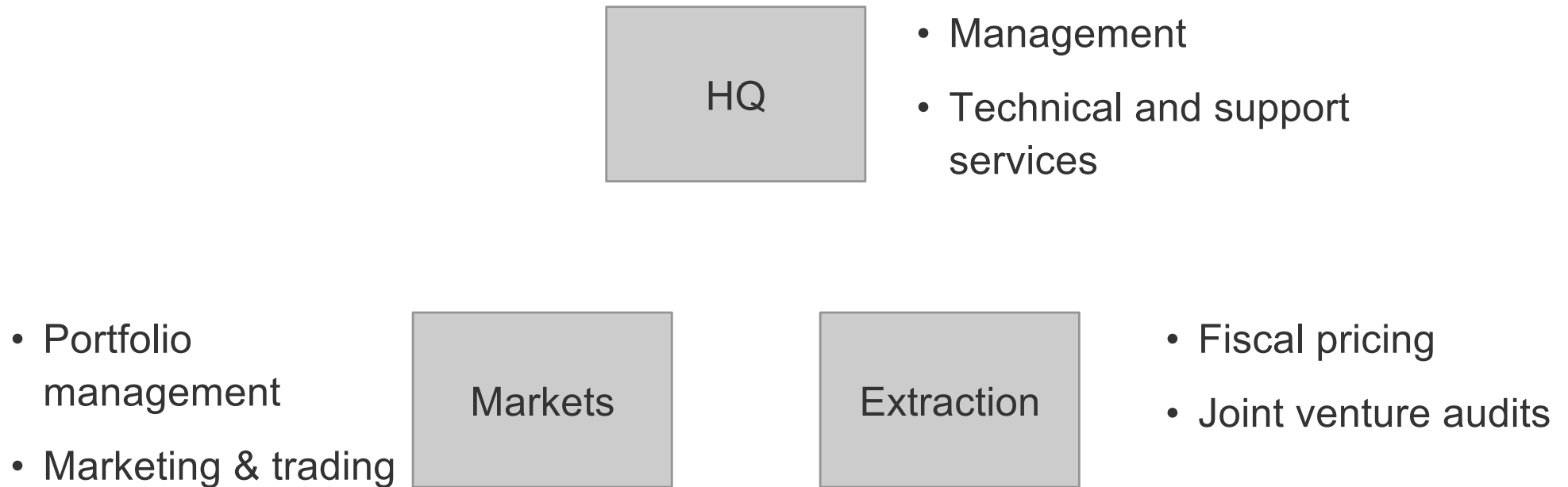
# Topics in petroleum taxation

- Direct tax
  - Transfer pricing
  - Taxation of transfers
- Indirect taxes
  - Royalties
  - Transaction taxes
  - Withholding tax
- Fiscal systems design

# Tax planning objectives

- Tax deductions for valid business costs
- Avoidance of double tax

# Transfer pricing



# Taxation of transfers

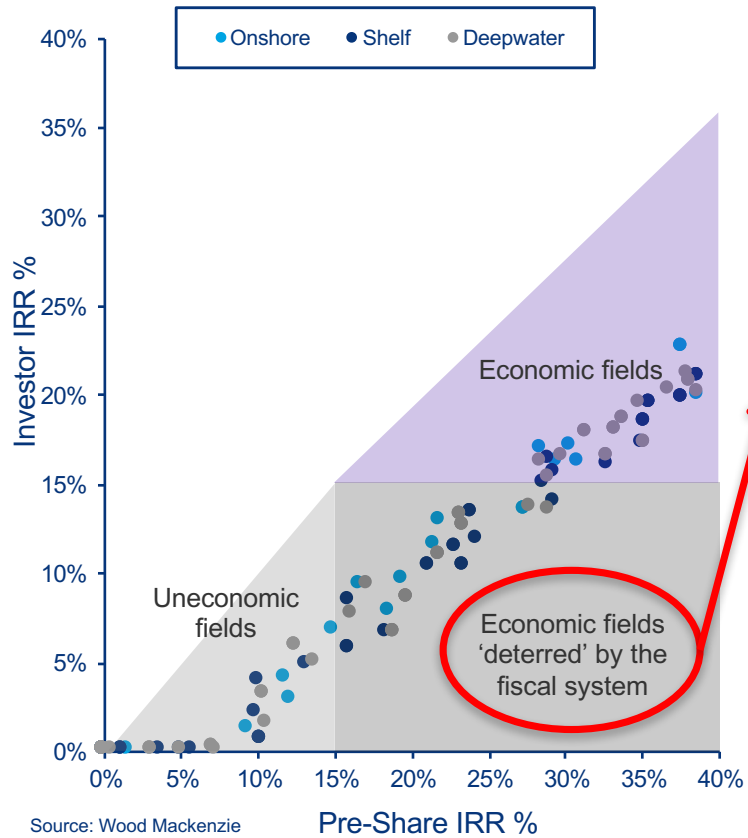
- Decision to tax transfers belongs to the government.
- Secondary market?
- Indirect transfers?

# Royalties

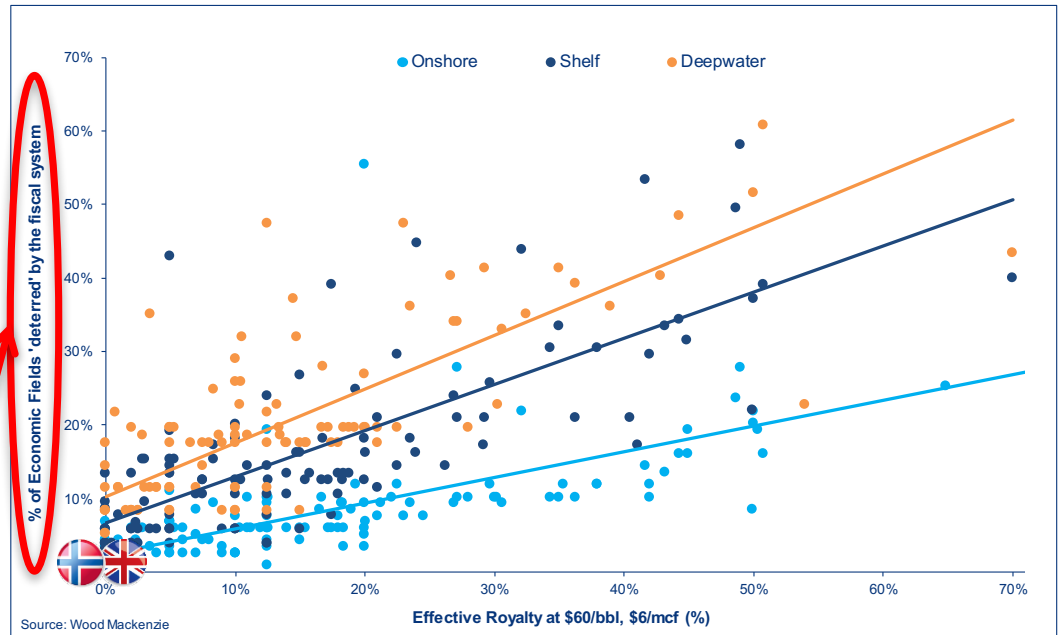
- Balance between timing of revenues and deterrence of investment

# A high ERR is likely to deter investment

## Fiscal deterrence



## Fiscal deterrence and ERR



Source: Wood Mackenzie 'A Balancing act: global fiscal trends and benchmarking' (October 2016)



# VAT

- Modernization of VAT systems
- Reduce exemptions and other dislocations
- How to handle extractives?

# Withholding tax

- Capacity for controlling international services industry is constrained
- Withholding tax is used as mitigating tool
- Two issues
  - The right rate
    - Deemed profit margin \* tax rate?
  - Treatment of intercompany services

# Sample effect of indirect taxes on services

Item	Rate	Calculation	US\$	Comments
Agreed fee		= agreed fee for services	100.0	
Total fee paid		= agreed fee / (1- WHT rate)	125.0	assumes 100% foreign suppliers
WHT	20%	= total fee * WHT rate	25.0	
ID	25%	= total fee * tangible cost % * ID rate	6.3	ID paid on tangible costs only (assumes 20% of cost)
VAT	15%	= (total fee + ID) * VAT rate	19.7	VAT paid on total fee + ID (assumes all costs incur VAT)
Total indirect taxes		= WHT + ID + VAT	50.9	
Total cost to investor		= agreed fee + total indirect taxes	150.9	
Indirect taxes % agreed fee		= total indirect taxes / agreed fee	51%	

# EMV pre-indirect tax

(MUSD)			
	Probability of success	Value (NPV15)	Risked value
	0,25	200	50
	0,75	-50	-37,5
			12,5

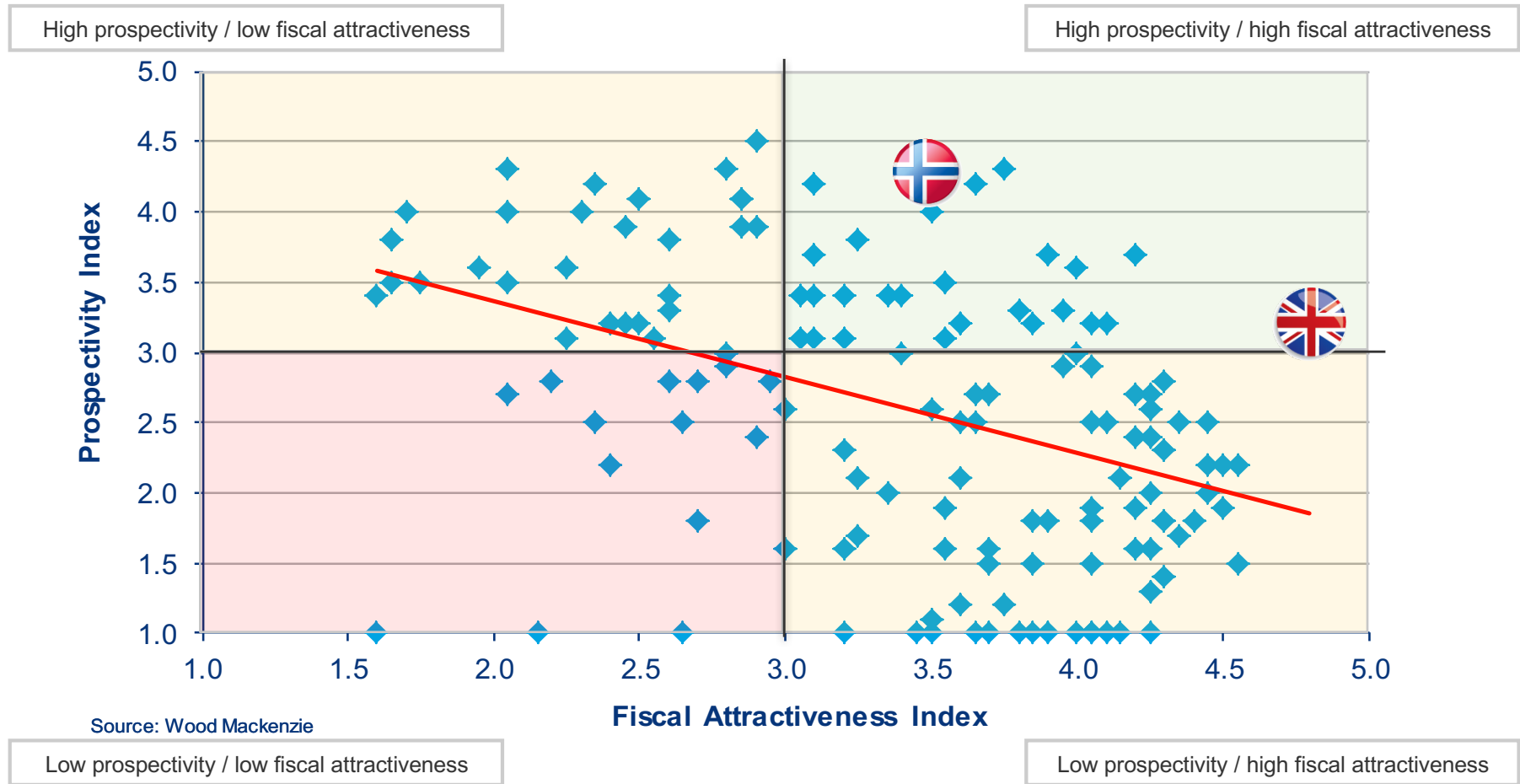
# EMV with indirect tax

(MUSD)			
	Probability of success	Value (NPV15)	Risked value
	0,25	180	45
	0,75	-75	-56,25
			-11,25

# Fiscal system design

# In a highly competitive market, setting the right fiscal terms is key

Investors are looking for appropriate terms for prospectivity and costs



Source: Wood Mackenzie

Source: Wood Mackenzie 'A Balancing act: global fiscal trends and benchmarking' (October 2016)

# Tax Regime Design

Objective	Description
Capture an appropriate share of rent	The regime should ensure the state receives a sufficient share of the benefit realised from its resources
Neutral	Should not distort investment decisions (neither over-burdensome nor subsidising)
Stable	The state and investors should be able to plan ahead and rely on the terms being adhered to
Responsive	The regime should respond in a progressive manner to changes in the economic conditions
Administratively simple	It should be clear, enforceable and non-discriminatory, with an effective dispute resolution mechanism
Competitive	It should be competitive with other countries' terms, given the attractiveness of the geology and other factors



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