

PART A

Answer-to-Question-1_

Part 1

Revenue - Royalty - Costs = Taxable profit

Notes

- Operational costs in Year 0 to be carried forward and deducted from profits in subsequent years
- Bonus not tax deductible
- Taxation. 40% oil tax, then 20% corporate tax
- 500,000 training cost to be covered by Nobala

Taxable income

Year	Revenue		Opex	Cost oil	Profit oil	
0	0		0	0		
1	32,000,000		11,000,000	21,000,000	10,500,000	
2	42,500,000		3,000,000	39,500,000	19,750,000	
3	48,000,000		4,000,000	44,000,000	22,000,000	
4	42,000,000		5,000,000	37,000,000	18,500,000	
5	70,000,000		8,000,000	62,000,000	31,000,000	

corporate tax (20% of taxable income. Oil tax is deductible)

Year	Oil tax	Corporat et tax				
0	0	0				
1	4,200,000	1,260,000				
2	7,900,000	2,370,000				

3	8,800,000	2,640,000				
4	7,400,000	2,220,000				
5	12,400,000	3,720,000				

Net profit (profit oil - tax - bonuses)

Year 1 - 3,040,000
Year 2 - 9,480,000
Year 3 - 10,560,000
Year 4 - 7,880,000
Year 5 - 14,880,000

Total net over 5 years = 45,840,000 Pounds

Part 2

Government revenue

Profit oil + Oil tax + Corporate tax + Bonuses - Training fee

Year	Profit oil	Oil tax	Corporate tax	Bonuses	- Training fee	Total
0				2,000,000		2,000,000
1	10,500,000	4,200,000	1,260,000		(100,000)	15,860,000
2	19,750,000	7,900,000	2,370,000		(100,000)	29,920,000
3	22,000,000	8,800,000	2,640,000		(100,000)	33,340,000
4	18,500,000	7,400,000	2,220,000	1,000,000	(100,000)	29,020,000
5	31,000,000	12,400,000	3,720,000		(100,000)	47,020,000
Total						157,160,000

Total over same period = 157,160,000,000 pounds

Part 3

A profit Sharing agreement is one where the government retains the title, the International Oil Company bears the exploration cost but recovers costs through cost oil, and after that the profit is split into Profit oil, according to a pre-determined formula. It is present in developing countries like Uganda and Angola

Limitations to Nobala

- It is not as favorable to investors (as Concession) and so may not attract many investors to Nobala
- There is a big administrative burden on Nobala, as opposed to the Concession agreement. Therefore costs may have to go into training a competent workforce
- Because of the above, it may take a longer time before first oil is extracted. This has been the case with Uganda (Oil was discovered in early 2000s. First oil is only expected in July this year(2026)

Answer-to-Question- _2_

Part 1

Introduction

The conflict between Azuria's domestic 30 day rule and the DTA's 12 month threshold centres around treaties and Permanent Establishment.

Explanation of the conflict

Oil exploration is capital intensive for Deep Sea Global. Often MNEs stand a risk of conflict between international tax concepts and Country's "obsolescence gains".

A P.E according to OECD MTC Articles 5 and 7 is formed when there is a fixed place of business, longer than 12 months that give the host state rights to tax.

Which provision takes precedence

If there is a DTT in place, the OECD MTC takes precedence, and should be domesticated in the jurisdiction's laws.

In case

Impact of this on investment certainty

Double tax treaties, like OECD MTC, exist to allocate taxing rights between the source and the residence and to provide fiscal predictability.

They are a shield against unilateral, arbitrary changes to P.E definition like the one described.

In case of conflicts like this, DTTs offer Mutual Agreement Procedure and they can seek arbitration.

Part 2

According to BEPS Action 7, it is not possible to avoid PE status by

fragmenting a cohesive operating business into several small operations in order to argue that each part is merely engaged in preparatory activities.

This regulatory shift will help governments curb contract splitting

Part 3

Azurria has no legal justification, per the model conventions, to tax the unrelated management fee.

Services trigger WHT. Articles 11, 12 and 13 of the MTCS can help IOCs reduce this.

However Azurria needs to be watchful of "gross up" clauses.

Part 4

According to Article 7 of the MTC, a P.E allows the company to be taxed in the other state.

However there's a possibility of deep sea using the provision to set up in a low tax jurisdiction, hence eroding the base of the country.

BEPS Action 7 will help countries to address Base Erosion concerns resulting from the above.

PART B

Answer-to-Question- 4

Introduction

Exploration and production of oil and gas require expensive equipment. Given the risk and the capital intensity, MNEs may prefer leasing. The advantages of leasing are that it solves the issue of the need for the high upfront capital. It also creates an opportunity for some companies to use sale leaseback to unlock capital from mature assets that already exist.

Direct and indirect tax implications

There are two kinds of leases. There is a financial lease where the lessee owns the asset for tax purposes and can deduct interest and depreciation.

There is also an operational lease where the lessee rents the asset where full rental payment is deducted.

Leases across borders will generally trigger WHT.

Some of the indirect taxes include import duty and VAT.

Some countries will charge WHT on related party rig leases to low tax jurisdiction. For example, Norway charges 15%

Strategies MNEs can use to optimise fiscal position

One of the strategies is for sale leaseback arrangements where a group can obtain an immediate capital "injection" from existing massure assets.

This would involve creating a group leasing company in a low tax jurisdiction like Singapore or Dubai.

Compliance risks

This would serve a risk to countries and could lead to Base Erosion and double non taxation.

The BEPS project aims to combat this.

PART C

Answer-to-Question- _6_

Introduction

Carbon taxes and emmission trading schemes are market-based policy tools that place a price on carbon emissions from fossil fuels, encouraging businesses and consumers to reduce emissions, improve energy efficiency, and transition towards cleaner energy sources

Carbon taxes

Carbon taxes are taxes on Green House Gas emmissions. They provide certainty on price but they do not provide certainty on emissions.

Carbon taxes are used in jurisdictions like the UK, which introduced the Climate Change Levy, and British Columbia.

Carbon taxes are effective in reducing carbon emissions and mitigating climate change risk only to a certain extent.

They help jurisdictions to generate revenue which can be used to invest in Green activities.

The taxes may also be able to, over time, discourage carbon emissions. They require strict compliance and enforcment

Emissions Trading Schemes

Emissions trading schemes are cap and trade schemes issued to companies. They offer emission certainty but can create price volatility.

Companies are able to trade permits and licenses to other companies when they reach the emissions cap.

They are more effective in reducing carbon emissions but the prices are not certain, which creates volatility.

An example is EU ETS.

Answer-to-Question- _5_

Part 1

Ring fencing in oil and gas contracts refers to a situation where the government restricts losses so that one is not able to use them to offset losses in another area.

Scopes

- Oilwells
- Streams (Upstream, midstream, downstream)

Part 2

Impact of ring fencing on government tax revenue

Ringfencing enables governments to earn revenue quicker.

- Ringfencing results in higher revenue take for the host country
- Ringfencing might discourage some investors from investing in the jurisdiction
- Ringfencing puts an administrative burden on the tax authority

Impact of ring fencing on oil and gas companies

- Ringfencing puts an administrative burden on the international oil and gas company
- Ringfencing results in higher costs for the international oil and gas company