THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2025

MODULE 3.04 – ENERGY RESOURCES OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- All workings should be made in appropriate monetary currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer BOTH questions from this Part.

1. Geological and geophysical studies indicate the existence of oil resources in the southeast of Country ABC. While a number of experts have advised Country ABC's Ministry of Petroleum to sign a concession agreement with Lucky Oil plc, others have suggested signing a production sharing agreement (PSA) with Lucky Oil plc instead.

   Estimates of production, expenses, and tax rates for the next five years are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Production (tons)	0	3,000,000	4,000,000	6,000,000	8,000,000
Oil price ($)	40	45	50	50	60
Exploration and evaluation expenditure ($)	5,000,000	0	0	0	0
Development expenditure ($)	2,000,000	5,000,000	0	0	0
Operating and production expenditure ($)	0	2,000,000	2,000,000	2,000,000	2,000,000

   Royalty: 10%
   Corporation Tax: 20%

   You are required to:

   1) **Advise Country ABC on the key features of concession agreements and PSAs.** (16)

   2) **Explain which form of agreement would likely offer Country ABC the highest overall revenue over the five-year period.** (4)

   3) **With reference to the revenues and expenditures indicated in the table above, outline any other fiscal revenues or obligations that Country ABC may request from Lucky Oil plc.** (5)

   Total (25)

2. Multinational oil and gas companies operate across multiple jurisdictions, engaging in intercompany transactions involving crude oil, refined products, services and intellectual property. Transfer pricing rules ensure that these transactions are priced at arm's length, preventing artificial profit shifting to low-tax jurisdictions. However, valuation complexities, fluctuating commodity prices and complex intra-group financing structures can create significant tax risks.

   Governments and international bodies have sought to impose strict transfer pricing regulations to safeguard tax revenues and combat base erosion and profit shifting (BEPS) practices.

   In analysing the transfer pricing risks and challenges faced by multinational oil and gas companies, you are required to:

   1) **Explain the role of transfer pricing in oil and gas operations, and why it is a concern for tax authorities.** (5)

   2) **Discuss the key transfer pricing methods used for pricing intercompany transactions in the upstream and downstream sectors.** (12)

   3) **Describe how tax authorities may challenge transfer pricing methods in the oil and gas industry.** (8)

   (25)

PART B

You are required to answer ONE question from this Part.

3. Carbon taxes and emission trading schemes are two measures that aim to reduce greenhouse gas emissions and combat climate change.

You are required to:

1) Define 'carbon taxes', and evaluate, in your view, their effectiveness in reducing emissions. (10)

2) Define 'emission trading schemes', and critically discuss their roles in reducing emissions. (10)

Total (20)

4. Oil and gas investments often involve transfers of assets or ownership stakes, triggering capital gains taxes in the source country. Taxation depends on whether the transfer is direct (i.e. the sale of physical assets) or indirect (i.e. the sale of shares in a company holding the assets). Many countries impose taxes on such gains, but tax treaties can provide relief, affecting investment structuring. Understanding how capital gains taxes apply to oil and gas transactions is essential for managing tax liabilities and optimising cross-border deals.

You are required to:

1) Discuss how capital gains taxation applies to direct and indirect transfers of oil and gas assets between affiliates and/or third parties. (8)

2) Analyse the role of tax treaties in mitigating capital gains tax burdens. (6)

3) Describe valuation issues or disputes that may arise on a transfer between affiliates. (6)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. The tax due diligence process is often a crucial element in the context of a planned transaction. The aim of tax due diligence is to recognise tax-related liabilities and opportunities, and acquire insights that will help shape the optimal transaction structure within the prevailing tax law.

   In an oil and gas acquisition deal, the buyer must examine essential details during the tax due diligence phase. Information can be available in a physical data room or in a virtual data room, and the buyer may ask for particular documents to be included in the data room.

   You are required to identify and discuss six critical aspects that should be examined by the buyer during the tax due diligence process. (15)

6. The merger and acquisition of oil and gas companies presents several important tax considerations. Interest deductions on loans for financing purchases, along with the utilisation of deductions in the local jurisdiction, commonly referred to as 'debt push down', are among these tax considerations.

   You are required to:

   1) Discuss the tax implications of interest deductions, in the case of purchasing assets or target shares in oil and gas companies. (10)

   2) Discuss the tax implications of interest deductions, in the case of this deduction being 'pushed down' to the target company's country. (5)

   Total (15)

7. Oil and gas projects require substantial funding, often involving complex financing structures across multiple jurisdictions. Governments impose various tax rules to regulate how companies structure their investments and financing arrangements.

   One such regulation addresses the balance between debt and equity financing to ensure fair taxation. These rules can significantly impact the cost of capital, project feasibility, and overall tax liabilities for companies operating in the sector.

   You are required to:

   1) Describe the role of thin capitalisation rules in oil and gas taxation. (5)

   2) Describe other ways in which tax authorities may dispute the level of tax relief on interest. (10)

   Total (15)

8. Oil and gas companies often operate across borders, triggering permanent establishment (PE) rules that determine their tax liabilities. A PE can lead to corporate tax obligations and compliance burdens, impacting investment decisions. Understanding when a PE arises is essential for managing cross-border tax risks.

   You are required to define a PE in the context of oil and gas taxation, and discuss how PEs impact the allocation of taxing rights between countries. Illustrate your answer with at least one example of a tax treaty with which you are familiar. (15)