THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2021

MODULE 3.04 – UPSTREAM OIL AND GAS 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 to the nearest month and in appropriate monetary currency, unless otherwise stated.
- As you are using the online method to complete your exam, 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. Governments in oil and gas producing countries use a number of different tools and mechanisms to enhance their revenues from these resources. Taxes and duties under the principal tax regimes for upstream oil and gas operations vary according the type of oil and gas contract in place. Royalties, signature and production bonuses, rentals, state equity and carried interests, export duties, VAT and other indirect taxes are among these varied tools and mechanisms.

   You are required to discuss the use of the following mechanisms in relation to oil and gas production:

   1) Export duties, including examples of other taxes that may be combined with export duties; and (10)

   2) VAT and other indirect taxes. (15)

   Total (25)

2. "Setting up an oil and gas trading activity requires careful planning and structuring from a tax perspective, but also a basic understanding of the different financial instruments which are commonly used to trade oil and gas by companies operating in this sector."

   You are required to discuss this statement, explaining the importance of tax planning and group structure relating to oil and gas trading, and the main derivatives used in the oil and gas trading business and their tax considerations. (25)

PART B

You are required to answer ONE question from this Part.

3. The UK petroleum fiscal regime has been through many changes since it was established in the early 1970s and remains one of the most complex in the world.

   You are required to explain the key components of the current UK petroleum fiscal regime, including the Petroleum Revenue Tax (PRT) and Supplementary Charge (SC), as it applies to existing and new fields. (20)

4. Energy contracts such as oil and gas licence agreements for exploration and production are typically characterised by their long term duration. Because laws and regimes can change during these long periods, it is common practice in the oil industry to use stabilisation clauses to ensure the economic terms of the agreements. Stabilisation clauses can vary in type, depending on the purpose of the parties and the characteristics of the host country.

   You are required to discuss the key benefits, features and types of possible stabilisation clauses which can be used in oil and gas contracts, and identify the main difficulties arising from stabilisation clauses together with possible solutions to such problems. (20)

PART C

You are required to answer TWO questions from this Part.

5. The merger and acquisition of oil and gas companies presents a number of significant tax issues. Interest deductions on loans to finance the purchase, and using the deductions in the local country (generally known as 'debt push down') are among these tax issues.

   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. (7)

   2) Discuss the tax implications of interest deductions, in the case of this deduction being 'pushed down' to the country of the target company. (8)

   Total (15)

6. In the United Kingdom, the Statement of Recommended Practice (2001) defines decommissioning as "the process of plugging and abandoning wells, of dismantlement of wellhead, production and transport facilities, and of restoration of producing areas in accordance with licence requirements and the relevant legislation".

   You are required to discuss how decommissioning costs are treated for tax purposes in the UK, including the protection available to investors in the form of decommissioning relief deeds and transfers of tax history. (15)

7. Profit repatriation is one of the aspects that a tax professional should consider when setting up a structure to be used in an oil and gas exploration project, as it is not always possible to change the structure once a commercial discovery is made.

   You are required to discuss the matters that should be considered in profit repatriation, and alternative structures that can be used. (15)

8. The oil and gas industry requires significant amounts of upfront capital, followed by long lead times and a high risk of unsuccessful exploration. The use of leasing operations has become increasingly common throughout the oil and gas industry as a source of financing for the acquisition and sale of assets and equipment.

   You are required to discuss the main features and tax impacts of leasing in the oil and gas industry, and explain the purpose of a sale-leaseback agreement and its main tax features. (15)