

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2023

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 to the nearest month and in appropriate monetary currency, unless otherwise stated.
- 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. The upstream oil and gas industry is subject to a number of fiscal regimes: production sharing agreements, concession systems, and service contracts.

You are required to discuss the principal characteristics and structures of production sharing agreements, and to identify the key differences between this regime and the concession and service contract regimes. (25)

2. O&G Inc., an oil and gas company, operates in numerous countries around the world. The company generates significant revenue from its operations in various regions.

You are required to answer the following questions:

- 1) **What are the key factors that determine the tax liability of O&G Inc. in each of the countries in which it operates?** (5)
- 2) **What strategies and tasks would you carry as a tax adviser to O&G Inc., to best manage its tax liabilities in the countries in which it operates?** (5)
- 3) **In what ways may O&G Inc. minimise its tax liability while remaining compliant with the tax laws of each country in which it operates?** (5)
- 4) **How do tax treaties between countries impact the tax liability of O&G Inc. in the countries in which it operates?** (5)
- 5) **What are some of the challenges that O&G Inc. may face in managing its international tax liabilities, and how can the company overcome these challenges?** (5)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. In order to limit climate change and abate its consequences, fiscal instruments have been developed aimed at reducing greenhouse emissions, including emission trading schemes and carbon taxation.

You are required to describe and discuss the mechanisms of emission trading schemes and carbon taxation, and their international tax implications. (20)

4. **You are required to explain the tax impacts of transferring an oil and gas license from one party to another within an international tax context.**

Your answer should include analysis of the tax considerations that arise for both the transferor and the transferee (including potential tax liabilities), tax planning strategies, and the impact on the tax base of the countries involved. Provide examples of how tax impacts have been managed in practice, and evaluate the effectiveness of these strategies. (20)

PART C

You are required to answer TWO questions from this Part.

5. The governance of oil and gas resources is a key factor in determining the type of fiscal regime to be used by a given country. Two types of governance regime are linked to the types of fiscal system a country may use; these are proprietary and non-proprietary regimes, where both the natural resources and associated assets are in government ownership.

You are required to discuss the similarities and differences between proprietary and non-proprietary governance regimes, and establish the connections between each of these governing regimes and the different types of petroleum fiscal system. Your discussion should focus on the tax laws, regulations and practices of the different systems. (15)

6. Windfall taxes have historically been used by governments to target the economic rent of oil and gas companies. In May 2022, the government of the United Kingdom introduced the Energy Profit Levy. This levy targets the profits of oil and gas companies operating in the UK Continental Shelf (UKCS).

You are required to discuss the impacts of this levy on the overall marginal tax rate paid by oil and gas companies in the UK, and its impact on investments by oil and gas companies in the UKCS. (15)

7. **You are required to explain the concepts of ‘state equity’ and ‘carried interest’ in the oil and gas industry, and analyse the tax and economic implications of these arrangements, including the role of state participation in the development of oil and gas resources and the allocation of risks and rewards between the state and the private sector.**

You should include consideration of the impact of these arrangements on the investment climate and long-term sustainability of the oil and gas industry, provide examples of how state equity and carried interest have been implemented in practice, and evaluate the effectiveness of these arrangements. (15)

8. **You are required to explain the concept of ring-fencing as it applies to an oil and gas project, and analyse its impacts upon both the oil and gas company and the government.**

You should include examples of how ring-fencing rules have been implemented in practice and their effects on the taxation of oil and gas companies, and consider the potential impact of ring-fencing on the overall tax burden of oil and gas companies, as well as its potential effect on investment decisions and cross-border operations. (15)