

HYDROCARBON TAXATION AND FISCAL INCENTIVES

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Hydrocarbon Taxation



Designing A Fiscal System

- Qualities of a good Fiscal system
 - Fair
 - Predictable
 - Efficient
 - Acceptable
 - Flexible



Petroleum Arrangements

- Two Systems:
 - Exploration and Production Licenses
 - Production Sharing Contracts



Exploration & Production Licence

- Licence issued by the Minister of Energy
- Consolidation allowed
- Land Operations kept separate from marine operations
- Financial Obligations
 - Royalty payments (cash or kind)
 - Production Levy & Impost
 - Signature/Production Bonus
 - Import duties
 - Income taxes paid by Company directly to the BIR
 - Other payments as may be appropriate



Production Sharing Contracts

- **Basic Principles:**
- Two parties: Contractor and State
- Contractor pays 100% of costs which is recovered through cost oil
- Cost oil is part of production normally with a ceiling each year
- Remaining part of production, profit oil is shared between contractor and State



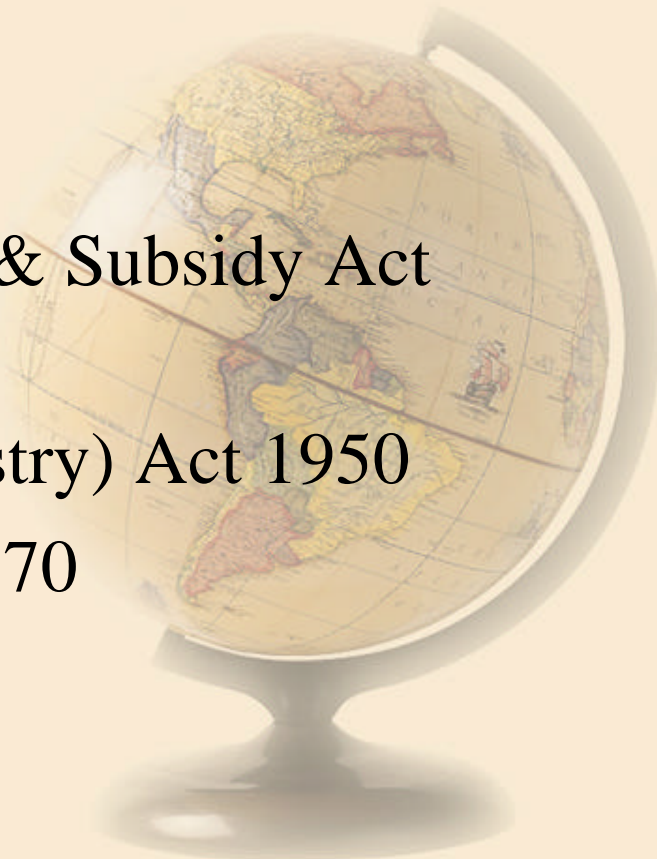
Production Sharing Contracts

- Taxes etc. paid by State (contractor is protected against future changes in fiscal legislation)
- Contractor is exempt from Royalty
- 'Ring –fence' rules apply



Legislation

- The Income Tax Act 1938
- The Petroleum Act 1969
- The Petroleum Regulations 1969
- The Petroleum Taxes Act 1974
- The Petroleum Production Levy & Subsidy Act 1974
- The Income Tax (In Aid of Industry) Act 1950
- The Unemployment Levy Act 1970



Companies Subject to P.T.A

- **Production Business**
 - Major Oil Companies.
 - Lease Operators/Farmouts.
 - Production Sharing Contracts.
- **Refining Business**



Taxes

Monitored and collected by Ministry of Finance

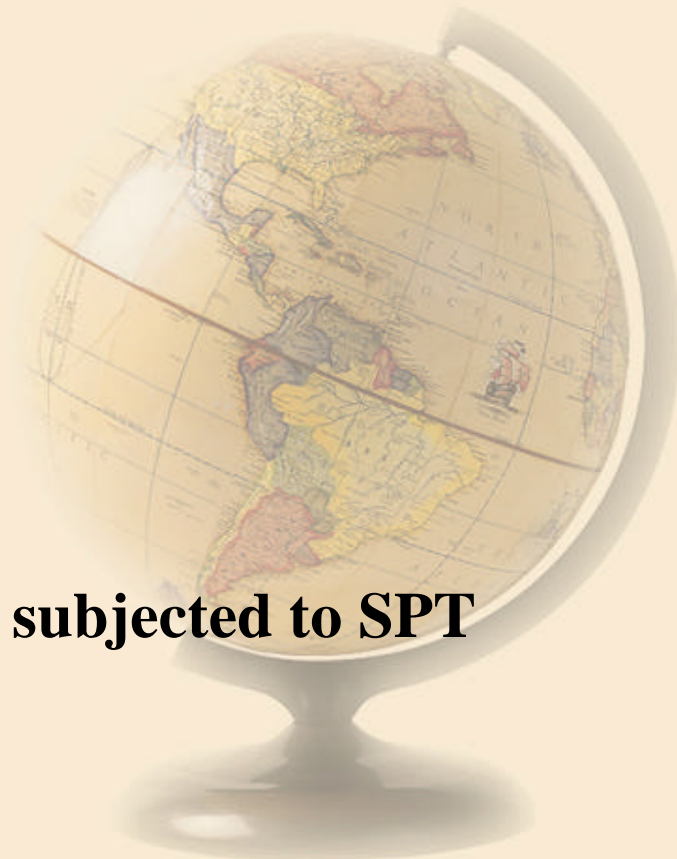
Taxes applicable	Crude Income	Gas Income	Rate
Supplemental Petroleum Tax	●		Sliding Scale
Petroleum Profits Tax	●	●	50%
Unemployment Levy	●	●	5%
Green Fund Levy	●	●	0.10%
Withholding Tax	●	●	10% - 15%

Other Government Revenue

Monitored and collected by Ministry of Energy			
Taxes applicable	Crude Income	Gas Income	Rate
Petroleum Impost	●	●	
Petroleum Levy	●		4%
Royalty - Crude	●		10% - 12.5%
Royalty - Gas (Current)		●	0.15% - 15%
Royalty - Gas (New)		●	10% - 15%

Supplemental Petroleum Tax

- **Tax is levied on gross crude oil revenue**
 - Based on fair market value of crude
- **Royalty / Overriding Royalty**
 - allowable when paid
- **Scale Rates Apply**
 - 0- 42%
- **SPT**
 - allowable for Petroleum Profits Tax
- **NB. Income from natural gas is not subjected to SPT**



New SPT Rates

- **Rates Range from:**

Land - 0 % to 35 %

Marine - 0 % to 42 %



NEW SPT RATE SCHEDULE (Act 21 of 2005)

		MARINE		LAND	
		Before 1988	After 1988	Before 1988	After 1988
US PRICES		A	B	C	D
0.00	13.00	0%	0%	0%	0%
13.01	14.00	0%	0%	0%	0%
14.01	15.00	0%	0%	0%	0%
15.01	16.50	7%	5%	0%	0%
16.51	18.00	11%	6%	4%	0%
18.01	19.50	15%	10%	8%	1%
19.51	21.00	19%	11%	12%	2%
21.01	22.50	23%	15%	16%	2%
22.51	24.00	24%	15%	17%	3%
24.01	25.50	25%	17%	18%	3%
25.51	27.00	26%	17%	19%	3%
27.01	28.50	27%	18%	20%	4%
28.51	30.00	28%	19%	21%	4%
30.01	31.50	29%	20%	22%	5%
31.51	33.00	30%	21%	23%	6%
33.01	34.50	31%	22%	24%	7%
34.51	36.00	32%	23%	25%	8%
36.01	37.50	33%	24%	26%	9%
37.51	39.00	34%	25%	27%	10%
39.01	40.50	35%	26%	28%	11%
40.51	42.00	36%	27%	29%	12%
42.01	43.50	37%	28%	30%	13%
43.51	45.00	38%	29%	31%	14%
45.01	46.50	39%	30%	32%	15%
46.51	48.00	40%	31%	33%	16%
48.01	49.50	41%	32%	34%	17%
49.51	and over	42%	33%	35%	18%

Changes to SPT Regime

- **SPT**
 - Removed all other allowances and discounts (retained royalty & overriding royalty)
 - Increased threshold for marine and land
 - Reduced SPT rates



SPT: Payment schedule

- **Calculated quarterly...**
based on weighted average crude price for the quarter
- **Paid by the 15th day of the month following the quarter**
- **Previously SPT was calculated annually...**
based on weighted average crude price for the year
- **and paid in quarterly installments**



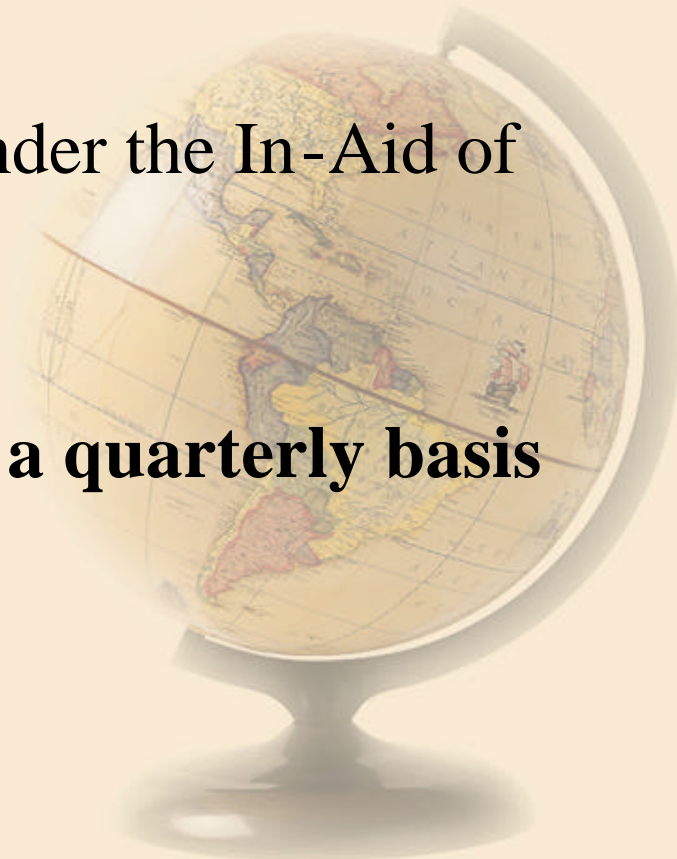
Petroleum Profits Tax

- **Income**
 - Gross income from all sources
- **Less allowable deductions:**
 - Operating costs
 - Tax deductible in the year incurred
 - **Exploration and development costs**
 - Capital allowances granted
 - **Financial costs**
 - Deductible in year incurred(unless capitalized to asset)
 - **Management charges**
 - Limited to 2% of expenditure exclusive of management charges
 - **Decommissioning/abandonment costs**
 - Allowed when work is performed
 - **Workovers/qualifying sidetracks**
 - IDC tax deductible in year incurred



Petroleum Profits Tax

- **Based on Book profits after adjustments:**
 - Depreciation / Depletion and amortization are not allowed.
 - Capital allowances granted under the In-Aid of Industry Act.
- **Assessed annually but paid on a quarterly basis**
- **Rate 50 %**



Petroleum Profits Tax

Capital Allowances

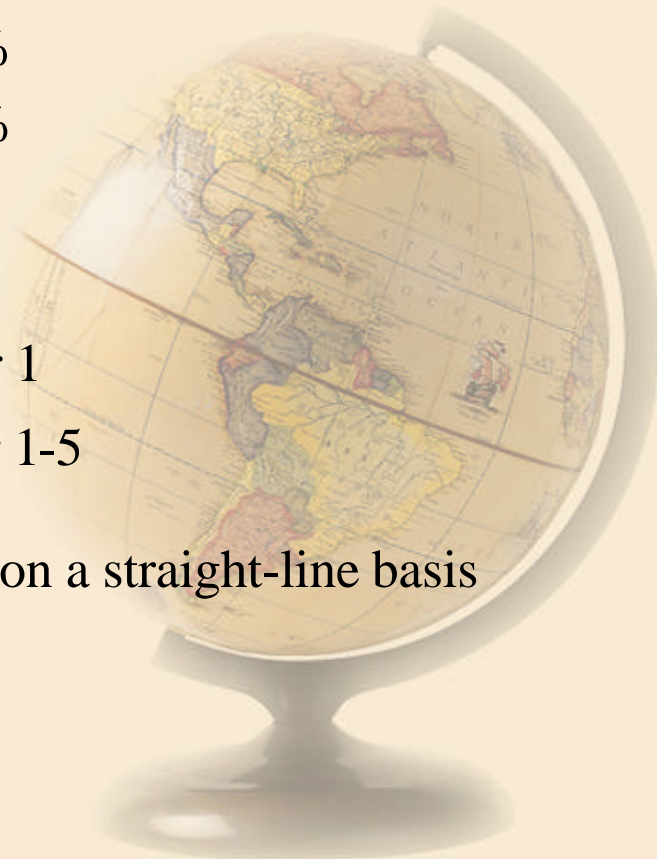
Part I – INDUSTRIAL BUILDINGS.

- Initial Allowance - 10 %
- Annual Allowance - 5 %

Part II - PLANT & MACHINERY – E & P

- Initial Allowance 20 % Year 1
- Annual Allowance *20 % Year 1-5

(* 20 % on the residue of expenditure calculated on a straight-line basis after deducting Initial Allowance)



Petroleum Profits Tax

Capital Allowances Cont'd

PART III – INTANGIBLES

- Exploration Expenditure
 - G & G Expenditure
 - Drilling costs
- **Development Expenditure (Intangible drilling & development costs)**



PART III – Continued

ALLOWANCES:-

- **Initial Allowance** **10 %** **Yr. 1**

- **Annual Allowance** **20 %** **Yr. 2**

- **Annual Allowance is computed on the residue of expenditure on a reducing balance basis**



Petroleum Profits Tax

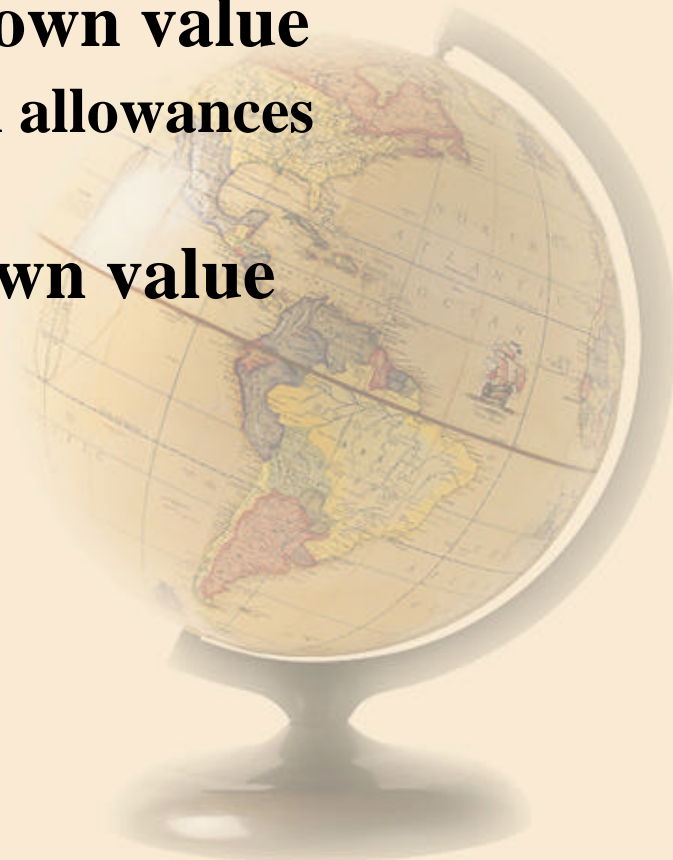
- **Special Allowances**
 - **Dry Holes 100%**
 - **Workovers & Qualifying Sidetracks**
 - **IDC 100%**
 - **Heavy Oil Allowance**
 - **60 % of Expenditure – Year 1**
 - **18 % of Expenditure – Year 2 - 6**
 - **Production Levy (100%)**
 - **Petroleum Impost (100%)**
 - **Production Bonus (100%)**
 - **Signature Bonus (20%)**



Petroleum Profits Tax

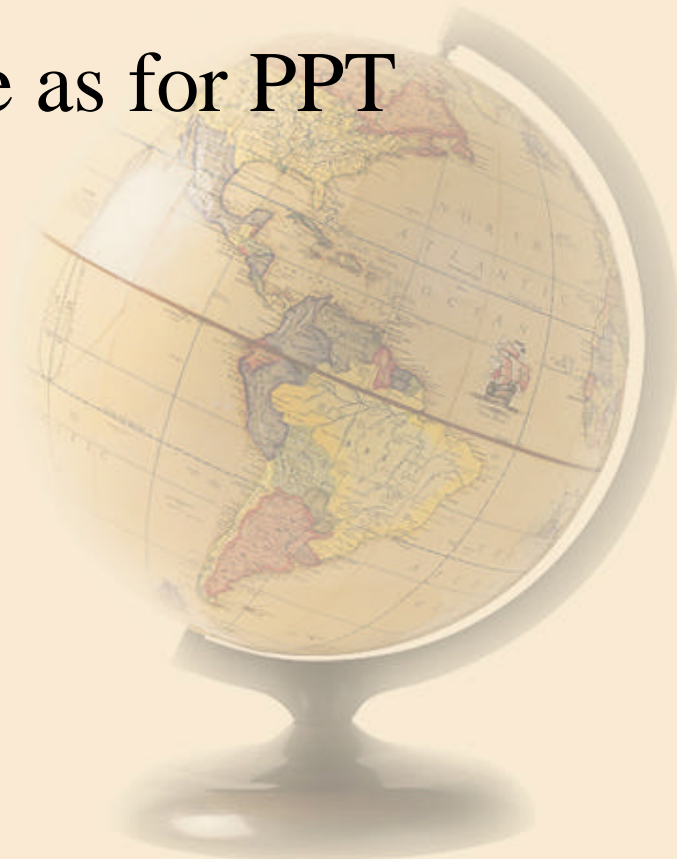
Sale of Assets

- **If Sale Price $>$ Tax written down value**
 - **Balancing charge limited to total allowances previously granted**
- **If Sale Price $<$ Tax written down value**
 - **Balancing allowance granted**



Unemployment Levy

- Levied on same taxable base as for PPT
- Rate: 5%



GFL & WHT

- Green Fund Levy:
- Rate: 0.1% of Gross Income
- Withholding Tax
- 10-15% Profits remitted or deemed remitted
- NB: These taxes are not allowable against PPT



Collection of Petroleum Taxes 2001 - 2005

Summary of Petroleum Tax Collections for Fiscal Years 2001 - 2005

Fiscal Year	SPT	PPT	Total Petroleum Taxes	UEL	Total Liability
2001	1.11	1.68	2.79	0.19	2.98
2002	0.63	1.18	1.81	0.11	1.92
2003	1.41	2.62	4.03	0.30	4.33
2004	1.54	3.81	5.35	0.39	5.74
2005	2.95	7.39	10.34	0.86	11.20

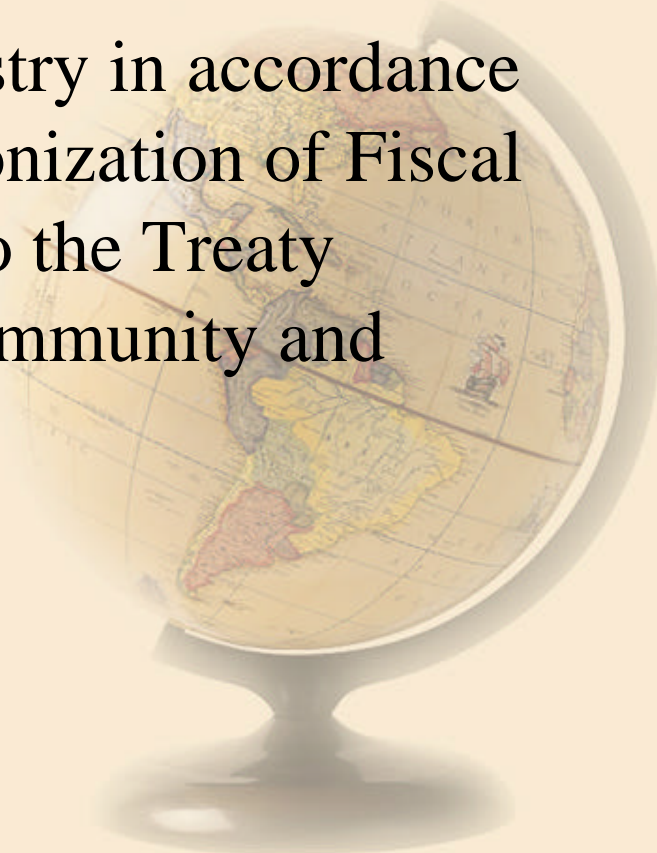
TT\$ billions

Fiscal Incentives in Trinidad and Tobago



Background

- 1973- Treaty of Chaguaramas (Caricom)
- 1979- Fiscal Incentives Act
 - To provide incentives to Industry in accordance with the Agreement on Harmonization of Fiscal Incentives which is annexed to the Treaty establishing the Caribbean Community and Common Market



Different Forms

- Tax Holidays- up to 10 years
- Reduction of Corporation Tax rates
- Import Duty Concessions
- Concessions under Double Tax Treaties
- VAT exemptions
- Accelerated Depreciation/Special Allowances
- Free Zones(exempted from customs, import duties,corporation and income taxes)
- Relief from Withholding Tax



Benefits to Companies

- Under the Fiscal Incentives Act:
 - Total or partial relief from:
 - Corporation Tax
 - Withholding tax
 - Customs Duty
 - Dividends/Distributions out of profits derived during tax holiday period
- Carry forward of losses



Application

- An enterprise which is resident in Trinidad & Tobago, may apply to the Minister of Finance under the Fiscal Incentives Act for the grant of approved status for the manufacture of an approved product.



Eligible Energy Companies

- Major gas utilizing operations
 - Petrochemicals
 - Ammonia
 - Methanol
 - Liquefied Natural gas
 - Other gas based products
 - Iron
 - Steel
 - aluminum
 - Other downstream projects such as plastics etc.
- NB:Not granted to petroleum companies



Criteria for Fiscal Incentives

- Utilization of new or advanced product/technology
- Capital investment of at least US\$50mm
- Caricom rules of origin
- Impact on the environment
- Local value added
- Product must be listed in the Third Schedule of the Customs Tariff



Purpose of Fiscal Incentives

- Attract Foreign Direct Investment(FDI)
 - Economic Growth
 - Increase in GDP
 - Increase in local investments
 - Increase foreign reserves
 - Social Development
 - Development of human resource
 - Increase in employment/skills
 - Enhancement of country's image
 - Monetization of natural resources
 - Technological advancement
 - Increase in technological capabilities



Benefits of Fiscal Incentives(Investor)

- Reduces
 - capital costs
 - Working capital requirements
 - Financing costs
 - Level of risks and cash flow problems
- Provide additional comfort and confidence to the financiers
- Relatively transparent
 - could be readily taken into account in their investment appraisals.



Problems With Fiscal Incentives (Government)

- Foregone Revenue Stream
- Increased risk of undermining tax revenue base
- Abuse of incentives by companies
- Difficult to measure benefits from granting them



Subsidy or Not?

- A subsidy is a financial aid supplied by a government as to industry for reasons of public welfare, the balance of payments, etc.
- An incentive is a motivating influence or stimulus
- Subsidies are forms of incentives. All incentives are not subsidies.



Liberalization

- The growing integration of economies and societies around the world
 - Increasing market size
 - Removal of barriers to trade
 - Increase in trade and investment
 - The interdependence of countries
 - Relaxation of Government restrictions, usually in areas of social or economic policy
 - Increased competition for resources



Fiscal Incentives and Liberalization

- Once considered a subsidy, will be seen as unfair.
- Should be eliminated if countries are to adhere to integration rules.



Government's Position

- Non energy committee is reviewing Act
- Corporation Tax rates have been reduced to 25%
- No more Tax Holidays
- Granting investment type credits
- Capital allowances



Further Information

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Thank you



Possible Ans. To Questions



Allowances Removed

- **Royalty Allowance**
- **Geological & Geophysical (G&G)**
- **Exploration Allowance**
- **Investment Allowance (I.A.)**
- **Enhanced Recovery**
- **Heavy Oil Allowance**
- **Recapture of Allowances**



SPT: Threshold prices

– Higher threshold prices

Marine operators: Now US\$15 per barrel, previously US\$13 per barrel for all licences

Land operators before 01-Jan-1988: Now US\$16.50 per barrel, previously US\$14 per barrel

Land operators after 01-Jan-1988: Now US\$18 per barrel, previously US\$14 per barrel



Reduced SPT Rates

- Prices < US \$21.00
 - Increase band from US \$1.00 to US \$1.50
 - Reduce rates by 5, 4, 3 and 2 percentage points respectively.
 - Prices > US \$21.00
 - Retain bands
 - Reduce rates by 3 percentage points
- Applicable to both land and marine.



SPT: New rates

- A new SPT-rate schedule has been introduced
- Reduced rates in ALL classes
- The reduction lies between 10% and 100%



Old vs. New SPT Rates

		MARINE		LAND				MARINE		LAND	
		Before 1988	After 1988	Before 1988	After 1988			Before 1988	After 1988	Before 1988	After 1988
US PRICES		A	B	C	D	US PRICES		A	B	C	D
0.00	13.00	0%	0%	0%	0%						
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15.01	16.00	12%	10%	5%	3%	13.01	14.00	0%	0%	0%	0%
16.01	17.00	15%	10%	8%	3%	14.01	15.00	0%	0%	0%	0%
17.01	18.00	18%	13%	11%	4%	15.01	16.50	7%	5%	0%	0%
18.01	19.00	21%	13%	14%	4%	16.51	18.00	11%	6%	4%	0%
19.01	20.00	23%	15%	16%	5%	18.01	19.50	15%	10%	8%	1%
20.01	21.00	25%	15%	18%	5%	19.51	21.00	19%	11%	12%	2%
21.01	22.50	26%	18%	19%	5%	21.01	22.50	23%	15%	16%	2%
22.51	24.00	27%	18%	20%	6%	22.51	24.00	24%	15%	17%	3%
24.01	25.50	28%	20%	21%	6%	24.01	25.50	25%	17%	18%	3%
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