The Starting Point of Resource Rent Taxation

- Extraordinary profits due to limited resources
- Immobile resources
  ➔ A good tax base
- Possible to tax the resource rent without distorting incentives to invest
Government Take Instruments

• Net profit taxation
• Royalty - gross or net
• Production sharing agreements
• Government participation
• Government owned oil companies
• Auctions or signature bonuses

Key issues when choosing:
• Risk
• Attracting profitable investments
• Need of early income
• Administrative issues
The Norwegian Profit Tax Systems

Resource Rent:
Potential for increased tax take
Extra allowance for ordinary returns
Should not distort investment incentives

Ordinary income:
• 28% on net income as in other industries
• Neutrality between industries
• Tax on ordinary returns and super-profit
Petroleum Tax System

- Production from 1971
- Resource rent tax introduced 1975
- Tax rate 50%, total marginal tax rate 78%
- Profit based on a company basis
- Ring fenced against mainland activity
State Direct Financial Interest (SDFI)

- Direct government interest in fields and pipelines
- Decided when licenses are awarded
- Varies between fields
- The government pays its share of investments and costs
- ... and receives a corresponding share of the gross income from the license.
- Established in 1985
- Similar to a cash flow tax
Hydro Power Taxation

- Production from about 1900
- Resource rent tax introduced 1997
- RRT tax rate 30 pct. Total marginal tax rate 58 pct.
- The RRT is neutral with regard to investments

- Property tax
- Concessional liabilities
Hydro Power Generation
Resource Rent Tax 1997-2011

Hydropower - Resource rent tax 1997-2011

Mill. NOK

Year


0 1000 2000 3000 4000 5000 6000 7000 8000

Taxing Natural Resources
Thank you!
Tax Base - Petroleum
on company basis – ring fenced against mainland

Sales income (norm prices)
- Operating costs
- Capital depreciation (16,7 pct. over 6 years)
- Financial costs
- (Deficits from previous years)
= Ordinary tax base liable to **28 pct. tax**
- Uplift (investment based extra depreciation, 7,5 pct. 4 years)
- (Excess uplift from previous years)
= Tax base liable to **50 pct. tax**

Companies without taxable income
- Carry forward with interest - (risk free + 0,5%)*(1-0,28)
- Tax refund (pay out) of exploration costs
- Final losses can be sold or tax reimbursed from the state
Tax Base – Hydro Power Generation

Sales income (market prices)
- Operating costs
- Concession fees
- Property tax
- Depreciation (linear: installations 1,5%  equipment 2,5%)
- Uplift (tax values * risk free rate)

= Tax base liable to **30 pct. tax**

Negative resource rent will be entitled to a tax refund (pay out)
The Fund Mechanism Integrated with Fiscal Policy

Return on fund investments

Fund

Petroleum revenues

Transfer to finance non-oil budget deficit

Fiscal policy guideline
(over time spend real return of the fund, approximately 4 pct.)

State Budget

Revenues

Expenditures
• consumption
• investment
• transfers
The Government Pension Fund – Global

Billion NOK

Capital 31. of dec. (left scale)
Percent of mainland GDP (right scale)

Taxing Natural Resources