NORWEGIAN MINISTRY OF FINANCE

Taxing Natural Resources

Basic Principles and Norwegian Experience

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2012 OECD Green Growth and Sustainable Development Forum, 23 November 2012, OECD Conference Centre, Paris

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

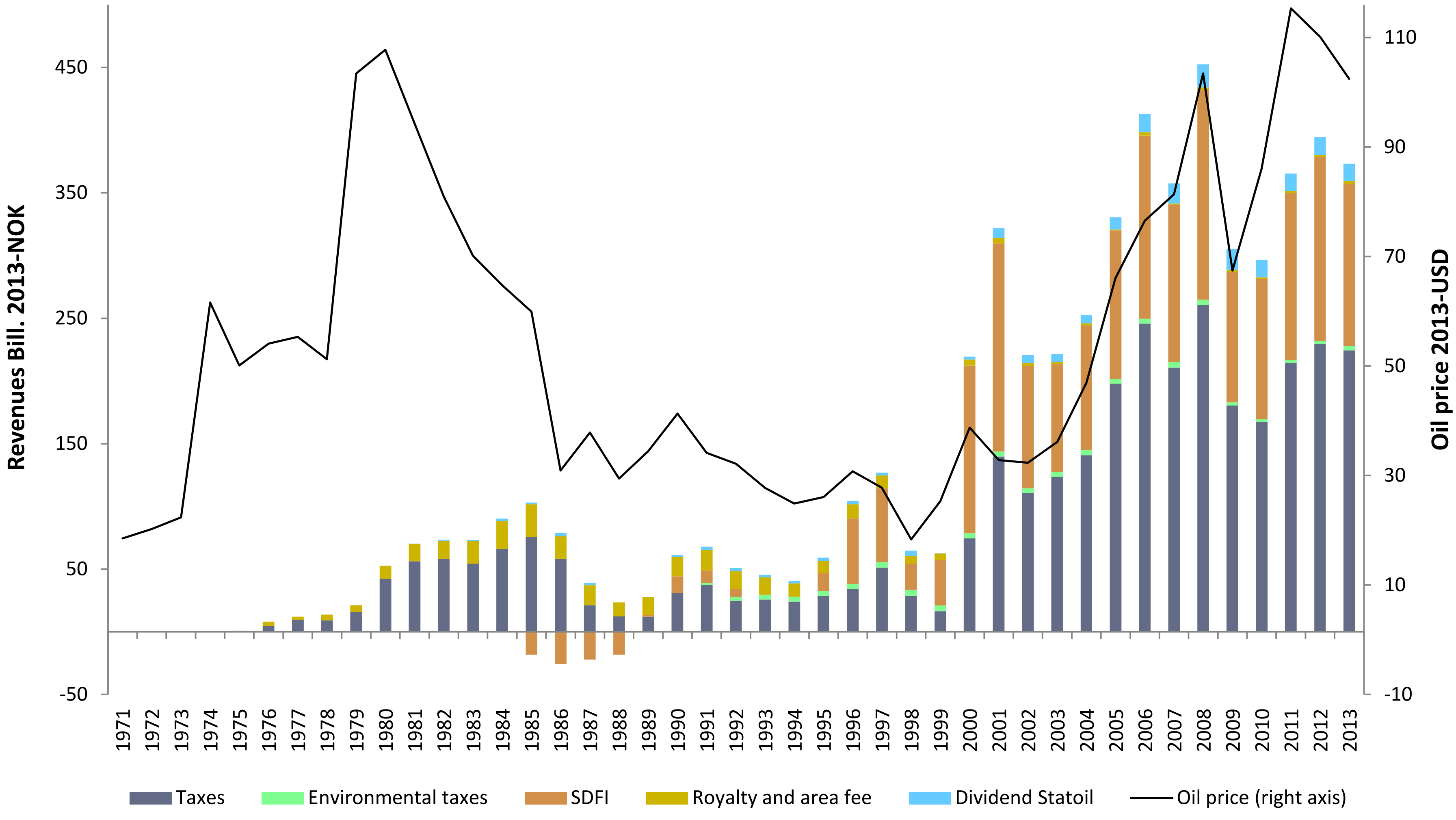
Ordinary income:

- 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

Norwegian Government Net Revenue from Petroleum



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

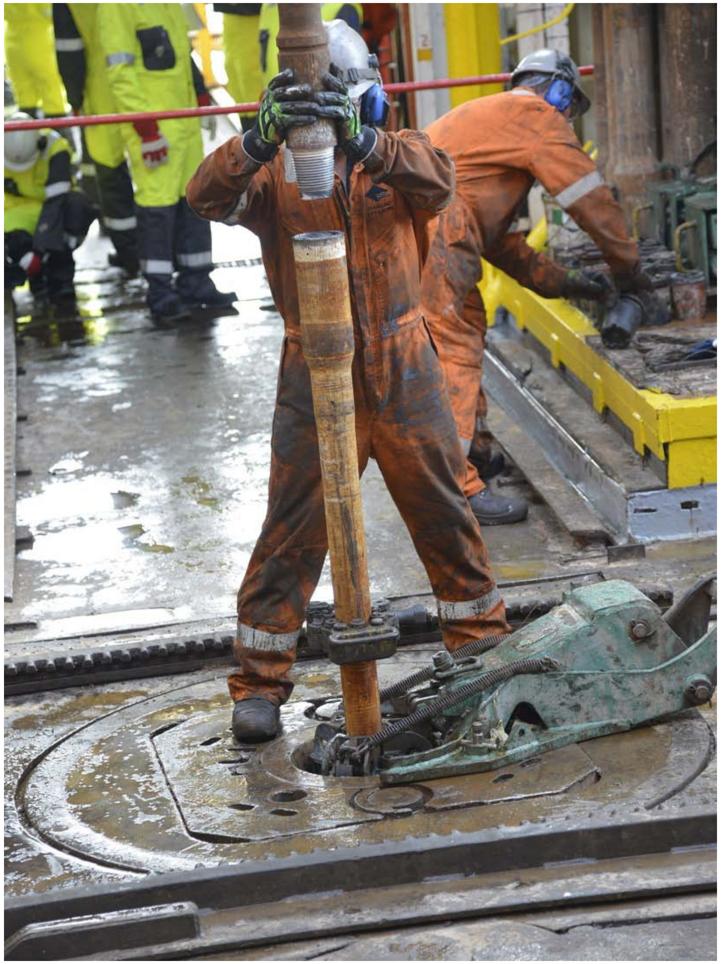


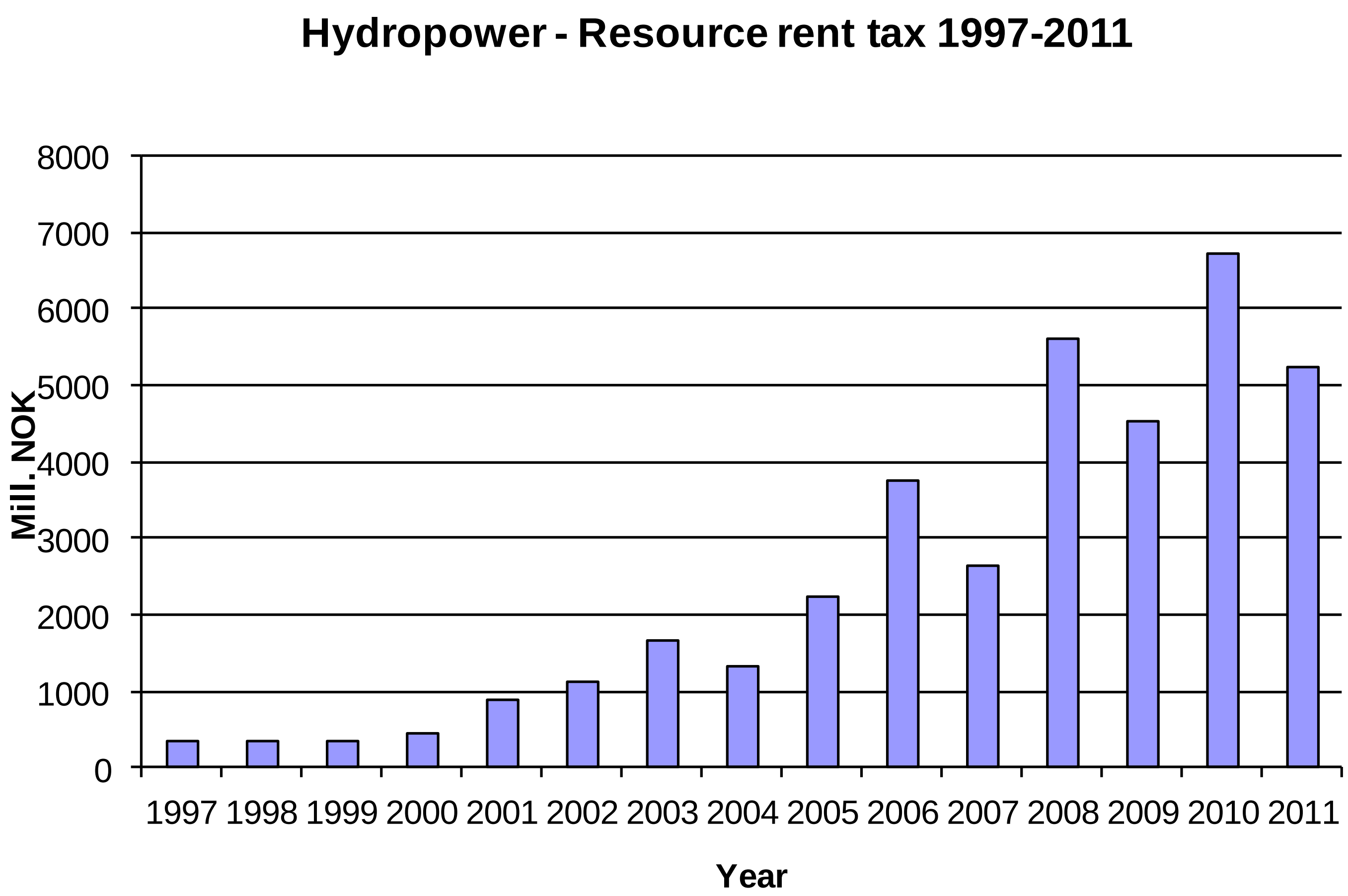
Photo: Statoil

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



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

<u>- (Deficits from previous years)</u>

= Ordinary tax base liable to **28 pct. tax**

- Uplift (investment based extra depreciation, 7,5 pct. 4 years)

<u>- (Excess uplift from previous years)</u>

= 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

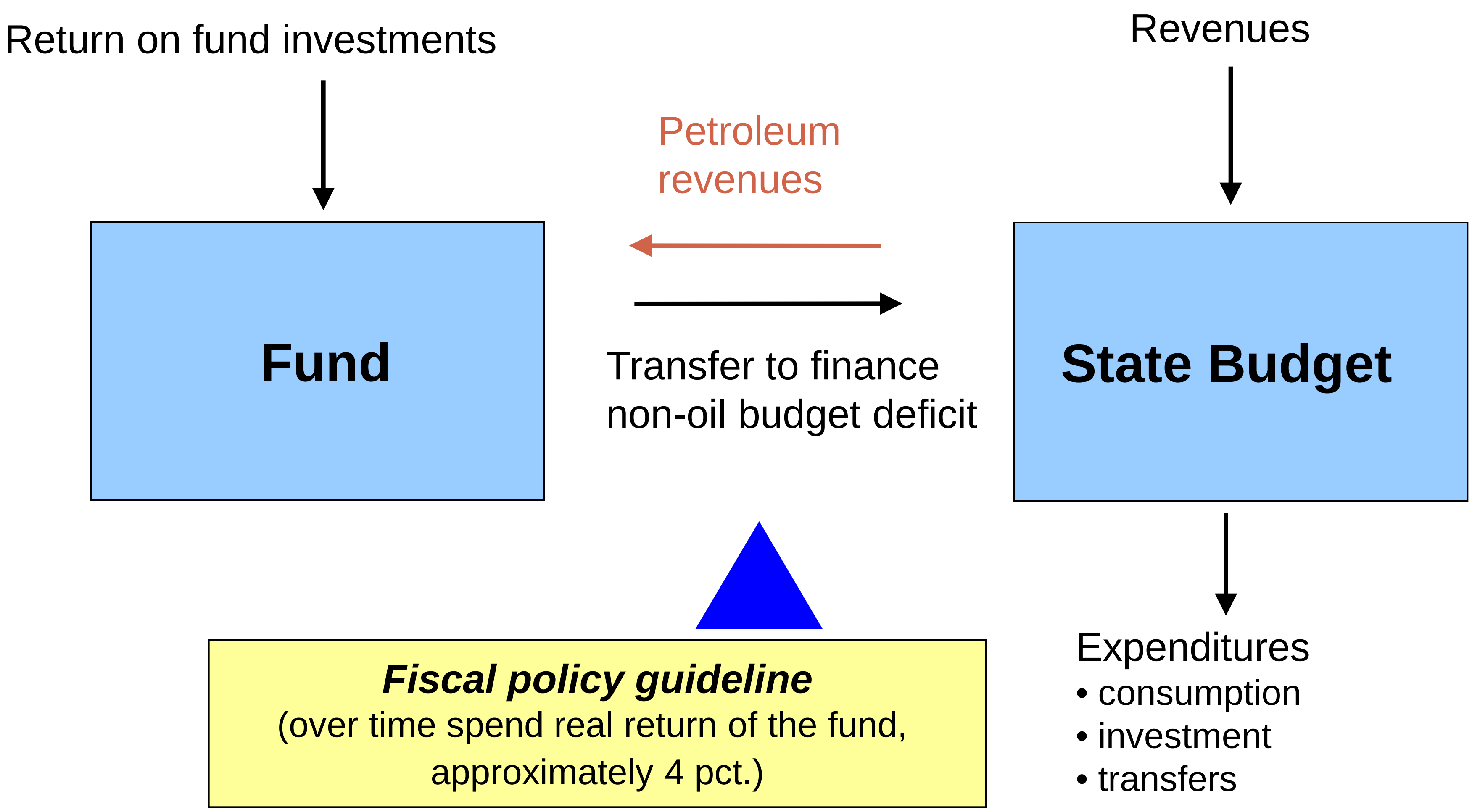
Tax Base – Hydro Power Generation

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



The Government Pension Fund – Global