

CHARTERED INSTITUTE OF TAXATION, GHANA

PROFESSIONAL EXAMINATION

FEBRUARY, 2020

FINAL LEVEL 1

PAPER 8 – OIL, GAS & OTHER MINERAL TAXATION

ATTEMPT ALL QUESTIONS.

TIME ALLOWED: 3 HOURS

QUESTION 1

- a) Countries grant exploration and production rights to oil and gas companies under various contractual arrangements. But there are three main ones referred to as Host Government Contracts or World Fiscal Systems for oil and gas. Identify and explain the main features of the three Host Government Contracts.
- b) Ghana's upstream petroleum fiscal regime has been described in some fora as "a hybrid of the Royalty Tax Regime and Production Sharing Contract." Do you agree with this description? If yes, explain; and if not, explain the fiscal regime of Ghana.

TOTAL 20 MARKS

QUESTION 2

Explain the following concepts and their tax treatment:

- a) Finance Lease;
- b) Operating Lease; and
- c) Ring Fencing and state how it is provided for in respect of Petroleum Operations under the Income Tax Act, 2015 (Act 896).

TOTAL 20 MARKS

QUESTION 3

- a) Explain the following concepts
- i. Unitization; and
 - ii. Redetermination.
- b) ABC Limited has 40% and 30% interest in Costal Reef Petroleum Agreement and Deep Sea Petroleum Agreement respectively. The contract areas of the two Petroleum Agreements have been unitised for joint operation. It has been determined that the hydrocarbon present in the unitised area is in the proportion of 40% and 60% for the Costal Reef Contract Area and Deep Sea Contract Area respectively.

Gross production of crude oil in the unitised area in 2018 year is 500,000,000 barrels. The average price of crude oil that year is \$50 per barrel.

Required:

Compute the gross income of ABC Limited for the 2018 year of assessment. **20 MARKS**

QUESTION 4.

- a) Explain the tax treatment of assignment of or disposal of petroleum rights as provided under the Income Tax Act 2016 (Act 896).
- b) Deep Sea Ventures and Coastal Explorations are joint venture partners who have 45% and 40% interest respectively in the Atlantic Oil Fields in Ghana. They commenced exploration in 2010 and discovered hydrocarbons in commercial quantities in 2015. A plan of development was subsequently approved for the development of the Atlantic Oil Fields.

The fiscal terms of the agreement between the joint venture partners and the Government of Ghana include Bonus of US\$ 100 million, Royalty of 10%, Initial (Carried) Interest of 10% Additional Participating Interest of 5%, Corporate Tax rate of 35% and Capital Allowance on straight line basis at a rate of 20%. Commercial production commenced in the Atlantic Oil Fields in 2019. Information available on the oil and gas production operations in the Atlantic Oil Fields are as follows:

Up to 31/12/2017	US\$
Exploration Costs	250,000,000.00
Development Costs	2,000,000,000.00
Bonus	100,000,000.00

As at 31/12/2018	US\$
Exploration Costs	15,000,000.00
Development Costs	1,500,000,000.00
Interest on loan for installations & infrastructure	100,000,000.00

NB. The loan was contracted by the operator on behalf of the parties that hold interest in the Atlantic Oil Fields

As at 31/12/2019	US\$
Exploration Costs	5,000,000.00

Development Costs 430,000,000.00

Required:

Compute the capital allowance entitlements of Deep Sea Ventures and Coastal Explorations and state the underlying assumptions for your computations. **20 MARKS**

QUESTION 5

Gold Resources Ltd. is a mining company operating in the Sparrows Mine and Dove Mines in Ghana. Sparrows Mine shares a processing plant with Dove Mines, and both mines commenced commercial production in 2018. At the close of business on December 31, 2018, Gold Resources Ltd. acquired 20% exploration and production rights in the Eagle Mine which is a production mine for GH¢25,000,000.

The highlights of 2018 revenue and expenditure disclosed in tax returns filed by Gold Resources Ltd. include the following:

Revenue	GH¢
Gross income from its operations in 2018	300,000,000
Hedging Income	3,000,000
Interest Income	1,000,000
Consideration realised from the sale of assets	800,000
Gross Dividend from a resident company in which it has 30% voting rights	<u>200,000</u>
Total Revenue	305,000,000

Expenses include the following:

Reconnaissance & Prospecting Cost (Sparrows Mine)	45,000,000
Reconnaissance & Prospecting Cost (Dove Mines)	35,000,000
Depreciation	12,000,000
Exploration & Production Rights (Eagle Mine)	25,000,000
Expenses on Hedging transactions	5,000,000
Cost of the assets sold	300,000
Administrative Expenses	10,000,000
Profit before tax	120,000,000

Required:

Compute the tax liability for each tax type that Gold Resources Ltd will be liable to pay in 2018.

Additional Information:

Income Tax Rate for companies	25%
Mineral Income Tax Rate	35%

Mineral Royalty Rate	5%
Capital Allowance Rate	20% on straight line basis
Dividend Withholding Tax Rate	8%
Interest Withholding Tax Rate	8%

(20 MARKS)

END OF PAPER