

# 5

## State revenues

Tax and royalty system

SDFI

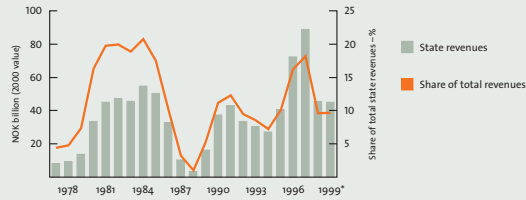


Figure 5.1 State revenues from petroleum operations 1977-1999  
(Source: National accounts and state budget) \*Estimates

Securing high and stable government revenues from petroleum operations is an important objective of Norwegian policies for this sector. The most important instruments for generating such revenues, both immediately and in the long term, are the tax and royalty system and the state's direct financial interest (SDFI) in the petroleum sector, as well as dividends from and the rise in the asset value of the state's holdings in Statoil and Norsk Hydro.

Figure 5.1 shows state revenues (taxes, royalty, net SDFI cash flow and Statoil dividend) from petroleum operations in 1977-99.

### TAX AND ROYALTY SYSTEM

Petroleum taxation builds on the Norwegian rules for ordinary corporation tax, which is charged at 28 per cent both on land and offshore. Owing to the extraordinary profitability (rent) of petroleum production, a special tax of 50 per cent is also levied on this industry.

When calculating taxable income for both ordinary and special tax, investment is subject to linear depreciation over six years from the date it was made. Companies can also deduct the proportion of their net financial costs that corresponds to the share of their commercial income derived from offshore operations. An uplift of five per cent of investment is deductible from the income base for determining special tax over a six-year period from the date of the investment.

The most important duties levied on petroleum operations are royalty on oil production, the area fee and the carbon dioxide tax. Royalty is payable

on production from fields approved for development before 1 January 1986, and constitutes eight to 16 per cent of gross production value. No royalty is charged on gas production.

All production licences must pay the area fee after the exploration period has expired. The annual fee for most licences increases from NOK 7 000 to a maximum of NOK 70 000 per square kilometre over the subsequent decade. Special rules apply for the oldest licences, and for licences in the Barents Sea. Carbon tax is levied at a rate per scm of gas burnt or directly released and per litre of oil burnt. The rate for 2000 is NOK 0.70.

### SDFI

The state's direct financial interest (SDFI) in petroleum operations was established in 1985 by dividing Statoil's holding in most Norwegian offshore licences into an equity share for the company and a direct interest for the state. An SDFI interest is incorporated in most licences awarded after 1985. As a result, the state now has a direct interest in most offshore petroleum fields and transport systems.

Under the SDFI arrangement, the state pays a share of all investment and operating costs in a project corresponding to its direct interest. It also receives a corresponding proportion of production and other revenues on the same terms as other licensees. Statoil is responsible for operative and financial management of the SDFI.

Table 5.2 shows net cash flow and investment for the SDFI. A one-off settlement of NOK 9 082 mill in 1985 money between the SDFI and Statoil is

Table 5.1 Paid taxes and fees, NOK bn (2000 value) (Source: National accounts and state budget)

	Corporate tax	Special tax	Royalty	Area fee	Carbon dioxide tax	Total
1979	7.0	3.1	3.3	0.1	0.0	13.5
1980	17.9	8.9	6.6	0.1	0.0	33.4
1981	22.7	13.3	8.7	0.1	0.0	44.9
1982	23.3	14.0	8.9	0.1	0.0	46.3
1983	20.6	12.9	11.1	0.1	0.0	44.7
1984	24.9	15.1	13.2	0.1	0.0	53.3
1985	28.0	16.7	14.9	0.3	0.0	60.0
1986	22.6	13.1	10.7	0.3	0.0	46.6
1987	8.7	3.9	9.2	0.3	0.0	22.1
1988	6.0	1.3	6.4	0.2	0.0	13.9
1989	5.3	1.7	8.0	0.2	0.0	15.2
1990	13.4	5.4	9.2	0.3	0.0	28.2
1991	16.3	7.3	9.7	0.6	0.9	34.8
1992	8.3	7.9	8.9	0.7	2.1	27.9
1993	6.9	10.2	8.4	0.6	2.4	28.6
1994	6.6	9.5	7.0	0.1	2.7	25.8
1995	8.2	11.3	6.2	0.6	2.7	28.9
1996	10.3	13.3	6.5	1.2	2.9	34.2
1997	15.8	19.9	6.3	0.6	3.1	45.8
1998	9.1	11.0	3.8	0.5	3.2	27.7
1999	5.7	6.4	3.1	0.6	3.4	19.2

Table 5.2 Key figures for the SDFI, NOK bn (2000 value) (Source: National accounts and state budget)

	Cash in NOK mill	Cash out NOK mill	Of which investments NOK mill	Net cash flow NOK mill	Net cash flow NOK mill (2000)
1985	0.0	17.4	16.7	(17.4)	(22.4)
1986	0.5	12.5	11.1	(12.0)	(15.6)
1987	3.7	14.4	11.7	(10.7)	(13.1)
1988	5.3	14.5	10.0	(9.1)	(10.7)
1989	15.5	14.8	8.8	0.8	0.8
1990	22.0	14.7	8.5	7.3	7.9
1991	27.2	21.3	12.3	5.9	6.4
1992	31.5	27.9	15.1	3.6	4.0
1993	37.2	37.1	23.9	0.2	0.2
1994	39.1	39.1	26.5	0.0	0.0
1995	42.9	33.7	21.2	9.2	9.6
1996	67.6	32.6	16.8	35.0	36.1
1997	77.2	36.7	20.3	40.4	41.2
1998	60.4	45.9	27.3	14.6	14.6
1999	75.2	49.3	30.0	25.8	26.0

included in investment and deducted from cash flow.

The SDFI gives the state an extensive involvement in petroleum operations. It accounted for roughly 40 per cent of all capital spending on the continental shelf in 1999.