

Financing for Oil and Gas Exploration – Tax Perspective

East Africa Oil & Gas Summit

November 2012

Who is PwC

Our Foot Print and Expertise

PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services.

PwC is the world's leading advisor to the energy industry, working with exploration, production, downstream and service companies to provide business solutions tailored to the energy sector.

Combining our in-depth understanding of local business, social, cultural and economic issues with deep functional and industry knowledge of our global network, we will ensure that you benefit from ideas that challenge conventional thinking and gain new perspectives .

We have Africa covered with presence in over 21 countries in East, West and Southern Africa

Service provided by PwC

Assurance services

- Financial statement audits
- Joint venture audits
- Risk Assurance
- IFRS reporting

Advisory services

- Transaction Services
- People & Change Services
- Forensic and Investigative Services
- Finance & Accounting Services
- Business recovery Services
- Strategy and Operations Services

Tax Services

- Tax Advisory and Planning Services
- Corporate tax management and process services
- Assessments and appeals
- Transfer Pricing
- Thought leadership and workshop for oil and gas players

Our Oil and Gas Expertise - specifically in East Africa includes:

- Business Start-up and structuring
- Providing lobbying support to entities in the Oil and Gas sector
- Tax compliance and advisory services
- Immigration services
- Transfer pricing

Financing –Tax Perspective

An illustration of exploration activities in Kenya

According to the PSC an entity carrying out Oil Exploration in Kenya can set up as a branch, a subsidiary or as a partnership.....

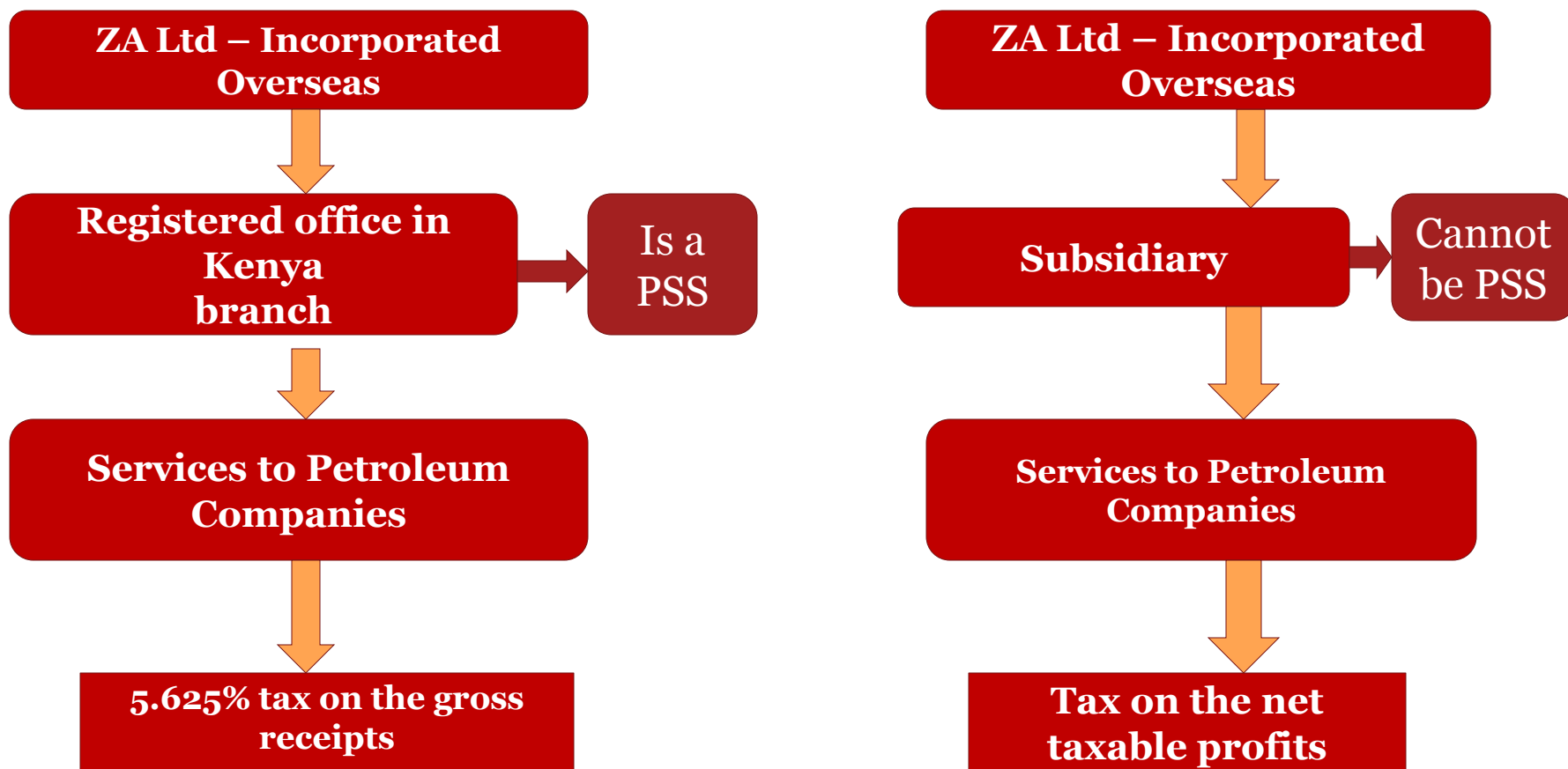
Subsidiary

- Headline tax rate of 30%
- Compensating tax on dividends from untaxed profits at 42.8%
- Withholding tax is applied on head office recharges
- Deemed interest and thin capitalisation rules apply
- Registration procedures are more complex compared to a branch
- Stamp Duty Costs
- Financing of minimum expenditure

Branch

- Headline tax rate of 37.5%
- No further tax on repatriation
- No WHT on head office recharges- they are however not deductible
- Deemed interest and thin capitalisation rule are not applicable.
- It is easier to register compared to a subsidiary

For a Petroleum Service Subcontractor (PSS) one has to make a choice between a branch and a subsidiary in Kenya



Proposed Changes to tax legislation in Kenya

VAT Bill 2012

- All imports and purchases by any O&G company with a PSC to be zero rated- No more remission procedures
- Introduction of Tax Representatives

Finance Bill 2012.

The bill aims to tax transfer of shares or assignment rights in oil blocks.
This is to be taxed at 10-20%.

Tax Efficiency is Imperative

When making a decision on the financing structures to adopt, one must consider the tax implications.

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