

Taxation of E&P activity on the Norwegian Continental Shelf – An introduction

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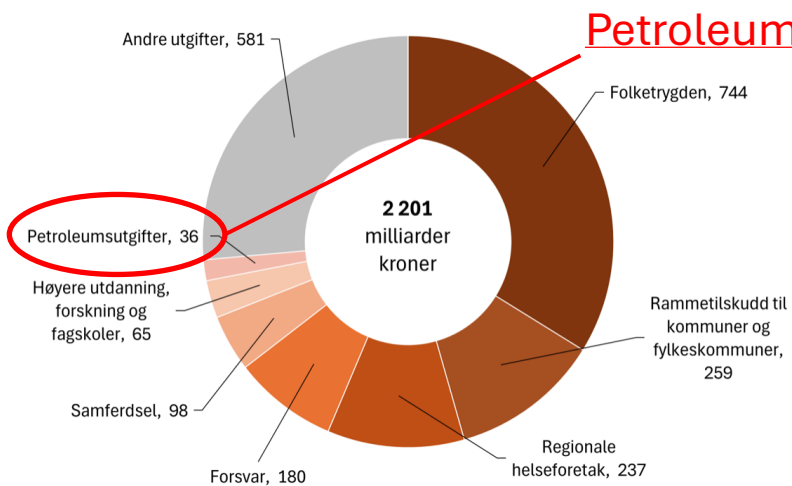
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This paper is a general, high level introduction to upstream taxation on the NCS. It does not pretend to be complete and it does not include details which may have significant impact on taxation of any specific company, business, activity or transaction.

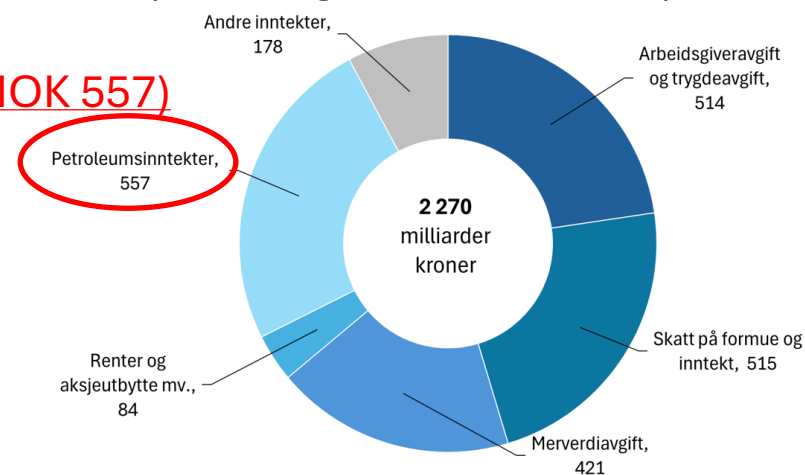
1. The importance of the E&P industry

Expenses (BNOK) in the National Budget, 2024 (excluding loan transactions)



Petroleum expenses (BNOK 36)

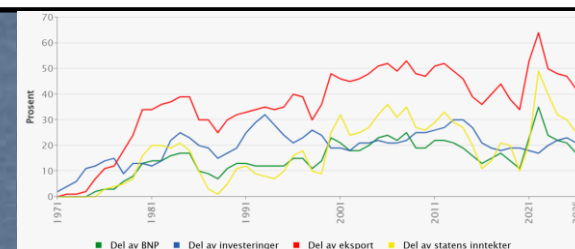
Income (BNOK) in the National Budget, 2026 (excluding loan transactions)



Petroleum income (BNOK 557)

Relative importance of the petroleum industry:

- Share of GDP: 17%
- Share of the State's revenue: 25%
- Share total of investments: 21%
- Share of total export revenue: 42%



Source: <https://www.norskpetroleum.no/okonomi/statens-inntekter/> (April 2026)

2. Special Tax on net income from core petroleum activity

- Special tax regime for exploitation, processing and pipeline transport of petroleum on/from the NCS
- Taxation based on net income
- No ring fence per field – All upstream activity on the NCS is tax consolidated per company (Corporate Income Tax (“**CIT**”) and Special Tax)
- Very limited tax consolidation with other activity
- Special Tax rate*:
 - Nominal: 71.8%
 - Effective, after deduction of a calculated CIT: 56% ($71.8\% \times (1 - 0.22)$)
- Total marginal tax rate: 78% (22% CIT + 56% Special Tax)
- Uplift (according to preliminary rules, PTA Section 11): 12.4% first year

* All tax rates referred to in this presentation are those announced for the income year 2026 as of the date of this presentation.

3. Taxation based on net income with some modifications (1)

Revenue

- **Crude oil:**
 - Norm Price
 - If no Norm Price - Achieved prices (Fair Market Value)
- **Gas:**
 - Achieved prices (Fair Market Value)
 - May request advance binding rulings for inter-company sales
 - Equity sales (Special Tax) vs. Gas Trading (not Special Tax)
- **Other products:**
 - Achieved prices (Fair Market Value)

3. Taxation based on net income with some modifications (2)

Norm Price:

- Applied for most crude oil
- Substitutes actual sales price with a deemed market price set by the Norm Price Board (both inter-company and third-party sales)
- The Norm Price Board is organized by the Ministry of Energy
- Valuation of the crude at the Norm Price Point (regardless of sale)
- No costs downstream the Norm Price Point are tax deductible (such costs are deemed to be included in the Norm Price)
- Normally set after each quarter for each day in the preceding quarter
- Adjustments for differences in quality between different fields
- Based on standard terms of payment (30 days)

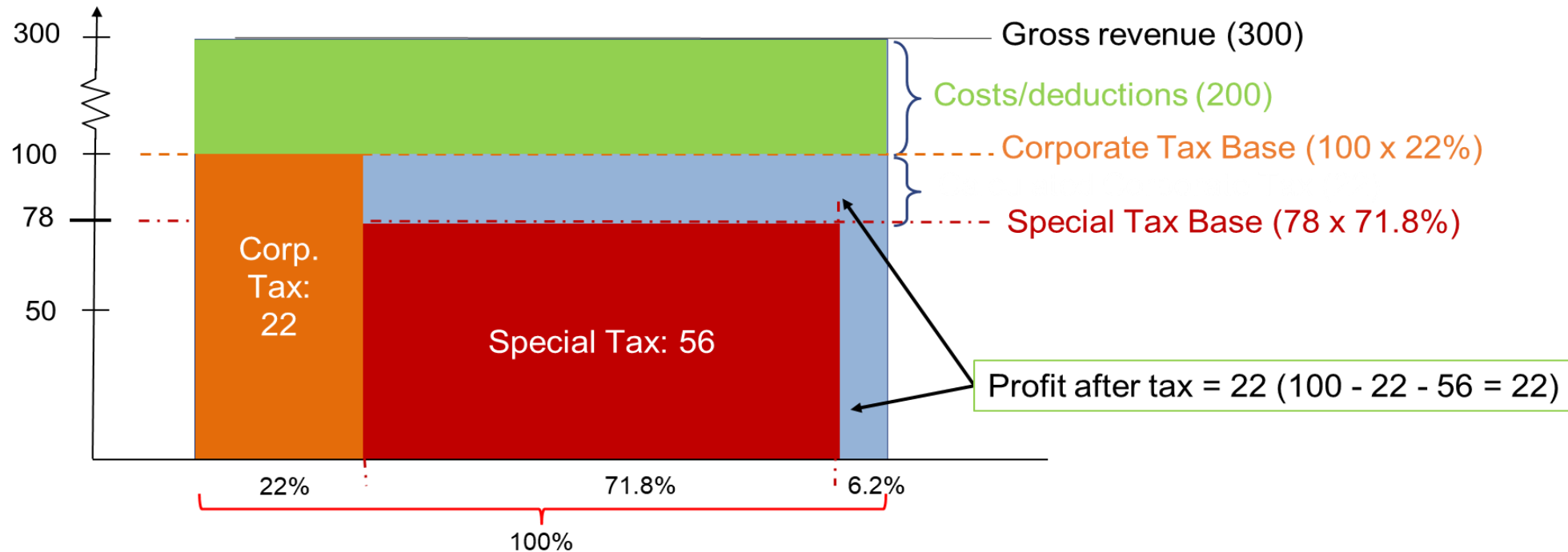
3. Taxation based on net income with some modifications (3)

Costs

- **Exploration costs:** Deductible as incurred (Corporate and Special Tax Bases)
- **Development costs:** Permanently located installations on the NCS (production facilities and related items, including pipelines for transport of NCS petroleum):
 - Corporate Tax Base (22%): Depreciated over 6 years linear
 - Special Tax Base (71.8% nominal, 56% effective): Deductible as incurred
- **Opex:** Deductible as incurred (operation, maintenance, taxes & duties (Corporate and Special Tax Bases))
- **Net finance (income and cost):** Allocated onshore (22%, only)
- **Plugging and Abandonment (P&A) cost and decommissioning cost:** Deductible when actual P&A/decommissioning takes place (Corporate and Special Tax Bases)

3. Taxation based on net income with some modifications (4)

<ul style="list-style-type: none"> Gross revenue: 300 Costs, including depreciation/expensing investments: 200 	Corporate Tax: $100 \times 22\%$	=	22.0
	Special Tax: $(100-22) \times 71.8\%$	=	56.0
	Total tax:	=	78.0



4. Investments (1)

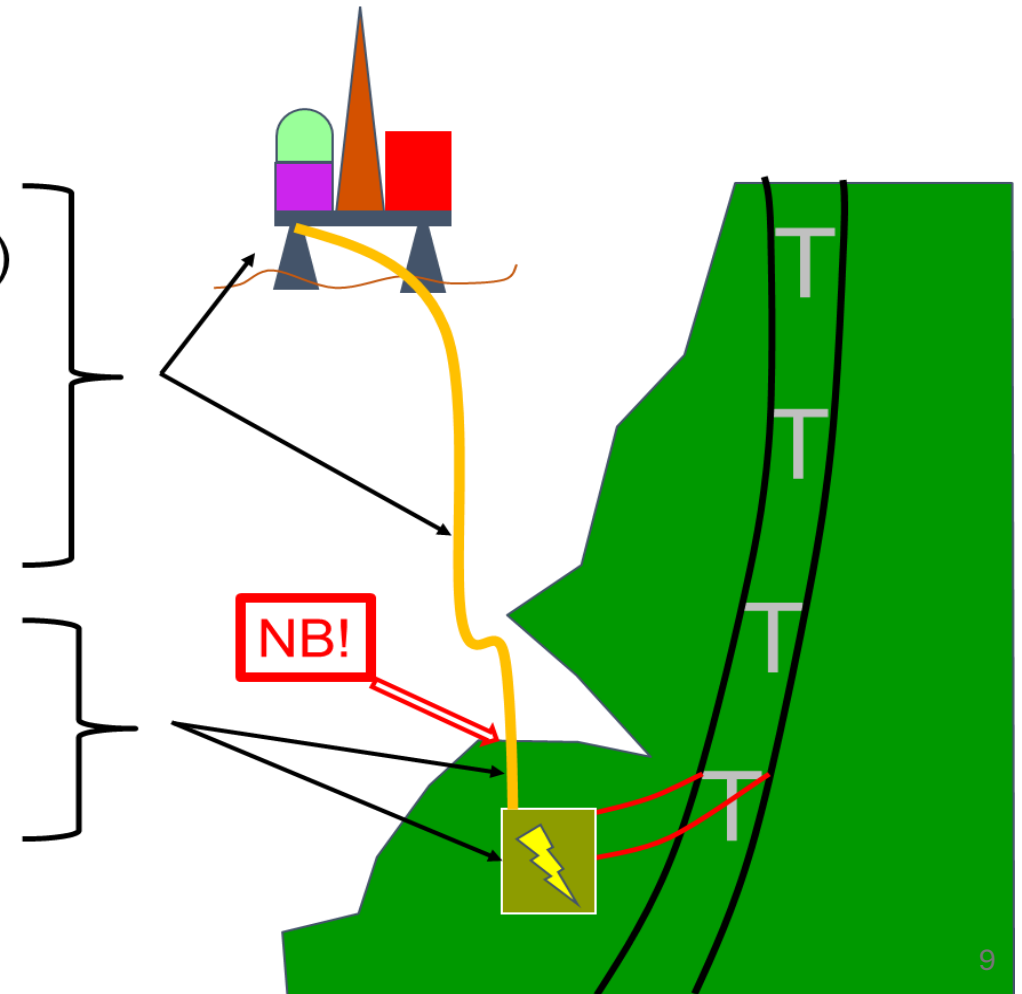
Location determines tax depreciation

Production facilities “offshore” (PTA Sec. 3 b)

- Permanently located production facilities (including pipelines)
- Corporate Tax Base: 6 years linear
- Special Tax Base: 1 year
- Start: As incurred

Assets “onshore”

- Declining balance (0 – 30%), ref. General Tax Act (GTA) Section 14-43
- Start: When delivered/finished



4. Investments (2)

Corporate Tax Base (22%):

- 6 years linear depreciation.
- For investments made over several years, depreciation starts in each year

Special Tax Base: Deduct as incurred (expense in year 1)

Example – production facilities offshore:

	Investment	Corporate Tax Base				Special Tax Base			
		Depreciation			Total	Direct expensing		Total	
Year 1	60	10			10	60		60	
Year 2	180	10	30		40		180	180	
Year 3	120	10	30	20	60		120	120	
Year 4		10	30	20	60			0	
Year 5		10	30	20	60			0	
Year 6		10	30	20	60			0	
Year 7			30	20	50			0	
Year 8				20	20			0	
Total	360	60	180	120	360	60	180	120	360

4. Investments (3)

Preliminary rules for PTA Section 3 b investments - PTA Section 11

- Costs for acquisition of permanently located production facilities and related installations offshore, ref PTA Sec. 3 b, up to and including the year for *planned* production start, *plus 12.4% uplift*, may be expensed directly in the Special Tax Base if included in either of the following plans, applications or notices received by the Ministry of Energy (**ME**) before 1 January 2023 and approved by the ME between before 1 January 2024:
 - Plan for Development and Operation (PDO)
 - Application for exemption from PDO
 - Written notice to the ME of significant deviations from a presented or approved PDO
- Does not apply for investments onshore

5. Interest costs and other financial income and costs (1)

- Interest and exchange gains/losses on interest bearing debt (100% of the cost deducted against 22% tax rate)
- Restrictions on deduction of interest costs against the Special Tax Base

$$\text{Interest cost deductible against Special Tax Base} = \frac{\text{Actual interest cost} \times 50\% \times \text{Special Tax Value}}{\text{Average interest-bearing debt}}$$

- Special Tax Value = Written down Special Tax values at end of the income year (after depreciations/expensing that income year) => normally 0 (zero deduction) against the Special Tax Base because investments are expensed in Year 1

5. Interest costs and other financial income and costs (2)

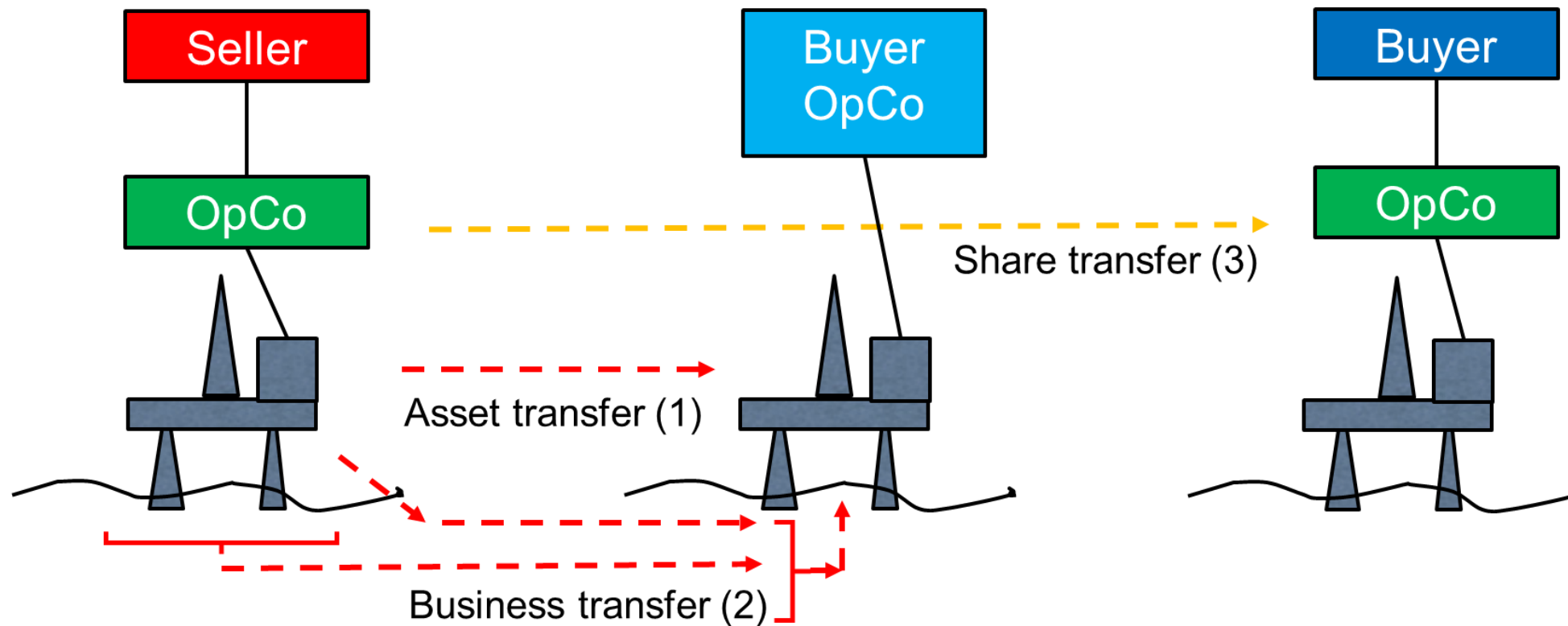
- Other financial items allocated onshore (22%)
 - Interest income
 - Gain/loss on receivables
 - Exchange gain/loss other than on interest bearing debt
 - Gain/loss on financial instruments
- Insufficient income onshore
 - ⇒ Loss from financial items returned offshore, and deducted against the 22% Corporate Tax Base Offshore
- Thin capitalization
 - Special Tax Base: Not applicable (PTA Sec. 3 d)
 - Corporate Tax: No special provision, but the General arm's length principle applies (General Tax Act (GTA) Section 13-1)

6. Withholding Tax (WHT)

- Dividends (the lowest WHT rate shall apply):
 - Domestic rate: 25%
 - Tax treaties: Normally 0 - 15%
 - GTA Sec. 2-38 – Shareholder (company) resident within the EEA: 0%
 - The Parliament's Annual Tax Decree: 0% to the extent dividends are paid from income subject to Special Tax for the distributing company to a shareholder (company) owning directly at least 25% of the distributing company
- Interest, royalty and lease payments for rigs, vessels, helicopters and airplanes:
 - 15% on gross payment if recipient is (i) an affiliated party and (ii) resident in a low tax jurisdiction outside the EU/EEA

7. Transfer of licenses – PTA Section 10 (1)

3 alternative main structures



7. Transfer of licenses – PTA Section 10 (2)

Legal basis

- The PTA Section 10 – Consent from the Ministry of Finance
- Co-ordinated with the Petroleum Act Section 10-12 (Ministry of Energy), and includes:
 - Direct transfer of license
 - Indirect transfer of license
 - Transfer of shares or participating interests in a company holding licenses that “... *may give decisive influence* ...”
 - Applies to parent companies at all levels (up to and including ultimate parent company)
 - Mergers, demergers, etc.

7. Transfer of licenses – PTA Section 10 (3)

The concept of “Tax Neutrality”

- Standardized terms through Regulations of 1 July 2009 # 956
- Three main elements:
 - After tax consideration
 - Seller: no tax on gain (no deduction of a loss)
 - Purchaser: no tax depreciation on the purchase price
 - Tax positions (base and profile for depreciation (and uplift), and provisions for P&A costs deducted prior to 2005) follow the license and installations (continuity)
 - Effective date for tax purposes: Normally 1 January in year of approval from the ME or 1 January in the following year
- The GTA Section 13-3 might disallow loss carried forward in the Corporate Tax base

8. Transfer Pricing

Legal framework

- General Tax Act Section 13-1
- OECD Transfer Pricing Guidelines

} The arm's length principle / Fair market value

TP issues frequently being raised by the Oil Taxation Office

- Gas pricing
- Services
- Insurance premiums (captive insurance)
- Interest on loans and deposits
- Guarantee fees
- Thin capitalization

9. Risk reducing elements

Special Tax Base:

- The government will pay out annually the tax value ("negative tax") of a loss in the Special Tax Base – A claim on the government may be used as collateral for loan financing

Corporate Tax Base:

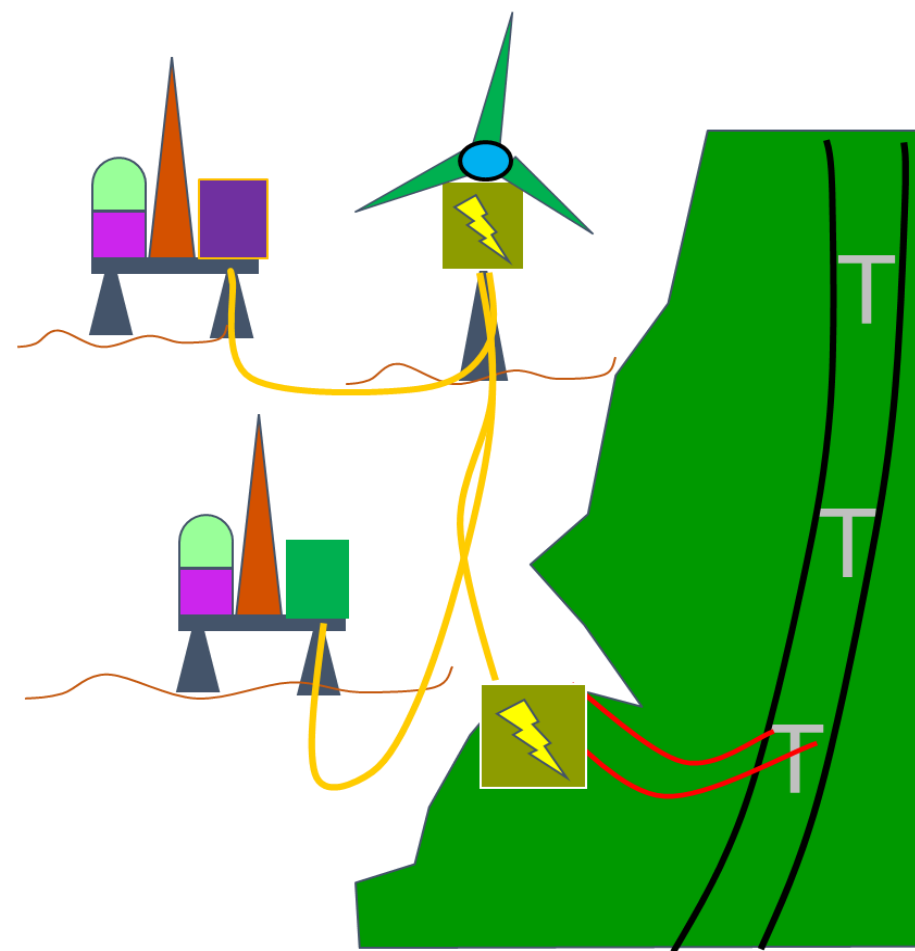
- No deadline for loss carried forward (unless E&P business activity ceases)
- Loss carried forward may be transferred to a buyer if the company is merged into another E&P company on the NCS – unless tax reasons dominate (GTA Section 13-3)

10. Related activity – e.g. renewable energy production, CO2 storage & transportation and Hydrogen production

Key question:

What is the main purpose of the activity?

- Support the company's E&P activity
=> Offshore/Special Tax (78%) regime
- or
- Produce and sell electricity, CO2 storage/
transportation capacity, Hydrogen/ ammonia
=> Onshore (22%) regime



11. Tax payments and tax assessment

- Estimated tax paid in 10 instalments:
 - 1 Aug, 1 Sept, 1 Oct, 1 Nov and 1 Dec in the Income Year and
 - 1 Feb, 1 March, 1 Apr, 1 May and 1 June in the year after the Income Year
- Tax filing by 30 April in the year after the Income Year
- Tax assessment finished October/November in the year after the Income Year
- Tax balance to be paid or received three weeks after the tax assessment is finished
- The tax office may open any tax issue within 5 years after the end of the Income Year

12. Some Onshore elements (1)

- Tax rate: 22%
- Full tax consolidation:
 - Between different business activities within the same company
 - Between group companies if common ownership is more than 90% – Group Contribution (Norwegian: “Konsernbidrag”)
- Depreciation/expensing:
 - Machinery: 20% declining balance
 - Buildings and constructions: 4% declining balance
 - Office buildings: 2% declining balance
 - Technical installations in buildings: 10% declining balance
 - Assets for transmitting, distributing and producing electricity: 5% declining balance
 - Property/land: No depreciation
 - Improvements on leased assets: Linear deduction over the remaining lease period

12. Some Onshore elements (2)

- Loss:
 - Only 50% may be applied against 22% Corporate Tax Base Offshore for E&P company
 - No offset against the Special Tax Base
 - No tax consolidation between group companies (Group Contribution/“Konsernbidrag”) with effect for income or loss subject to Special Tax
 - Onshore loss due to interest cost (and net exchange gain & loss on interest bearing debt) may be applied against the 22% Corporate Tax Base Offshore
- Tax filing by 30 April in the year after the Income Year
- Tax payments: 15 February and 15 April in the year after the Income Year



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