New Zealand petroleum royalties regime

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Overview

The regime explained here applies to discoveries made after 31 December 2009. Any discovery made prior to this date may be subject to different rules.

All petroleum exploration and mining permits are granted with the condition that the permit holder pay royalties to the Crown. The royalties are payable in respect of any petroleum obtained under the permit. This includes petroleum sold or used in the production process as fuel or otherwise exchanged or removed from the permit area without sale.

The royalty provisions do not apply to prospecting permits.

Application of the regime

The royalty regime comprises:

- A 5% ad valorem royalty component; and
- A 20% accounting profits royalty component.

Mining permits that have never had net sales revenues in excess of NZ$1million in a reporting period are liable to the ad valorem royalty only.

In respect of an exploration permit, the permit holder is liable to pay only the ad valorem royalty.

All other mining permit holders must calculate both the ad valorem and accounting profits royalty for each reporting period and pay whichever is the higher.

Ad valorem royalty

An ad valorem royalty is calculated on net sales revenues. Where there has been no petroleum sale, or the sale was not at market value, the royalty is calculated using the deemed sale price.

Accounting profits royalty

The accounting profits royalties are payable on the net accumulated accounting profit of production from a permit. It takes into account both prices received for products and the costs of extracting, processing and selling those products up to the point of sale.

For any reporting period, accounting profits are the excess of net sales revenues over allowable deductions. Allowable deductions include:

- Production costs
- Capital costs
- Indirect costs
- Decommissioning costs
- Operating and capital overhead allowance
- Operating losses and capital costs carried forward
- Decommissioning costs carried back

Capital costs include prospecting and exploration costs, development costs, permit maintenance and consent costs and feasibility study costs.

A mining permit holder may claim a deduction for prospecting and exploration costs in a mining permit area incurred prior to the permit being issued, where those costs were incurred by the holder in relation to an exploration permit from which the mining permit was derived.

A mining permit holder may also claim a deduction for the costs of purchasing a speculative study or survey carried out by a petroleum prospecting permit holder prior to a bidding round.

The total allowable deductions for a reporting period are calculated as the sum of the allowable deductions less any capital proceeds received. All costs are to be included as incurred when calculating the accounting profits royalty payable.

An operating loss occurs if operating and capital expenses exceed net sales revenue for a reporting period. Where a loss results, this loss may be accumulated as operating losses and capital costs carried forward. These losses and capital costs may therefore be carried forward and deducted in subsequent periods where net sales revenues exceed operating and capital expenses.

Net sales revenues

Net sales revenues are the basis for both the ad valorem and accounting profits royalties. For a reporting period, net sales revenues are the sum of total gross sales of petroleum, plus the value of petroleum not sold but on which royalties are payable, minus any allowable netbacks (or plus any net forwards).

Included in net sales revenue is the arms length value of petroleum either sold or used in the production process as fuel or otherwise exchanged or removed from the permit without sale.

Netbacks and net forwards relate to the portion of the sale price representing the cost of transportation, storage and processing of the petroleum between the point of valuation and the point of sale.

Reporting period and royalty return

A royalty return is required for each reporting period. The reporting period is determined by the Minister, in consultation with the mining permit applicant, prior to the grant of the permit. The reporting period will either be the permit holder's financial year or some other fiscal year approved by the Minister.

Payment of royalties

An interim quarterly royalty payment of five percent of net sales revenues will be required where net sales revenues are greater than NZ$250,000 for a quarter.

The final royalty payment, and the royalty return, is due to be received by New Zealand Petroleum & Minerals within 90 days after the end of the reporting period.

Get in touch

Brent Hulbert
Partner, New Plymouth
Tel: +64 6 768 3820
Email: brent.hulbert@nz.pwc.com

Geof Nightingale
Partner, Auckland
Tel: +64 9 355 8853
Email: geof.d.nightingale@nz.pwc.com

Vincent Sue
Partner, Wellington
Tel: +64 4 462 7332
Email: vincent.sue@nz.pwc.com

pwc.co.nz