

# Newsletter

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## New Regulations for Taxation on Hydrocarbon Extraction

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At the end of February, the Ministry of Finance announced a new bill on Special Taxation on Hydrocarbon. The bill is also designed to amend the Act on Tax on Extraction of Certain Minerals, which has been in force since 2012, by extending its application to the extraction of petroleum and natural gas. Currently, the bill is at the stage of inter-ministerial consultation and is expected to enter into force on January 1, 2015.

Once the new act enters into force entities operating in the extraction industry will be required to pay significantly higher taxes and contributions. According to the Ministry of Finance, the proposed amendments to the taxation system will mean an increase in the total amount of financial burdens from 21% to 40%.

In short, entities involved in hydrocarbon extraction, apart from exploitation fee according to the newly stated higher rates, will also pay hydrocarbon tax and tax on extraction of petroleum and natural gas, as well as: corporate income tax, real property tax, fees for awarding concessions, remuneration for mining usufructs and exploitation fees for mineral extraction, which they are currently obliged to pay.

### Hydrocarbon tax

The bill introduces a new tax called hydrocarbon tax and entities conducting hydrocarbon extraction activities will be the taxpayers of this tax.

Revenue from hydrocarbon extraction will be taxed at 12.5% or 25%. Hydrocarbon taxpayers will be obliged to submit a monthly tax return (exclusively in electronic form), and pay tax advances each month.

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#### **Tax on extraction of petroleum and natural gas**

The bill extends the application of the Act on Extraction of Certain Minerals to the extraction of petroleum and natural gas, which currently only applies to the extraction of copper and silver. The tax rates to be imposed on natural gas extraction will be 1.5% / 3%, and 3% / 6% for petroleum – depending on the properties of the extracted minerals.

#### **Exploitation fees**

The Ministry of the Environment has also presented draft amendments to the Act on Geological and Mining Law, which also envisage increasing financial burdens for hydrocarbon extraction.

According to the draft amendments, the exploitation fee per 1,000 m<sup>3</sup> of methane-rich natural gas will be PLN 24.00 (currently PLN 6.06), PLN 20.00 for certain minerals (currently PLN 5.04), and PLN 50.00 per ton of petroleum (currently PLN 35.87).

#### **Other changes**

It is important to note that concessions for hydrocarbon extraction will be awarded exclusively to those entities conducting business in the form of a joint-stock company. Entities currently conducting extraction activity in other legal forms (e.g. a limited liability company) will have to change their legal form appropriately.

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