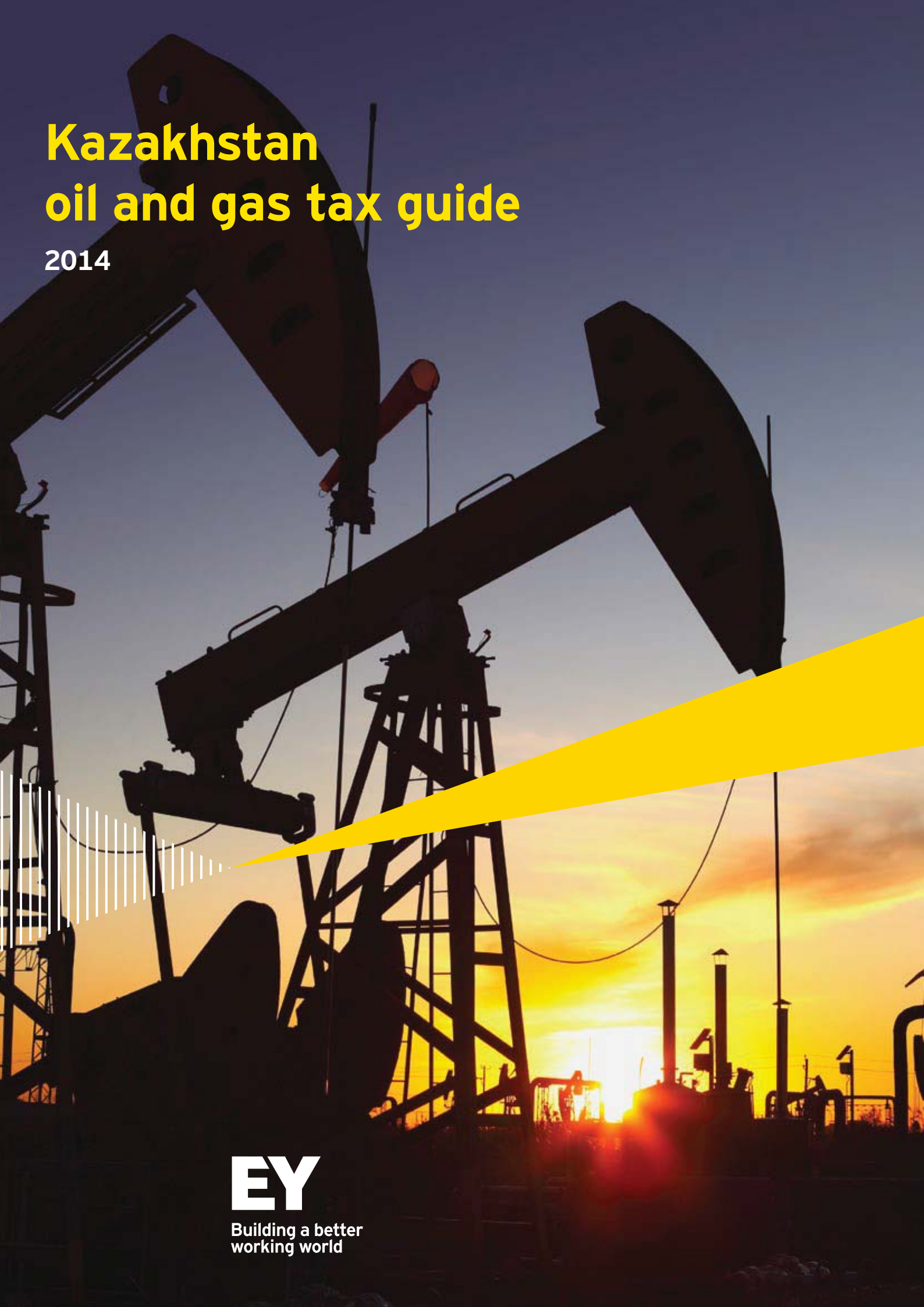
Kazakhstan oil and gas tax guide

2014



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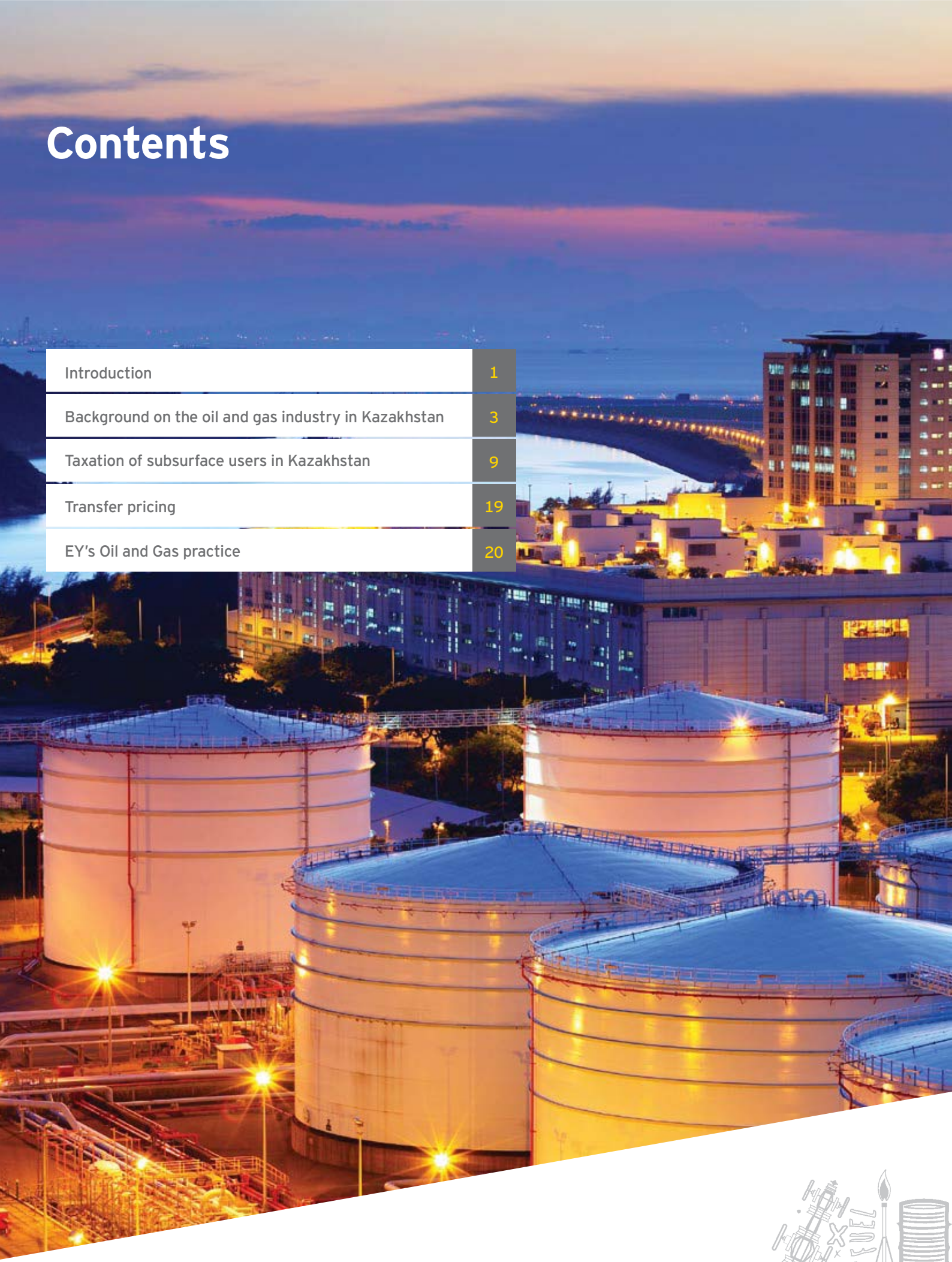
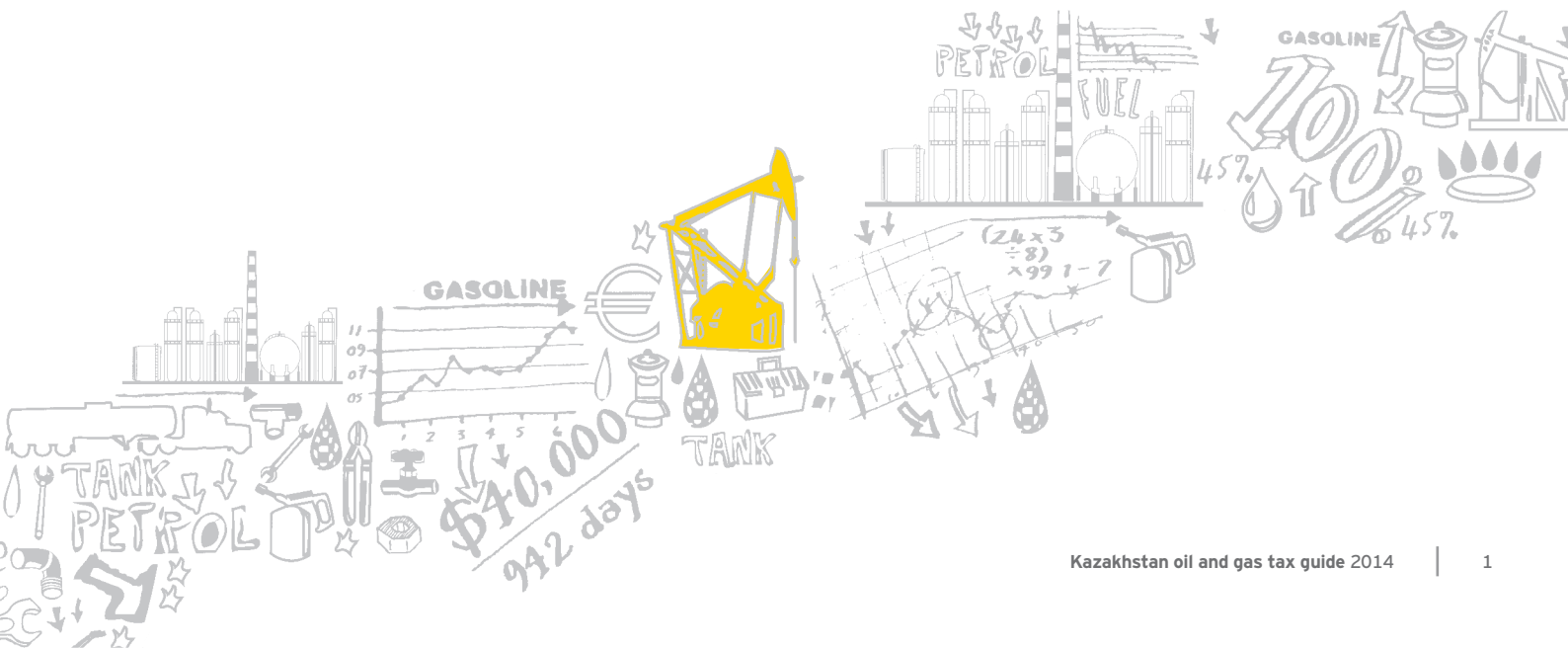
Contents



Introduction

This guide is intended to provide a general overview of taxation in the oil and gas sector in Kazakhstan.

As this guide provides a high level summary of the taxation regime effective on the date of preparation of this guide, it is not a substitute for comprehensive professional advice, which should be sought before engaging in any transaction. It should also be noted that in this guide we do not deal with all of the taxes of Kazakhstan. Here we cover only the most significant ones applicable to companies operating in the oil and gas sector, so advice should be taken as to the actual taxes applicable to a particular company.

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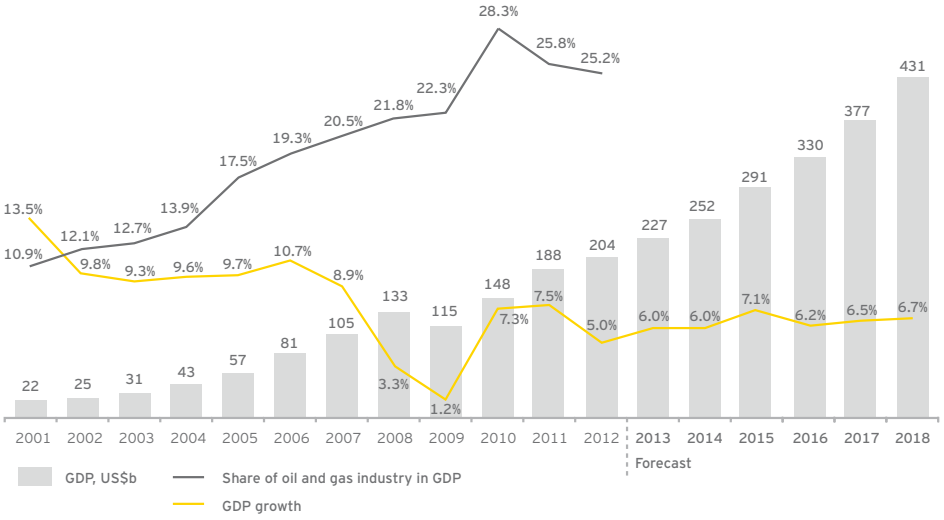
Background on the oil and gas industry in Kazakhstan

The oil and gas industry of Kazakhstan plays an important role in the economic development of the republic. It is one of the main drivers of gross domestic product (GDP) growth and an important source of national budget revenue.

According to the latest GDP forecast by the Ministry of Economy and Budget Planning of Kazakhstan in 2013, the average annual growth from 2014 to 2018 will be 6.5%. The oil and gas industry, whose share in total GDP increased from 10.9% in 2001 to 25.2% in 2012, plays a vital role in Kazakhstan's GDP structure.

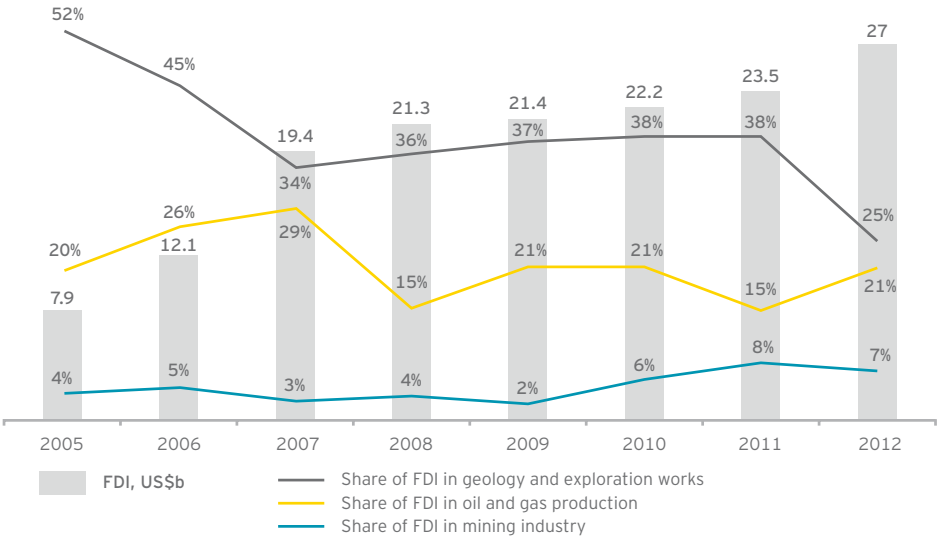
GDP of Kazakhstan 2001–18



Source: Agency on Statistics of Kazakhstan, the Ministry of Economy and Budget Planning of Kazakhstan.

Consistent development of the oil and gas industry would not be possible without foreign direct investment (FDI). The annual volume of FDI has been increasing year by year since 1998 and the share of investments in the oil and gas industry in total volume of FDI remains high.

FDI in Kazakhstan 2005–12



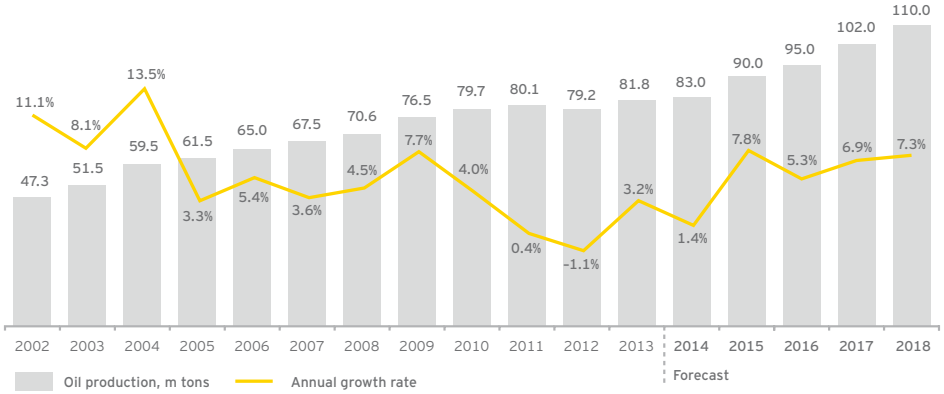
Source: the National Bank of Kazakhstan (according to the new methodology announced in 2013).

According to BP's *Statistical Review of World Energy June 2013,* Kazakhstan has proven reserves estimated at 30.0 billion barrels (3.9 billion tons) of oil and proven natural gas reserves of 45.7 trillion cubic feet (1.3 trillion cubic meters), which represent 1.8% and 0.7% of total global reserves, respectively.

Kazakhstan is the second largest oil producer among the former Soviet republics after Russia and is heavily reliant on oil export revenues. Total production of oil and gas condensate in 2013 amounted to 81.8 million tons, up 3.2% year-on-year, of which 72.1 million tons, up 5.1% year-on-year, were exported. The government expects total production to rise to 90 million tons in 2015 and 110 million tons in 2018. According to the International Energy Agency's *World Energy Outlook 2010,* by 2020 Kazakhstan will join the top 10 oil and gas exporters.

State participation in the oil and gas industry has increased over the last several years due to the vital role of this industry in the economy of the republic. The vertically integrated National Company KazMunayGas represents the state's interests in the industry. The company controls 20% of total oil and gas proved reserves of Kazakhstan and produces 27% of total oil and gas condensate and 14% of gas.

Oil and gas condensate production in Kazakhstan 2002–18



Source: Agency on Statistics of Kazakhstan, the National Bank of Kazakhstan, the Ministry of Oil and Gas of Kazakhstan.

Top 5 oil and gas condensate producers in Kazakhstan

Company name	Production 2013, m tons	Main fields
Tengizchevroil	27.1	Tengiz
KazMunayGas EP	12.4	Uzen, Emba
Karachaganak Petroleum Operating	11.7	Karachaganak
Mangistaumunaygas	6.1	Kalamkas, Zhetybai
CNPC-Aktobemunaygas	5.9	Zhanazhol, Kenkiyak

Source: company data.

Oil production

At the current time, there are 172 oil and 42 gas condensate fields, including 80 that are being developed, registered in Kazakhstan. More than 90% of the total reserves of Kazakhstan are concentrated in the 15 largest fields: Tengiz, Kashagan, Karachaganak, Uzen, Zhetybai, Zhanazhol, Kalamkas, Kenkiyak, Karazhanbas, Kumkol, North Buzachi, Alibekmola, Central and Eastern Prorva, Kenbai, Korolevskoye, including 50% in the first three.

Tengiz field

The Tengiz field was discovered in 1979. Its recoverable crude oil reserves are estimated at 750 million to 1.1 billion tons (6–9 billion barrels). Tengizchevroil (TCO) partnership has been developing the Tengiz field since 1993.

Tengizchevroil ownership structure

Owners	Equity share
Chevron (US)	50.0%
ExxonMobil (US)	25.0%
KazMunayGas NC (Kazakhstan)	20.0%
LUKArco (Russia)	5.0%

Source: company data.

In 2013, TCO produced 27.1 million tons of oil, an 11.8% growth year-on-year. In 2013, Kazakhstan authorities approved the Future Growth Project of TCO, which will allow the company to increase its annual oil production up to 38 million tons. The total cost of this project is US$23 billion and its date of completion is mid-2018.

Kashagan field

Kashagan, the largest offshore field within the North Caspian PSA contract area, was discovered in 2000. Its proved recoverable oil reserves equal to 761.1 million tons. Kashagan's owners will continue to explore other structures in the North Caspian PSA contract area – Kalamkas–Sea, South West Kashagan, Aktoty and Kairan.

The North Caspian Operating Company (NCOC), a company owned by foreign and local investors, is the current operator of the project. In 2013, China-based CNPC signed an agreement to join the project acquiring an 8.33% stake earlier controlled by ConocoPhillips.

North Caspian Operating Company ownership structure

Owners	Equity share
KazMunayGas NC (Kazakhstan)	16.88%
Eni (Italy)	16.81%
ExxonMobil (US)	16.81%
Royal Dutch Shell (Netherlands/UK)	16.81%
Total (France)	16.81%
CNPC (China)	8.33%
INPEX (Japan)	7.56%

Source: company data.

In September 2013, NCOC started testing oil production with an aim to reach 75,000 barrels per day of commercial production in October 2013. The company plans to increase its oil output to 370,000 barrels per day in 2014. The total project expenditures of the Kashagan project's Phase I are US$136 billion, the project's Phase II program is currently under development by the consortium.

Karachaganak field

The Karachaganak field, which is being developed by Karachaganak Petroleum Operating B.V. (KPO), a joint venture between several Western companies led by BG Group and Eni, has estimated recoverable reserves of 9 billion barrels (1.2 billion tons) of oil and gas condensate, as well as 1.35 trillion cubic meters of natural gas reserves. The company produced 10.2 million tons of oil in 2012.

In 2012, KazMunayGas NC joined the project acquiring a 10% stake from its current shareholders. Karachaganak for a long time was the last large oil and gas project in Kazakhstan without the state's participation.

KPO ownership structure

Owners	Equity share
BG Group (UK)	29.25%
Eni (Italy)	29.25%
Chevron (US)	18.0%
Lukoil (Russia)	13.5%
KazMunayGas NC (Kazakhstan)	10.0%

Source: company data.

Oil export routes

Kazakhstan is a landlocked country. Consequently, transportation costs are high and the lack of export routes presents a potential bottleneck for Kazakhstan's ambitious development plans.

Oil is exported via the Caspian Sea, rail cars and pipelines. Currently, the largest offtake routes are as follows:

Name of route	Volume of exported oil in 2013, million tons
Tengiz–Novorossiysk (CPC)	28.7
Atyrau–Samara	15.4
Atasu–Alashankou	11.8
Rail cars	9.0
Aktau Sea Port	6.3
Orenburg Gas Processing Plant (gas condensate)	0.9

Source: the Ministry of Oil and Gas of Kazakhstan.

Expansion of export routes

Taking into account oil production growth plans for the three main oil and gas projects – Kashagan, Tengiz and Karachaganak – Kazakhstan works on expanding oil export routes to Europe and China.

Tengiz–Novorossiysk (Caspian Pipeline Consortium)

The CPC pipeline, with a total length of 1,510 kilometers, connects the Tengiz oil field with an oil terminal in Novorossiysk, Russia's port on the Black Sea coast. On 15 December 2010, shareholders of the Caspian Pipeline Consortium approved an expansion plan which calls for increasing its throughput capacity from the current 28.2 million tons to 67 million tons a year, including 52.5 million tons of Kazakh oil. The expansion works were started in July 2011.

Kazakhstan–China pipeline

Construction of the Kazakhstan–China pipeline is being realized in two phases. Phase 1, the Atasu–Alashankou oil pipeline, with annual capacity of about 10 million tons a year, was put into operation in July 2006. Construction of the first stage of Phase 2, the Kenkiyak–Kumkol oil pipeline of the same capacity, was started in December 2007 and completed in July 2009. It enabled the connection of the Kenkiyak–Atyrau pipeline with the existing Kumkol–Atasu pipeline, which

in turn secured transportation of oil from Aktobe region and Western Kazakh fields to China. The second stage of Phase II included construction of Atasu–Alashankou oil pumping station #11, which allowed increasing oil capacity to 12 million tons. In 2013, Kazakhstan China Pipeline LLP, the operator of the pipeline, put into operation two new oil pumping stations, which allowed expanding this export route to 20 million tons a year.

Kazakhstan Caspian Transportation System

The Kazakhstan Caspian Transportation System includes the construction of the Yeskene–Kuryk pipeline and Transcaspian System (Kuryk–Baku). The latter will consist of oil tankers, oil terminals on the shores of Kazakhstan and Azerbaijan and infrastructure that connects Tengiz and Kashagan oil from tankers with the Baku–Tbilisi–Ceyhan pipeline. The Yeskene–Kuryk part of this project has a cost of US$1.5 billion, with the total value of the project at US$3 billion. The initial capacity of the project is 23 million tons per annum, which could be increased up to 56 million tons per annum. The need for this export route will arise with the start of oil production within Phase II of the Kashagan field development.

Oil refining in Kazakhstan

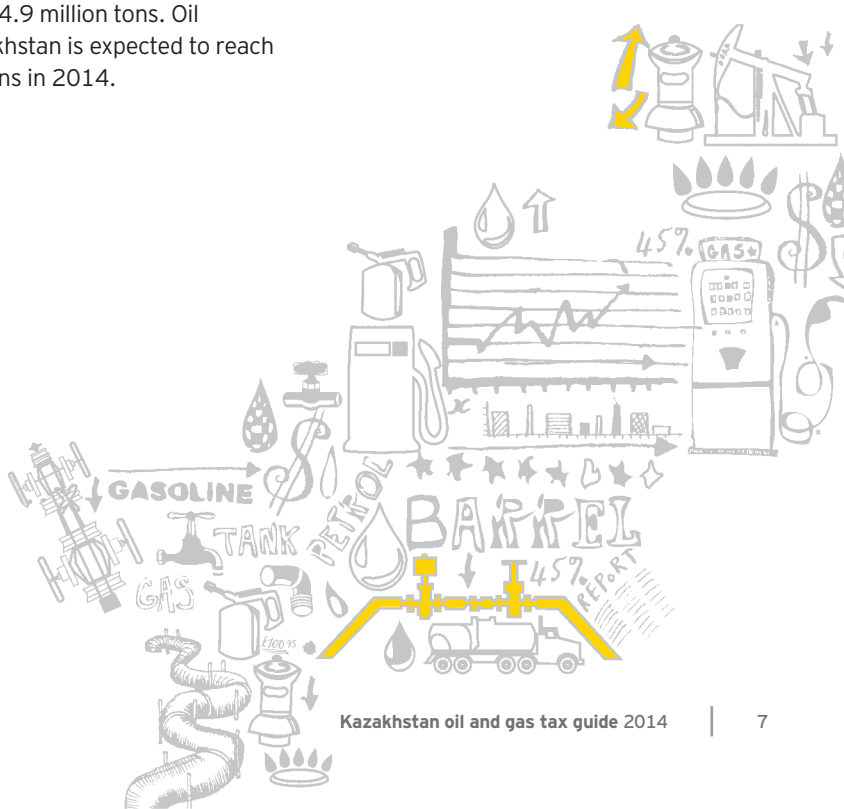
Kazakhstan has three major oil refineries supplying the northern region (at Pavlodar), western region (at Atyrau) and southern region (at Shymkent). The refinery at Pavlodar is supplied by West Siberia's crude oil with a perspective to be substituted with Kazakh oil; the Atyrau refinery runs solely on domestic crude from northwest Kazakhstan and the Shymkent refinery currently uses oil mostly from the field at Kumkol.

At the moment, Kazakhstan is reconstructing and modernizing all its refineries with a goal to reach an average Nelson complexity index of 10.2, average refining depth of 89% and ability to produce high-quality motor fuels of Euro-4, 5 class.

In 2013, total volume of oil refining reached 14.3 million tons, up 0.7% year-on-year. Processing at the Pavlodar Refinery amounted to 5.09 million tons, while processing at the Atyrau Refinery totaled 4.4 million tons. Oil processing at Shymkent's PetroKazakhstan Oil Products refinery totaled 4.9 million tons. Oil refining in Kazakhstan is expected to reach 14.65 million tons in 2014.

Gas industry in Kazakhstan

According to BP's *Statistical Review of World Energy June 2013,* Kazakhstan has proven natural gas reserves of 45.7 trillion cubic feet (1.3 trillion cubic meters). Most of Kazakhstan's natural gas reserves are located in the west of the country, with roughly 23% of proven reserves situated in one field, Karachaganak. Natural and associated petroleum gas (APG) production in 2013 totaled 42.3 billion cubic meters, up 5.5% year-on-year, of which 22.8 billion cubic meters were produced as marketable gas. The country plans to increase its natural gas and APG production to 41 billion cubic meters by the end of 2014 and to 45 billion cubic meters by the end of 2015.



Sources for this part of our guide include the following:
The official sites of the President of Kazakhstan; Ministry of Economy and Budget Planning; Ministry of Foreign Affairs of Kazakhstan; Ministry of Oil and Gas of Kazakhstan; National Bank of Kazakhstan; Agency on Statistics of Kazakhstan; BP's *Statistical Review of World Energy June 2013; Kazakhstan* magazine; information sources; Reuters; RIA Novosti; Prime-TASS; Interfax-Kazakhstan via Dow Jones Factiva; Kazinform; Kazakhstan Today information agencies; official sites of KazMunayGas NC; KazMunayGas EP; TCO; NCOC; Karachaganak Petroleum Operating.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Taxation of subsurface users in Kazakhstan

Oil, gas and mining companies in Kazakhstan are referred to as "subsurface users" and enter into "subsurface use contracts" to acquire the rights to exploit the mineral resources of the country.

This section describes the tax legislation applicable to oil and gas companies. It is vital to realize that there are many uncertainties in the legislation as it now stands and these were increased by the introduction of a new Tax Code on 1 January 2009 ("The Tax Code"). Consequently, this guide cannot be a substitute for taking professional advice before attempting to model tax regime and contracts should not be negotiated based upon it.[1]

There are two types of subsurface use contracts in Kazakhstan, a production sharing agreement (PSA), and an excess profit tax (EPT) contract. There were only a limited number of PSAs concluded prior to 2009. Currently concluded and future contracts are expected to be EPT contracts.

Subsurface use legislation

Two major laws in Kazakhstan govern the economic terms established in a subsurface use contract. They are the Subsurface Use Law which contains the basic legal framework for granting, using and assigning or terminating rights to be a subsurface user and the Tax Code, which is discussed in detail below.[2]

Stability of the tax regime

The tax regimes of the small number of PSAs are stable provided that they have undergone a "tax expert evaluation" – essentially a review by the tax authorities to ensure that the tax terms in the PSA comply with the law in force at the time the PSA became effective.

The tax regimes of EPT contracts are not stabilized except for cases where such contracts are approved by the President of the Republic of Kazakhstan.

Stabilized contracts can be changed by mutual agreement between the parties.

Ring-fencing

The tax regime of a subsurface use contract applies to activities that are carried out within the framework of the contract and that meet the definition of subsurface use in the Subsurface Use Law. The Tax Code implies that the tax boundary occurs after the extraction and primary processing stages, i.e., initial stabilization.

Accounting

The Tax Code contains detailed requirements for tax policy and a set of tax registers that provide the bridge from the underlying accounting records to the tax returns.

Accounting records are maintained in accordance with the *Law On Accounting and Financial Reporting,* under which most companies should prepare financial statements under IFRS.

Legislation governing the establishment of tax terms in a subsurface use contract

The Tax Code states that it alone may establish provisions concerning the payment of taxes and levies relating to subsurface operations in Kazakhstan. Separate agreements with the government should not do so.

[1] Law No. 99-IV of the Republic of Kazakhstan dated 10 December 2008.

[2] Law No. 291-IV of the Republic of Kazakhstan *On Subsurface and Subsurface Use* dated 24 June 2010. Law No. 2350 of the Republic of Kazakhstan *On Petroleum* of 28 June 1995 that had been in force previously was abolished in 2010.

Taxes applicable to subsurface users

A. At a glance

Fiscal regime

This section describes the fiscal regime in force for almost all existing subsurface use companies. This regime is applicable to all contracts except PSAs that came into effect prior to 1 January 2009 and contracts specifically approved by the President of Kazakhstan.

The generally applicable fiscal regime that applies in Kazakhstan to exploration and production contracts in the petroleum industry consists of a combination of corporate income tax, rent tax on export, bonuses and mineral extraction tax. Oil and gas production activities are ring-fenced from downstream activities and from each other (i.e., contract by contract) for tax purposes.

Mineral extraction tax

The mineral extraction tax (MET) is a volume-based royalty type tax applicable to crude oil, gas condensate and natural gas. Rates escalate depending on volume. Different tables of rates and tax bases apply depending on what is produced and whether it is exported or sold domestically.

Bonuses

Subsurface users are expected to pay a signature bonus and a commercial discovery bonus.

Corporate income tax (CIT) rate

CIT is set at a rate of 20%.

Rent tax on export

The tax base is determined as the value of the exported crude oil and gas condensate based on the same tax valuation as for MET upon export. The tax rate ranges from 7% to 32% and is applied once the world price for crude oil and gas condensate exceeds US$40 per barrel.

Excess profit tax (EPT)

EPT is calculated annually. The tax is paid at progressive rates applicable to the portion of net income that exceeds 25% of deductions. The taxable tranches are derived by applying ratios to the deductible expenses.

Capital allowances

Allowances are available for CIT and EPT.

Carry forward of losses

Tax losses relating to subsurface use contracts can be carried forward for up to 10 years.

Crude oil export duty

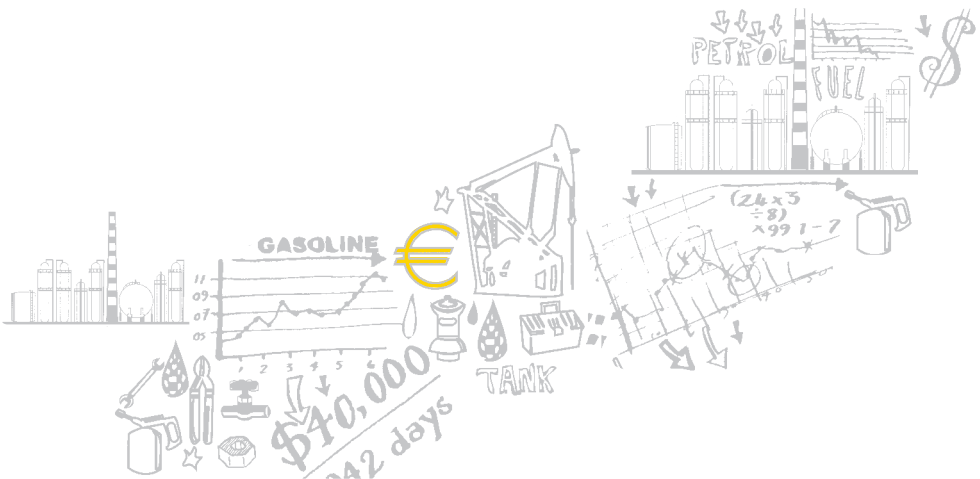
From 14 April 2013 the rate is US$60 per ton of crude oil.

B. Fiscal regime

The taxes applicable to subsurface users are as follows:

Applicable taxes	Rate
Bonuses	Variable
Mineral extraction tax	0.5% to 18%
EPT	0% to 60%
Payment for compensation of historical costs	Variable
Rent tax on export	0% to 32%[3]
Excise on crude oil and gas condensate	0 tenge per ton
Land tax	generally immaterial
Property tax	1.5%
Environmental fees	Variable
Other fees (e.g., fee for the use of radio frequency spectrum, fee for the use of navigable waterways)	Variable
Other taxes and payments	Variable
Value-added tax (VAT)	12%
Crude oil export duty	US$60 per ton

[3] The tax is charged at a rate of zero percent if the world price for crude oil is less than US$40 per barrel.



EPT

EPT is calculated annually. The taxable object is the portion of net income (if any) that exceeds 25% of "deductions." The net income is calculated as aggregate annual income less "deductions" less CIT and branch profits tax, if any. For the purpose of EPT, "deductions" are the expenditure deductible for CIT purposes plus additional deductions such as accelerated depreciation for fixed assets. The tax is calculated by applying the following rates to the tranches of excess income, each tranche being allocated the marginal net income determined as a percentage of "deductions" until total net income is allocated.

Special rules apply to determine the taxable object if the hydrocarbon production is processed prior to sale, for example by refining crude oil into gasoline, diesel, etc. In such cases it is unlikely that an EPT liability would actually arise.

Net income allocation schedule for EPT, % of "deductions"	% for calculating marginal net income allocation for EPT	Excess profit tax rate (%)
Less than or equal to 25	25%	Not set
From 25 to 30 inclusively	5%	10%
From 30 to 40 inclusively	10%	20%
From 40 to 50 inclusively	10%	30%
From 50 to 60 inclusively	10%	40%
From 60 to 70 inclusively	10%	50%
Over 70	Any excess	60%

Payment for compensation of historical costs

Since 2009, the payment for compensation of historical costs has been included in the list of obligatory payments to be made by a subsurface user to the state budget. It is a fixed payment to compensate the state for geological survey and development costs of the contact territory incurred before the subsurface use contract is concluded.

The obligation to compensate historical costs arises from the date when the confidentiality agreement is concluded between the subsurface user and authorized state body on the subsurface study and usage.

MET

MET applies to crude oil, gas condensate and natural gas. The taxable base is the value of the production. On export sales, the value is based on world prices without adjustments.

The world price of crude oil and gas condensate is determined as the arithmetic mean of daily quotations for each of the Urals Mediterranean (Urals Med) or Dated Brent (Brent Dtd) brands in the tax period on the basis of information published in the Platts' *Crude Oil Marketwire*.[4] If that source does not provide price information for those brands, the *Argus Crude* source should be used.[5]

The world price for natural gas is determined as the arithmetic mean of daily quotations Zeebrugge Day-Ahead in the tax period on the basis of information published in the Platts' *European Gas Daily*.[6] If that source does not provide price information for natural gas, the *Argus European Natural Gas*[7] source should be used.

The rates of tax are determined by the annual volume of production. The tax rates for crude oil, including gas condensate, are provided below.[8]

Volume of annual production of crude oil, including gas condensate, for each calendar year (thousand tons)	MET rate from 1 January 2011
Up to 250 inclusively	5%
Up to 500 inclusively	7%
Up to 1,000 inclusively	8%
Up to 2,000 inclusively	9%
Up to 3,000 inclusively	10%
Up to 4,000 inclusively	11%
Up to 5,000 inclusively	12%
Up to 7,000 inclusively	13%
Up to 10,000 inclusively	15%
Over 10,000	18%

[4] Published by The McGraw-Hill Companies Inc.

[5] Published by Argus Media Ltd.

[6] Published by The McGraw-Hill Companies Inc.

[7] Published by Argus Media Ltd.

[8] Different rates apply to crude oil and gas condensate on the one hand, and natural gas on the other.

These rates are reduced by 50% if the production is processed domestically in Kazakhstan either by the producer or by a purchaser. There are special rules for the calculation of tax bases in such cases.

In the case of natural gas that is exported, a flat rate of 10% applies. If the gas is sold to the domestic Kazakhstan market then rates are reduced to between 0.5% and 1.5% depending on the annual production.

Bonuses

The subsurface users are expected to pay two types of bonuses:

1. Signature bonus
2. Commercial discovery bonus

Signature bonus

The signature bonus is a lump-sum payment paid by a subsurface user for the right to use the subsurface.

For oil exploration contracts where reserves have been approved, the bonus is a fixed amount of 2,800 MCI,[9] which is equivalent to approximately KZT5,185,600.

For oil production contracts where reserves have not been approved, the bonus is a fixed amount of 3,000 MCI, which is equivalent to approximately KZT5,556,000. If reserves have been approved, the bonus is calculated by a formula which applies a rate of 0.04% to the approved reserves and 0.01% to the provisionally approved reserves, but not less than 3,000 MCI, which is equivalent to approximately KZT5,556,000.

Commercial discovery bonus

The commercial discovery bonus is a one-off payment paid by subsurface users when a commercial discovery is made on the contract territory.

The base for calculation of the commercial discovery bonus is defined as the value of the extractable minerals duly approved by the competent state authorities. The value of the mineral resources is determined using the market price established at the International (London) Petroleum Exchange in Platts' *Crude Oil Marketwire*. The rate of the commercial discovery bonus is fixed at 0.1% of the value of proven extractable resources.

CIT

CIT is applied to all companies at the rate of 20% of taxable income. Taxable income is calculated as the difference between aggregate annual income (after certain adjustments) and statutory deductions.

Deductions

All expenses incurred by a taxpayer and related to conducting activities aimed at generation of income are deductible for CIT purposes. Examples of expenses that are allowed for deduction can be found below:

- Interest expense (within limits).
- Contributions to the decommissioning fund. The procedure for making such contributions and the amount are to be established in the subsurface use contract.
- Expenditure on geological studies, and exploration and preparatory operations for extraction of mineral resources.
- Expenditures on research and development, scientific and technological works.
- Expenses incurred under a joint operating agreement are deductible based on information provided by the operator.
- Business trip and representative expenses (per diems are deducted in full based on taxpayers' internal policy, whereas representative expenses are deductible in the amount up to 1% of payroll).
- Foreign exchange losses when a foreign exchange loss exceeds a foreign exchange gain.
- Insurance premiums, except for those paid according to accumulative insurance contracts.
- Amounts paid as redemption of doubtful payables previously written off as income.
- Doubtful receivables not redeemed within three years.
- Taxes paid (except for the taxes already excluded prior to determining aggregate annual income, income tax paid in Kazakhstan and in any other states, and EPT).
- Fines and penalties, except for those payable to the state budget.
- Maintenance or current repair expenses.
- Capital repair (within the statutory limits).
- Expenditure actually incurred by a subsurface user with respect to training Kazakh personnel and the development of the social sphere of rural areas, within amounts stipulated in subsurface use contracts.

[9] As of 1 January 2014 monthly calculation index is established in the Law on the Republican Budget for 2014–2016 No. 148-V dated 3 December 2013 at KZT1,852.

Geological studies, exploration and preparatory operations for production of useful minerals incurred prior to the start of production following the commercial discovery include the following: appraisal, preparatory work, general and administrative expenses, and costs associated with the payment of the bonuses. These costs, together with expenditure on the purchase of fixed assets and intangible assets (expenditure incurred by a taxpayer while acquiring the right to geological exploration, development, or extraction of mineral resources), form a separate depreciation group. These costs may be deducted by declining balance depreciation at a rate not exceeding 25% after production begins following the commercial discovery. Expenses incurred after production starts following the commercial discovery are included in the same group to increase its residual value if under IFRS such expenses are capitalized into the value of assets already included in the group.

In the case of a farm-in, the cost of acquiring a subsurface use right should be capitalized. Upon farm-out, the subsurface user is liable for tax on capital gains.

The Tax Code also provides for certain expenses to be deducted directly from taxable income up to 3% of the taxable income such as sponsorship aid and charitable contributions (subject to certain conditions). The depreciation regime for fixed assets is discussed in Section C, "Capital allowances."

Dividends

Dividends distributed by a local subsidiary to a local parent company, are tax exempt. Dividends distributed abroad by subsurface users are subject to 15% withholding tax usually reduced by tax treaties to 5%. Branches of foreign legal entities are subject to an equivalent branch profit tax at the same rates but applied to undistributed profit after deduction of CIT.

Rent tax on export

The rent tax on export is paid by legal entities and individuals that make sales for the export of crude oil, gas condensate and coal. The tax base is determined as the value of the exported crude oil on the same basis as for MET. The tax base of the rent tax on export of coal is the actual volume of exported coal and the tax rate is 2.1%. The tax rates applied to exported crude oil and gas condensate vary as follows:

Market price	Rate
Up to US$20 a barrel inclusively	0%
Up to US$30 a barrel inclusively	0%
Up to US$40 a barrel inclusively	0%
Up to US$50 a barrel inclusively	7%
Up to US$60 a barrel inclusively	11%
Up to US$70 a barrel inclusively	14%
Up to US$80 a barrel inclusively	16%
Up to US$90 a barrel inclusively	17%
Up to US$100 a barrel inclusively	19%
Up to US$110 a barrel inclusively	21%
Up to US$120 a barrel inclusively	22%
Up to US$130 a barrel inclusively	23%
Up to US$140 a barrel inclusively	25%
Up to US$150 a barrel inclusively	26%
Up to US$160 a barrel inclusively	27%
Up to US$170 a barrel inclusively	29%
Up to US$180 a barrel inclusively	30%
Up to US$190 a barrel inclusively	32%
Up to US$200 a barrel and above	32%

The tax period for the rent tax on export is a calendar quarter.

C. Capital allowances

For tax depreciation purposes, fixed assets are split into four groups. Assets are depreciated at the depreciation rates not exceeding the maximum rates set out in the following table:

Group	Type of fixed assets	Maximum depreciation rate (%)
I	Buildings, structures (except for oil and gas wells and transmission devices)	10%
II	Machinery and equipment, except for that used for oil and gas production	25%
III	Office machinery and computers	40%
IV	Fixed assets not included in other groups, including oil and gas wells, transmission devices, machinery and equipment of oil and gas production	15%

Fixed assets, among other things, include:

- Fixed assets, investments in real estate, intangible assets and biological assets recorded in accordance with IFRS and Kazakhstan accounting standards
- Assets with a useful life exceeding one year, manufactured and/or acquired by concessionaries under concession agreements
- Assets with a useful life exceeding one year that are objects of social infrastructure projects
- Assets with a useful life exceeding one year which are intended for use in activities that are directed at the receipt of income and were received by a fiduciary for fiduciary management under a fiduciary management agreement or on the basis of another document which is a basis on which fiduciary management arises.

Some items not considered to be fixed assets include:

- Intangible assets with an indefinite useful life
- Assets commissioned under investment contracts concluded before 1 January 2009

Subsurface users have the right to use double depreciation rates in the year of commissioning "newly created" fixed assets, provided they will be used in their contract activities for three years.

Expenses actually incurred on use, repair, maintenance and liquidation of fixed assets are defined as "subsequent costs" and are deductible in the tax period when they are actually incurred.

D. Investment incentives

Losses

Losses pertaining to subsurface use contracts may be carried forward for up to 10 years. Tax losses may not be carried back.

Tax holiday

Kazakhstan does not have a tax holiday regime for subsurface users.

Investment tax preferences

Certain tax preferences are available for subsurface users, subject to the government's approval and limited to subsurface use contracts for production concluded between 2009 and 2012.

E. Withholding taxes

In the absence of a permanent establishment in Kazakhstan of a nonresident company, Kazakhstan withholding tax (WHT) applies to a nonresident's income derived from Kazakhstan sources.

The general WHT rate is 20%, except for the following:

- Dividends, capital gains, interest income and royalty – 15%
- Income from international transportation services and insurance premiums in accordance with reinsurance risk agreements – 5%
- Insurance premiums on insurance risk agreements – 10%

Further, double tax treaties provide for either exemption from Kazakh WHT or application of reduced WHT rates. Generally, interest and royalty rates in treaties are 10% and dividends 5%, provided conditions are met.

Any type of income payable to a non-resident registered in a country with a preferential tax regime is subject to WHT at a rate of 20%.

F. Financing considerations

From 2012, a four to one debt-to-equity limit applies on both Kazakh and non-Kazakh source financing obtained from/guaranteed by a related party or obtained from an entity registered in a country with a preferential tax regime. Interest on debt to finance construction should be capitalized.

G. Taxation of capital gains

Any capital gain derived from a sale of an equity interest in a subsurface use contract, or in a Kazakhstan resident company or a nonresident company, if more than 50% of the value of that entity is derived from subsurface use rights in Kazakhstan, gives rise to Kazakh source income. Such gains realized by nonresidents, and not associated with a permanent establishment in Kazakhstan, are subject to WHT in Kazakhstan at 15% (or 20% if such nonresident is registered in a country with a preferential tax regime), unless specifically exempt from tax according to Kazakhstan domestic tax law or a tax treaty. If a tax treaty is applicable and the tax is withheld at the source of payment, such WHT may be reclaimable. In the case of a farm-in, the subsurface user may capitalize the cost of acquiring a subsurface use right. Upon farm-out, the subsurface user is liable for tax on capital gains.

H. Indirect taxes

Customs Union

In accordance with the agreement dated 6 October 2006 on formation of a single customs territory and customs union, the Customs Union was created among the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation and began its functioning on 6 July 2010, with the approval of the Customs Code of the Customs Union. The Customs Union was created in order to unify the customs territory where the goods originating from member states of the Customs Union are exempt from customs duties and economic constraints. Some important activities on the creation and operation of the Customs Union are listed below:

Effective from	Main activities on creation and operation of the customs union
1 January 2010	Member states of the Customs Union started applying the Unified customs tariff for goods imported from third countries
1 January 2010	Treaty on the Unified Measures of Non-Tariff Regulation with regard to Third Countries of 25 January 2008
1 July 2010	Abolishment of customs clearance procedures for goods originating from member states of the Customs Union
1 July 2010	Treaty on the Principles of Indirect Tax Collection when Exporting and/or Importing Goods, Performing of Works, Rendering Services in the Customs Union of 25 January 2008
1 July 2011	Abolishment of customs control on the border between Kazakhstan and Russian Federation for goods originating from member states of the Customs Union

Within the Customs Union, sale of goods to or from Kazakhstan is deemed import/export and is subject to VAT at 12% upon import and VAT at 0% upon export.

Import duties

Generally, equipment, spare parts and materials used in oil and gas operations are subject to import customs duties. Some contracts concluded prior to creation of the Customs Union may benefit from grandfathered customs exemptions. However, new contracts do not.

The customs legislation provides for a temporary import regime for goods that will be re-exported. It either exempts goods and equipment from customs duties and import VAT or it allows for partial payment, provided the goods and equipment are re-exported.

VAT

A European Union-style VAT applies in Kazakhstan. The VAT rate has been gradually reduced from 20% in the late 1990s to 12% currently.

Crude oil, natural gas and gas condensate sold in the territory of Kazakhstan are subject to 12% VAT. Export sales of crude oil, natural gas and gas condensate are subject to zero-rated VAT.

Under the Tax Code, international transportation services (including transportation of oil and gas via trunk pipelines) are subject to zero-rated VAT.

Imports of goods and equipment are subject to 12% import VAT.

Place of supply rule

For a given supply the applicability of Kazakhstan VAT is determined based on the deemed place of supply. It is important to note that under the place of supply rules, a service may be physically performed outside of Kazakhstan, but deemed to be supplied inside Kazakhstan for VAT purposes. Examples of services taxed in this way include a supply of a service related to immovable property located in Kazakhstan, or a consulting service performed outside of Kazakhstan for a customer inside Kazakhstan. If the place of supply is deemed to be outside of Kazakhstan, the underlying supply is not subject to Kazakhstan VAT. The rules determining the place of supply are generally as follows:

For goods:

- The place where transportation commences, if goods are transported or mailed
- Otherwise, the place where goods are transferred to the purchaser (it is not clear whether this involves a physical transfer or a transfer of rights)

For works and services:

- The place where immovable property is located for works and services directly related to such property
- The place where works and services are actually carried out for works and services related to movable property
- The place of business or any other activity of the customer for the following works and services: transfer of rights to use intellectual property, consulting services, audit services, engineering services, design services, marketing services, legal services, accounting services, attorney's services, advertising services, data provision and processing services, rent of movable property (except for rent of motor vehicles), supply of personnel (commonly referred to as "secondment"), communication works and services, etc.
- Otherwise, the place of business or any other activity of the service provider
- Sales of goods or services that are merely auxiliary to a principal sale are deemed to take place wherever the principal sale takes place. No definition of auxiliary sales is provided in the tax legislation.

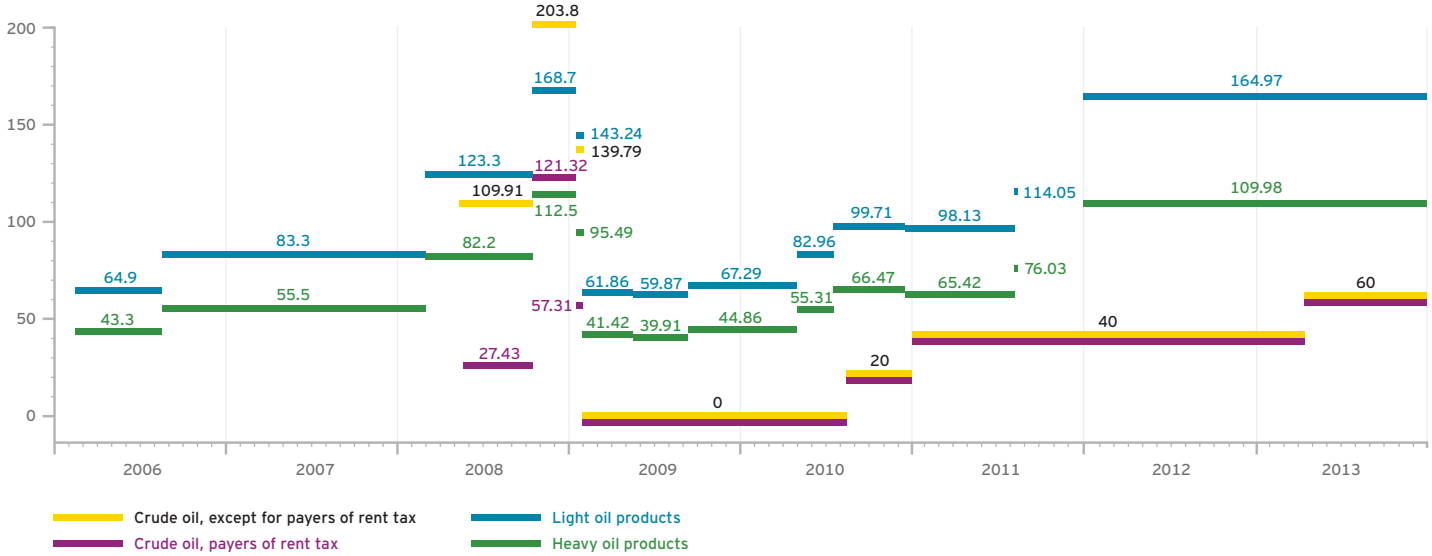
Export duties

The Ministry of Economic Development and Trade of the Republic of Kazakhstan revisits established export duties each reporting quarter based on information on the average market price in the global markets of oil products.

In April 2013 Kazakhstan established export duties on crude oil at US$60 per ton. The rate came into effect on 14 April 2013.

The dynamics of export duties from 2012 to 2013 is shown in the table below.

Dynamics of export duty changes (US$ per ton)



Registration fees

Insignificant fixed fees apply.

Other taxes

A number of other taxes, fees and levies exist. Most are economically insignificant. The more important ones are listed below.

Social tax
Social tax is paid by employers for each employee at the rate of 11% on the total cost of employing the individual (including benefits in kind).

Individual income tax
Employees pay individual income tax at 10% on practically all income.

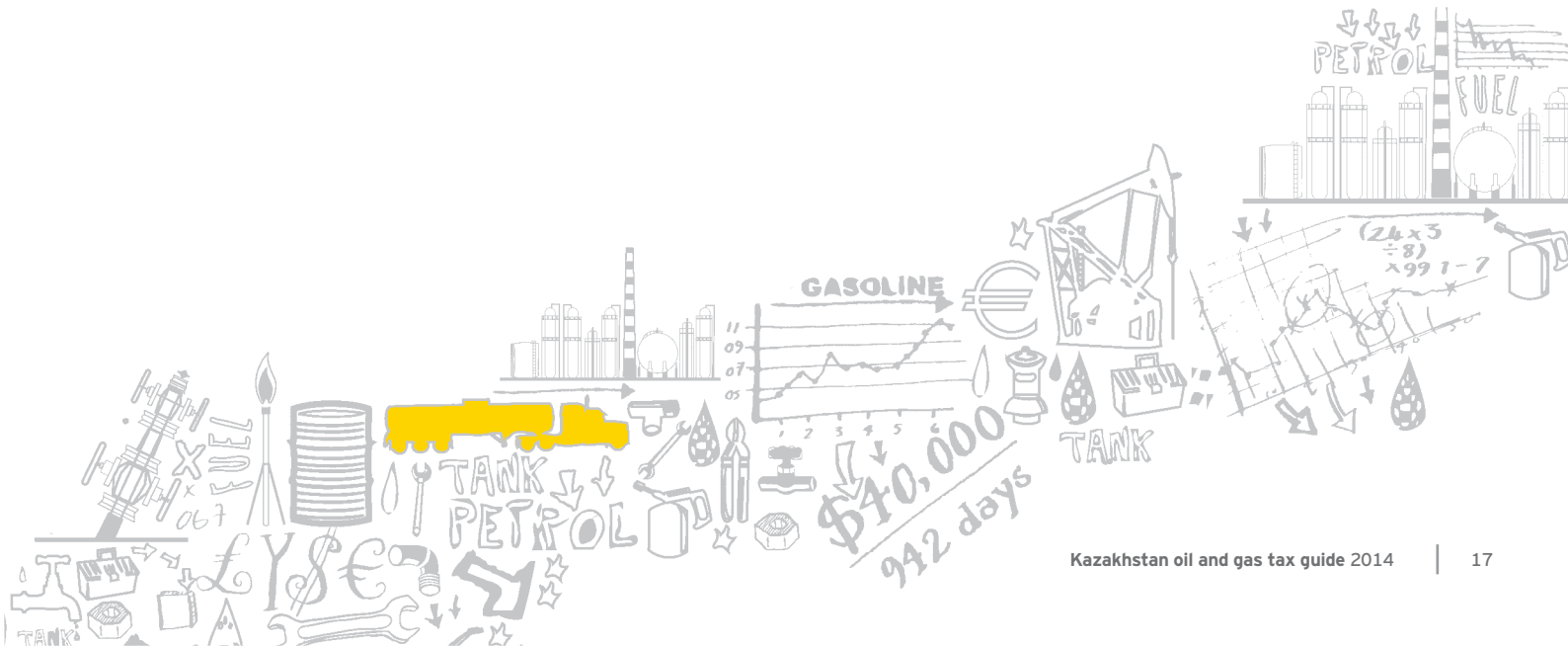
Property tax
Asset tax is charged at the rate of 1.5%. Basically, this tax applies to immovable property. The applicability of property tax to certain property of a subsurface user should be additionally researched.

Environmental fees

For the purposes of environmental legislation, producers of mineral resources are liable for payment of environmental fees, of which there are two types:

- Fees for the use of certain natural resources
- Fees for pollution of the environment

The taxable objects and rates for the above environmental fees vary depending on the nature of the subsurface user's activities, volumes of "used" natural resources, volume of environmental pollution and so on.



Transfer pricing

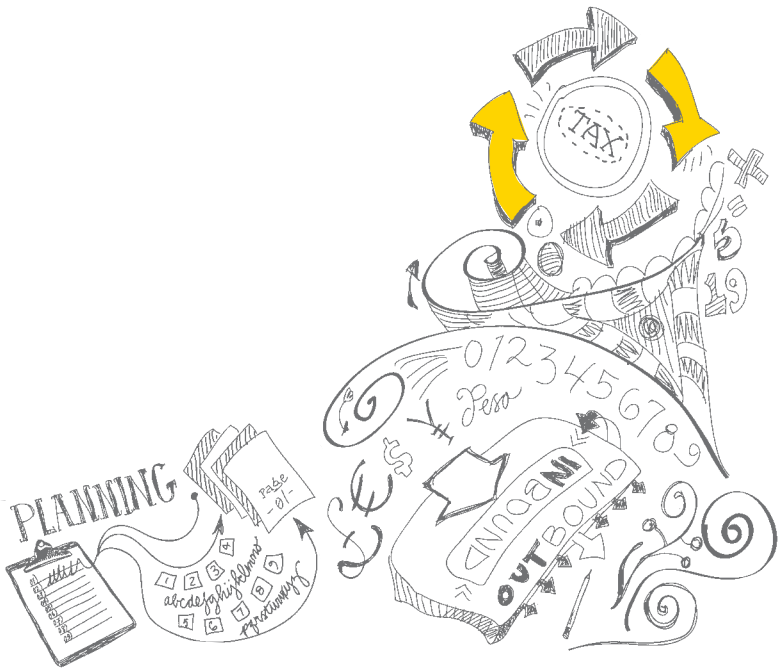
Kazakhstan's transfer pricing legislation has wide applicability for all businesses. The impact for subsurface users is particularly broad.

The transfer pricing rules potentially apply to all cross-border transactions regardless of whether the parties are in any way related. In the case of subsurface users, it also applies to domestic transactions if they are related to cross-border transactions.

The law allows for the following methods of determining a market price:

- Comparable uncontrolled price method
- Costs plus method
- Subsequent resale price method
- Profit split method
- Net margin method

There is no "safe harbor" allowed in terms of deviation from a market price, although the law does in theory recognize that there may be a range of market prices. In determining market prices under the comparable uncontrolled price method, adjustments to prices obtained from officially recognized sources of price information are allowed in at least some cases, except where one of the parties to the transactions is tainted by association with a tax haven.



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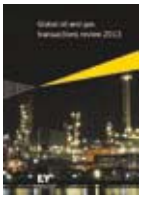

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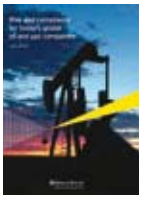

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