

Statement of Principles

Taxes



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This document includes the Statement of Principles, a description of the issues (with examples) and contractual language.

Statement of Principles

Key Words:

- Contractor
- Data Processing
- Derivatives
- License Agreement
- Licensee
- Multi-Client Data

Terms that are in bold type are defined in the Glossary of Terms which forms part of this family of Statements of Principles.

Geophysical contracting companies commit significant financial resources to acquire, process and develop non-exclusive (**Multi-Client**) data products. These data products significantly improve exploration & production success rates and also lower the cost of finding and developing new oil and gas reserves, all at a fraction of the cost of exclusive proprietary ownership. Under this business model, geophysical contracting companies initiate and conduct data acquisition and/or **Data Processing** projects, of general interest to the E&P industry, at their own financial risk. Individual E&P companies are then offered a limited license to use the data products (and their **Derivatives**) at a fraction of the cost of acquiring and/or processing the data.

Geophysical contracting companies and clients enter into agreements regarding data acquisition and/or **Data Processing** projects based upon financial evaluations that help identify costs and expected economic returns for the given project. Unforeseen taxes can disrupt settled expectations and lead to misunderstandings and contract disputes. The parties should therefore consider potential future taxes when negotiating their contracts.

Under many tax regimes, a transaction involving the licensing of data products generates some form of a tax (e.g. sales tax, use tax, personal property tax). The form of tax can vary, but under such tax regimes, taxes are generally levied against the overall income of the data licensor and/or the actual transaction involving the licensed data. Further, some tax regimes additionally impose a tax on licensed data based on where it is used, such that tax regime A may impose an original tax on a licensed data product used in country A and tax regime B may impose an additional and later tax on the licensed data product if the **Licensee** later transfers and uses the licensed data in country B. Although it may be reasonable to expect a geophysical contracting company to be responsible for taxes based on its income, it would significantly reduce the **Contractor's** expected return on the data acquisition or **Data Processing** project if it were to be responsible for taxes imposed upon use or importation of the licensed data product.

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Holding the geophysical contracting companies responsible for later arising transfer or use taxes, which, are completely outside the control of the geophysical contracting company, harms the viability of the non-exclusive (**Multi-Client**) model. From the point of view of E&P companies, the non-exclusive (**Multi-Client**) model is most attractive due to the comparatively low cost of the data, but if geophysical contracting companies were to be responsible for paying later arising transfer or use taxes the companies would be forced to substantially increase the data license fees to account for the later arising and presently unknown financial liability.

IAGC Principles Regarding Taxes

- Data use **License Agreements** should contain terms specifying which party is responsible for what types of taxes and to what extent.
- Data use **License Agreement** may specify that the licensor will be responsible for taxes assessed solely based upon or measured by its income.
- Except as stated above, Data use **License Agreements** should specify that the **Licensee** will be responsible for any and all other taxes levied as a consequence of the licensing of data to the **Licensee** (e.g. sales, gross receipts, value added, use, stamp or similar taxes, duties or fees).