

# Ministry of Finance

## *Oil & Gas Transition Notice*



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Notice 007

[gov.bc.ca/oilandnaturalgastaxes](http://gov.bc.ca/oilandnaturalgastaxes)

## Interest

### *Petroleum and Natural Gas Act*

As a royalty taxpayer or reporting facility operator, you may be liable for interest on late or underpaid balances. You may also be eligible for interest on overpaid amounts. This notice explains the new interest policies and rates coming into effect on November 1, 2018 and describes how interest applies in different scenarios.

### Interest Rates

#### Current Interest Policy and Rates

Currently, interest is calculated on:

- Prior periods
- Current period
- Over and under royalty estimates

The interest rate for outstanding debt is 3% above the prime lending rate of our principal banker. We use the prime lending rate for overpaid amounts.

#### New Interest Policy and Rates

Effective November 1, 2018, new interest rules apply to:

- Oil and gas royalty reporting processed by us on or after November 1, 2018
- Amendments to oil and gas production periods using reporting and payment dates prior to November 1, 2018
- Audit assessments or adjustments processed on or after November 1, 2018

The interest rate on amounts owing to us continues to be 3% above the prime lending rate of our principal banker.

The interest rate on amounts payable to you is decreasing from the prime lending rate to prime less 2%. This new rate is more consistent with the rate the province uses for other amounts payable.

The prime lending rate of our principal banker is established on the 15th day of the month immediately before quarterly periods beginning January 1, April 1, July 1 and October 1 each calendar year. For example, the prime lending rate for the April 1 – September 30 quarter is established on March 15.

## **How Interest Applies**

### **Deemed Royalty**

Interest will not be charged on deemed royalty balances if they are paid by their due date. Compound interest (monthly) will be charged on deemed royalty amounts not paid on time. Interest will be charged on the unpaid balance as of the due date (usually the end of the month for production periods of October 2018 or after).

We expect that most deemed royalties will be reversed when the imbalance that caused the assessment is corrected. However, we will not pay interest on the reversal of the deemed royalty. In addition, any interest that accrued on the balance will remain outstanding. For more information on deemed royalty, see [Oil & Gas Transition Notice 004](#), *Deemed Royalty*.

### **Overdue Amounts**

You must pay all invoiced amounts by the payment due date or your account will become overdue and subject to interest.

Invoices are issued on the 23rd day of the calendar month, two months following the producing month. Payments are due the last day of the invoice month, or the next business day if the last day of a month falls on a weekend or is a BC statutory holiday.

Interest will accrue beginning the day after the payment due date until the full amount is paid.

If the amount is not fully paid by the interest cycle date (23rd of the following month), interest will be charged on the unpaid balance and added to your account. You will receive a Statement of Account (SOFA) that will include cycle interest for that period.

If we impose a penalty, we will not charge interest on the penalty amount if it is paid in full and on time. However, if the penalty amount is not paid on time, interest will be charged on the outstanding balance from the payment due date and will be shown on your next SOFA.

## **Credit Balance Accounts**

If you overpay your royalty or your account has a credit balance on the day of invoicing, we will use the credit to offset any new debts. If a credit remains after offset, refund interest will accrue from the 61st day after the account became overpaid, but will not show on your account until the amount is used to off-set a debt, or the amount is refunded to you.

These same interest rules apply to any amount identified as overpaid prior to November 1, 2018, but not yet refunded to you, or credited to your account.

To find out how interest applies to prior period amendments that result in an overpayment, see Amended Production Periods – Overpayment below.

## **Amended Production Periods - Underpayment**

Any additional royalty or penalty is considered due on the original payment due date for that period.

If you amend your report for a prior production period, interest on the revised royalty is charged based on the number of days from the original payment due date to the invoice date for the amendment. If you are issued an assessment as the result of an audit or validation review, interest is charged as a lump-sum amount.

### **Example**

Assume you amend your January 2018 gas production period on March 2, 2019 and you do not have sufficient non-refundable credits (NRCs) to offset the additional amount due:

- The additional royalty due was payable on April 25, 2018 (based on an April 10, 2018 invoice)
- Interest is charged on the additional royalty from April 25, 2018 (the date the royalty was originally due) until March 23, 2019 (the Crown invoice date). You have until April 1, 2019 (March 31, 2019 is a Sunday) to pay the invoice. No interest will be charged between March 23 and April 1, if you pay the full amount due. Interest will be charged on any unpaid balance from April 1, until it is paid in full.
- Over and under Estimate interest are not retroactively calculated.

If you amend a post-Petrinex production period, any additional royalty assessed is considered due on the payment due date of the invoice issued for the amendment.

With the implementation of Petrinex, new interest rules will apply to amounts outstanding at the time of conversion.

### **Amended Production Period - Overpayment**

If an amount becomes payable to you because you amended a prior production period, the overpayment will be used to offset a balance on another period (if applicable) or refunded to you.

If you do not request a refund through your royalty analyst, the overpaid amount will be credited to your account and applied to your next Crown invoice. All refund requests are subject to verification procedures.

Interest on an overpayment will be calculated from the 61st day after the effective date of the original payment, not the date the royalty was originally due. The interest rate for overpayments is the prime lending rate less 2%.

For production periods beginning October 2018, if you amend a period that was originally paid late and late payment interest was charged, any credit resulting from the amendment will have an effective date of the original due date. Any interest that was charged between the due date and payment date will be cancelled. Overpayment interest will be calculated from the 61st day from the date of your payment until the credit is applied against a debt in your account or is refunded to you.

### **Example**

Assume you amend your January 2018 gas production period, on March 2, 2019. The original royalty was due on April 25, 2018 (April 10, 2018 invoice):

- If you paid the amount on April 25, 2018, we will pay you interest on the overpaid royalty from June 25, 2018 (April 25 payment date plus 61 days) at prime less 2% until the amount is used to offset the balance on other periods or refunded to you. The interest will be credited to your royalty account when you use the overpayment to offset your royalties on other periods.
- If you originally paid the amount late on August 2, 2018 and you were charged interest, the credit amendment takes effect on April 25, 2018. This eliminates the interest you were charged for paying late (the period of April 26 to August 2, 2018). You will then receive refund interest from October 12, 2018 (August 2 payment date + 61 days) until the amount is used to offset the balance on other periods or refunded to you.

## **Non-Refundable Credits (NRCs)**

When you produce oil or natural gas in BC you may qualify for a credit, such as, Summer Drilling Credits and Infrastructure Credits (e.g. road credits). These are referred to as non-refundable credits (NRCs).

Previously, you could use your NRC credits to reduce or offset your royalty by indicating your intention on your BC 15, *Petroleum and Natural Gas Remittance Advice*. As of November 1, 2018 these credits will be applied automatically to your royalty balance. NRCs can only be applied against oil and gas royalties. They cannot be used to offset interest, penalties or deemed royalties.

NRCs will be applied against each production period, from the oldest to the newest, regardless of the type of credit. Depending on when the NRC becomes available, NRCs will impact the amount of interest you are charged when you amend a prior period, as they will offset additional royalties due.

## **Application of NRCs and Interest on Amended Periods**

### **Increased Royalty Due**

If you amend a prior period and your royalty due increases, NRCs that were in effect at the original due date of the royalty, and are still available at the time of your amendment, will automatically be applied against the additional royalty amount. As a result, no interest will be charged on the additional royalty due and the royalty amount will be offset.

NRCs that are granted after the original payment due date will be treated as a “payment” towards your royalty due, effective the date that they were granted. As a result, interest will be charged on the additional royalty due from the day after the due date until the date the NRCs were granted.

### **Example**

Assume you amend your January 2018 production gas period on March 2, 2019, and you have infrastructure credits to offset the additional amount due (the road credit was granted to you on or before April 25, 2018):

- The infrastructure credits available in March 2019 will be automatically applied against your additional royalty due. If you have sufficient credits to cover the full amount of additional royalty, no interest will be charged. Any credits previously applied against months after January 2018 will not be changed or impacted.
- If you do not have enough credits to cover the full amount of additional royalty due, interest will be charged on the outstanding amounts from April 25, 2018 (payment due date). However, if an additional infrastructure credit was granted after April 25, 2018 and is still available by March 2019, the credit will be used to

offset your outstanding balance, and interest will be charged from the payment due date to the date when the credit was granted.

### **Reduced Royalty Due**

If you amend a prior period and your royalty due decreases, and NRCs were applied to offset the royalty, your NRC credit balance will increase based on the amount of credit used to reduce the royalty for that period. No additional interest will be paid to you.

If you amend a prior period and your royalty due is reduced, and NRCs were applied to reduce some but not all of the royalty, your NRC credit balance will increase by the amount of credit that had been previously applied. Interest will be paid to you based on the amount of the overpayment for that month until the overpayment is refunded to you or is used to offset another amount due to us. The overpayment will be used to offset the oldest debt. If there is no debt, it will be applied to the first new debt that arises, including your invoice on the next period.

NRC that has been applied to other periods will not be impacted from an amendment on a prior period. For example, an amendment on one period does not impact the previous application of NRCs on other periods.

### **Example**

Assume you amend your January 2018 production period for gas, on March 2, 2019. The royalty was due on April 25, 2018 (April 10, 2018 invoice):

- If you reduced your royalty to zero using your infrastructure credits, your credits will be returned to your NRC account and become available to offset royalty debt on current and future periods. You cannot use these returned credits to reduce any royalty paid for the February 2018 to January 2019 periods. No overpayment interest applies as you originally covered your royalties using NRCs rather than cash.
- If your January 2018 royalties were partially reduced from the use of your infrastructure credits, your credits will be returned to your NRC credit account first. If the credit resulting from the amendment exceeds the infrastructure credit, the overpaid amount will be credited to your account and applied to your oldest debt, as described above. If you have no debt, the amount will offset your royalty on your February 2019 period. The overpaid amount will be applied before any NRCs. Overpayment interest will apply to the amount you overpaid using cash.

## **Further Information**

Online: [gov.bc.ca/oilandnaturalgastaxes](http://gov.bc.ca/oilandnaturalgastaxes)

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Email: [Oil&GasRoyaltyQuestions@gov.bc.ca](mailto:Oil&GasRoyaltyQuestions@gov.bc.ca)

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