

Tax Planning Opportunities from the Merger with Missol Corporation

A Case Study in International Energy Company Tax Management

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Abstract

International energy companies pay taxes in multiple jurisdictions. Depending upon where they are headquartered, they may also pay taxes in their home country on income earned abroad. This is the situation faced by U.S. energy companies. Consequently, tax planning has long played an important role in their investment and operating decisions. This case provides a glimpse of this, not often-examined, world. Flagler has just merged with Missol Corporation. Students must grasp the overall tax position of the new, merged company, and consider what opportunities this provides for lowering the firm's global tax bill.

Opportunities should abound because the two predecessor companies, Flagler and Missol, were in different U.S. tax positions. Consequently, their operations were configured differently to minimize taxes. Once students figure out the new firm's position, at least some of the predecessor organizations should offer opportunities for tax reductions.

Tax planning by international energy companies receives relatively little attention outside of tax professional circles. Yet, finance executives within those energy companies know it to be an ever-ongoing activity. Energy companies are heavily taxed. Marginal income tax rates in countries as varied as Norway and Nigeria reach 80%. Hundreds of billions of dollars and the viability of many large projects is at stake. Students studying finance and interested in energy companies will discover that treasury and controllers assignments involve considerable tax work. This case will introduce them to key planning concepts they would quickly put to use in such assignments.

Tax Planning Opportunities from the Merger with Missol Corporation is loosely based upon the merger of Exxon and Mobil Corporations. It correctly depicts the overall tax positions of those predecessor corporations. The particulars of potential opportunities are fictionalized.