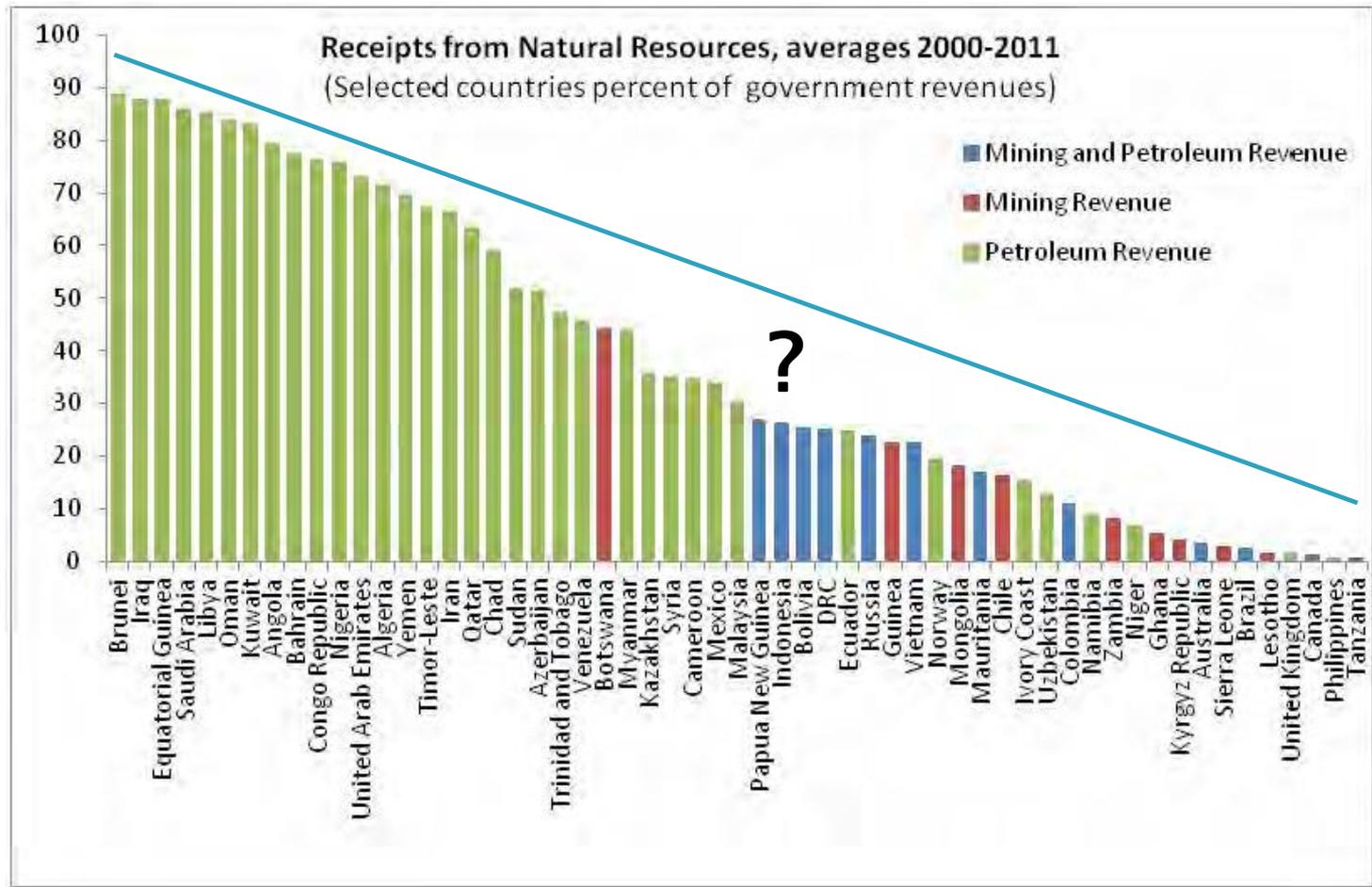


# Enhancing Extractives Tax Administration World Bank Group Perspective & Support

INTOSAI WORKING GROUP ON  
AUDIT OF EXTRACTIVE INDUSTRIES  
KAMPALA, AUGUST 25–27, 2014

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World Bank Group, Washington D.C.

# Resource receipts are already macro-critical in many countries but how much larger could revenues be with enhanced tax administration?



Source: IMF Fiscal Affairs Department



**WORLD BANK GROUP**

# Outline

- ▶ What is special and challenging about the extractive industries?
- ▶ WBG supporting role and partnerships
  - Engagement in international tax and transparency initiatives
  - Country assistance on general tax policy and administration
  - Targeted guidance on extractives tax policy and administration
  - Country assistance on extractive industries regulatory capacity

# What is special and challenging about the extractive industries? (1)

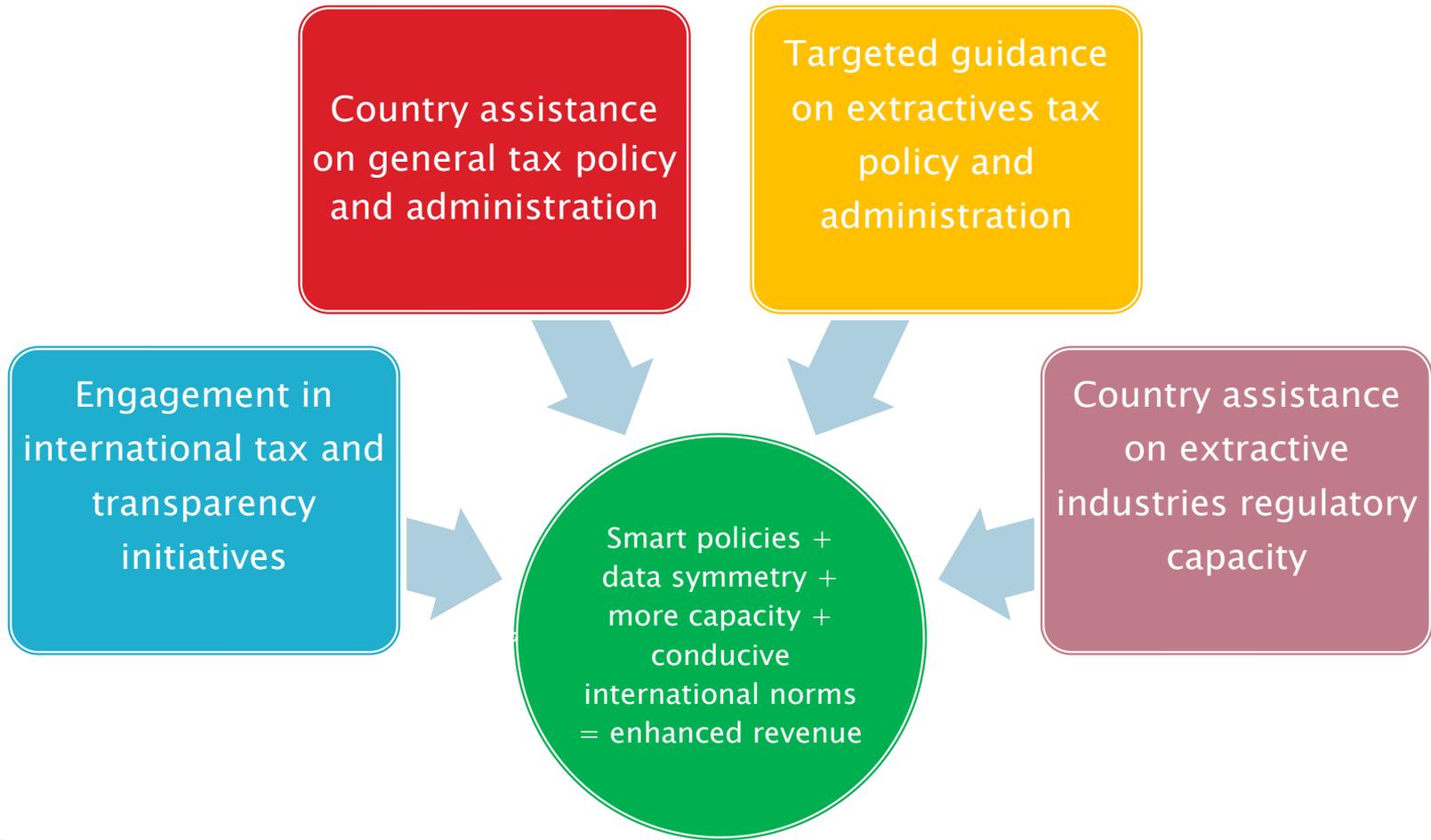
- ▶ **High fiscal risk : reward** – large scale of potential revenue losses matched by relatively small number of taxpayers
- ▶ **Non-homogeneity** :
  - **Revenue base** – multiple commodities and pricing arrangements
  - **Cost base** – project specific capital and operating costs
- ▶ **Diverse participants** – specialized MNCs; state owned enterprises; unlisted entrepreneurs; global service suppliers
- ▶ **Globalized value chains** – multi-country mining > processing > fabrication chains driven by proximity to markets and access to inputs
- ▶ **Complex project financings** – multi-tier equity and debt structures



# What is special and challenging about the extractive industries? (2)

- ▶ *Local tax treatment is typically fragmented:*
  - non-standard tax treatment requiring tax law variations (esp. on sunk costs) or contractual terms
  - multiple revenue collectors – tax authorities (direct & indirect taxes), sector regulator (resource levies), state enterprises (in-kind entitlements, quasi-taxes)
  - separate responsibility / capacity to carry out “physical” and “financial” audits
  - grand-fathering of historic contractual terms adding complexity to administration

# WBG supporting role and partnerships



# Engagement in international tax and transparency initiatives

## ▶ Generic global tax initiatives

- WB, IMF, UN & OECD Report to G20 (2011) leading to OECD BEPS Action Plan
- Participation in Global Forums on Transparency and Exchange of Information for Tax Purposes & on Transfer Pricing

## ▶ Special interest in extractives

- Handbook on Administering Fiscal Regimes for Extractive Industries (IMF/WB 2014)  
*\* Forthcoming book "Resources without Borders" on international issues in extractive industries taxation by IMF*
- How to Improve Mining Tax Administration and Collection Frameworks (WB 2012).
- WB/EU/ITC international conference on EI taxation (Brussels, September 9–11)
- EITI reporting standard – together with IMF developing reporting standards for integrating into public financial management systems

# Country assistance on general tax policy and administration

- ▶ General tax policy reform
- ▶ Broad tax administration reform and institutional strengthening and training
- ▶ Specific advice on issues – e.g. VAT, tax incentives, TP, legal drafting, dispute management, tax treaty management
- ▶ WB/OECD/EU TP program – training and TP audit support
- ▶ Engagement with the private sector:
  - promoting public–private joint fora to identify fiscal regime implementation improvements
  - on capacity building and interim support for tax functions and audits



# Targeted guidance on extractives tax policy and administration

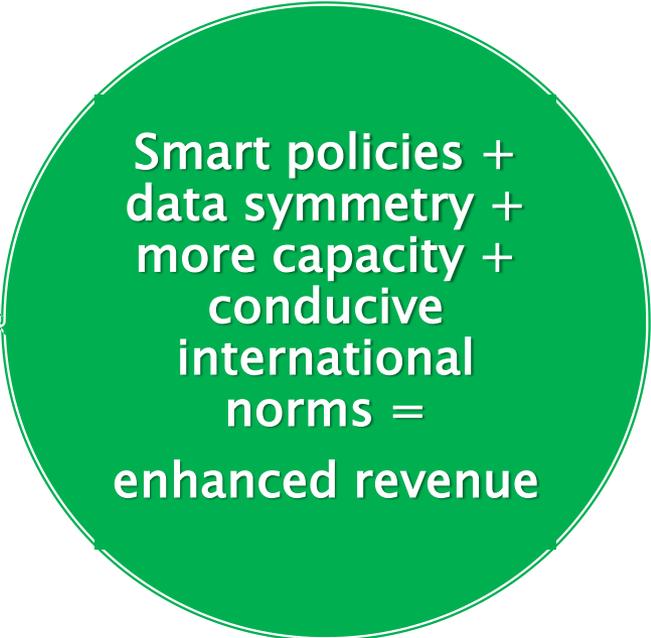
- ▶ Advice on oil, gas and mining fiscal regime design-benchmarking, diagnostics and reform design
- ▶ Guidance on specific EI tax policy and administration issues:
  - Use of smart tax incentives to add to rather than erode the EI tax base
  - Extending reach of tax on capital gains on EI transfers
  - Combatting abusive transfer pricing and other profit shifting risks in EI
  - Managing VAT without distorting EI investment and local supply chains
- ▶ Guidance on public access to and use of EI fiscal information
  - e.g collaborated on “How to read an Oil Contract”
  - online resources for contract and revenue data disclosures



# Country assistance on extractive industries regulatory capacity

- ▶ Mix of multi-year regulatory capacity building projects and smaller training/awareness programs:
  - **Sector regulator:** licensing, inspection and physical audit (operational, financial and environmental)
  - **Fiscal authorities:** tax assessment, audit, planning
  - **Oversight bodies** (SAIs, parliamentary accounts committees, watchdogs etc):
    - support with access to (through disclosure requirements) and use of sector data;
    - support to EITI multi-stakeholder groups
  - Examples Tanzania; Ghana; Guinea; DRC; Mozambique; Mongolia; PNG etc





Smart policies +  
data symmetry +  
more capacity +  
conducive  
international  
norms =  
enhanced revenue

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