

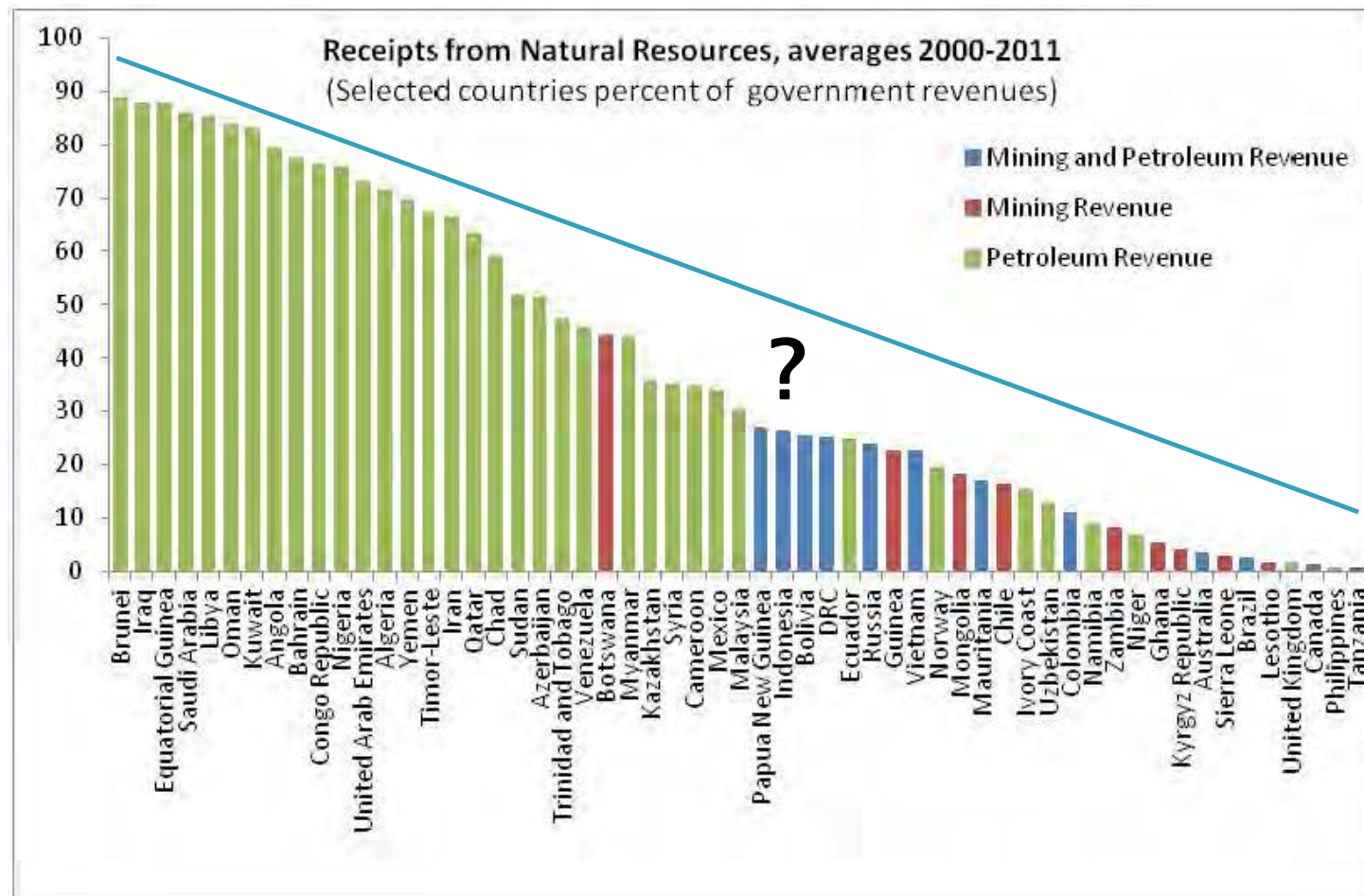
Enhancing Extractives Tax Administration

World Bank Group Perspective & Support

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

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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



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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

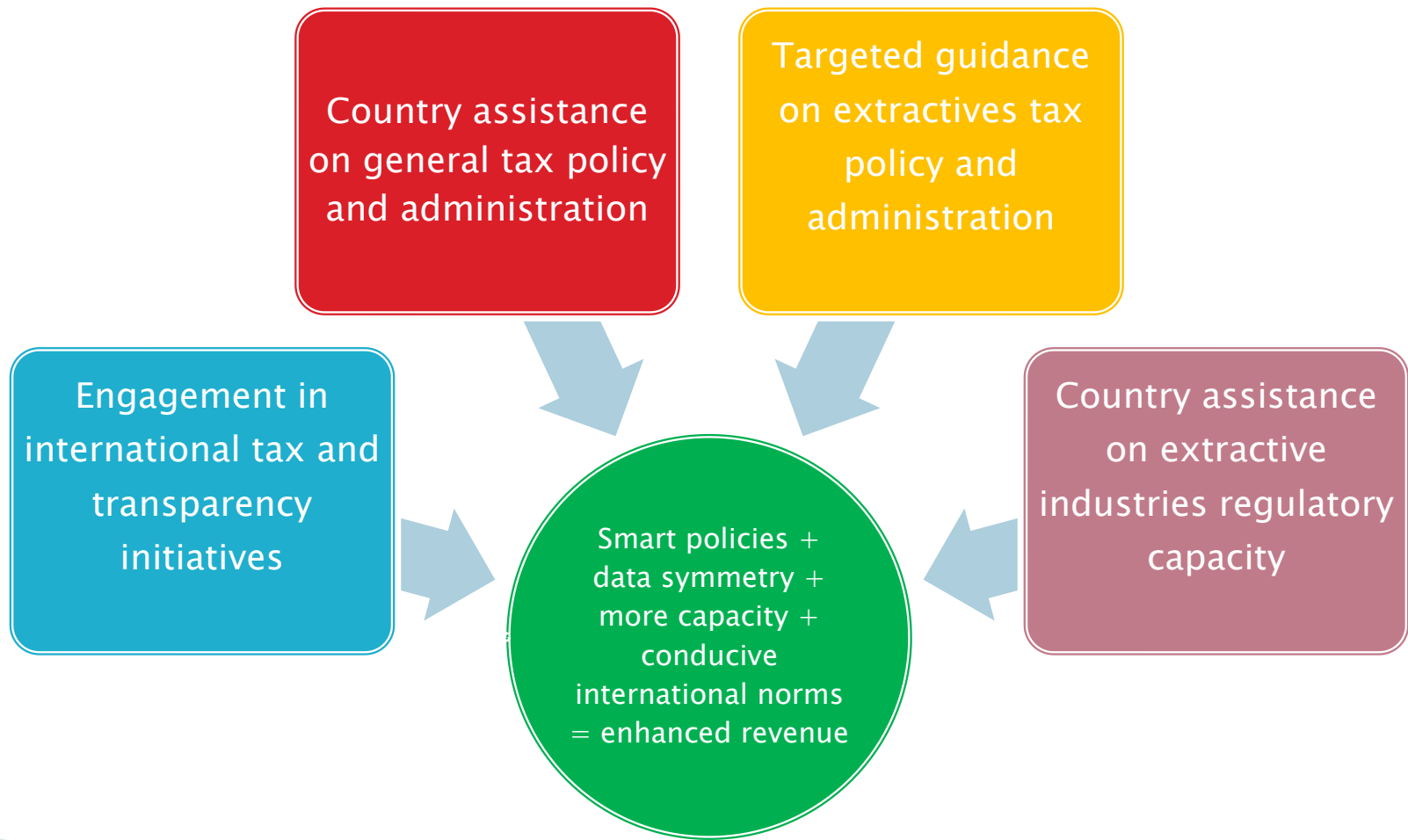


What is special and challenging about the extractive industries? (2)

▶ *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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