Enhancing Extractives Tax Administration
World Bank Group Perspective & Support

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

- **Country assistance on general tax policy and administration**
- **Targeted guidance on extractives tax policy and administration**
- **Engagement in international tax and transparency initiatives**
- **Country assistance on extractive industries regulatory capacity**

Smart policies + data symmetry + more capacity + conducive international norms = enhanced revenue
Engagement in international tax and transparency initiatives

- Generic global tax initiatives
  - 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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