



Fiscal Regimes for Extractive Industries—The IMF's Work

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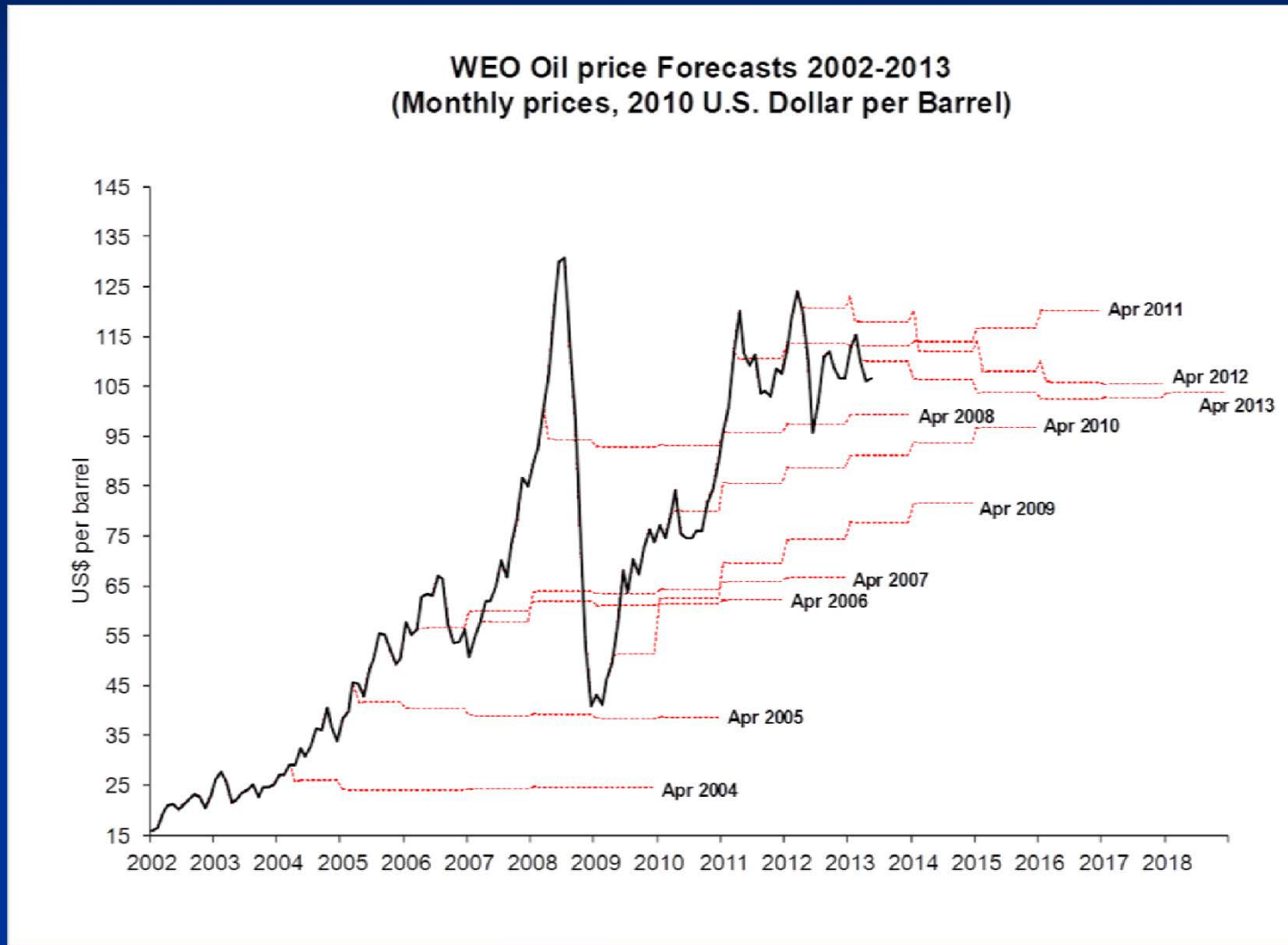
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JUNE 5, 2014

Why distinct fiscal regimes for EI?

- **Substantial rents**
- **Pervasive uncertainty**

Oil price forecasts and outturns



Why distinct fiscal regimes for EI?

- **Substantial rents**
- **Pervasive uncertainty**
- **Asymmetric information**
- **High sunk costs, long production periods**
- **Extensive involvement of multinationals in some countries...and of State-Owned Enterprises in others**

Why distinct fiscal regimes for EI? (2)

Few of these considerations are unique to resources—they're just bigger. What is unique is:

- **Exhaustibility**

- Recognize revenues as transformation of finite assets in the ground into other assets*

Central objectives

- **Maximize PV of net government revenues**
- **Timing of receipts**
- **“Progressivity”**
- **Ease of administration (for authorities) and compliance (for taxpayers)**

Fiscal Instruments for EI

- **Bonuses (with bidding)**
- **Royalty**
- **Corporate income tax**
- **Explicit rent taxes**
- **State participation**

Evaluation is essential...

Two approaches:

- Model effects on exploration, development, and extraction
- Scenario analysis – the FARI modeling system

Use indicators related to objectives and criteria:

- Average effective tax rate
- Progressivity in prices

Recommended approaches

Country circumstances require tailored advice, but generally within a framework that combines

- *A royalty on gross revenue*
- *A tax targeted explicitly on rents (and thus on the achieved results of extraction)*
- *Together with normal corporate income tax*
- *Bonus-bidding may have a role in promising environments*



Recommended approaches (2)

Such a regime:

- **Ensures revenue from day one**
- **Also that government's revenue rises as rents increase – whether from rising prices or from favorable geological or cost conditions**

Transparent rules and contracts promote stability and credibility

- **Inclusion of rent taxes reduces pressures to renegotiate or unilaterally change the rules**
- **But processes to allow review and revision may be needed**



Administration

- **EI tax administration should not in principle be hard**
- **Nonetheless, often both difficult and badly done**
- **Claims that administration of profit/rent-based EI taxes is too hard, and that countries should rely on royalties, are misplaced**
- **Principles of effective modern tax administration are equally relevant to EI**

Transparency

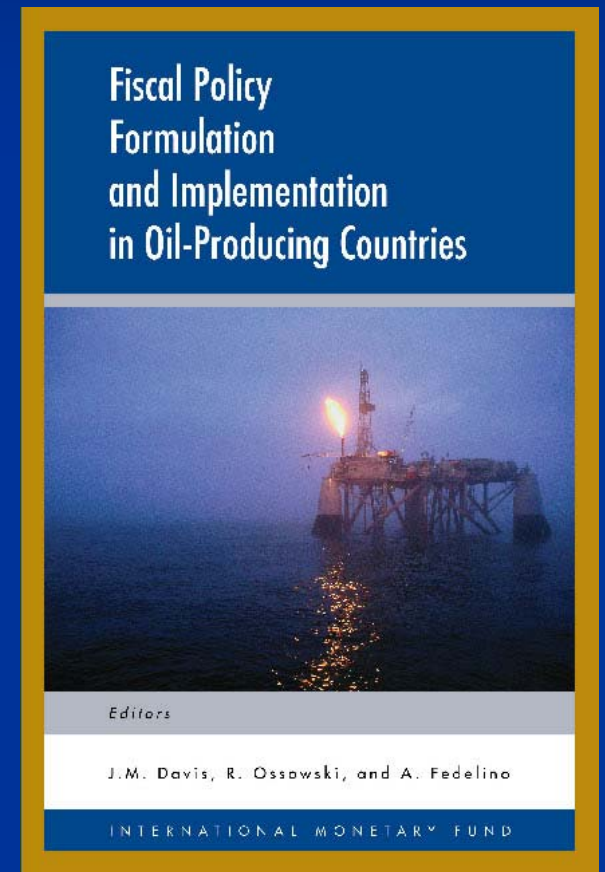
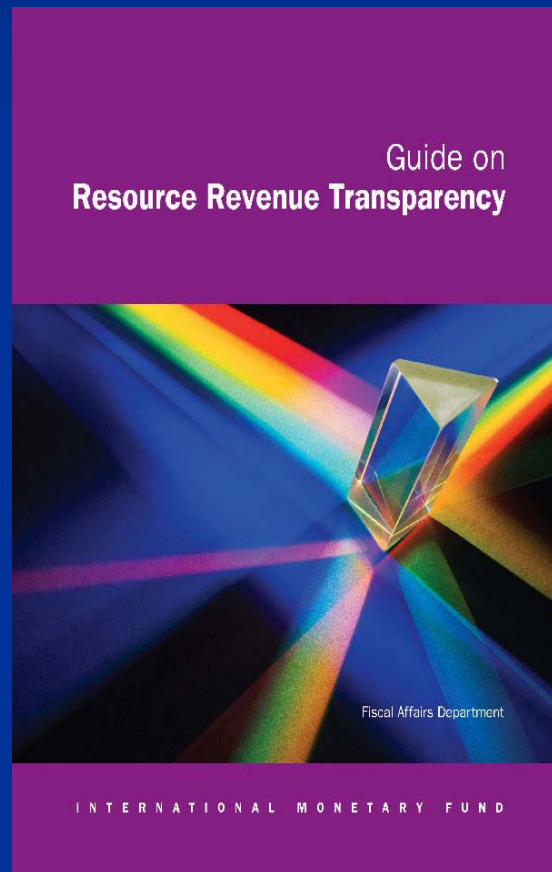
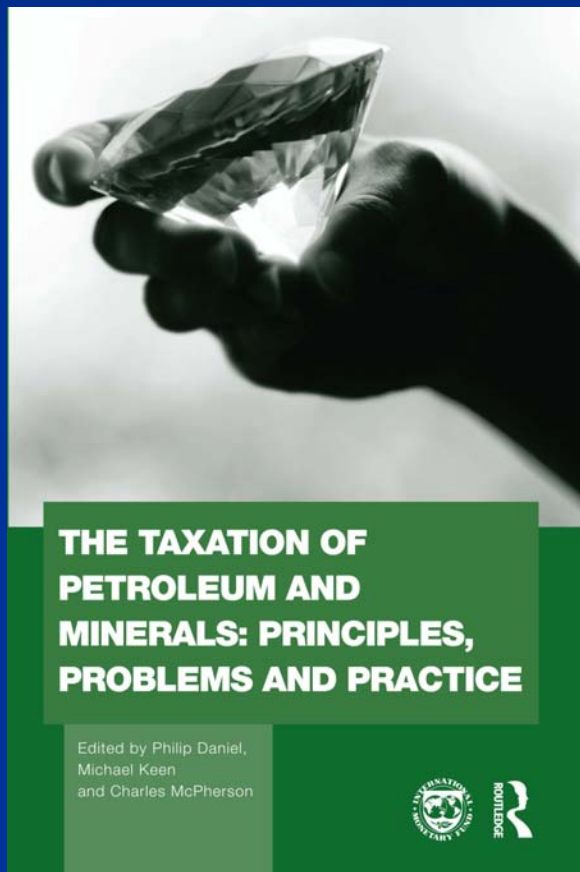
- **IMF Guide on Resource Revenue Transparency**
- **Transparency in fiscal regime design and implementation is vital but often lacking**
- **The Extractive Industries Transparency Initiative (EITI) has successes**



Worldwide natural resources fiscal regimes: current and emerging issues

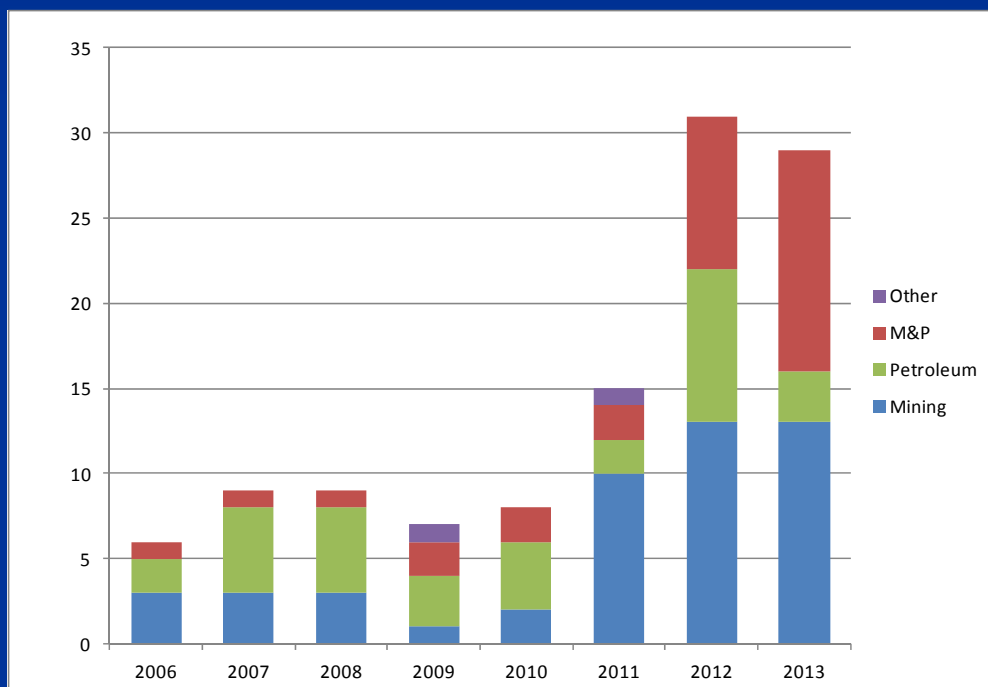
- Stability and credibility
- General legislation or imposition by contract?
- Processes for granting rights – design of auctions
- Progressivity – what it is and what it does
- Tax treatment of gains on sales of rights (direct or indirect)
- Tax treaties may cause base erosion
- Vulnerability to abusive transfer pricing
- Regional coordination

IMF (FAD) TA actively engaged and research-based



Expansion of IMF TA on EI fiscal regimes

TA Missions and Other Activities
by Year, FY06–13



- Large increases in demand for TA on EI fiscal regimes
- Doubling of supply since start of MNRW TTF in 2012
- Bilateral program with NORAD
- Shift to medium-term projects
- No direct involvement in negotiations

New work underway

- Two working papers on decision model and literature survey prepared for Board paper (published)
- Technical note on the FARI system
- Technical note on resource fiscal instrument calculations
- Handbook on revenue administration for EI
- Book on international issues in fiscal regimes for EI
- Revision of the Guide on Resource Revenue Transparency
- Fiscal issues for unconventional oil and gas
- Review of “progressivity” in fiscal regimes.