

Fiscal Affairs Department

Risk Based compliance Strategies for the Extractive industries



Scott Shelton

Fiscal Affairs Department

Challenges in determining the Tax Base for Extractive Industries

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Outline of Presentation

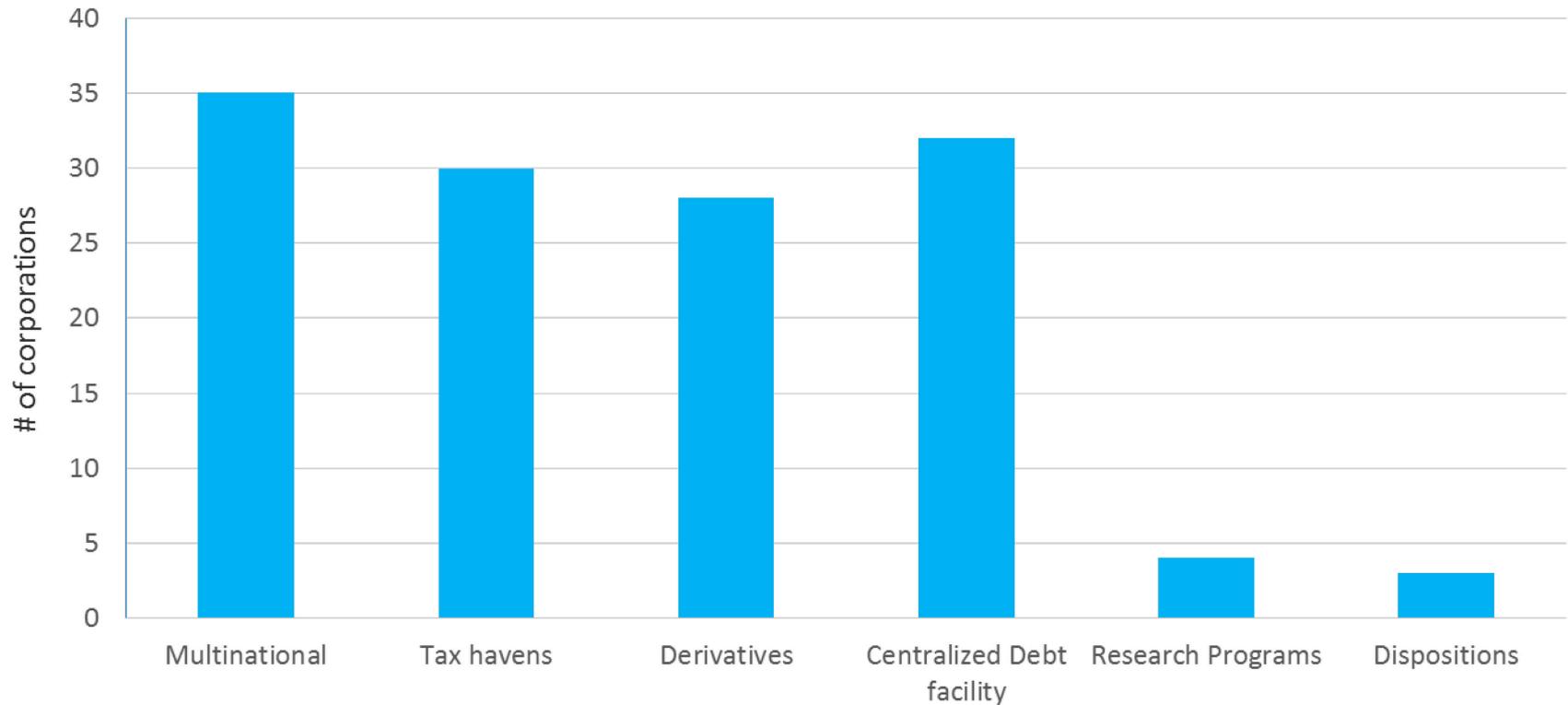
Administration of Extractive Sector

- Risk Assessment
 - Know and understand the tax base
- Compliance management
 - Multiple mitigation strategies
- Information and Coordination
 - Multiple government departments and agencies involved
 - Acquisition of Domestic and International documentation
- Specific skills required
 - Characteristics of the industry and the taxing regimes requires specific skills

Risk Assessment

Nature of the Industry

Attributes of Extractive Sector Corporations
(35 corporations analyzed)



Risk Assessment

Nature of the Industry

- Capital Intensive and High Risk
- Price and Currency Volatility
- Non Renewability
- Long development and operating periods
- High levels of exports and imports
- Poor governance
- State control and ownership

Risk Assessment

Nature of the Industry

- Artisanal Mining

Large artisanal mining sectors in some countries which consist of both licensed and unlicensed miners and generally operate outside of and have little understanding of the countries regulatory environment. This can be a significant portion of the economy that operates outside of the tax system.

Three Main Fiscal Regimes for the Upstream Operations (sometimes blended)

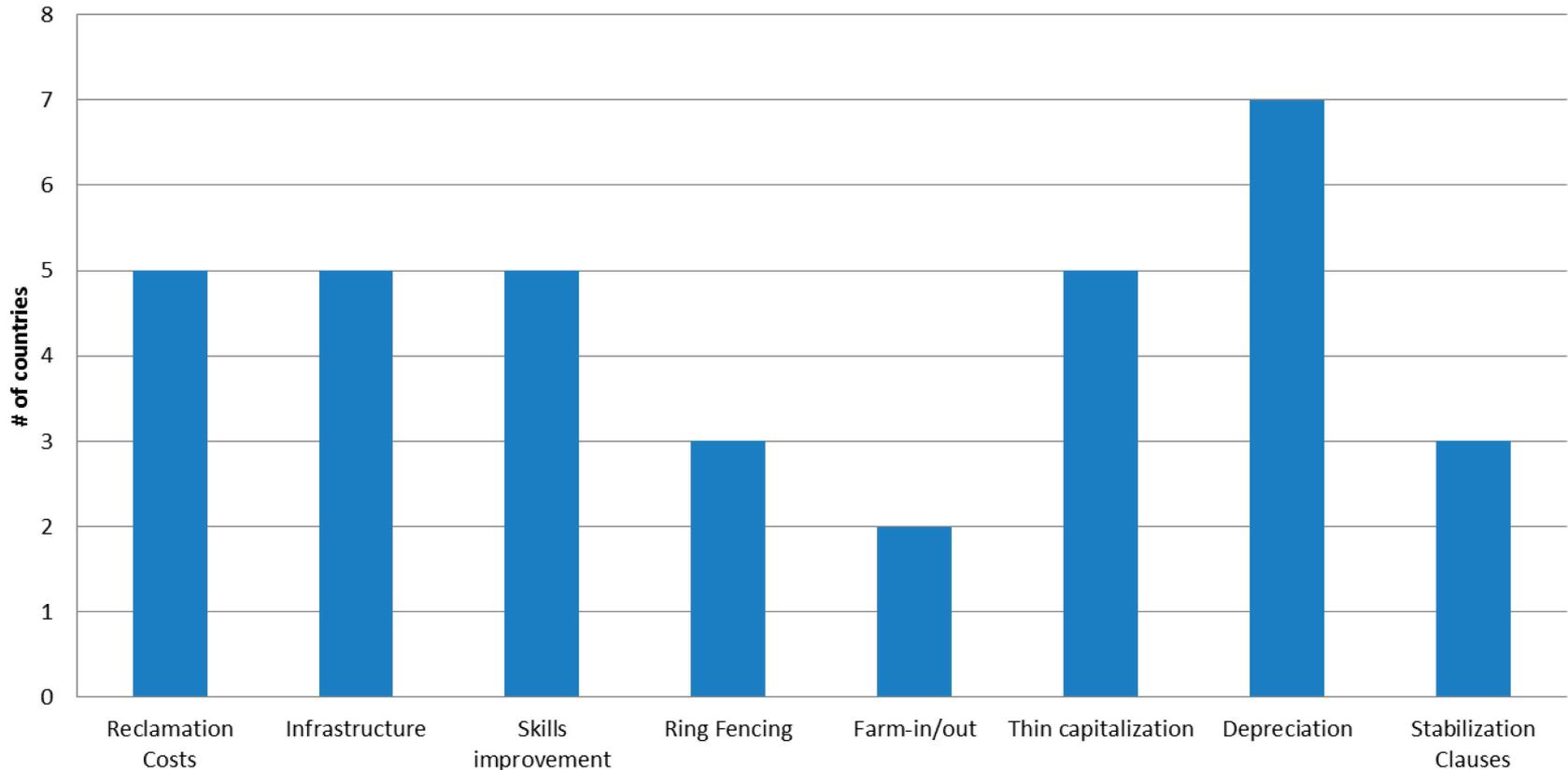
1. Contractual, including production sharing or service contracts
2. Tax and royalty
3. State ownership or participation

(generally taxation rates applicable to upstream are higher than to mid stream and downstream)

Risk Assessment

Departures from Standard Legislation

Survey of Seven countries



Summary of Risks presented by the Specialized Nature of the Fiscal Regimes

- Transfer Pricing (Valuation from Natural Resource sales and input costs)
- Administering departures from standard legislation which requires specialization
 - Special taxes
 - Contract based regimes
 - NR related tax provisions
 - Bench-mark based pricing, ring fencing, cost recovery limits, deduction and abandonment reserves, investment incentives

Summary of Risks

Regulatory Structure

- Fragmentation (Revenue Authority, Ministry of Mines/Petroleum, National Oil Company)
 - Interagency cooperation and information exchange
- Conflict of Interest – equity interest held by the Ministry of Mines/Petroleum combined with regulatory roles
- Poor Governance and Transparency

Mitigation Strategies

Client Assistance

- Targeted Taxpayer service and Education
 - Key Client Manager
 - Industry forums
- Rulings, practice notes and tax alerts

Mitigation Strategies

Targeted Compliance Activities

- Well Developed Risk identification and analysis
- Coordinated risk based compliance strategies
- Segment-focused audit programs using a broad range of audit types
- Enforcement

Mitigation Strategies

Small Miners (Informal Economy)

- Artisanal Mining Strategy
 - Communication & Education
 - Assistance
 - Market access facilitation (inclusion and identification)
 - Simplified filing regimes

Mitigation Strategies

Other

- Specialized units (industry and transfer pricing)
- Centralized comprehensive databases
- Robust and impartial Tax dispute processes
- Responsibility for revenue administration being consolidated or coordinated
- Transparency

Information Sources and Coordination

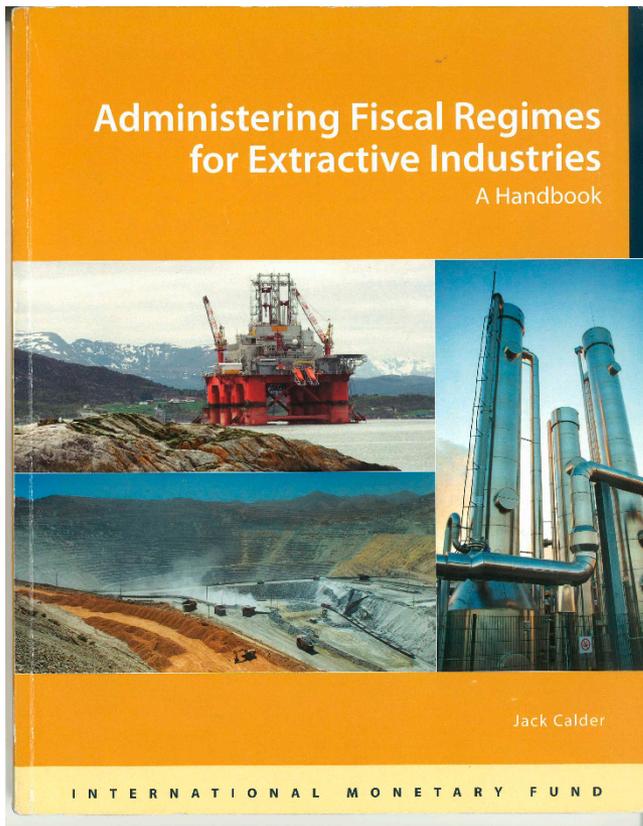
- Public information Sources
- Tax Information Exchange Agreements
- Information Returns
- Domestic legislation
 - Access
 - Information requirements (domestic and international)
- Information exchange and cooperation – regulatory agencies

Skills Development

- Enhancement of risk assessment skills
- Development of audit capacity and robust training programs
 - Transfer pricing (Valuation techniques)
 - Industry knowledge
 - Accounting practices
 - Negotiation skills
 - Relationship management
 - Legislative

Information Sources

Administering Fiscal Regimes for Extractive industries – A Handbook”, International Monetary Fund, Jack Calder



Revenue Administration: Administering Revenues from Natural Resources – A Short Primer”, International Monetary Fund, Andrea Lemgruber and Scott Shelton

