Tax incentives and the extractive industries

Supplement to Chapter 5 of the Handbook on Taxation of the Extractive Industries

Brief outline of changes

Chris Sanger, CSanger@uk.ey.com

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DESA | Department of Economic and Social Affairs

Financing for Sustainable Development

Need for the paper

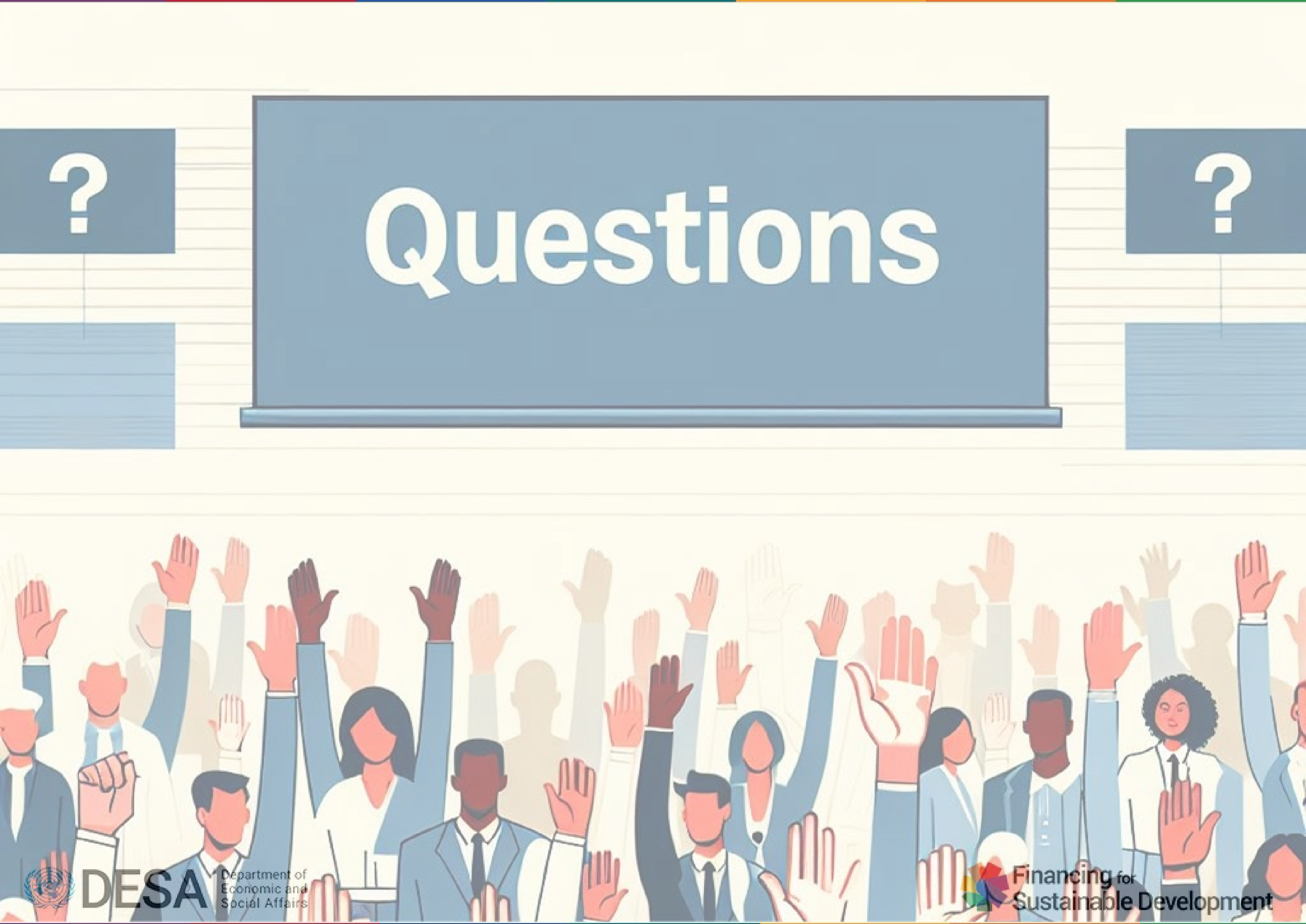
- Pillar 2 relevant to all counties, not just those that adopt rules
- 15% minimum tax on accounting profit changes the environment for tax incentives
- Tax incentives used extensively in extractive sector, often due to:
  - High-risk nature of projects
  - High up-front capital cost of investment
- Incentives can impact:
  - Investment in the sector and
  - The revenue base of resource rich developing countries
- Nature of Minimum Tax can give rise to odd results:
  - “Permanent differences” can give rise to top up tax, even where effective rate > 15%
  - Top up taxes can arise even where there is economic loss
- Risk to developing countries that other countries may tax profits that they incentivize, even when incentives are only timing

Structure of the Supplement

- The Supplement:
  - Is positioned firstly as a discussion of interaction with international tax provisions, rather than just focused on Pillar 2
  - Has been updated for technical and administrative developments
  - Has been cut back to remove much of the background discussion of Pillar 2
- The Supplement provides:
  - Insights into the impact that taxes, such as Pillar 2, have on effectiveness of tax incentives
  - The options that countries can take to protect against Pillar 2 shifting tax on incentivized profits to other jurisdictions
- The Supplement does not:
  - Deal with how to respond to Pillar 2, beyond the issue of tax incentives
  - Advocate for or against the use of tax incentives

Key changes in the paper

- Revisions:
  - New introduction positioning this as Supplement and with wider than Pillar 2 application
  - Recrafting of 2.3 to more closely align with original chapter descriptions (including removing repetition)
  - Updating the section on Subject To Tax Rule to focus on WHT relief
  - Technical updates in relation to the recapture rules
  - Extension of the summary table to identify reasons for impact
  - Removal of the option for unilateral changes of stabilization agreements
  - Update of the section on Qualified Domestic Minimum Top Up Tax
  - Removal of discussion of introduction of Under Taxed Profits Rule as a response, since not linked to incentives
  - Removal of detailed Appendix on rules of Pillar 2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Questions
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