When Extractive Profits End up in Tax Havens: Lessons for Windfall Profit Taxes

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Windfalls and tax revenues

Extraction of oil, gas, and minerals generates large & volatile economic rents

$\rightarrow$ Windfalls can be taxed without distortion on economic behavior.

- First-order determinant of fiscal revenues: *46% in DRC, 60% Angola, 57% Nigeria, 15% Mexico ....*
- Commodity price change $\rightarrow$ large macroeconomic consequences $\rightarrow$ need compensation mechanisms.

Multinational firms (MNEs) $\rightarrow$ largest share of global extraction

- 15 firms HQ in US/Europe 20% of oil, 38 firms 25% of mining (Rystad 2022, RMI 2020).
- Global firms with integrated structure: *Upstream/Downstream/Tax havens*.

  $\rightarrow$ Effective rent sharing depends on firm's global tax structure.

Research questions:

- Geography of large extractive multinational groups activity? Where do they report windfall profits? Taxe base and fiscal windfalls implications?

ITO research paper: Our methodology

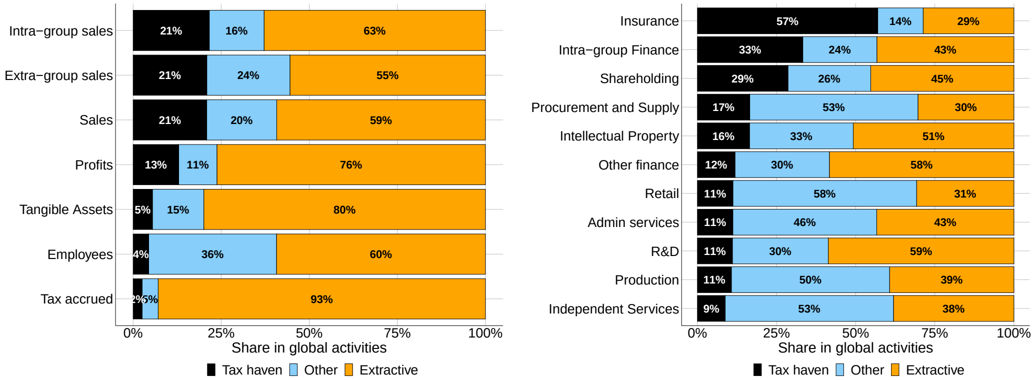
The Global Allocation of Extractive Windfalls (Chiocchetti & Moreau-Kastler, 2026)

1. Build new data on MNEs in the extractive sector.
   - Combine exhaustive MNE financial data on global activity (Global CbCR)
     - → 77 MNE covering ∼30% of mining and 37% of oil & gas (2016-23).
     - → Covers extraction countries & all tax havens.

   … with data sources on extraction (Rystad + S&P Metals and Mining)
     - → Geography of extraction sites.
     - → Determine MNE specialization on a commodity (18 products).

2. Determine allocation of windfall profits within the MNE structure.
   - Study how MNE profits change when the main commodity price changes.
     - → Changes specific to each firm's economic conditions compare to the rest of the sector.
   - Allocation of windfalls across affiliates:
     - Along the value chain: Upstream, Midstream, …
     - In low-tax VS high-tax countries.

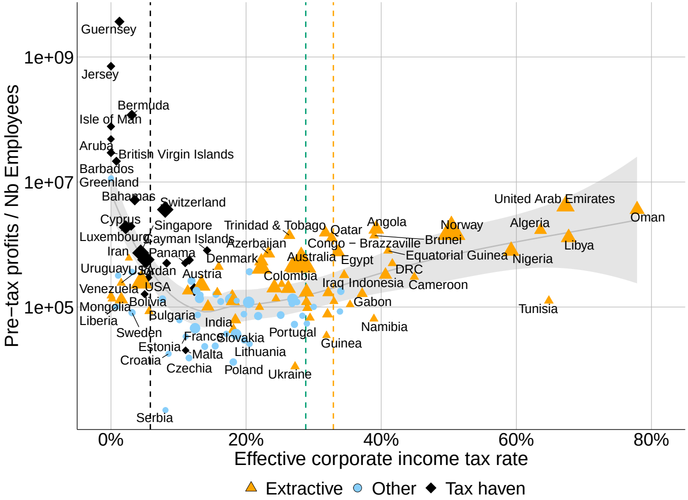
Geography of extractive MNEs



Note: Left panel: Share of profits are computed on the sample of positive profits only. Extractive is when the MNE × Country has extractive activity in the country. Right panel: Share of affiliates in a business function located in a country type. Extractive is when the MNE × Country has extractive activity in the country.

Tax havens: 13% of total sample profits, 12% on average for a firm.

Profitability and Effective Tax Rate



Note: A country is defined as extractive when at least one MNE has an extractive activity in the country.

→ High profits per employees in TH and Extractive, high ETR in extractives.

Windfall allocation: overview of results

When commodity prices increase, MNEs profits increase:

→ 1% change in price associated with 1.46% change in consolidated profit (*driven by large extractive affiliates*).

MNE disproportionally book windfalls in Tax Havens:

→ *Compared to affiliates in non-extractive and non-haven countries*, tax havens affiliates book more profits in times of price increase.

→ 1$ of consolidated windfall translate in 0.2$ in Tax Haven affiliates.

- TH profit share increase with windfall profits: 10% windfall → 1pp.

Other results:

→ Losses are declared when price falls in extractive countries, less in TH.

→ No windfalls to midstream & downstream.

→ No windfalls to headquarter countries.

Implications for the design of windfall taxes

More robust approaches to windfall taxation

1. Tax consolidated global windfall profits

- Define the base at the **MNE group level**, not affiliate level.
- Compute global excess profits, then apportion them using objective keys:
  - sales,
  - production,
  - extraction activity.
- Profit shifting within the group no longer removes profits from the tax base.

2. Tax market valuation gains

- Tax increases in firms' **stock market capitalization**.
- Valuation gains are observable and harder to manipulate than accounting profits.
- Captures rents regardless of where profits are booked.
- Can apply to non-resident MNEs through sales-based apportionment.

Thank you!

Background - Tax system in the extractive sector

Two major types of taxes:

1. **Taxes on income**: Income tax, other payments in value ($\approx$ 40% of total revenues) or in kind (*production entitlements* $\approx$ 35%).
2. **Taxes on production**: *Royalties* ($\approx$ 15% of all payments).

Other smaller taxes:

- **Payments for infrastructure improvements**.
- **Bonuses:** when discovery is made, if a certain level of production is achieved, or when a contract is signed.
- **Fees:** includes export duties, license fees, entry fees, rental fees.

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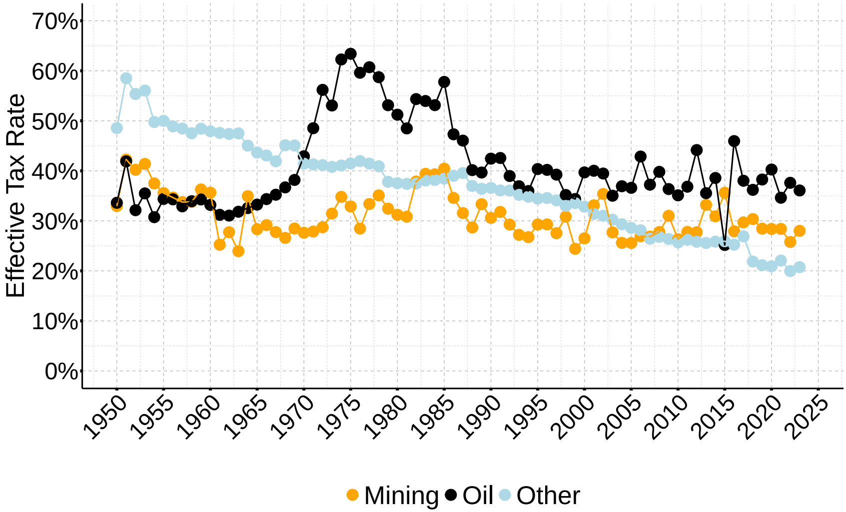
Background: Extractives & global taxation regime



Note: Series computed from Compustat Global.

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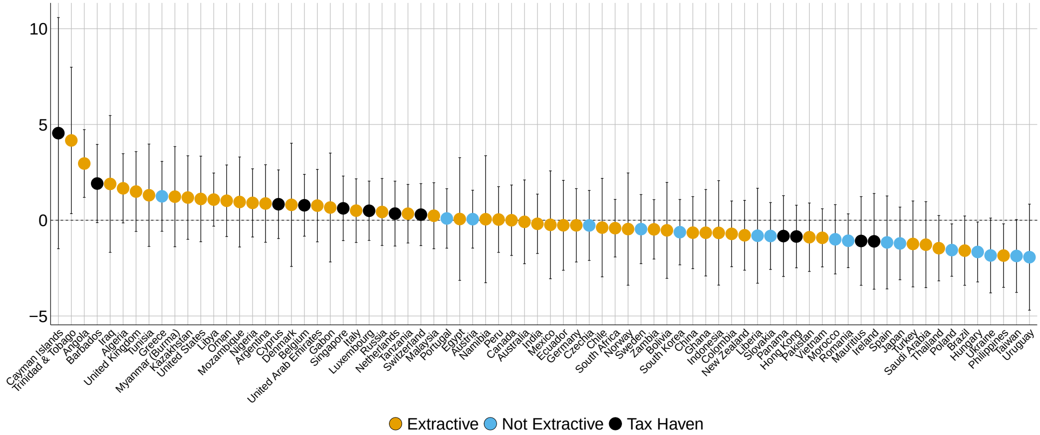
Profit price-elasticity per country



Notes: Countries are defined as extractive if at least one MNE is carrying out an extractive activity there. The reference country is France. Includes countries in which at least 10 MNEs have an activity and for which we have at least 50 observations.

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