

Design and Evaluation of Tax Incentives in the Mining Sector

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INTERGOVERNMENTAL FORUM
on Mining, Minerals, Metals and
Sustainable Development



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A VOLUNTARY INITIATIVE
CREATED THROUGH
THE UN IN 2005



79 MEMBER
COUNTRIES

DEDICATED TO IMPROVING MINING
GOVERNANCE TO HELP ACHIEVE THE
UN SUSTAINABLE DEVELOPMENT GOALS.



How do we help governments?

IN-COUNTRY
ASSESSMENTS



CAPACITY
BUILDING



TECHNICAL
ASSISTANCE



GUIDANCE FOR
GOVERNMENTS



CONFERENCES

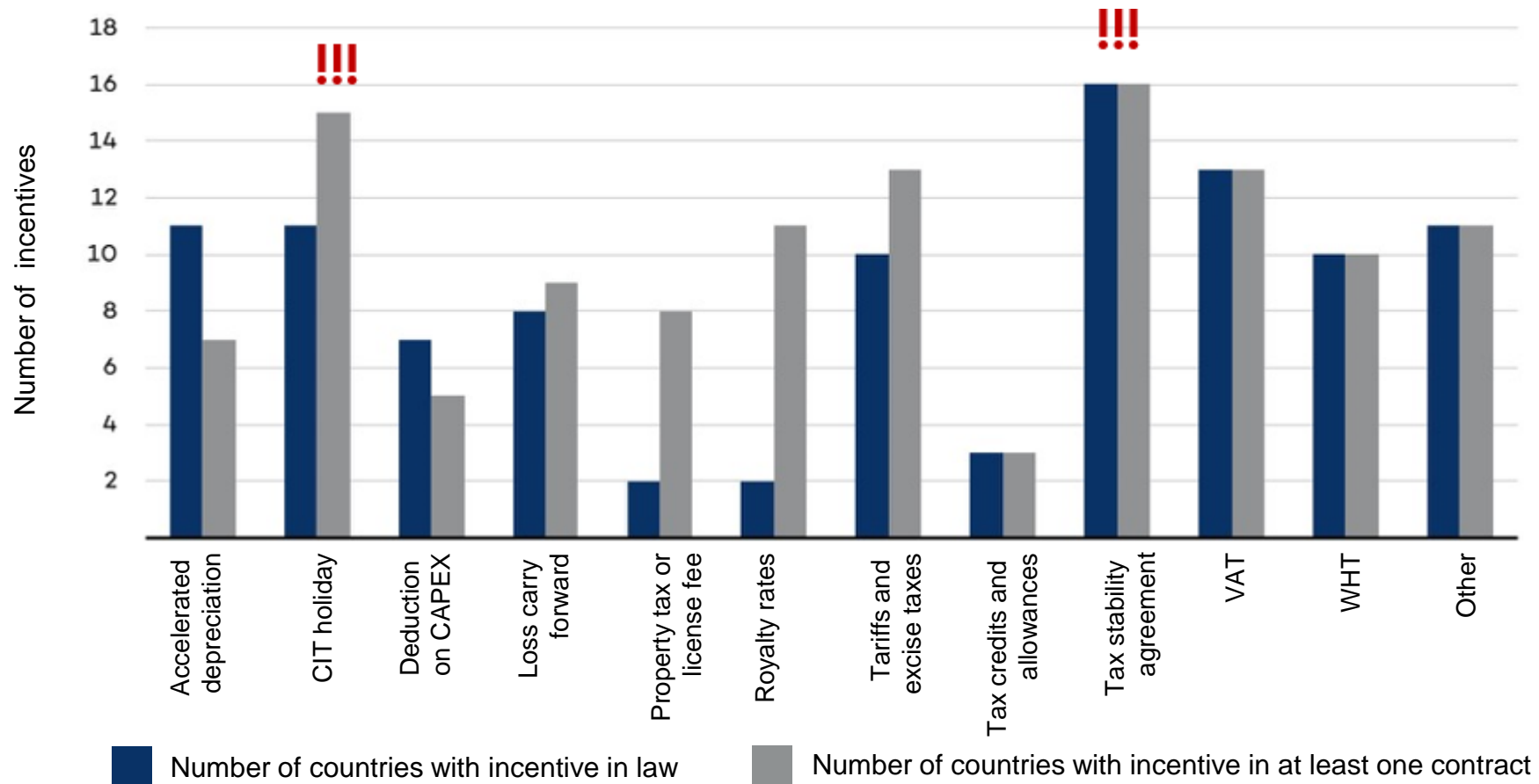


TYPES OF MINING TAX INCENTIVES

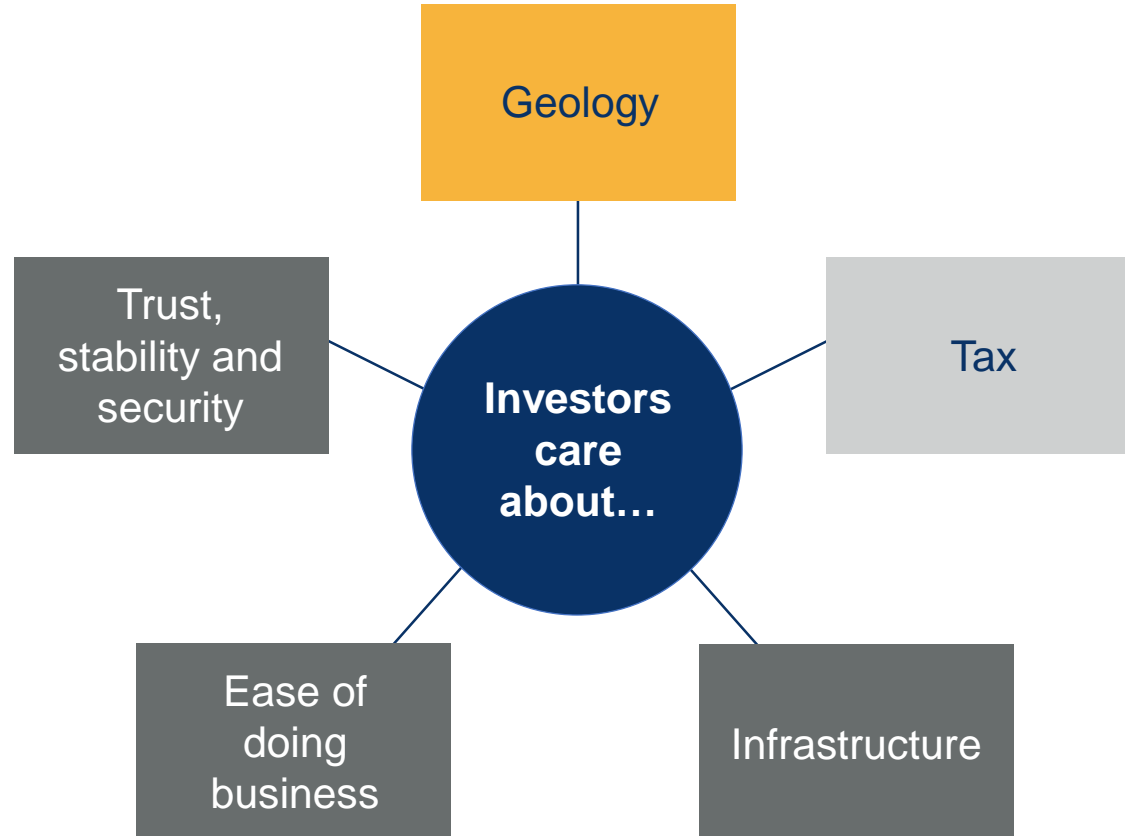
Mining fiscal instruments	Corresponding tax incentives
Taxes on income (e.g., corporate income tax, resource rent taxes, withholding taxes)	<ul style="list-style-type: none">• Income tax holiday• Accelerated depreciation• Investment allowance/tax credit• Longer loss carry forward• Withholding tax relief on interest expense dividends, services (e.g., management fees)
Taxes on production (e.g., mineral royalties)	<ul style="list-style-type: none">• Reduced royalties• Royalty holidays• Sliding-scale royalties
Tariffs on imports and exports (e.g., tariffs on import of capital inputs)	<ul style="list-style-type: none">• Import duty relief• Export processing zones
Others	<ul style="list-style-type: none">• Stabilization of fiscal terms

TYPES OF MINING TAX INCENTIVES

Number of countries with incentives

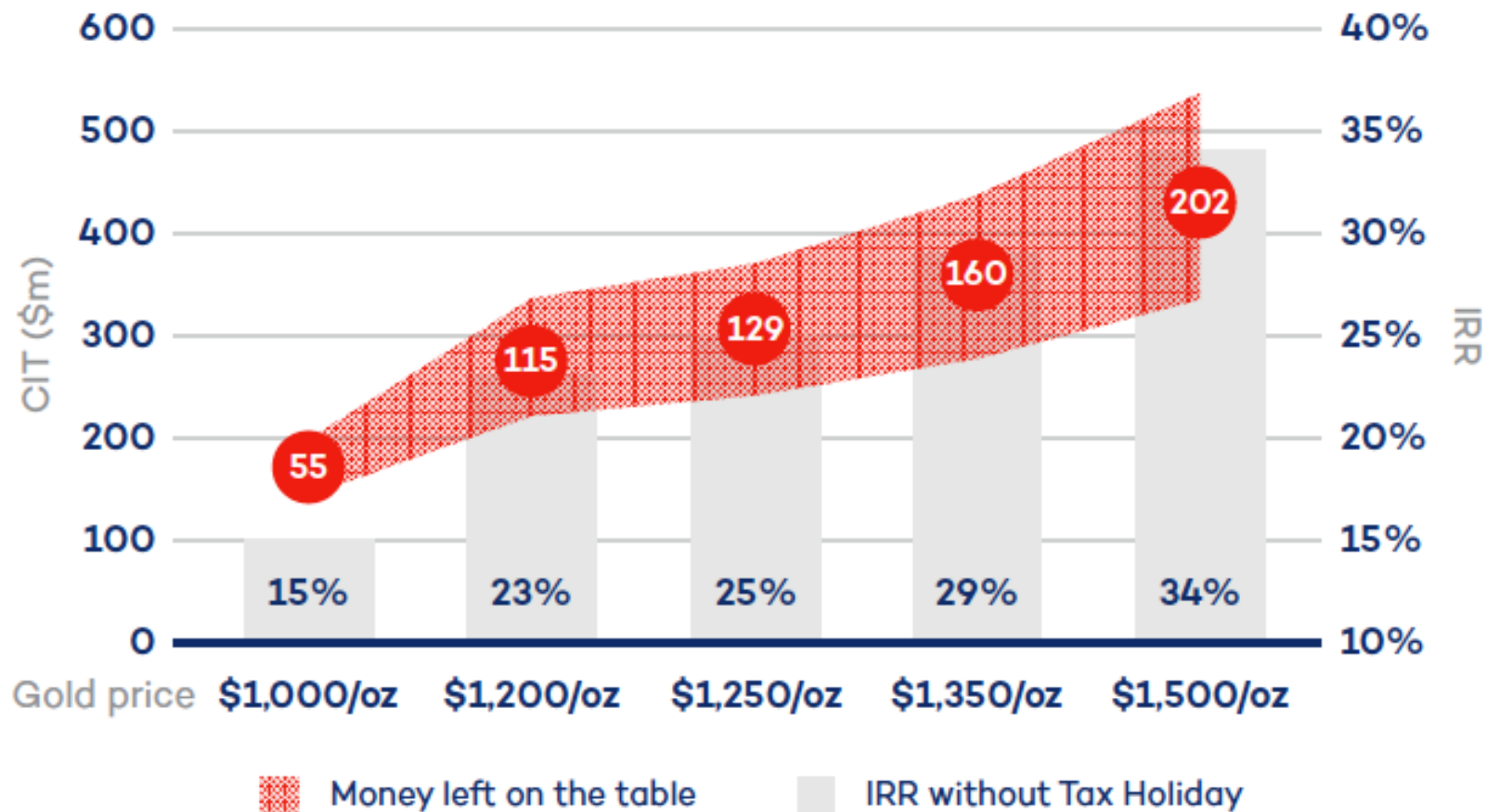


ARE INCENTIVES NECESSARY?



ARE INCENTIVES NECESSARY?

Yaoure gold mine: Tax holiday analysis (Open Oil)



DESIGN AND EVALUATION OF TAX INCENTIVES

When designing and evaluating a tax incentive, one needs to consider its:

1. Effectiveness

- Has the policy objective been achieved?
- Would the investment have happened without the incentive?

2. Efficiency

- Objectives are achieved at the lowest social and economic costs

IGF-OECD PROGRAM TO ADDRESS BEPS IN MINING

TAX INCENTIVES IN MINING: MINIMISING RISKS TO REVENUE



COST- BENEFIT ANALYSIS OF TAX INCENTIVES

Costs	Benefits
<ul style="list-style-type: none">• Revenue foregone• Administrative costs• Environmental, economic and social costs• Indirect costs: Economic distortions• Potential for corruption or abuse	<ul style="list-style-type: none">• The amount of economic value the extractive operation brings to the economy (including multiplier effect)• Employment• Skills development• Government revenues

- Benefits should outweigh the costs for an incentive to be useful
- While it is easy to measure the direct cost and benefits of an incentive to a mining project, it is more cumbersome to measure the indirect costs and benefits as well as the resulting externalities

RISK OF DISTORTION

Income tax holiday

Economic Processing Zone

Royalty-based incentives

Fiscal stabilisation assurances

Withholding tax relief on interest, services

Cost-based incentives

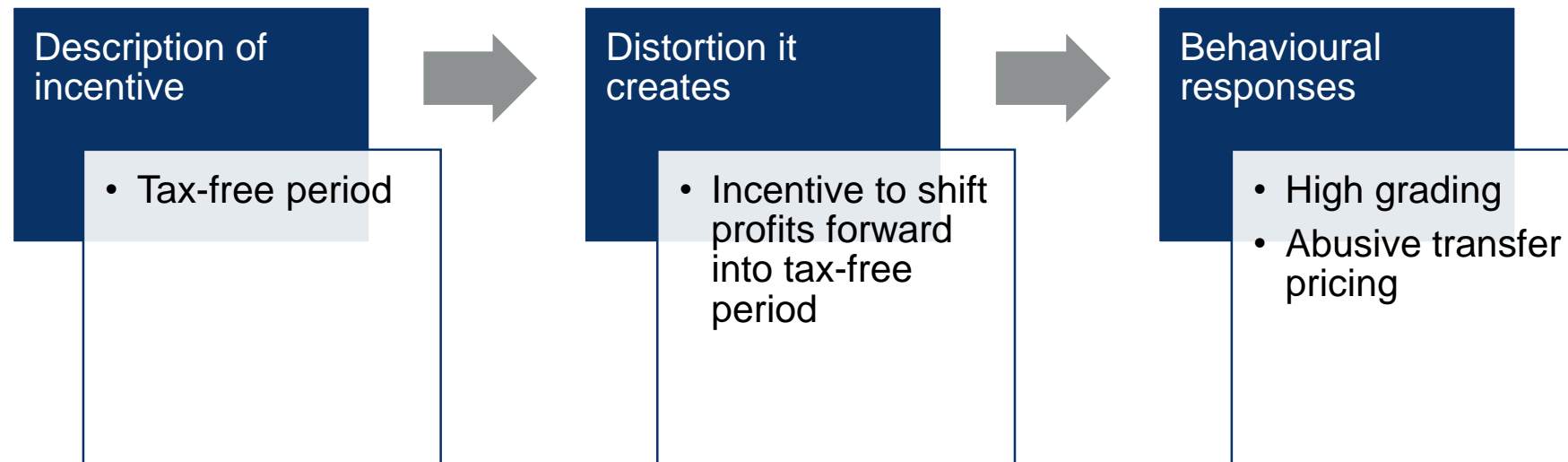
Import duty relief

HIGH

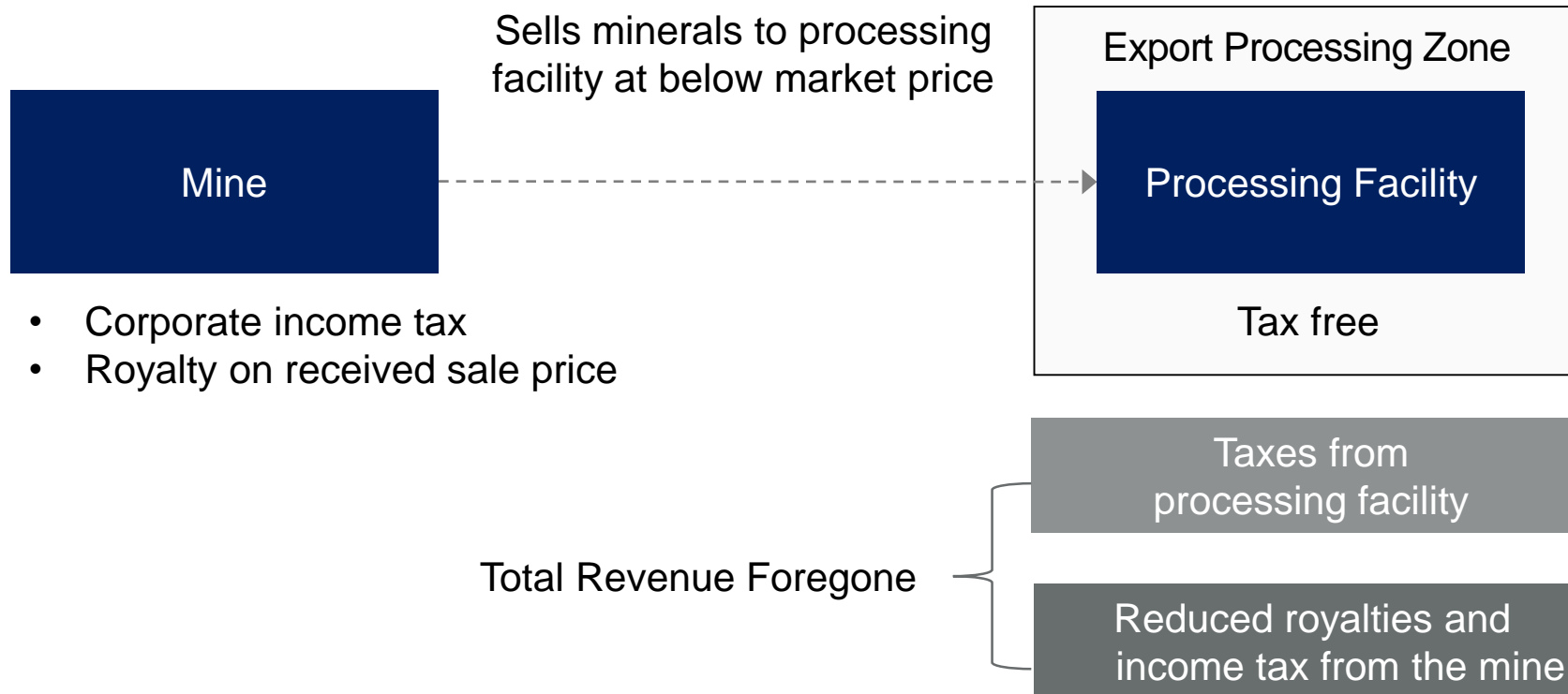
MEDIUM-HIGH

MEDIUM

1. INCOME TAX HOLIDAY

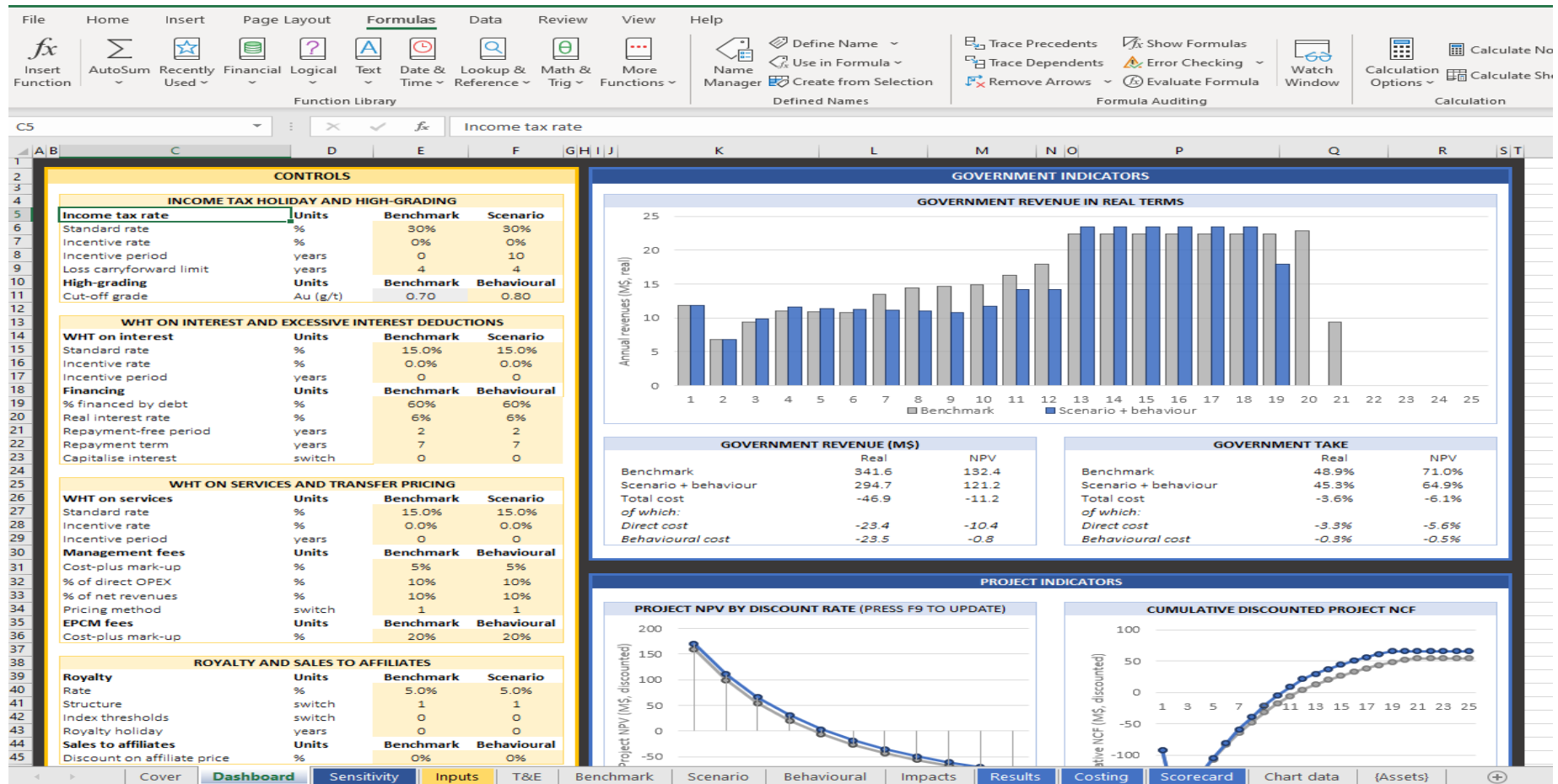


2. EPZ – TRANSFER PRICING RISK



DESIGN AND EVALUATION OF TAX INCENTIVES

IGF Financial model



Thank You!