

Tax Incentives for Petroleum and Mining Activities

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Overview of Research Paper

- Tax Incentives in practice, worldwide
- Methodology
- Findings
- Analysis
- Conclusions and Recommendations



Research questions

- **Main question:** Are tax incentives given to the extractive resource sector economically beneficial for a host economy?
- **Minor question:** In the context of policy for tax incentives, should competing political and environmental aims be considered?

Tax Incentives in practice, worldwide

- Definition of tax incentives:

Tax incentives are preferential tax treatments provided to particular groups of taxpayers - and usually result in these taxpayers paying less tax or paying later than they otherwise would.

Examples: tax holidays, allowances, tax credits, reduced tax rates, accelerated depreciation, duty exemptions, GST exemptions and zero-rated items on imports or mineral production, project-specific tax relief eg. social infrastructure

Tax Incentives in practice, worldwide (literature review)

Literature review limited to tax incentive research from academia (peer-reviewed), the OECD, IMF and World Bank.

Snapshot:

For tax incentives-

Holland & Vann, 1998, Luo and Yan (2010), Babajide et al.(2014)

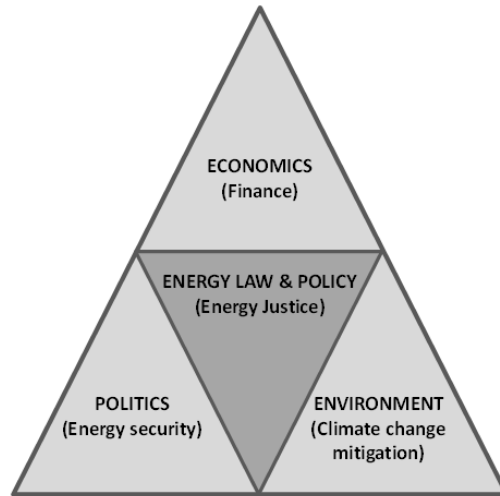
Against tax incentives-

Easson (2001a, 2001b) and Easson and Zolt (2002), Zolt (2015) ,
Desai & Jarvis (2012), Abimanyu (2016), James & World Bank
(2013); IMF, OECD et al. (2015); World Bank (2017); IMF (2017).

Literature Review

~ Energy Justice~

Energy justice provides a decision-support tool for policy makers to balance the energy trilemma of competing aims



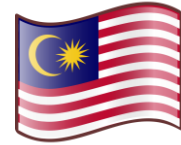
An example: PNG resource industry tax incentives

- Infrastructure tax credit scheme, eg. roads in resource project areas
- Fiscal provisions in RDAs, eg. tax stability clauses
- Accelerated depreciation, eg. LNG projects
- Tax holidays, eg. Ramu nickel project
- Import duty exemptions, eg. PNG LNG project
- Tax Expenditure Statements** in PNG are limited. Report the \$value of tax incentives

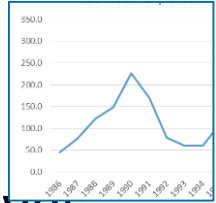
Research Methodology



(1) Case studies of tax incentive practices across selected jurisdictions in the Asia-Pacific region to compare trends



(2) Ascertain levels of Foreign direct investment to determine any nexus with tax incentives



(3) Textual analysis of PNG legislative provisions on tax incentives for the extractive industry to understand the original intention of the legislators



Findings 1/7

~Case studies of tax incentive practices~



Australia: equity of tax incentives.

- 2 inquiries into the highly concessional **petroleum** rent tax (PRRT) legislation. **Mining** tax incentives are mainly R&D. But industry infrastructure assistance data not included in tax expenditure statements.



Malaysia: marginal petroleum fields imperative.

- **Petroleum** risk service contracts to attract FDI. Extra tax incentives incl. investment allowances, concessionary CIT rates, accelerated depreciation, exploration costs transfers between projects & export duty waivers.
- **Mining** sector benefits from has 2009 National Mineral Policy. Aims to promote the systematic and sustainable development for the mining sector.

Findings, 2/7

Cont... *Case studies of tax incentive practices*



Indonesia: resource nationalism

- Petroleum and mining still face significant foreign investment barriers despite the govt. offering of tax holidays and other tax concessions.
- Petroleum incentives include investment credits, interest recovery, and exemptions from import tax and duties
- Mining incentives include reduction in net taxable income of up to 30% for qualifying fixed assets; accelerated depreciation; a low 10% dividend withholding tax; and tax holidays for the upstream metal industry & VAT exemptions

Findings, 3/7

- Total FDI in case-study countries, US dollars, million

<u>Country</u>	<u>2014</u>	<u>2015</u>
Australia	564,606	735,500
Malaysia	133,767	117,644
Indonesia	230,439	218,454
Papua New Guinea	N/A	N/A

Findings, 4/7

- **PNG example:** Tax incentive provisions and ‘intent’ in legislation



Conclusion

From the research and investigation of case study countries, a policy program of *leaner tax incentives* for the petroleum (oil and gas) and mining sector is recommended.

Energy justice...

The recommendation should be given due consideration by policy makers.

