

Property income or tax? The case of royalties paid for mineral exploration

THE POINT OF VIEW OF THE TFHPSA

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Question from Canberra II group on the recording of royalties (August 2005)

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(J-P D, 9 September 2005)

1. The Task Force of harmonisation of public Sector Accounting organised a quick survey between 30 August and 8 September 2005 to respond to the question asked by the Canberra II Group on the measurement of non-financial assets. The question was to check the agreement of the task force on the present SNA recommendation to record royalties from mineral exploration and extraction as property income (rent, D.45), considering the possible contradiction with a recording in public accounts as tax.

2. Fourteen colleagues responded, representing eleven countries, mostly from statistical institutes (see on reverse the table on *Summary of replies*): Australia, Austria, Belgium, Bulgaria, Canada, Denmark, France, Germany, Norway, United Kingdom and United States.

Opinion in the TFHPSA

3. A significant majority in the Task Force supports the present recommendation in the SNA (§7.87 and 7.133) to record royalties paid by corporations to the government for mineral exploration and extraction as rent (D.45), and wants to keep the SNA as it is.

4. However, two negative responses (UK-ONS and John Pitzer) would like to add a supplementary qualification, allowing that, in certain circumstances (for instance when there is a payment “out of all proportion”), the payment to government could be partitioned between rent and tax. Another opinion (Australia-ABS) also legitimates the recording of a tax in the case of levying a super-royalty, but quotes practical difficulties to split the receipts.

5. Another theoretical line of reasoning (INSEE) leads to – referring to the capital services approach – consider two different types of capital, the mineral deposit (a non-produced asset) and the fixed assets used for exploration / extraction. This could lead to accept that part of the payment to government could be recorded as tax on profit.

6. An interesting case is the Norwegian case (extraction of petroleum in the North Sea): nothing called “royalties” is collected by the government. All payments are levied as different types of tax according to the tax legislation. National accountants record the payments as D.29 and D.51. Should part of it be recorded as rent?

7. Conclusion: Royalties paid to government for mineral exploration and extraction should be recorded in national accounts as rent as recommended by the SNA in chapter 7. But two questions may be raised:

- Should all payments made to government by corporations involved in this type of economic activity be recorded as rent in national accounts? The answer should be: No. These companies may also pay the corporate income tax (applying the usual rate in the country)
- Should some payments called tax, related to the special kind of activity or to the high level of profit be treated differently in national accounts, as rent for instance (see the Norwegian case)? The discussion should go on in relation to these special cases.

Summary of replies on the recording of royalties (Sept 2005)

TFHPA respondents	Keep SNA as it is (§7.87 and 7.133)	Specific case recorded as tax in the country	Possible argument for changing the SNA
Australia - ABS (T. Ram)	Yes	No	The case of levying a “super royalty” could legitimate recording a tax, but practical difficulty to split the receipts.
Australia - Treasury (B. Kaufmann)	Yes	No	
Austria (W. Stübler)	Yes	No	
Belgium (J. Libens)	Yes	No	
Bulgaria (I. Paliova)	Yes	No	
Canada (D. Finnerty)	Yes	No	
Denmark (S. Brodersen)	Yes	No	
France (J. Magniez)	Yes	No	The capital services approach could lead to distinguish the mineral deposit and the fixed assets used for extracting, and therefore two possible income types
Germany (D. Stache)	Yes	No	
Norway (K. Wass)	Yes	Yes	Due to Norwegian legislation, the whole income received from extraction of petroleum and natural gas in the North Sea is recorded as tax (D.29 and D.51)
United Kingdom - ONS (G. Jenkinson)	No	No	Cases where government receipts would be “out of all proportion”. A split of the receipts (tax and rent) could be envisaged (see SNA §7.40c and 8.54c)
United Kingdom - Treasury (J. Golland)	Yes		
United States (B. Robinson)	Yes	No	
J. Pitzer (IMF consultant)	No	No	Cases where a tax would be levied on all extractions of subsoil assets. For land owned by government, the receipts would be divided (tax and rent)