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

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When Extractive Profits End up in Tax Havens: Lessons for Windfall Profit Taxes[1]

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This policy note highlights key results of the Working Paper entitled "The Global Allocation of Extractive Windfalls" (2026) by Alice Chiocchetti and Ninon Moreau-Kastler and builds on the policy recommendations of "A Modern Excess Profit Tax" (2022) by Manon François, Bluebery Planterose, Gabriel Zucman, and Carlos Oliveira.

1. Introduction

The conflict involving Iran has sparked renewed fears of disruption to global oil supply through the Strait of Hormuz, pushing oil prices above $100 per barrel in March 2026[2]. Because around one-fifth of global oil and LNG trade normally transits through this route, such tensions have immediate effects on prices, inflation, and the cost of living.

This is not an isolated phenomenon. Geopolitical shocks regularly drive commodity prices up, generating large windfall revenues for extractive industries. When these gains typically do not reflect firm productivity or market risk, they constitute economic rents. At the same time, higher commodity prices feed through into everyday expenses, raising transport, heating, and energy costs for households and firms. The coexistence of rising living costs and surging profits in extractive sectors often leads policymakers to question how to design targeted policy responses, such as windfall taxes, for example, to fund emergency relief measures.

In reaction to the energy crisis of 2022, the European Union introduced an emergency solidarity contribution on excess fossil fuel profits (EU Council Regulation 2022/1854), taxing them with a minimum rate of 33%. This experience showed that such measures are politically and administratively feasible. At the same time, recent evidence suggests they may not always capture as much windfall revenue as expected.

This policy brief builds on the working paper *"The Global Allocation of Extractive Windfalls" (2026), written by International Tax Observatory researchers Alice Chiocchetti & Ninon Moreau-Kastler*. It documents how extractive profits are allocated

[1] This work has received funding from the Research Council of Norway, grants 341289 and 352981

[2] BBC News. (2026, April 3). Oil prices soar and shares drop after Trump threatens more Iran strikes. https://www.bbc.com/news/articles/ce8lzd4v7zdo

across jurisdictions, and shows that tax havens capture a significant share of windfall profits during commodity booms.

While extractive multinationals declare most of their profits in producing countries, a significant part of the profits is still recorded in tax havens. For every $1 of profit, around $0.12 are declared in low-tax jurisdictions. During commodity booms, this share increases, with around $0.20 of every additional $1 of windfall profits being recorded in tax havens, where they face much lower effective tax rates.

This highlights a key limitation of existing approaches to tax excess profits. If windfall taxes rely on locally booked profits as their base, that base can be eroded through profit shifting to tax havens—precisely when rents are highest.

The main lesson from the 2022 experience is therefore not that windfall taxes are ineffective, but that their tax base matters. This note highlights two alternative robust approaches:

- using consolidated global profits as a tax base;
- using market valuation gains as a tax base.

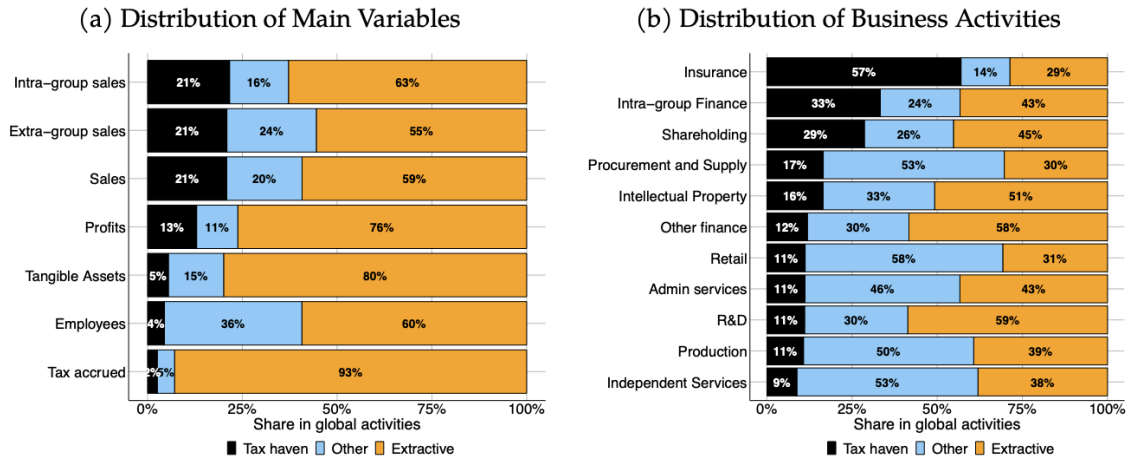
Both approaches aim to better capture rents in a context where multinational profit shifting remains pervasive.

2. Windfall profits are disproportionately recorded in tax havens, potentially shrinking revenue from windfall taxes

New evidence from the forthcoming International Tax Observatory working paper provides detailed insight into how extractive multinationals allocate profits, and how this allocation responds to commodity price shocks. By combining financial and extraction data at a highly disaggregated level, the study traces the geography of profits and economic activity for 77 multinationals across 206 countries.

Extractive MNEs declare the majority of their profits (76%, see Figure 1) in countries where they have an extractive activity. Non-haven countries where no extraction is undertaken represent a significant part of extractive MNEs' activity: 24% of extra-group sales and 36% of employees. At the same time, **extractive MNEs maintain a substantial presence in tax havens**. On average, out of 1$ of profits, 0.12$ **are booked in low-tax jurisdictions**, despite these affiliates accounting for only a small fraction of assets and employees, which are indicators of real activity. Affiliates in tax havens tend to be heavily specialised in Insurance or Intra-group finance services compared to the rest of the group.

Figure 1. Geography of extractive MNEs

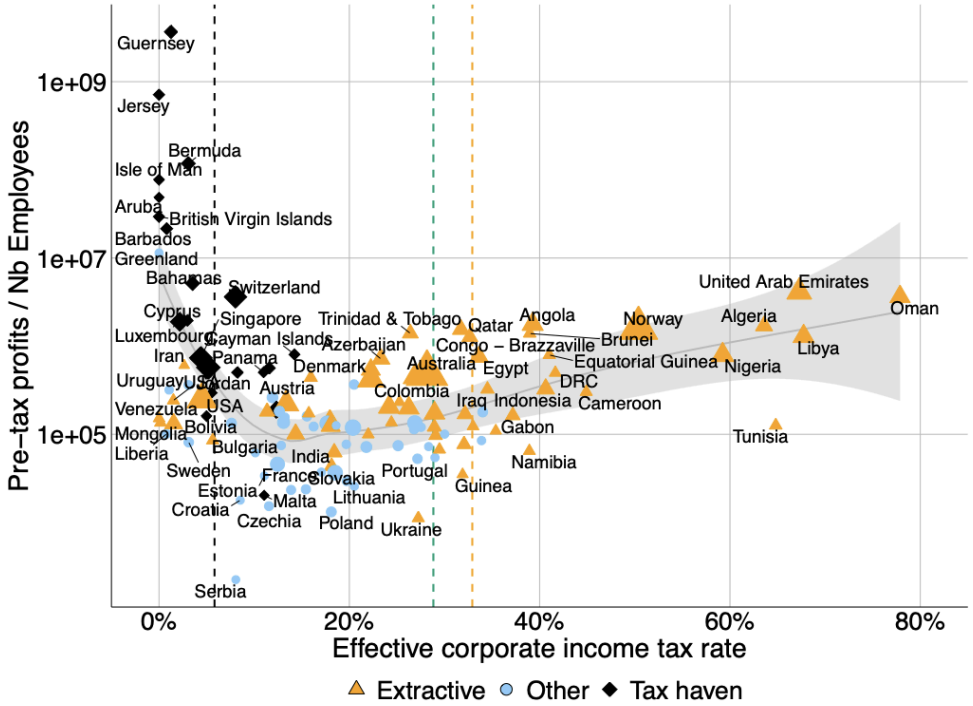


Lecture: 60 % of total employees of extractive MNEs are employed in a country where the group conducts an extractive activity (Figure 3a). 57% of subsidiaries specialized in insurance are located in a tax haven (Figure 3b).
Notes: This figure shows the distribution of our main variables and business activities along our three groups of MNE×country pairs: tax havens, extractive, and non-extractive non-TH. When an affiliate is both located in a tax haven and extractive, we place it in the extractive category. Profit shares are calculated based on positive profits only, and figures are rounded to the nearest percentage.

Source: Chiocchetti & Moreau-Kastler, 2026:
https://taxobservatory.world/publication/the-global-allocation-of-extractive-windfalls/

Affiliates in tax havens pay the lowest taxes, with an effective tax rate of just 6.18%, compared to 33% in extractive countries and 19.8% in non-extractive countries (Figure 2).

Figure 2. Profitability and Effective Tax Rates by Country



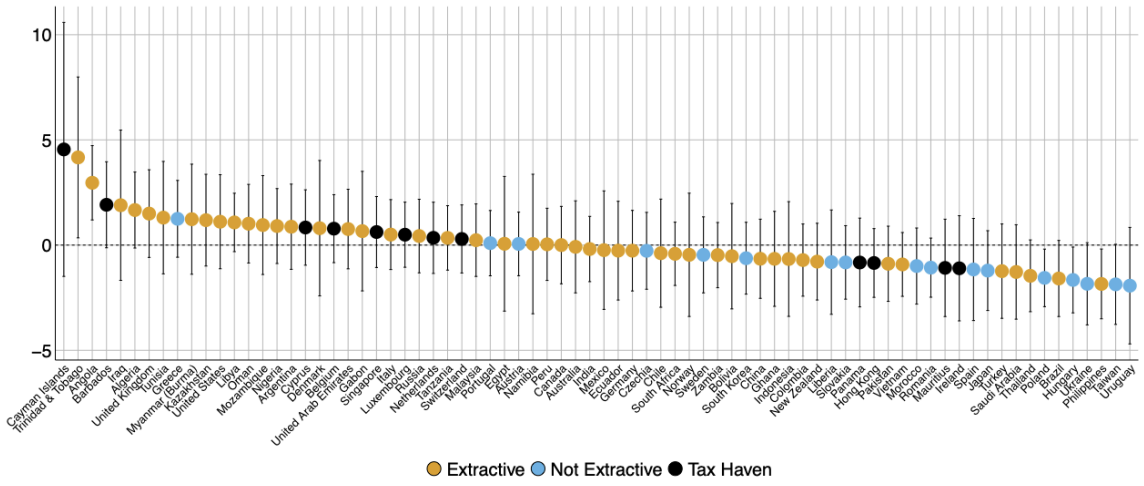
Notes: The Y axis is the log-scaled pretax profit-to-number of employees ratio, in millions $US. The size of the points is a function of the total profits in the country. The black vertical dashed line indicates the average effective tax rate of tax haven countries, the orange vertical line indicates the average effective tax rate in extractive countries, and the green vertical line indicates the global effective tax rate. Effective tax rates are computed as the ratio between positive tax paid and positive profits booked across the whole period (2016-2023). Countries are broken down into extractive and non-extractive countries. A country is defined as extractive if at least half of the MNEs present in the country have an extractive activity. We only included observations with positive profits and tax accrued, as well as countries in which at least five companies are operating.

Source: Chiocchetti & Moreau-Kastler, 2026:
https://taxobservatory.world/publication/the-global-allocation-of-extractive-windfalls/

Crucially, this study finds evidence that during commodity booms, extractive groups book a higher share of profits in tax havens. The authors track how profits of a group change with the price of the main commodity extracted, across different types of affiliates. As shown in Figure 3, affiliates in tax havens are much more likely to post more profits during commodity booms compared to non-extractive and non-haven affiliates, hinting at the over-booking of windfalls in low-tax jurisdictions.

On average, out of every $1 of windfall profits, around $0.20 are recorded in tax havens, compared to about $0.12 on average. This gap highlights that the **risk of profit shifting is not only persistent but also intensifies when rents increase**: a larger share of incremental profits is systematically redirected to low-tax jurisdictions during price upswings.

Figure 3. Profit sensitivity to price per country



Notes: This graph plots the coefficients β_i associated with each country dummy interacted with the commodity price variable by running the following regression: $\log(y_{git}) = \alpha + \beta_i Country \times \log(P_{g(p)t}) + \theta' Controls_{git} + \mu_{gi} + \mu_{gt} + \varepsilon_{gt}$. Countries are defined as extractive if at least one MNE carries out extractive activity there. The reference country is France. The sample is restricted to countries where at least 10 MNEs are active and for which we have at least 50 observations. Whiskers represent 95% confidence intervals. Standard errors are clustered at the MNE level.

Source: Chiocchetti & Moreau-Kastler, 2026:
https://taxobservatory.world/publication/the-global-allocation-of-extractive-windfalls/

3. The limits of standard windfall taxes

Most windfall taxes, including the way the EU's 2022 solidarity contribution was implemented in many Member States, are based on profits booked within a given jurisdiction. This approach is consistent with existing corporate tax systems and allowed for rapid implementation during the energy crisis. The 2022 experience, therefore, established an important precedent: windfall taxation is both politically feasible and administratively implementable in the EU context.

At the same time, it revealed weaknesses. As shown above, **taxes based on locally booked profits remain sensitive to profit shifting,** limiting their ability to capture the full extent of windfall gains. In the extractive sector, multinational firms can use intra-group transactions—such as financing arrangements, insurance services, or commodity trading—to reallocate profits across jurisdictions. These mechanisms do not affect underlying economic rents, but they do affect where those rents appear for tax purposes.

When commodity prices rise and windfall profits increase, the incentives to engage in such practices also increase. As a result, a tax based on locally reported profits may capture only part of the underlying windfall. National experience points in the same

direction. According to the Institut des politiques publiques (Bach 2024), for the 2022 levy, the French government initially estimated that its windfall tax would raise around €200 million, but actual revenues amounted to only €69 million. Other countries, such as Spain, adopted net turnover to define the tax base, which is less sensitive to profit shifting, raising around €1.1billion in 2022 (European Commission, 2025).

4. More robust approaches to windfall taxation

Addressing these limitations requires tax bases that are less sensitive to profit shifting. Two complementary approaches can achieve this.

4.1 Taxing consolidated global windfall profits

A first option is to **define the tax base on global profits**, rather than at the level of individual affiliates. Under this approach, windfall profits are calculated on a consolidated global basis and then apportioned across jurisdictions using objective criteria such as sales, production, or extraction activity. Such an approach has often been outlined in policy debates, including by the International Monetary Fund (IMF, 2022), as a way to tax excess profits in a context where multinational structures make profit allocation highly flexible.

The key advantage is that intra-group profit shifting becomes significantly less effective at reducing the tax base. While profits may still be reallocated within the group for accounting purposes, they remain part of the consolidated total and cannot be fully removed from taxation. This reduces the incentives to shift profits compared to systems based solely on local taxable income.

An important design consideration concerns how the consolidated tax base is apportioned across jurisdictions. Different allocation keys can be used, including sales, production, or extraction activity. Each raises distinct policy trade-offs. For instance, sales-based apportionment tends to be more robust to manipulation and aligns taxation with market jurisdictions, while production-based factors may better reflect where extraction takes place but can be more sensitive to relocation incentives. The choice of allocation formula, therefore, has direct implications for both the distribution of revenues and firms' behavioural responses.

Overall, by focusing on the multinational group as the relevant unit of taxation, this approach better reflects the reality that windfall gains are generated at the global level.

4.2 Taxing market valuation gains

A second approach is to **tax the increase in the market valuation of firms benefiting from extraordinary circumstances** - as discussed in a working paper from the

International Tax Observatory (François et al., 2022). Instead of relying on accounting profits, this method targets the rise in stock market capitalisation over a given period.

This approach offers strong enforcement advantages. Market valuation is observable and significantly harder to manipulate than reported profits. As a result, it provides a tax base that is much less sensitive to profit shifting.

Importantly, a valuation-based tax captures all rents accrued to firms, regardless of where profits are booked. It can also be extended to non-resident multinationals by apportioning valuation gains according to the share of sales in the taxing jurisdiction. In this respect, the question of how to allocate the tax base across jurisdictions remains and involves comparable design choices to those discussed above.

Conclusion

Commodity price shocks generate substantial windfall profits for extractive industries. However, these profits do not automatically translate into proportional public revenues. Evidence from the International Tax Observatory shows that a significant share of extractive industry profits is shifted to tax havens, and that this shifting intensifies during commodity booms.

The experience with past windfall taxes demonstrates both the potential and the limits of existing approaches. The key lesson is that effective windfall taxation requires tax bases that are less mobile than accounting profits.

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