

Developing well functioning financial markets: the tax dimension

International Tax Dialogue¹ (ITD) Global Conference
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Press Release

Senior tax policymakers and administrators met this week in Beijing to discuss how the tax system can best support and promote a healthy and transparent financial environment.

A well-functioning financial sector is essential for development and economic growth of all economies. It encourages saving and lending, helps to allocate resources to where they are most productive, and provides protection against risk. The financial sector bears significant responsibilities in creating as well as managing credit for economic growth. Governments also have a substantial stake in the financial sector, both from the tax paid directly by financial institutions and from a broad range of withholding and transaction taxes which they help to implement.

Financial sector income and services do not always fit easily into the general tax system, and the scale and pace of financial sector innovation puts strain on traditional tax concepts and definitions. The financial sector raises special tax administration and tax compliance challenges, resulting partly from the inherent complexity of the sector but also from the possibilities it can provide to avoid and evade large amounts of tax.

The two and a half day International Tax Dialogue¹ conference, organized by the Ministry of Finance of the People's Republic of China, and supported by the Asian Development Bank (ADB), provided a unique opportunity for senior tax policymakers and administrators to discuss these issues and exchange views, among themselves and with international experts on the financial sector. The conference was opened by Mr. Li Keqiang, Vice Premier of the State Council of China, Mr. Xie Xuren, Minister of Finance of China and Mr. Angel Gurría, OECD Secretary-General.

In his remarks, Mr. Xie Xuren, Minister of Finance of China, noted that "To better implement the consensus reached at the G-20 summit in Pittsburgh, enhance the tax policy coordination in financial sector among countries and regions, improve and optimize fair and sound international financial tax environment, actively boost the healthy recovery of the world economy, high-level officials in fiscal and tax field from main international and regional organizations as well as relevant countries and regions are gathering in Beijing, exploring issues on global and regional financial development, financial tax policy and administration, taxation cooperation and coordination, and financial regulation."

"Over the past year, in the backdrop of international financial crisis, the Chinese government in its implementation of the pro-active fiscal policy, paid high attention to the important role of taxation as a key instrument for macro-economic adjustment, and launched a series of structural tax reduction measures, which has played a significant role in the economic stabilization and recovery. In the coming future, abiding by the general guideline of building up a fiscal and tax system in favor of scientific development, the Chinese government will continue proceeding tax reform, optimizing tax system, actively engaging in tax policy dialogues and practical coordination in this regard with relevant countries, regions and international organizations, in a bid to strengthening policy harmonization and achieving an all-win results."

¹ The International Tax Dialogue is a collaborative initiative of the European Commission (EC), Inter-American Development Bank (IDB), International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the UK Department for International Development (DfID) and the World Bank (WB). Please visit www.itdweb.org.

A stronger, cleaner and fairer world economy is the goal set by the OECD's Strategic Response to the financial crisis, and this was the theme of Secretary-General Gurría's opening speech. "To lay the foundations for a stronger global economy, the financial sector needs to properly fulfill its main functions of channeling savings to investment, which will over time support growth and job creation. For that to happen, regulations and incentives across the financial sector need to be aligned to ensure appropriate oversight and risk management. Tax influences virtually every financial and economic decision, and has a crucial role to play here. A cleaner and fairer economy also means the financial sector stepping up to the challenge of helping tackle tax evasion and avoidance. The era of banking secrecy as a shield for tax evaders is now over. Financial institutions have a huge contribution to make in supporting the new climate of transparency and responsibility on tax matters."

In his keynote address, Mr. Takatoshi Kato, Deputy Managing Director of the IMF, noted that "This conference is taking place against the background of the worst financial and economic crisis to strike the world in three generations. While taxation was not itself the cause of the crisis, elements of the tax systems of the world are relevant to its background and resolution. This is an opportune juncture to give thought to the questions raised by the performance of the financial sector. What role in its improvement can and should better tax policies and administration play? At the same time, however, we must not lose sight of the main function of the tax system--to raise revenue in an economically efficient, non-distortionary manner--even as we recognize the existence of market failures and policy induced distortions. International cooperation and coordination will be critical, and this important conference is a model in that regard."

Recent events in the financial sector have brought significant challenges that will require regional and international solutions. International dialogue such as this is the right way to ensure tax supports a vibrant and healthy financial sector and the contribution that makes to global growth, prosperity and freedom from poverty. Mr. Haruhiko Kuroda, President of Asian Development Bank, noted that "The current financial crisis has not only exposed the inadequacies and gaps in the financial sector policies and regulations, but also revealed the need for coordinated and harmonized international approaches to regulate the sector. This would require strengthening regulatory standards globally, sharpening the supervisory focus on international financial flows, and a greater coordination among regulators. To promote ideas like the 'colleges of supervisors' to coordinate regulation and share information on organizations with significant cross-border operations is worth considering. ADB has a good track record of promoting regional initiatives to achieve financial development and protect against external shocks as is evident from its role in the Chiang Mai and Asian Bond Markets initiatives. ADB will continue to play an active role to strengthen the international financial system."

Taxation of the financial sector requires a particularly delicate balancing act from developing countries. The revenues raised from the sector, and the support of banks in providing the information needed to widen the tax revenue base, are both crucial in providing the resources to help lift people out of poverty. At the same time, developing countries are also suffer the loss of tax revenues from evasion and avoidance facilitated by bank secrecy, as well as to the knock on effects of global financial sector meltdown in terms of reduced lending and demand. So for developing countries, the stakes in ensuring that tax supports a sound global financial sector could hardly be higher.

The ITD partners are working together to provide these opportunities and build on the strengths of individual organisations. This is increasingly important as the list of taxation issues with international dimension grows rapidly-- along with the need to share experiences on domestic challenges-- in-light of the need to mobilize revenue for development.

Journalists may obtain further information from:

China

www.mof.gov.cn

ITD partners

EC:	Mr. Stephen Bill,	stephen.bill@ec.europa.eu
IDB:	Mr. Vicente Fretes,	vicentef@iadb.org
IMF:	Mr. Michael Keen,	mkeen@imf.org
OECD:	Mr. Jeffrey Owens,	jeffrey.owens@oecd.org
UK DFID:	Mr. Max Everest-Phillips,	m-everest-phillips@dfid.gov.uk
World Bank:	Mr. Marinus Verhoeven,	mverhoeven@worldbank.org
ADB:	Mr. Tsukasa Maekawa,	tmaekawa@adb.org