



Taxation of Small and Medium Enterprises – Getting it right

International Tax Dialogue (ITD) Global Conference
Buenos Aires, Argentina, 17 – 19 October 2007

Press Release

On October 17 – 19 in Buenos Aires, Argentina, the International Tax Dialogue - a collaborative initiative of the Inter-American Development Bank (IDB), International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank - convened a global tax conference to examine the experiences of countries in the taxation of Small and Medium Enterprises (SMEs). The conference, hosted by AFIP and opened by the Argentine Minister of Economy and Production, Mr. Miguel Peirano, has drawn approximately 250 high level participants representing 80 countries and several international and regional tax organisations.

It is well recognised SMEs play a prominent role in all economies. They are a driving force for job creation and innovation. They are also the dominant form of business organisation, accounting for between 90-95% of the business population world-wide. They are important to the economy and they are important to tax policymakers and administrators.

Assessing the impact of tax systems on SMEs is not simply a matter of looking at tax rates. Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SMEs key considerations are to minimise administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy. The two and a half day discussion provides a unique opportunity for senior tax policymakers and administrators to consider these issues and exchange experiences on a global basis.

Minister Peirano indicated that “SMEs were the most dynamic sector in the current Argentine recovery. SMEs' capacity to generate jobs and adapt to a complex and changing context was supported by government policies designed to enhance their participation in international trade. At the same time, tax policy and administration measures helped SMEs to comply at a lower cost.”

SMEs operating in the informal economy are a concern for all countries. Mr. Maximo Jeria, Vice President of the IDB, stressed that “SMEs operating in the informal economy may have limited access to development

opportunities, but at the same time may have an unfair competitive advantage over those who do fully comply. The right mix of reform can achieve remarkable results. Some recent experiences show that strong revenue performance does not necessarily mean high tax rates. Simplicity and fairness are key. Complicated tax systems lead to high levels of informality and evasion, even when rates are low.”

Careful consideration needs to be given to whether special tax policy arrangements are appropriate for SMEs. Mrs. Teresa Ter-Minassian, Director of the Fiscal Affairs Department at the IMF, noted that “Proper design of the tax system, and its administration, are critical to supporting the development of the SME sector, and reducing the extent of the shadow economy. That does not necessarily mean the provision of special tax incentives for smaller enterprises. What it does mean is avoiding disincentives for start up and growth, and providing tax treatment that is simple and fair.”

Mr. Marcelo Giugale, World Bank Sector Director for the Latin America and the Caribbean region, noted that “Reducing the cost of complying with tax rules is particularly important for SMEs, since all the evidence we have confirms that they have the heaviest impact on smaller businesses. Electronic service strategies have produced remarkable results. Simplifying payment and filing processes are also important, and some countries are creating ‘one-stop’ shops allowing businesses to move more easily from start-up to continued operation. Significant challenges remain however. We need to learn from the success stories.”

Mr. Pier Carlo Padoan, Deputy Secretary-General of the OECD, chaired the high level opening panel and commented that “The taxation of SMEs is not just a revenue collection issue. Fairness and levelling the playing field are paramount. The large numbers of SMEs, their high turnover rates and their sheer diversity present challenges to all administrations. Balancing service and enforcement strategies is important. The first line in ensuring compliance is to make it as simple as possible. SMEs need clear guidance on what is required and targeted assistance to get it right. Managing risk, and identifying non-compliant businesses then becomes important. Businesses must understand the downsides to doing business in the informal sector and the consequences of stronger enforcement actions. We need to find ways for the tax system to encourage firms into the formal sector, not drive them out of it.”

The ITD initiative, including opportunities such as this global conference, creates an opportunity for all countries to come together and share knowledge and experience. The IDB, IMF, OECD and World Bank 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 relevance grows rapidly as does the need to share experiences on domestic challenges in-light of the need to mobilise revenue for development. To find out more about the ITD, and to access an extensive range of online resources, please visit www.itdweb.org.

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