



**MENA-OECD
INVESTMENT
PROGRAMME**



**5th Meeting of
Working Group 3 (*Taxation*)
MENA-OECD Investment Programme
- Agenda -
(as of 28 May 2010)**

***VAT as a Possible Revenue Source
Funding Economic Development
in MENA Countries***

***1-2 June 2010
Manama, Bahrain***

OVERVIEW AND MAIN OBJECTIVES

A central mandate of Working Group 3 (*Taxation*) of the MENA-OECD Investment Programme is to support a regional (MENA) network of senior tax policy officials, organized to enable dialogue on the implementation of tax policies supportive of economic development, including exchanges of views on alternative approaches and experience with specific policy measures. The role of the OECD is to help foster dialogue in support of tax reform efforts, drawing on data, analytical tools, publications and reports on tax policy making, compiled by the OECD Centre for Tax Policy and Administration (CTPA), with insights from activities of other working groups organized under the Investment Programme.

The objectives of this fifth meeting of WG3, to be held 1-2 June 2010 in Manama, Bahrain, are: to hold discussions on main tax policy and tax administration considerations with the introduction of a value added tax (VAT); consider the possible design and administration of a VAT in GCC countries; and review the tax treatment of intangible 'knowledge' capital, and training.

A Focus on Value Added Taxes

Value added taxes have been introduced in around 150 countries in the last 50 years or so. No other form of taxation has spread so quickly and so widely. Why this phenomenon? There are a number of reasons underlying its popularity. It is relatively cheap for governments to collect with business taking on responsibility as "tax collectors". Its destination principle ensures international neutrality and the fractionated system of applying the tax at every stage of the supply chain (with refunds made accordingly) ensures that the amount of tax collected through the supply chain equals the amount of tax paid by the final consumer. Unlike traditional sales taxes there is no cascading, or "tax on tax", effect.

VATs have their origins in the European Union where membership requires that all countries in the EU must employ a VAT. However, the EU form of VAT has not proved to be so popular with countries that have introduced VAT more recently, particularly countries such as Australia, South Africa, Korea, Singapore and Canada. These countries have tended to go for a much broader base at the standard rate, which allows them to apply a lower rate. In the EU, the minimum standard rate is 15% but the average standard rate across the 27 Member states is closer to 20% with some countries having a rate of 25%. The EU system tends to have a multiplicity of reduced rates that make for increased complexity and higher compliance costs for business.

Apart from describing how VAT works, the key issues for this event will focus on design features. VAT as applied in Singapore and Switzerland may offer a useful comparison for GCC countries and some time will be taken looking at their systems and comparing them with the EU model. Most countries apply exemptions to some sectors, mainly financial services and healthcare. The MENA WG3 event will examine these exemptions and their impact on a VAT, as well as looking at other ways of applying VAT to these sectors. The highly important political economy aspects of introducing VAT will also be considered as there are a variety of examples across OECD countries that suggest there are some good practices and some less good.

It will also be important to consider tax administration aspects – how to build a registry of the businesses required to collect and account for VAT, and of course how to harness modern technology to assist in collection and enforcement. By the end of the event, participants should have a broad understanding of how VATs work and the benefits of good design and structure. Further, they will have an insight into the administrative issues required for the successful launch of a VAT system. Questions and comments from the participants will be encouraged.

Tax Treatment of Innovation, Intellectual Property (knowledge capital) and Training

Innovation – that is, activities involving the *development* of new/improved products, services or processes, or the *application or use* of intellectual property (new/improved products, services, processes) developed by/acquired from others – is the cornerstone of sustained economic growth, driving competition and value creation. In the current economic crisis, with policy makers searching for policies that foster sustainable economic growth amid tight fiscal constraints, renewed focus is on the tax treatment of innovation and efficiency in the use of public funds – including tax expenditures supporting innovation.

Tax policy plays an important role in stimulating (or discouraging) in-house R&D, carrying out R&D within a group of firms (e.g. under a cost-sharing agreement), and acquiring intellectual property (e.g. patent) from others through purchase or license. Tax policy also influences the exploitation of intellectual property (IP), including own-use of self-developed IP and the licensing or sale of IP to related or unrelated parties. The WG3 meeting will review various tax provisions relevant to these considerations, and consider the pros/cons of policy approaches that encourage innovation by subsidizing R&D, versus approaches that encourage innovation by preferentially treating the application/use of intellectual property.

Despite significant budget allocations towards primary and secondary education in a number of Middle East North African (MENA) countries, investors in the region may be discouraged where the type and level of knowledge or skills in the local workforce does not adequately meet requirements of business operations. Pools of highly-trained labor may (or may not) be available, but new skills upgrading may be required to achieve levels of investment and employment growth sought by MENA country leaders. Given direct and spillover benefits of training local workers, where outsourcing is not feasible or desirable, there is significant interest on the part of policy-makers to consider what policies (tax/non-tax) might be adopted to efficiently encourage such training, and address perceived ‘skills gaps’.

The WG3 meeting will consider the potential role of the tax system, including main tax provisions as well as targeted tax expenditures (‘tax incentives’), to achieve employment and income distribution goals. General and specific tax provisions are to be addressed – in relation to value-added tax (VAT), corporate income tax (CIT), and personal income tax (PIT). Participants will consider a questionnaire that aims to gather information on supply-side tax provisions, and demand-side provisions. Supply-side tax provisions include the treatment, under a business profits tax, of profit earned by providers of training services, and the treatment, under a general sales tax (e.g. VAT), of revenues generated on the sale of training services. Demand-side tax provisions include the treatment, under a business profits tax, of expenses of companies purchasing training services, and the treatment, under personal income tax, of expenses of individuals purchasing training services for themselves or for their dependents.

Participants

Senior tax officials of MENA and OECD countries, officials of international organisations, and private sector representatives partnering with the Programme are invited to attend this meeting.

Documentation

Copies of the finalized agenda, documents and presentations will be made available at the meeting, and also found at the following website: [to be provided]

For information about the MENA-OECD Investment Programme, please visit the following website: www.oecd.org/mena/investment.

MEETING ITINERARY

Co-chairs of Working Group 3 (WG3)

Mr. Amr El Monayer (Egypt) and Mr. Timur Çakmak (Turkey)

Tuesday 1 June 2010

9:00 - 9:20	Registration
9:20 - 9:45	Opening Session
	<ul style="list-style-type: none"> • Dr. Abdulla Al-Sadiq – Welcome and introductory remarks. • Mr. Amr El Monayer – Introductory remarks by Co-Chair (Egypt). • Mr. Timur Çakmak – Introductory remarks by Co-Chair (Turkey). • Dr. Alex Bohmer – Introductory remarks on MENA-OECD Investment Programme and WG3. • Dr. Steven Clark – WG3 activities and objectives of the current meeting.
9:45 - 11:00	Session I. Basic operation and elements of a VAT
	<p><i>This session will provide a brief history of VAT (introduction in France and other EU countries); review the operation of the credit/invoice system (basically how a VAT works), cash/retail traders, and elements of a VAT. This will be followed by an open discussion of the issues raised, including special VAT design considerations for MENA countries.</i></p> <p>Mr. Timur Çakmak to moderate the session.</p> <ul style="list-style-type: none"> • Mr. David Holmes, to provide a brief history of VAT; the operation of the credit/invoice system (with examples); basic elements of a VAT: supply, scope and coverage, exemptions (including treatment of financial services), deduction of input tax, reduced rates, time of supply, value of supply; registration thresholds, voluntary registration; and special schemes for smaller businesses. <p><i>Open discussion on special VAT design considerations for MENA countries.</i></p>
11:00 – 11:30	Coffee-break
11:30 - 13:00	Session II. Main VAT administration issues
	<p><i>This session will consider main administration issues, including creation of a VAT administration (main considerations), design and use of VAT returns and collection techniques, education and taxpayer services, and staff training.</i></p> <p>Mr. Amr El Monayer to moderate the session.</p> <ul style="list-style-type: none"> • Mr. Claudio Fischer, to present main considerations and pitfalls in the setting up of a VAT administration, VAT returns (content, frequency), and collection techniques, education and taxpayer service and staff training. • Mr. Timur Çakmak, to review main considerations in the proper functioning of a VAT administration, taxpayer service and staff training programmes – the case of Turkey. <p><i>Open discussion on special VAT administration considerations for MENA countries.</i></p>

13:00 – 14:30	Lunch hosted by the Bahrain Economic Development Board.
14:30 – 15:30	Session III. GCC VAT proposal
	<i>This session will review the broad scope and main elements of a GCC VAT proposal. The aim would be to understand the basic design, main policy considerations with the introduction of a VAT in the GCC, main impediments and possible mechanisms to address these.</i>
	<p>Mr. Timur Çakmak to moderate the session.</p> <ul style="list-style-type: none"> • Dr. John Edwards, to introduce the GCC VAT proposal. • Mr. Claudio Fischer, to discuss design aspects/considerations of the GCC VAT proposal. • Mr. Amr El Monayer, to discuss the GCC VAT proposal, and differences with planned elements of a possible VAT for Egypt. <p><i>Questions and comments</i></p>
15:30 – 16:30	Session IV. Taxation, innovation and training
	<i>This session will consider taxation, innovation and training, with a particular focus on tax policy as regards R&D; technology absorption through purchase or license; own-use, sale or licensing of self-developed intangibles. A questionnaire will be reviewed that aims to gather information on the tax treatment of innovation and training in MENA countries. MENA countries will be asked to help finalize the questionnaire responses, to be incorporated in a summary report to be drafted following the meeting, and discussed at the next WG3 meeting.</i>
	<p>Mr. David Holmes to moderate the session.</p> <ul style="list-style-type: none"> • Dr. Steven Clark, to review issues in the tax treatment of ‘knowledge capital’ and training. • Dr. Steven Clark, to review a questionnaire on the tax treatment of innovation and training. <p><i>Questions and comments</i></p>
16:30 – 17:00	Coffee-break
17:00 - 18:00	Session V. Other VAT design and administration issues
	<i>This session will address a number of more detailed VAT design and administration issues, not specifically addressed in previous sections. The focus will address VAT treatment of a going concern, capital goods schemes and VAT treatment of land and property. VAT compliance strategies will also be addressed.</i>
	<p>Mr. Amr El Monayer to moderate the session.</p> <ul style="list-style-type: none"> • Mr. Claudio Fischer, to present VAT treatment of a “transfer of going concern”, capital goods schemes, and VAT treatment of land and property. • Mr. David Holmes, to present compliance strategies for VAT (risk management, audit approaches) and the use of penalties (civil and criminal). • Ms. Fathia Cherif, to present VAT compliance strategies and the use of penalties in Tunisia. <p><i>Questions and comments</i></p>
20:00 - 23:00	Welcome Dinner -- Trader Vics Restaurant, The Ritz Carlton Hotel (Seef District)

Wednesday 2 June 2010

9:30 - 11:00	Session VI. Roundtable discussion of the GCC VAT proposal
	<p><i>Experts will address issues identified in the previous day's discussion as possible advantages, and possible impediments, to the introduction of a VAT in GCC countries. Strengths and weaknesses with the current GCC VAT proposal will be identified, and possible modifications considered.</i></p>
	<p style="text-align: center;">Mr. David Holmes to moderate the roundtable discussion.</p> <ul style="list-style-type: none"> • Dr. Tarek Ghalwash – introductory presentation on key VAT issues for GCC countries. <p>Participants of the panel:</p> <ul style="list-style-type: none"> • Dr. Sharifa Al-Hajeri • Mr. Claudio Fischer • Dr. Tarek Ghalwash • Mr. Mubeen Khadir • Dr. Sudhakar Raju <p><i>Questions and comments</i></p>
11:00 - 11:30	Coffee break
11:30 – 12:00	Session VII. Future WG3-related activities and conclusions
	<p><i>The meeting will conclude by first reviewing 2010 tax seminars/workshops organized under the CTPA Global Relations (outreach) programme, to which MENA country tax officials are invited to attend. Next, main discussion points at the current meeting will be reviewed, along with future work plans and information sharing. Co-chairs will close with tentative plans for future WG3 activities.</i></p>
	<ul style="list-style-type: none"> • Dr. Steven Clark to review 2010 global relations events organized by the CTPA. • Mr. David Holmes to review the main VAT discussion points from the meeting. • Dr. Abdulla Al-Sadiq to summarize key insights from the meeting for MENA/GCC countries. • Mr. Timur Cakmak – closing comments. • Mr. Amr El Monayer – closing comments. • Dr. Alex Bohmer – closing comments.

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