

# ***Tax Component of the BCDS Framework***

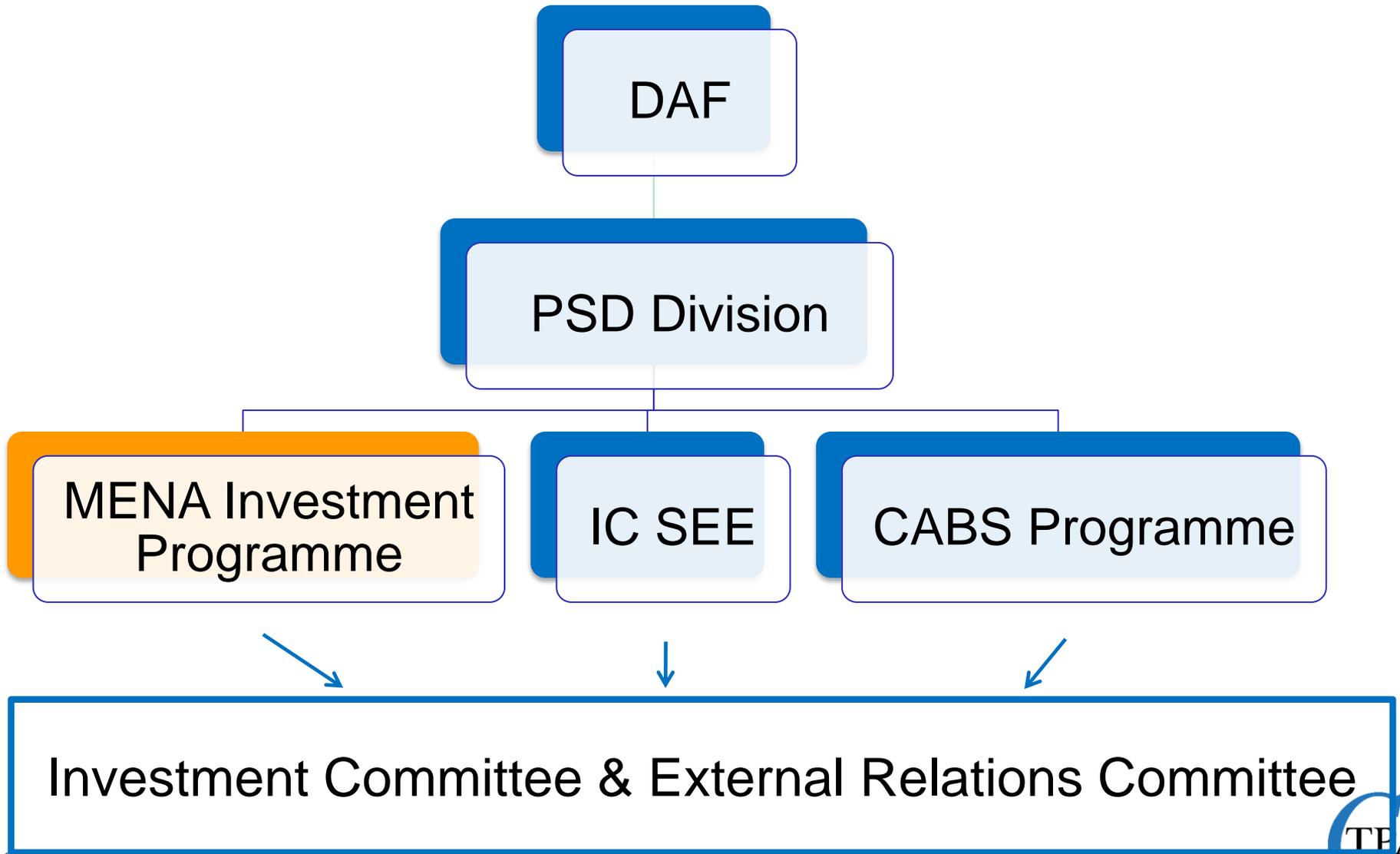
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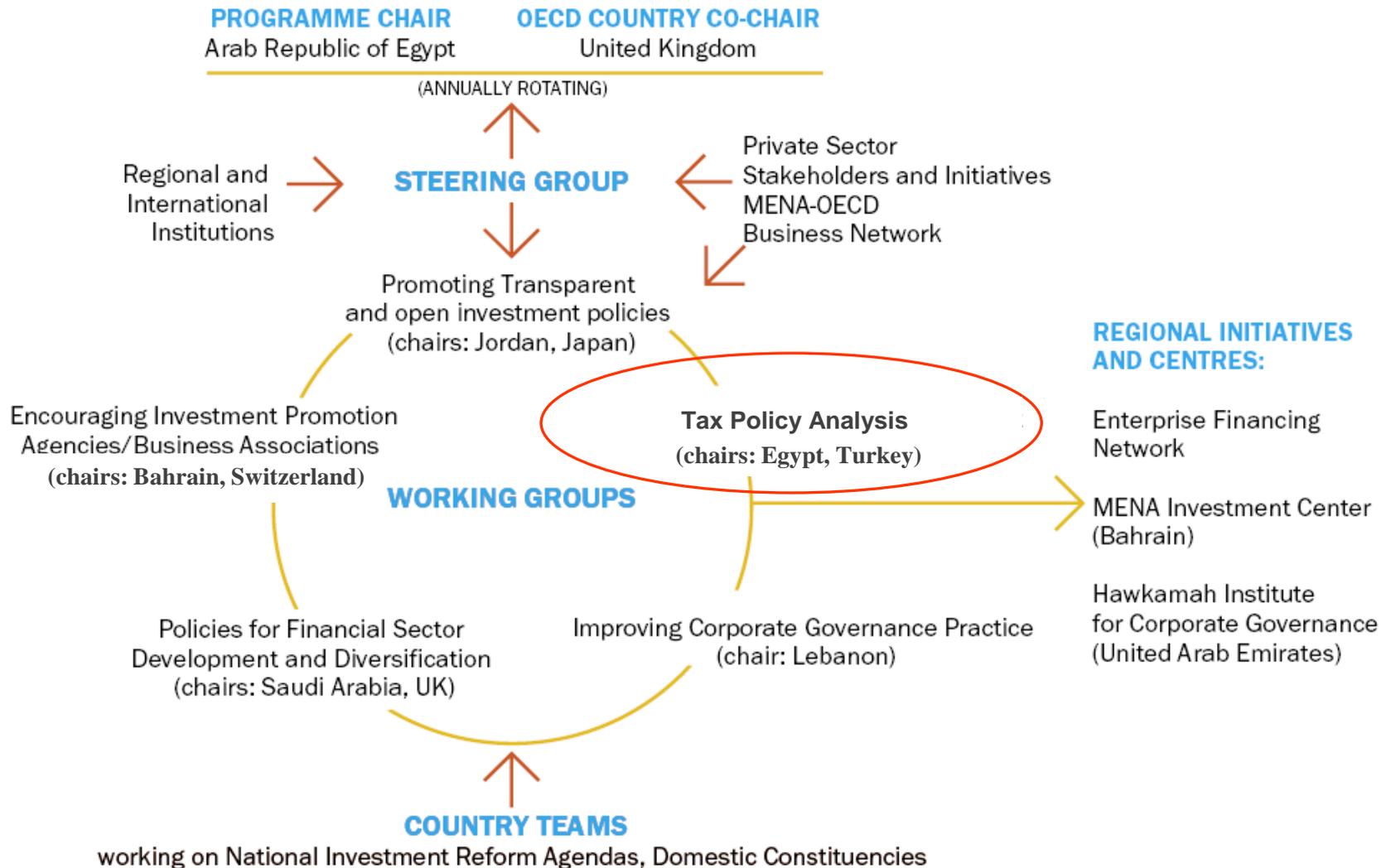
*WG3, Tax Policy Analysis  
MENA- OECD Investment Programme*

*Paris, 28-29 January 2009*

# Organisation



# MENA-OECD Investment Programme



# Working Group 3: Objectives

- Provide a **regional forum for dialogue on tax policy issues**, combined with peer review, at the senior tax officials level.
- Provide **input to the analytical base** in tax policy branches of Ministries of Finance in MENA countries.
- Help **inform policy making** through economic analysis, and sharing of **practical experiences of policy makers**.
- Draw on OECD (WP2) outputs: comparative tax data, tax models, analytical reports on key policy considerations, pro/cons of alternative approaches, practical experience of policy makers with various policy approaches.
- Identify alternative policy approaches, and where possible identify best practices, for example in relation to:
  - tax incentives for investment (tax expenditure reporting, cost-benefit assessment)
  - tax treaties (reflecting MENA country approach)
  - taxation of MNEs and SMEs.

# Working Group 3: *Achievements*

## **Regional Process**

- *Regional Forum for policy dialogue and peer review:*
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  - 3 WG3 meetings
  - Task Force on Incentives
  - Tax Panel- Ministerial Meeting
  
- *2 Tax Declarations: on Common Principles and Good Practice, on Tax Policy Development Supportive of Investment*

## **National Process – NIRA workshops**

2006	Egypt, Jordan, Morocco
2007	Lebanon
2008	Tunisia

## **Technical Training – workshops**

*Tax Auditing of Multinational Enterprises, SMEs*

*Tax Incentives, Tax Modelling*

*Tax Treaties*

# Phase II MENA: *BCDS Framework*

## I. Business Operational Environment

1. Investment policy
2. Investment promotion and industrial policy
3. **Tax policy and administration**
4. Trade Policy and facilitation
5. Competition policy
6. Better business regulation

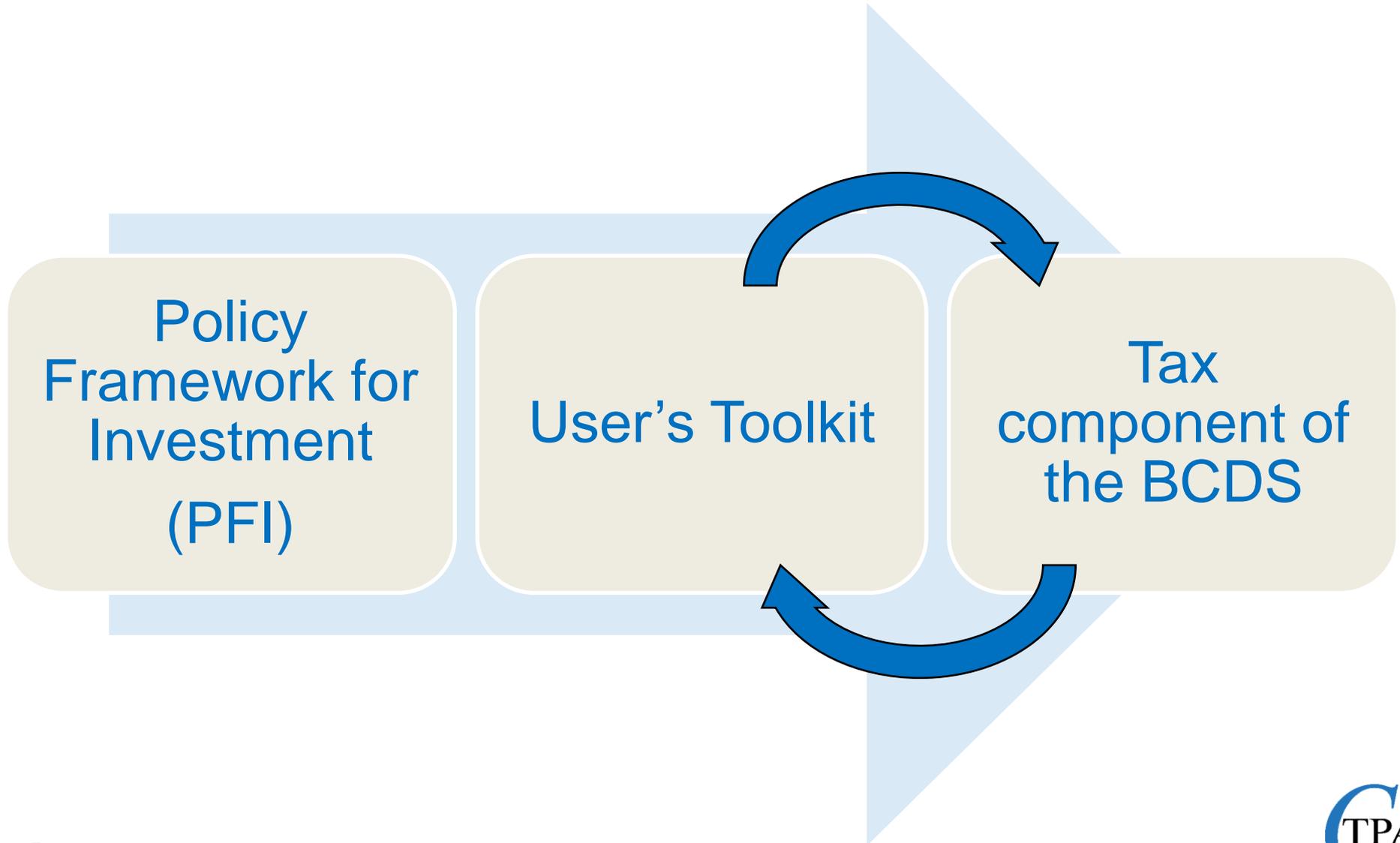
## II. Rule of law

1. Anti-corruption
2. Corporate Governance and Corporate Social Responsibility
3. Commercial conflict resolution

## III. Factor markets

1. Infrastructure (including land, transport and IT)
2. Human Capital (including labour regulations)
3. Financial markets development

# Tax component of the BCDS



# Assessment approach

- Implementation of standard analytical frameworks to examine tax systems

 main indicators in current draft

- Assessment of advantages/disadvantages of alternative tax policies and approaches

(revenue requirements, efficiency, equity, simplicity)

 feedback needed

- Implementation of tax reform agendas

 no indicators in current draft

# Metodology

**BCDS Framework**



Dimension

**Tax Policy and Administration**

5 Sub-dimensions



**Fiscal Position  
and Planning**



**Taxation  
and  
Investment**



**Taxation and  
Employment**



**Taxation of  
MNEs**



**Taxation of  
SMEs**

# Review of elements of assessments of tax policy analysis under the BCDS

## ■ **Fiscal position and planning:**

- Forecasting of aggregate tax revenue for each main tax.
- Consideration of fiscal balance.

## ■ **Taxation and investment:**

- Sectoral analysis of tax burden on corporations.
- Analysis of tax impediments to domestic investment.
- Comparative analysis of tax depreciation systems.
- Transparency (tax expenditure reporting) and cost benefit assessment of corporate tax incentives for investment.

# Review of elements of assessments of tax policy analysis under the BCDS

## ■ **Taxation and employment:**

- Micro analysis of taxation of wage income, income equality.
- ‘Tax wedge’ analysis of tax impediments to employment.

## ■ **Taxation of MNEs:**

- Analysis of tax burden on MNEs (cross-border investment).
- Analysis of tax distortions to cross-border investment (FDI).
- Analysis and treatment of tax planning.

# Review of elements of assessments of tax policy analysis under the BCDS

## ■ Taxation of SMEs:

- Analysis of tax burden on firms by asset size.
- Analysis of tax impediments/distortions to SME investment.
- Analysis of tax impediments to equity financing of SMEs.
- Analysis of tax arbitrage by SME owners.
- Analysis of treatment of risky investment in SMEs.
- Assessment of tax compliance costs, alternative tax policy approaches, alternative tax administrative approaches.
- Assessment of taxpayer assistance and education services to reduce SME tax compliance burden.

# Indicators for Forecasting of Aggregate Tax Revenues

1

- The Ministry of Finance does not maintain aggregate (e.g. GDP-based) tax revenue forecasting models to provide forecasts of tax revenues, to inform tax and expenditure policy making. No current plans for implementation.

2

- The Ministry of Finance does not maintain aggregate tax revenue forecasting models to provide forecasts of tax revenues, but is taking steps towards implementation.

3

- The Ministry of Finance does not maintain aggregate tax revenue forecasting models to provide forecasts of tax revenues, but is currently taking steps towards implementation within one year.

4

- The Ministry of Finance has implemented an aggregate tax revenue forecasting model for one or more taxes, but not for all main taxes (contributing 5 per cent or more to total tax revenues).

5

- Aggregate tax revenue forecasting models are maintained by the Ministry of Finance for each main tax.

# Indicators for Assessment of Fiscal Balance and Policy Feedback

1

- Neither tax revenue collection nor public expenditures are monitored on a regular basis to enable assessment of the fiscal balance. No current plans to implement systematic data collection systems for tax revenues and public expenditures.

2

- Tax revenue collection and public expenditures are not monitored on a regular basis, but the government is currently taking steps towards implementation of systematic data collection systems within one year.

3

- Tax revenue collection and public expenditures are monitored on a regular (e.g. monthly) basis.

4

- Level 3 plus requirement that estimates of planned public expenditure are routinely considered and decided alongside estimates of total tax revenues, aggregate non-tax revenues, and overall fiscal balance (current year, forecast years).

5

- Level 4 plus the requirements that: a) expenditure items classified by type are ranked/prioritized on the basis of policy objectives, with budget allocations addressing priority expenditures; and b) formal or informal rules are in place requiring adjustments to government expenditure and/or tax design where the fiscal balance is negative and exceeds some fixed percentage of GDP (i.e. mandatory feed-back of fiscal balance/debt projections into budget decisions including tax policy).

# Indicators for Sectoral Analysis of the Taxation of Corporate Profits

1

- The Ministry of Finance does not maintain a corporate income tax (CIT) micro-simulation model enabling sectoral analysis of corporate tax revenues and the effective tax rate on corporate profits. No current plans for implementation.

2

- The Ministry of Finance does not maintain a CIT micro-simulation model enabling sectoral analysis of corporate tax revenues and the effective tax rate on corporate profits, but is taking steps towards implementation.

3

- The Ministry of Finance does not maintain a CIT micro-simulation model enabling sectoral analysis of corporate tax revenues and the effective tax rate on corporate profits, but is currently taking steps towards implementation within one year.

4

- The Ministry of Finance maintains a CIT micro-simulation model. The model is routinely used to analyze the tax revenue implications of tax reform proposals.

5

- Level 4 plus the requirements that a) underlying corporate tax return data are checked to identify entry and/or transcription errors; b) the CIT model is updated each year (involving transcription of new tax return data each year); and c) forecasts of corporate tax revenue from the micro-simulation model are cross-checked with forecasts from an aggregate (e.g. GDP-based) corporate tax revenue model.

# Indicators for Analysis of Tax Impediments to Domestic Investment

1

- The Ministry of Finance does not maintain a marginal effective tax rate (METR) model to enable analysis of tax impediments (distortions) to investment. No current plans for implementation.

2

- The Ministry of Finance does not maintain a METR model to enable analysis of tax impediments (distortions) to investment, but is taking steps towards implementation.

3

- The Ministry of Finance does not maintain a METR model to enable analysis of tax impediments (distortions) to investment, but is currently taking steps towards implementation within one year.

4

- The Ministry of Finance maintains a METR model. The model is routinely used to analyze tax distortions to domestic investment and the implications of tax reform proposals.

5

- Level 4 plus the requirements that a) the METR model is disaggregated across machinery and equipment, buildings, inventory and land; and b) METR results are explained in summary reports for consideration by Ministers to help inform policy-making.

# Indicators for Comparative Analysis of (Tax) Depreciation Systems

1

- The Ministry of Finance does not undertake comparisons of capital depreciation systems in countries regarded as main competitors for investment. No current plans for making such comparisons.

2

- The Ministry of Finance does not undertake comparisons of capital depreciation systems in countries regarded as main competitors for investment, but is taking steps towards undertaking such comparisons.

3

- The Ministry of Finance does not undertake comparisons of capital depreciation systems in countries regarded as main competitors for investment, but is currently taking steps (e.g. gathering information) to enable comparisons within one year.

4

- The Ministry of Finance regularly (e.g. annually) undertakes cross-country comparisons of capital depreciation systems, taking into account the number of depreciable capital asset classes, depreciation methods and rates.

5

- Level 4 plus the requirement that a depreciation calculator model is in place and used to measure, and compare across countries, the present-discounted value (PDV) of maximum tax depreciation allowances by depreciable capital asset type and industry.

# Indicators for Transparency in Provision of Corporate Tax Incentives for Investment

1

- The Ministry of Finance does not produce tax expenditure estimates of tax revenues foregone by main corporate tax incentives for investment, to be used to inform tax incentive policy-making and provide transparency in the provision of tax incentives. No current plans for preparing such estimates.

2

- The Ministry of Finance does not produce tax expenditure estimates of tax revenues foregone by main corporate tax incentives for investment, but is taking steps towards the production of such estimates.

3

- The Ministry of Finance does not produce tax expenditure estimates of tax revenues foregone by main corporate tax incentives for investment, but is currently taking steps towards the production of such estimates within one year.

4

- The Ministry of Finance periodically prepares tax expenditure estimates of tax revenues foregone by main corporate tax incentives for investment. The estimates are considered alongside direct expenditures, in developing expenditure and tax policies.

5

- The Ministry of Finance regularly (e.g. annually) publishes and releases to the public tax expenditure reports that include estimates of tax revenues foregone by main corporate tax incentives for investment.

# *“Tax Policy Analysis”*

## **Working Group 3**

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