



FIFTH MEETING OF THE OECD FORUM ON TAX ADMINISTRATION

28-29 May 2009

**FTA Communiqué, Paris
29 May 2009**

FTA Communiqué

We, the heads and deputy heads of revenue bodies from over 34 economies met in Paris, France on 28-29 May 2009 for the fifth meeting of the OECD's Forum on Tax Administration (FTA).

The world faces an unprecedented global financial and economic crisis. The challenges posed are both economic and social. Governments need to find sustainable ways to finance the cost of exiting the crisis. Achieving this will require the engagement of all stakeholders: governments, business and civil society. Revenue bodies have a key role to play in this.

Over the past two days our discussions have focused on the challenges and opportunities currently facing revenue bodies and taxpayers around the world. We have worked together, alongside senior business leaders, to share our experiences and expertise to strengthen the responses of our individual revenue bodies and to develop new joint initiatives. We are convinced that the financial and economic crisis offers new opportunities to improve the fairness of tax systems and tax compliance worldwide. To achieve this we will explore new ways of co-operating with each other. Today, we have committed to further increase our collective actions. These actions will not only contribute to the improvement of revenue yields but also increase fairness. We are also committed to intensify our dialogue with taxpayers and their advisers and are determined to ensure that tax compliance becomes part of the good corporate governance agenda.

As a result of our discussions, and building on the outcomes from our Cape Town meeting, we agreed to continue:

1. To work together to improve tax administration, taxpayer services and tax compliance – both nationally and internationally.

We are determined to improve taxpayer services and will undertake further work to share information and expertise to enable revenue bodies to prevent, detect and respond to non-compliance, including in relation to offshore arrangements.

2. To promote strong corporate governance in the area of tax.

We will continue to engage with business and with the agencies responsible for the development of corporate governance codes and guidelines with a view to ensuring tax compliance is included as an aspect of good governance.

3. To support tax administration in developing economies.

We will increase our understanding of the needs of developing countries in the area of tax administration and share relevant FTA products, experience and expertise.

This meeting and these commitments form part of our on-going efforts to achieve our collective **vision**:

...to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.

Our aim is to improve taxpayer services and tax compliance - by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance (see Appendix 1 for the full FTA vision).

1. We will continue to work together to improve tax administration, taxpayer services and tax compliance – both nationally and internationally.

Improving taxpayer services and tax compliance both nationally and internationally continues to be the key focus of our work. We are proud of the progress made by revenue bodies both collectively and individually, but there is more work to be done. Non-compliance with tax laws remains a significant challenge and our efforts to prevent, detect and respond to it will continue.

Our work has two objectives - to encourage and assist those taxpayers wanting to pay the right amount of tax, at the right time and in the right country and to deal firmly with those who fail to meet their tax obligations.

Our work has recently focused on the largest corporations and wealthiest taxpayers and their advisers. These taxpayers have a significant impact on tax revenues and influence broad perceptions of the overall integrity of tax systems. They also have complex arrangements, often with an international dimension. Over the past three years we have harnessed our collective expertise to develop a comprehensive approach to working with these taxpayers. Our aim is to facilitate a constructive dialogue and improve taxpayer services and tax compliance.

In 2006 the FTA's Seoul declaration set out our collective concerns about the role of international tax advisers, financial and other institutions in relation to non-compliance and the promotion of unacceptable tax minimisation arrangements. In response we came together and produced the 2008 *Study into the Role of Tax Intermediaries*. This study, with its framework for developing an enhanced relationship between revenue bodies, large corporate taxpayers and their advisers, focused on the vital role of effective risk management by all parties in improving co-operation and transparency. The findings of this seminal report have guided many revenue bodies in designing tailored approaches to the compliance management of large business, including sophisticated tax risk analysis and, in many cases, co-operative approaches to achieving compliance. We remain committed to the principles of this report.

Following on from this report, we have today endorsed two related studies - *Building Transparent Tax Compliance by Banks* (the Banks study) and *Engaging with High Net Worth individuals on Tax Compliance* (the HNWIs study). The *Banks study* provides a detailed analysis of complex structured finance transactions and enables revenue bodies to better understand the tax risks they pose, including in relation to the current financial and economic crisis. The *HNWIs study* demonstrates that some wealthy individuals and their advisers continue to pose a major risk to revenue bodies and sets out a number of innovative approaches to enable revenue bodies to better manage these risks, including the establishment of dedicated HNWIs units. We have asked the OECD to continue to provide a forum where our officials can maintain their discussions on HNWIs.

As our focus on these taxpayer segments becomes sharper, we are confident these two studies will positively influence the interactions between revenue bodies and these taxpayer segments and their advisers. The key findings of both these reports are set out in Appendix 2.

The sharing of good practice that characterises these reports, and the wider work of the FTA, is a platform for growing co-operation among revenue bodies. This co-operation enables revenue bodies to develop strategies to improve taxpayer services and ensure compliance by all taxpayers. As a result of our efforts, and the sharing of our expertise, revenue bodies are:

- Continuously improving taxpayer services and reducing the costs of compliance.

- In agreement on the need for greater tax transparency and implementing strategies to achieve this.
- More effective at targeting resources to prevent, detect and respond to tax risk.
- More capable of identifying and responding appropriately – both individually and collectively - to aggressive tax planning schemes and of understanding the distinction between business-driven and tax-driven strategies.
- Better informed about large businesses, banks and HNWIs, the risks these taxpayer segments pose and the strategies needed to respond appropriately.
- Increasingly engaged with each other in bilateral and multi-lateral compliance strategies.

To maintain these efforts it is essential that sustainable resources are made available to revenue bodies in the medium to long term. Over the next 12 months we will continue to share information and expertise on how revenue bodies choose to implement the recommendations from these studies and will continue our efforts to explore practical ways to improve taxpayer services and prevent, detect and respond to non-compliance. An evaluation of the impact of the studies will be presented at the 2010 FTA meeting.

We will continue to encourage the OECD to intensify its analysis of aggressive tax planning and the measures needed to improve the effectiveness of our responses to such schemes. We will also further our work on small and medium sized businesses.

Offshore tax compliance

The global financial and economic crisis brought into sharper focus the use of tax havens by some taxpayers for systemic offshore non-compliance. As a result many countries saw a greater need to develop the international standard for transparency and information exchange based on OECD initiatives. We very much welcome the fact that all 84 jurisdictions that participate in the OECD's Global Forum have now committed to the standards.

This increased transparency is helping revenue bodies unravel more quickly the use of international tax shelters for aggressive tax planning and tax evasion, reinforcing the integrity of tax systems as well as helping revenue bodies unlock substantial sums of money that will be of help to governments in reviving the global economy.

Those using offshore arrangements can expect greater scrutiny from revenue bodies around the world. We strongly encourage all taxpayers utilising such arrangements to openly discuss and regularise their affairs with the relevant revenue bodies. Over the next 12 months we will undertake further work to share information and expertise on measures to enable revenue bodies to prevent non-compliance using offshore arrangements, including voluntary compliance strategies.

2. We will continue to promote strong corporate governance in the area of tax

Effective tax risk management is an essential element of strong corporate governance. The events that have recently surfaced in banking and several other industries, and the role that inadequate corporate governance played in the onset of the current global financial and economic crisis, clearly demonstrate this importance and the need for a change in some parts of the corporate sector.

It is our view that effective evaluation of tax risk must be a key element of a business's decision-making process. We urge all corporations to re-examine their corporate governance practices and ensure that their corporate boards and senior executives are fully engaged and accountable for decisions relating to transactions or arrangements with significant tax implications. As part of their risk assessment processes,

many revenue bodies now place a much stronger focus on the capacity of the corporate governance and risk management systems of corporate taxpayers.

The importance of tax risk management in corporate governance has been highlighted in several FTA reports. At this meeting the revenue bodies of Australia, Canada and Chile presented a paper on *Corporate Governance and Tax Risk Management*. Building from this paper, we will continue to engage with business, regulators and with the agencies responsible for the development of corporate governance codes and guidelines with a view to ensuring tax compliance is included as an aspect of good governance. We will report back on our progress at the next meeting of the FTA.

3. We will continue to support tax administration in developing economies

Tax plays a fundamental role in development through mobilising revenue, promoting growth, reducing inequalities and reinforcing governments' legitimacy as well as achieving a fair share of the costs and benefits of globalisation. Revenue bodies that are efficient, effective and fair, free of corruption and that have the necessary skills to ensure compliance are central to achieving these goals.

One of our key objectives, as set out in the FTA vision, is that we will take, where appropriate, a leadership role in influencing the global response to developing countries' requests for assistance with capability building in tax administration. To achieve this, we will increase our understanding of the needs of developing countries in the area of tax administration and share relevant FTA products, experience and expertise. We will continue to work through existing OECD programmes (including Global Relations and International Tax Dialogue) as well as in co-operation with other international and regional bodies.

We also reconfirmed our support for the important work being done towards the launch of the African Tax Administration Forum (ATAF) and envisaged establishment of an international tax centre on the African continent. The aim of ATAF is to encourage and support partnerships among all African States in developing the capacity of revenue bodies in Africa. We would like to invite ATAF to make a presentation on their work at the next meeting of the FTA.

This meeting has clearly demonstrated that we need to continue to share experiences on our understanding of the behaviour of large business, financial institutions, HNWIs and their advisers and how we can influence this in the context of the current financial and economic crisis, as we move forward with the implementation of our vision.

This meeting of the FTA was originally scheduled to be held in Merida, Mexico. We are extremely grateful for the efforts of our Mexican colleagues in the preparations for this meeting and for their significant contribution to the success of the event.

We would like to thank the Commissioners and study teams from Australia, Canada, Chile, and UK for the significant contribution they have made to leading key FTA studies over the past year.

We would also like to thank Pravin Gordhan, former Commissioner of the South African Revenue Service who has provided inspiring leadership to the FTA and congratulate him on his appointment as Finance Minister of South Africa. We would also like to take this opportunity to welcome the FTA's three Vice Chairs: Michael D'Ascenzo, Australia; Jean-Marc Fenet, France; Dave Hartnett, UK.

Finally we thank Mr Mehmet Kílci, Commissioner, Presidency of Revenue Administration, for the generous offer of the Republic of Turkey to host the 6th meeting of the FTA on 15-16 September 2010.

A list of the economies and organisations participating in this meeting is attached at Appendix 3.

Appendix 1

The Forum on Tax Administration (FTA) vision

*The FTA vision is to **create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.***

Within the context of a global economy, rapid technological change and fiscal challenges for government, the forum aims to **improve taxpayer services and tax compliance** - by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.

The FTA achieves this vision and aim through the engagement of participating countries by:

- Providing a **unique global forum** where the heads of revenue bodies and their teams can share experiences and expertise on tax administration issues.
- Harnessing the collective strength of participating revenue bodies and, where appropriate, speaking with one voice and developing **joint programmes of action** on key tax administration issues.
- Developing and promoting **world class products and standards** on high integrity, effective, efficient and fair tax administration.
- Engaging in **dialogue with key stakeholders** (including business and individual taxpayers, tax intermediaries, tax policy makers and financial regulators) and supporting parallel dialogue at a national level.
- **Promoting co-operation between countries** and working co-operatively with other OECD fora, international and regional tax organisations.

Objectives

Building on from the FTA's vision and aims, and in response to the challenges and opportunities presented by the global tax environment, the objectives of the FTA over the next five years are:

1. To **inform revenue bodies' strategic planning and decision-making** by:
 - Providing a platform to envisage the future. The FTA brings together perspectives from across the world on emerging global trends (economic, societal and political) and their impact on tax administration.
 - Undertaking comparative analyses, identifying and promoting good practice.
2. To **increase public trust in the fairness of tax administration** by promoting the core values which underpin the work of revenue bodies and the essential role of tax in providing the financial basis for all public spending. These core values include: impartiality; integrity; openness and transparency; accountability and excellence in programme delivery.

3. To **further develop capability** within revenue bodies by:
 - supporting the identification, development and promotion of appropriate programmes to develop the expertise of tax administration staff, recognising that those who work in tax administrations are key to delivering the FTA's vision; and
 - providing mutual support and sharing the experiences of implementing the strategies, organisational structures, integrity frameworks, knowledge and information systems, business operations and technologies which are the building blocks of modern effective tax administrations.

4. To **develop innovative approaches to tax compliance and service issues**, including in response to key international risks.

5. To **support and strengthen both global and national level dialogue** with key stakeholders (including business and individual taxpayers, tax intermediaries, tax policy makers and financial regulators) in order to promote important tax administration issues, including:
 - improved relationships with these stakeholders;
 - the reduction of unnecessary administrative burdens;
 - increasing transparency from revenue bodies, taxpayers and tax intermediaries; and
 - the role of tax compliance as an essential element of good business governance.

6. To **take, where appropriate, a leadership role in influencing the global response to developing countries' requests for assistance with capability building in tax administration**. To achieve this, the FTA will increase its understanding of the needs of developing countries in the area of tax administration and share relevant FTA products, experience and expertise. The FTA will work through existing OECD programmes (including Global Relations and the International Tax Dialogue) as well as in co-operation with other international and regional bodies.

These objectives will form the basis of a rolling five-year FTA work programme. The forum will regularly review its vision, objectives, work programme and impact; including through the regular meetings of FTA Commissioners.

Appendix 2

Building Transparent Tax Compliance with Banks

Key findings

- It can be difficult for revenue bodies to understand the complex financial products and transactions used by banks and to identify those which carry a tax risk.
- Banks develop complex structured finance transactions (CSFTs) both for their own use and to provide to clients. Revenue bodies are concerned about CSFTs which lack transparency and have tax as a primary driver.
- To promote an environment of greater trust, transparency and co-operation, revenue bodies should look for opportunities to:
 - Share their assessment of risk with the bank;
 - Invite early voluntary disclosure and discussion of issues where there is significant uncertainty; and
 - Pursue an enhanced or co-operative relationship where the outcome in relation to products or services may be uncertain.

Key recommendations for revenue bodies

Revenue bodies should:

- Develop initiatives with banks to enable revenue body staff to improve understanding of banking operations, particularly governance structures and product development processes concerning CSFTs.
- Work with banks as part of an enhanced relationship through guidance, rulings and real-time discussion of issues.
- Encourage banks to be more transparent so as to better understand the commercial context and complex details of CSFTs
- Ensure they have necessary strategies in place to prevent, detect and respond to aggressive tax planning.
- Work more closely with enforcement agencies and regulatory bodies in dealing with offshore promoters and offshore tax evasion.

To improve international co-operation on this issue revenue bodies should:

- Jointly examine and remove barriers to a more effective exchange of information on banking activities to take full advantage of the recent significant progress on implementing Article 26 of the OECD Model Tax Convention on Income and Capital (Article 26 standard)
- Encourage the development of the OECD Aggressive Tax Planning Directory and in particular to use this initiative to share experiences on measures taken to counter schemes.

Key recommendations for banks

- The banks' internal tax department's decision not to proceed with a transaction should not be over-ridden without escalation of a decision to the CEO or Board.
- Banks' internal tax departments are encouraged to provide a greater degree of transparency in the governance of CSFTs implemented both for clients and on the bank's own account.
- As part of an enhanced or co-operative relationship banks should share their views with revenue bodies on tax risk assessment for products or services where there is potential for uncertainty around the tax treatment. Banks as with other large corporates should take tax risks into account as part of their governance framework.

Engaging with High Net Worth Individuals (HNWI) on Tax Compliance

Key findings

- The High Net Worth Individuals (HNWI) segment consists of high wealth and high income individuals and is of particular interest for tax administrations because of the:
 - Complexity of their affairs and the large numbers of entities they may control;
 - Amounts of tax revenue at stake;
 - Opportunity to undertake aggressive tax planning; and
 - Impact on overall integrity of the tax system.
- To improve compliance, revenue bodies could consider changing the structure of their operations to effectively focus resources, for example through the creation of a dedicated HNWI unit and to include a focus on the activities of HNWI related activities.
- Greater international co-operation, at both a strategic and an operational level, would improve the sharing of information and expertise between revenue bodies, particularly on cross border changes.

Key recommendations

Revenue bodies can improve compliance by HNWIs by:

- Gaining a greater understanding of the risks posed by the HNWI segment by:
 - Looking at the types of aggressive tax planning (ATP) schemes in the marketplace, the suppliers of ATP, and the HNWIs motivation; and
 - Developing a strong commercial awareness of the broader concerns of HNWIs, including privacy, wealth preservation and their ability to pass wealth to future generations.
- Building an effective capability to manage tax risk by establishing an appropriate structure in revenue bodies to deal with HNWIs and focusing resources by:
 - Creating dedicated units which are adequately staffed by experienced officials;
 - Establishing a framework for dialogue between senior revenue officials, HNWIs and their advisers.
- Improving international co-operation, including the use of regular meetings between heads of HNWI units and other specialists within revenue bodies.
- Creating an appropriate legislative framework targeted at specific aggressive tax planning risks by taking a holistic approach to focus our strategies.

For further information see: www.oecd.org/ctp/fta2009

Appendix 3

Countries and organisations participating in the fifth meeting of the OECD Forum on Tax Administration

Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Hong Kong China, Hungary, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, People's Republic of China, Portugal, Russian Federation, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

European Commission, Inter-American Centre of Tax Administrations (CIAT), International Monetary Fund (IMF), Intra-European Organisation of Tax Administrations (IOTA).