

# TAX AND DEVELOPMENT

“Taxation is the lifeblood of development. Effective, efficient and capable tax authorities able to mobilise domestic fiscal resources are essential if they are to provide governments with sustainable, domestically-generated revenue, thereby reducing the reliance on foreign investment and development aid.”

(Oupa Magashula, President, African Tax Administration Forum (ATAF), January 2010)

## Taxation plays a central role in promoting sustainable development:

- ◆ Tax revenue provides developing countries with essential and sustainable funding
- ◆ Tax revenue reduces aid dependency
- ◆ Stable and predictable tax systems provide a key platform for trade and investment
- ◆ A fair, transparent and credible tax system has a positive impact on accountability and effectiveness in other parts of government
- ◆ Dependence on citizens' tax revenues for social and public services strengthen the accountability of governments to their citizens

## Developing countries face significant challenges in developing their tax capacities and mobilising their resources:

- ◆ Current dependency on non-tax sources of funding – including aid and mineral rents
- ◆ Lack of credibility with citizens arising from inadequate transparency of receipts and expenditures
- ◆ Narrow tax base and bringing the informal economy within the tax net
- ◆ Developing necessary skills and retaining qualified personnel
- ◆ Managing relationships with multinational enterprises –negotiation of related incentives and lack of auditing expertise
- ◆ Acquiring necessary information on their taxpayers operating in tax havens (capital flight)
- ◆ Establishing a stable and predictable tax environment to encourage trade and investment

# OECD Task Force on Tax and Development

The **Task Force on Tax and Development**, in its advisory capacity to the OECD's Committee on Fiscal Affairs and the Development Assistance Committee, has developed a coherent programme focussing on key areas of importance to developing countries. Much of the key work is taking place through sub groups on particular technical topics. The Task Force met most recently in Korea in October 2013.

- It is composed of key stakeholders including OECD and developing countries, business, NGOs, international organisations;
- It is co-chaired by the Commissioner of the South African Revenue Service and the Deputy Director General for Tax & Customs Policy and Legislation and Director for International Tax Policy and Legislation for the Netherlands Ministry of Finance;
- It is supported by a Secretariat managed jointly by the OECD's CTPA and DCD with staffing and other costs met mainly from voluntary contributions.

## The Task Force's current work programme:

The Task Force is now in the process of implementing its programme, which has four key pillars:

- **Statebuilding, Taxation and Aid**, which includes transparency initiatives in respect of tax incentives and taxpayer morale, taxpayer education and guidance for donors. Work is also underway on a feasibility study on "Tax Inspectors Without Borders", a new initiative to deliver tax audit experts to developing countries on a demand led basis.
- **Effective transfer pricing** in developing countries – a programme of capacity building in specific countries and support to regional organisations in this field.
- **Increased Transparency in the Reporting of Relevant Financial Data** by MNEs - by identifying best practices in enabling public access to local statutory accounts and tracking ongoing transparency initiatives.
- Supporting the work of the Global Forum on **Transparency and Exchange of Information**.

## What will be the impact of a tax and development programme in developing countries?

- A closer relationship between state and taxpayers including both citizens and MNEs in the tax area.
- More effective aid for building strong tax systems.
- Strengthened tax capacity, particularly in transfer pricing.
- Improved tax transparency and increased accountability.
- In the long term this will lead to tax systems which are better able to finance government expenditures in a fair and efficient manner
- Reduced cross-border tax evasion through effective exchange of information.

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