DRAFT SUMMARY RECORD

5TH PLENARY MEETING OF THE TASK FORCE ON TAX AND DEVELOPMENT SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

OECD's Task Force on Tax and Development
2-3 November 2015
Paris, France

The OECD's Task Force on Tax and Development met in Paris, France, on 2-3 November 2015, to review progress on tax and development made in 2015, including in relation to the UN Sustainable Development Goals (SDG's), the Financing for Development Conference, the Addis Tax Initiative, and the G20/OECD Base Erosion and Profit Shifting (BEPS) Project. Over 160 participants from governments, international and regional organisations, civil society and business participated and welcomed the role the Task Force can play in helping developing countries to raise revenues efficiently and fairly.

DAY ONE: MONDAY 2ND NOVEMBER

Session I: Taxation, the SDG's and financing for development

1. The Co-Chairs of the Task Force (Mr. Tom Moyane, South Africa and Mr. Harry Roodbeen, the Netherlands) introduced the topic and explained the logic of the plenary meeting and set out the objectives of the meeting. Pascal Saint-Amans (Director, Centre for tax Policy and Administration, OECD) explained how 2015 has been a watershed year for international tax matters with the delivery by the OECD to the G20 of the final package of measures for a comprehensive, coherent and co-ordinated reform of the international tax rules. Jon Lomoy (Director, Development Co-operation Directorate, OECD) noted the 3rd International Conference on Financing for Development in Addis Ababa and the adoption of the Sustainable Development Goals put domestic resource mobilisation, taxation in particular, firmly on the international development agenda.

2. Gail Hurley (Policy Specialist, UNDP) updated the meeting on the importance of strengthening domestic resource mobilisation (DRM) and curbing illicit financial flows including through international support to developing countries, to meet SDG 17.1 and implement the Addis Ababa Action Agenda. David Bradbury (Head of Tax Policy and Statistics Division, OECD) explained the OECD's Global Revenue Statistics Programme can support monitoring progress against DRM-related international commitments, which will be an essential action in years ahead, by providing high quality revenue statistics across OECD and non-OECD countries on a comparable basis.

3. Simon Whitfield (Senior Policy Advisor, Department for International Development, UK) updated the meeting on the role, objectives and governance structure of the Addis Tax Initiative (ATI). He encouraged more countries to join the 30 countries, 7 international organisations and one foundation signed up to date.

4. The co-chair concluded that supporting the monitoring of the SDGs is a shared responsibility involving all stakeholders - OECD statistics can help, but so does work of other partners. These must be brought together to support nationally defined tax targets. He encouraged more countries to join the Addis Tax Initiative and noted business can be involved to contribute their experience to scale up capacity building for tax systems development. The Task Force must track the Addis Commitments on tax evasion and avoidance.

Next steps

- The Task Force should continue to gather evidence of how aid for tax can work effectively to support and monitor donors' ATI commitment to "double aid to tax".
- The Task Force can feed into the UN monitoring process of Addis commitments, e.g. through an annual forum at the UN.

Session II: Base Erosion and Profit Shifting and developing countries

5. Pascal Saint-Amans highlighted BEPS is a global issue but the project is not designed to address all the DRM challenges of either developed or developing countries. Other significant challenges faced by developing countries are being addressed through the G20 mandated toolkits being developed by the International Organisations in consultation with the Regional Tax Organisations and developing countries. The implementation of the BEPS package, to which all countries will be invited to participate on an equal footing, will require changes to domestic legislation and increased tax administration capacity. A plan for an Inclusive Framework will be presented to the G20 in early 2016.

6. Lincoln Marais (Director, African Tax Administration Forum, ATAF) explained how ATAF has engaged and influenced the outcomes of the BEPS process such as on the guidance for pricing commodity transactions and on the pricing of intra-group services. He was pleased that much needed technical expertise was being provided by the OECD. Marlene Parker (Director, Tax Administration Jamaica) stated Jamaica had decided to participate in the BEPS project to ensure specific developing countries' concerns were taken into account, which she acknowledged has been the case. Their participation combined with OECD capacity building improved their understanding of the BEPS outcomes and the implementation into domestic legislation such as Jamaica's new transfer pricing documentation rules. Jamaica wants to continue to participate in the global standard setting process.

7. Marijn Verhoeven (Lead Economist, World Bank Group) provided an update on the G20 mandated toolkits and the outcomes from the report on tax incentives (published in November 2015). The toolkit provides guidance on cost-benefit analysis to improve transparency and governance in the granting of tax incentives.

8. Joses Correia Nunes, (Head of Unit, European Commission) outlined the work being done under the EC/OECD/WBG capacity building programmes on transfer pricing. The challenge will be to meet increasing demand in addition to the existing 16 country programmes.

9. Binh Tran Thi Thanh, (Deputy Director, General Department of Taxation of Vietnam), explained how Vietnam's transfer pricing programme, which was started in 2012, had resulted in policy reforms, including an Advance Pricing Agreement programme, and increased revenue collection without distorting foreign direct investment. Vietnam will continue participating in the global standard setting process and share best practices on BEPS with other countries.

10. Moses Madongorere (Case Manager, ZIMRA, Zimbabwe) explained Zimbabwe had asked for a capacity building programme in late 2014 to strengthen legislation and audit skills to address tax leakages in Zimbabwe. The programme started in early 2015 and has already led to increased revenues and new transfer pricing legislation to come into effect from 1 January 2016. In the long

term it will build capacity, improve service to its clients by providing a consistent approach based on international standards.

11. Alan MacLean (Executive Vice President, Royal Dutch Shell, representing BIAC) noted business wants to actively contribute to the BEPS process to promote predictable investment climates and mitigate double taxation risks. He acknowledged the strong impact developing countries had on the BEPS outcomes, and noted developing countries have several DRM priorities other than BEPS.

12. Joseph Stead (Senior Economic Justice Advisor, Christian Aid) agreed with the diagnosis of the BEPS issues but questioned whether the current outcomes fully addressed the issues. The proposed Inclusive Framework should strengthen direct participation and regional consultations, which, while innovative in approach, had started mid-way through the project. The Country-by-Country reporting is a major step forward, but access to the reports by developing countries needs to be facilitated. Increasing capacity building will be essential to overcome BEPS implementation challenges.

13. Participants recognised developing countries will require technical support, through the Inclusive Framework, to set priorities and achieve effective implementation. Source versus residence taxation needs more discussions, which should be held in as many fora as deemed necessary.

Next steps

- The Task Force will contribute to the development of the new inclusive framework for the implementation of the BEPS package.
- The Tax and Development programme will deliver transfer pricing capacity building support programmes in at least 20 countries by the end of 2016.
- The Task Force will contribute to the G20 mandated toolkits which cover issues that go beyond BEPS but impact on DRM such as tax incentives and indirect transfer of assets.

Session III: Tax Inspectors Without Borders

14. Mr. Martin Bergwerff (Senior Tax Advisor, OECD) and Mr. Erling Kravik (Policy Specialist, UNDP) jointly presented the Tax Inspectors Without Borders (TIWB) initiative, the recent partnership between the OECD and UNDP that was launched at the 3rd International Financing for Development Conference in Addis Ababa in July 2015. The partnership aims to scale-up TIWB, to increase political support and to surmount various constraints that were encountered during the pilot phase of the project. TIWB will be fully operational beginning 2016 and aims to triple the number of deployment programmes throughout 2016.

15. Mr. Guswin Okkerse (Tax Auditor, Netherlands Tax Authority) and Mr. Kwame Owusu (Team leader transfer pricing of the Ghana Revenue Authority) provided an overview of the TIWB assistance programme in Ghana. They explained how Ghana’s transfer pricing unit has benefitted from the Project and mentioned Ghana’s intention to engage in south-south-co-operation by providing Ghanaian tax auditors to other countries.

16. Mr. Raynald Vial (Inspecteur Principal des Finances Publiques, France) and Mr. Magatte Diakhate (Chef du Bureau du contrôle fiscal, Administration fiscal du Sénégal) reviewed the TIWB programme between France and Senegal. They explained how one audit had already resulted in adjustments of 8 billion francs (EUR 12.3 million), while substantial adjustments to the taxable income are expected for another ongoing audit case. Both countries expressed their interest to further share their experience with other countries.

17. Mr. Richard Kombe Kapasa (Senior Tax Inspector, Zambia Revenue Authority) underlined the benefits they received through South-South co-operation on practical exchange programmes in transfer pricing and mining audits between Zambia, Kenya, Malawi and Tanzania.

18. Participants stressed the significant benefits of the exchange of knowledge and skills during on-site missions and on-the-job training and emphasized the importance of increasingly involving regional organisations like ATAF and CREDAF in the initiative. Regional approaches and South-South co-operation should also be explored and encouraged, paying attention to avoiding duplication with other assistance programmes and compartmentalisation. Minimalizing bureaucratic constraints and support from UNDP country offices should help initiate and conclude TIWB deployments.

Next steps

- Increasing fundraising efforts for the TIWB secretariat as well as for financing TIWB deployments and expanding the roster of tax audit experts.
- Fully operational TIWB programme by early 2016.
- Interested developing countries should contact the UNDP country offices and/or the joint OECD/UNDP TIWB Secretariat in Paris.

Session IV: Exchange of Information for Tax Purposes and Developing Countries

19. Ms. Monica Bhatia (Head of Division, Global Forum on Transparency and Exchange of Information for Tax Purposes) updated Task Force members on recent developments on the automatic exchange of information (AEOI) for tax purposes. The Global Forum is mandated to implement the international standards of tax transparency and exchange of information through peer reviews and technical assistance among its 124 members on equal footing. She noted 96 countries are now committed to the new standard for AEOI, including key global financial centres. She emphasised the need for global co-operation on information exchange and strong political leadership, noting information exchange is an essential tool for tax administrators and that developing countries cannot be left behind. Delegates noted the compliance requirements of AEOI may pose implementation challenges for developing country administrations and noted capacity building assistance is available as needed.

Session V: Oslo Dialogue: Building the Capacity of Tax Crime Investigators

20. Ms. Grace Perez-Navarro (Deputy Director, Centre for Tax Policy and Administration, OECD) presented recent activity of the Oslo Dialogue, a whole-of-government approach to fighting financial crimes, and the related OECD International Academy for Tax Crime Investigation, which aims at building capacity in developing countries to fight tax crimes. She emphasised the need for effective cross-agency collaboration within governments, noting criminals do not work in 'silos' and often there are multiple types of crimes committed by the same group, such as corruption coupled with money laundering. The Academy has already trained over 100 officials. There was some evidence showing improved enforcement in many countries including Costa Rica, Cameroon and Ghana.

<u>DAY TWO: TUESDAY 3 NOVEMBER: STATE BUILDING AND TAXATION SEMINAR</u>

Session I: Effective States, Citizenship and accountability

21. Mr. Lant Pritchett (Professor, Harvard Kennedy School of Government) set the scene for this seminar explaining why tax morale (citizens' willingness to pay tax) matters for policy makers. Citizens consider taxes either to be an acceptable 'price' for civilisation or a 'tribute', a pure involuntary extraction from citizens to the state producing no reciprocal benefit. Citizen's increasing

perception of taxes as a tribute, resulting in low tax morale, hampers the state's capacity to raise additional revenue.

22. Mr. Angel Melguizo (Head of Unit, OECD Development Centre) followed with a presentation of OECD work on the determinants of tax morale, particularly in developing countries. Tax avoidance and evasion can be impacted by factors well beyond standard enforcement actions, detection and punishment. There are important links between the perceptions of the quality of governance and tax morale. Attitudes towards democracy, corruption and income redistribution correlate to levels of tax morale, often varying according to region. Finally, satisfaction with public service delivery also underpins tax morale.

23. Ms. Kim Jacinto Henares (Commissioner, the Philippines) illustrated how to practically strengthen tax morale by presenting the dynamics of the Philippines' successful reform of the excise tax on alcohol and tobacco, popularly known as the 'sin tax reform'. Presidential support was essential in addition to framing the reform in terms of health outcomes by earmarking close to 80 percent of the total incremental revenues from the 2012 sin tax measure to finance the Universal Health Care Programme. Following the reform in 2012 government revenues from excise taxes increased year-on-year by 85.6 percent, yielding additional revenue of approximately USD 1.2 billion in 2013.

24. Participants focused on the practicalities of the social-fiscal contract in developing countries and how to connect taxpayers' expectations with public service delivery. They encouraged more in-depth work on tax morale, including addressing the lack of data and the methodological issues raised during the discussion to ensure results are relevant to policy makers. They highlighted the importance of strengthening citizens' trust in their respective tax administrations by promoting transparency, fighting money laundering and tackling corruption.

Session II: Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education

25. The session started with a video by EUROsociAL II (the European Union co-operation programme that promotes social cohesion in Latin America through exchanges of experiences) which presented the impact and lessons learned from taxpayer education strategies across Latin America.

26. Ms. Grace Perez-Navarro (Deputy Director, Centre for Tax Policy and Administration, OECD) presented the OECD's publication *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education*, which was commissioned by the OECD's Task Force on Tax and Development and is the product of a partnership between the OECD and EUROsociAL II. Tax administrations the world over are turning to taxpayer education programmes to improve tax compliance and tax morale. In parallel, tax administrations have gradually undergone a transformation from being tax collection agencies to becoming service providers for citizens, positioning themselves as the bridge between the state and the citizens. The Task Force should pursue further work on taxpayer education and tax morale to underpin the OECD's Trust Strategy; support regional tax organisations; promote the inclusion of taxpayer education modules in development co-operation programmes; and support peer learning among developing countries building on the report's findings.

27. Mr. Borja Diaz Rivillas (Senior Expert, the International and Ibero-American Foundation for Administration and Public Policies) presented a detailed account of the Source Book's content, lessons learned and the common challenges and opportunities countries face around the world in promoting tax culture and citizenship. The increased availability of a growing body work (research, toolkits, networks, teaching material, etc.) could help addressing some of the challenges highlighted in the publication.

28. Ms. Erlinda Hándal (Deputy Minister, Ministry of Education of El Salvador) explained how the strategic alliance between the Tax Administration and the Education Ministry underpinned El Salvador's successful inclusion of taxpayer education in the education curriculum. During 2009-14

close to 6 million students from 4th grade received taxpayer education, 629 teachers graduated with a taxpayer education Diploma and over 150.000 commercial high school students have been trained in tax culture. Mr. Miguel Angel Pacas (Tax Auditor, Treasury of El Salvador) provided the perspective from the El Salvadoran Tax Administration on the challenge to expand the coverage of the programme and evaluate its impact.

29. Mr. Clovis Peres (Tax auditor, Brazilian Federal Revenue) illustrated how university graduates advise low-income taxpayers and informal SME's on paying taxes through Brazil's Centres for Accounting and Tax Support (NAFs). The very successful model of the NAFs has been duplicated already across 8 countries in Latin America in over 160 universities. A first evaluation of Mexican NAFs showed they helped formalise over 11.000 SME's in Mexico since 2011.

30. Ms. Margarita Faral (Advisor, Ministry of Economy of Uruguay) presented the 'Taxpayer Education Network' which was launched in Bolivia on 27th July 2015. The network is a specialised learning space between fiscal and educational institutions of the European Union and Latin America and the Caribbean which aims to promote taxpayer education as a public policy to achieve more prosperous and cohesive societies through the exchange of experiences and peer learning.

31. Mr. Johan Fourie illustrated how South Africa Revenue Service's (SARS) mobile tax units (MTU) are providing taxpayer service and education. Since 2009 MTUs have reached out to a total of 150.000 taxpayers in remote areas to raise awareness on their tax obligations as well as to motivate and facilitate paying taxes. By 2016 21 MTUs are projected to operate, compared to only 5 in 2009. It cannot be taken for granted that taxpayers know their tax obligations. Smart use of IT to connect with remote areas has been essential.

32. Participants welcomed the diversity of approaches for providing taxpayer education and echoed the importance of raising citizen's awareness about their rights and obligations as well as instilling tax morale, values and integrity starting from a very young age. They encouraged undertaking impact evaluations of past and ongoing taxpayer education programmes to improve the programmes and acknowledged patience and flexibility are essential for these innovative approaches to mature.

Next steps

- Interested Task Force members will host a technical meeting for stakeholders on planning next steps on taxpayer morale and taxpayer education, including evaluation strategies by March 2016.

Lunch Briefing: OECD Work on Extractive Industries and Mineral Product Pricing

33. Mr. Dan Devlin (Senior Tax Advisor, OECD) explained how the recent falls in the price of many commodities has placed considerable pressure on many governments, both developed and developing, who are experiencing falls in revenue, employment and exports. He also highlighted the Task Force Secretariat's efforts to improve the information available to revenue authorities on mineral product pricing that is currently underway for the G20 DWG, noting 4 consultation documents are available on the Tax and Development website that may assist developing countries.

34. Mr. Alan McLean (Executive Vice President, Royal Dutch Shell) provided his perspective on the current difficulties faced by many oil and gas companies and need for careful management to endure the current business environment. Participants also discussed alternative options for fiscal regimes governing extractive industries, and the uncertainty around future prices for commodities.