SUMMARY RECORD OF THE GLOBAL FORUM ON DEVELOPMENT
"Domestic Resource Mobilisation for Development: The Taxation Challenge"

Thursday 28th January 2010

1. OECD's Deputy Secretary General and Chief Economist, Pier Carlo Padoan, opened the meeting of the Global Forum highlighting the historic significance of governments, academia, NGOs, civil society and business, coming together for the first time to discuss tax and development. He stressed the essential role taxation plays to enable developing countries to consolidate their own development and considered that the Global Forum on Transparency and Exchange of Information for Tax Purposes and initiatives such as the African Tax Administration Forum provide opportunities to move forward. These initiatives require support to enable developing countries to establish effective tax systems, both from the policy and administration sides. He invited participants to move from understanding into action.

2. The Chair of the Development Assistance Committee, Eckhard Deutscher and the Director of the Centre for Tax Policy and Administration, Jeffrey Owens briefed participants on the discussions between the OECD's Development Assistance and Fiscal Affairs Committees held on 27th January. An Informal Task Force on Tax and Development would be created to take forward a series of proposals (See Annex for the text of the Co-Chairs' Statement).

The Changing International Climate – Non-Cooperative Jurisdictions, Tax Evasion and Avoidance

3. This Session was divided in two parts, the first explored ways in which developing countries could benefit from the more co-operative tax environment and was chaired by Stephen Timms, Financial Secretary to the Treasury (UK).

4. The Chair of the Peer Review Group of the Global Forum on Transparency and Exchange of Information for Tax Purposes, Francois D'Aubert gave an overview of the formation, role and work of the Global Forum in terms of benefiting developing countries, with particular emphasis on the peer review process that is taking place to assess countries' commitment to, and effective implementation of, the international standards on transparency and exchange of information.

5. Joel Tan-Torres, Commissioner of the Bureau of Internal Revenue of the Philippines, described how low pay, an unpredictable justice system and elite interests contribute to an environment in which tax evasion thrive. International tax transparency initiatives represent one promising response to these factors.

6. Attiya Waris, University of Nairobi/Tax Justice Network, provided a civil society view, stressing the importance of the current discourse surrounding tax (transparency, accountability and responsibility) and its resonance with the discourse on rights and good governance. She argued that taxation provides states with the opportunity to demonstrate their effectiveness and legitimacy through tax-funded public services and there are downsides to externally funded public services which bypass governments. In this regard, more work could be done to link revenue with expenditures (e.g. through participatory budgeting work). At the international level, multilateral treaties should be replacing bilateral treaties and work on the enabling environment for transparency (e.g. freedom of information legislation) is also required.

7. Issues and questions raised in discussion included the limited participation of Low Income Countries in the Global Forum on Transparency and Exchange of Information for Tax Purposes, the peer review mechanism and the role of civil society and the need to identify beneficial ownership to promote transparency.

8. Oupa Magashula (South Africa), President of the African Tax Administration Forum (ATAF), chaired the second part of the session on increasing transparency. In his address, Stephen Timms, Financial Secretary to the Treasury (UK), highlighted four areas of action: a) involving developing countries in exchange of information for tax purposes through multilateral exchange instruments; b) automatic exchange of information and transparency in beneficial ownership; c) developing guidelines on countryby- country reporting; d) capacity building, through organisations such as ATAF. Minister Timms announced that the UK will host a conference on technical tax issues for developing countries. Alfredo Gutiérrez, President of Tax Administration Service in Mexico argued that although international agreements and actions on international tax transparency and exchange of information were to be welcomed, these would not be meaningful without basic revenue capacity being in place. William Morris, Senior International Tax Counsel & Director, GE International Inc, noted that business is not an ethics free zone and that the business world was making strides towards greater transparency. There were, however, concerns over the compliance burden and competition issues arising from greater information being in the public domain.

9. Comments and issues raised in discussion focused on the urgency of making progress on countryby-country reporting, on ensuring tax was not considered the sole solution to capital flight, on the importance of international accounting standards, and on the importance of learning from success stories (e.g. Chile).

The Domestic Dimension – Fiscal Legitimacy, Tax Administrations and Poverty Reduction

Scene Setting

10. Eric Martin, Ambassador and Permanent Representative of Switzerland to the OECD and Chair of the Development Centre Board, emphasized the need to address the domestic causes of tax evasion and avoidance discussed in the morning. He stressed that implementing the principles of modern and effective tax administrations requires institutional, technical and human capacity. Examples of donor funded projects in Mozambique and Ghana were cited. Ambassador Martin suggested that taxation matters for sustainable development as it reduces developing countries' dependency on volatile external flows, encourages domestic and foreign investment and promotes the accountability of the state towards its citizens.

11. Director of Legislation, Studies and International Cooperation at the General Administration of Taxes in Morocco, Brahim Kettani, described tax reforms undertaken in his country. The reforms were based on the premise that any additional burden on households and firms should be avoided, that the tax base should be enlarged, and domestic consumption, savings and investment promoted. The reforms had increased revenue in a sustainable and equitable manner, reduced distortive incentives and modernized tax administration.

Fiscal Legitimacy and Social Contract

12. The session was chaired by Serge Tomasi, Director for Global Economy and Development
Strategy at the Ministry of Foreign and European Affairs in France, who stressed that helping to strengthen the fiscal capacity at the local level in developing countries is high on the agenda of French involvement and support in the field. He also emphasized the importance of ensuring that tax revenue generation remains independent from the political cycle.

13. Jonathan Di John of the School of Oriental and African Studies in the UK explained that taxes are central to state-building as they provide the state with fiscal capacity, enhance territorial reach and bind the state with citizens. He suggested that a strong centralized public authority is a necessary condition for

most reforms. Lessons from South Africa were presented, where the process of public consultation delivered buy-in for tax reforms among different interest groups. Urban property taxes were discussed in the context of fiscal decentralization.

14. Debapriya Bhattacharya, Special Advisor on LDCs at UNCTAD, and Mustafizur Rahman, the Executive Director of the Centre for Policy Dialogue in Bangladesh, focused on the relationship between budgetary allocation and financing in low income economies. Although it was noted that budgetary processes in South Asian economies lack transparency, there is a strong correlation between revenue collection and development expenditure. A transparent expenditure framework, a simple and fair tax system, an equitable composition of tax sources, the phasing out of exemptions and leakages, broad-based but low tax rates, improvements in the quality of public services and better budgetary monitoring can all help governments establish fiscal legitimacy and strengthen the social contract.

15. Discussion that followed raised questions about: the tradeoffs between a state's credibility and popularity on the one hand and the need for strict tax enforcement measures on the other; the incentives behind local authorities' actions; the actual degree of independence of revenue authorities; the downsides of fiscal decentralization in resource-rich countries; and how the effectiveness of external assistance might be hindered if countries themselves lack accounting and accountability principles and domestic ownership.

How Can Tax Administrations be strengthened for Development?

16. This session was chaired by Edwin Visser, Co-Chair of the CFA's Board on Co-operation with Non-OECD Economies and Otaviano Canuto, Vice President, Poverty Reduction and Economic Management, the World Bank, provided the meeting with insights into the Bank's experience with assisting developing countries with tax administration reform. Taking account of country specificity, political economy issues and ensuring ownership were considered to be important success factors. In addition, governance aspects, such as client surveys and tax payers' education must be addressed. Sandro de Vargas Serpa, Sub-Secretary of Taxation of Brazil's Federal Revenue, provided the meeting with insights from his own experience of administrative reforms. Finally, Caroline Silberztein, Head of OECD's Transfer Pricing Unit, explained the agreed principles of transfer pricing and set out some of the issues concerning implementation, as well as the work the OECD is carrying out to assist developing countries on these issues.

17. In discussion, the importance of not viewing tax as the replacement for aid in the short term, the importance of south-south learning and the need for equitable and pro-poor tax collection were all highlighted. The meeting took note of the EU's proposed communiqué on tax and development in Spring 2010 with interest.

How can Domestic Resource Mobilisation through Taxation help reduce Poverty and Inequality?

18. The session was chaired by Fernando Cepeda Uloa, Ambassador of Colombia to France, who emphasised the difficulty in reconciling revenue objectives with poverty and inequality alleviation, and the role the judicial system should play in reviewing and contesting tax related legislation.

19. Director at the Inland Revenue Board of Malaysia, Lim Hong Eng, presented an overview of, and challenges entailed in seeking to address poverty and inequality through taxation. Malaysia features progressive income and flat corporate tax rates but the self-employed, high-income groups, multinationals and the informal sector, fail to share in the tax burden. Moreover, a trend towards lower personal and corporate rates and lesser revenues from petroleum tax has put a strain on revenue mobilization.

Recommendations to alleviate this strain include closing the gap between personal and corporate tax rates and rationalizing reliefs and deductions (both helping to reduce abuses), but also introducing a goods and services tax (GST) which is regressive in nature and faces opposition from the public.

20. Roy Culpeper, the Director and CEO of the North-South Institute, examined the possibilities for enhanced domestic revenue mobilisation in Sub-Saharan Africa through the lens of five countries (Burundi, Cameroon, Ethiopia, Tanzania and Uganda) while contributing to poverty and inequality reduction. Mr Culpeper proposed that, first, the current systems should be exploited more fully (exemptions removed, consumption taxes levied more broadly, direct taxes made progressive). Second, the tax base could be broadened by means of real estate property levies. Third, trade taxes should not be reduced too rapidly. Finally, tax legislation and administrations should be simplified since complex systems create opportunities for discretion and corruption. The capacity of revenue authorities could be strengthened with the help of donors. Mr Culpeper's overall observation was that investment and expenditure, as opposed to taxation, should be seen as the main drivers of poverty alleviation and addressing inequalities in developing countries.

21. Comments touched upon the problem that although property taxes could encompass many people, this tax is hard to implement when tax administrations are weak. Discussion covered weak taxpayer registration in Africa, competing legislative competencies of different ministries in Asia and the possibilities of making indirect taxes more progressive.

Round up

22. In summing up, Richard Carey, Director of Development Cooperation, highlighted the need to consider pro-poor tax within wider debates about expenditure and growth as the route to fiscal legitimacy and state building. Looking ahead, tax was considered as the exit strategy from aid but only in the long term. In the interim, the dangers of creating dual public sector systems must be avoided when external players deliver public services themselves and the tax treatment of aid funded goods and services should be examined. At the international level, work was required to ensure developing countries had a voice in the more transparent international tax environment and an appropriate division of labour should be agreed among external providers of support.

23. In his summary, Javier Santiso, Director of the Development Centre, highlighted the importance of fiscal legitimacy and political economy issues plus the need to balance taxation with expenditure performance. Civil society and the private sector should join governments to examine these linkages. As next steps, the African Development Bank and the Development Centre will produce the African Economic Outlook on "Public Resource Mobilisation and Aid in Africa" covering 50 countries from the African continent, and the Centre for Tax Policy and Administration and the Development Centre will collaborate to produce comparable tax statistics for Latin America and the Caribbean.

24. Finally Richard Parry (for the Director of the Centre for Tax Policy and Administration) set out next steps. The DAC and CFA would establish a joint informed Task Force on Tax and Development, representative of key stakeholders from government, business and NGOs. The Task Force would develop a clear work programme focussed around supporting work on: a) maximising the participation of developing countries in the work on exchange of information for tax purposes; b) improving transparency through guidance on reporting of profits by multi-national enterprises; c) supporting developing countries to apply transfer pricing principles to enable them to collect their fair share of tax; and d) mapping the provision of international support in the tax area building on work undertaken by the International Tax Compact and the International Tax Dialogue.

ANNEX

JOINT MEETING ON TAX and DEVELOPMENT
BETWEEN THE COMMITTEE ON FISCAL AFFAIRS (CFA) AND THE DEVELOPMENT ASSISTANCE COMMITTEE (DAC)

Wednesday 27th January 2010

CO-CHAIRS' STATEMENT

On 27th January 2010, the OECD hosted a joint meeting of the Committee on Fiscal Affairs and the Development Assistance Committee, bringing together the tax and development communities for the first time.

Participants agreed on a set of general principles to guide follow up action:

- We acknowledge the urgent call for action from the developing world and the G20 to make progress in the field of tax and development.
- We accept the imperative of close cooperation to combat tax evasion and to work with the developing world to take advantage of the opportunities in the more transparent global environment.
- In our endeavour to work with developing countries and to organise the international response in the tax area, we will promote policy coherence across our governments--among tax, finance and development practitioners.
- We have a common understanding of the central role taxation plays in development and poverty reduction: a strong tax system is the heart of a country's financial independence, its revenues are the lifeblood of the state itself.
- We also agree taxation is more than just about revenue mobilization. The way in which revenues are collected and spent defines the symbiotic relationship between the state and its citizens, strengthening the former and making it more accountable to the latter.
- We agree that an ongoing and open dialogue, involving all stakeholders, can enrich our interaction to help developing countries.
- We encourage the range of international initiatives for dialogue and co-operation and we will seek an appropriate division of labour. In this respect the International Tax Dialogue could play a role.
- We acknowledge the important role that south-south co-operation has to play.

Participants also *recognised* the importance of the need to work together directly in capitals and with other relevant international institutions, and agreed to:

- Explore the opportunities to develop a joint CFA-DAC programme in collaboration with the Global Forum on Transparency and Exchange of Information for Tax Purposes to assist developing countries to benefit from the more transparent global tax environment, including making it easier (e.g. through the multilateral TIEA) for developing countries to access information from other countries, with safeguards on confidentiality.
- Work together to support and help deliver the work programme of the recently created African Tax Administration Forum.

- Develop a programme, in the context of the OECD's work on multi-national enterprises, to improve transparency in the reporting of profits and tax payments. To support developing countries in applying transfer pricing principles to enable them to collect their fair share of tax.
- Intensify co-operation between tax administrations and other law enforcement agencies to counter illicit activities.

To *achieve* these goals and implement a coherent approach, engaging developing countries and other key stakeholders including NGOs, and business, participants *decided* to set up a Task Force on Tax and Development. This will convene in early 2010 as an informal group representative of all stakeholders, to develop clear and effective mechanisms for implementation and avoid duplication. The informal Task Force will begin by mapping out existing international efforts relating to tax and development.