



**THIRD MEETING OF THE OECD FORUM ON TAX
ADMINISTRATION**

14-15 September 2006

**Final
Seoul Declaration**

Sharing Knowledge of Developments and Reforms in Revenue Bodies and Meeting the Challenges of International Non-Compliance with Domestic Tax Laws

Seoul Declaration

Over the last two days, we, the Heads and Deputy Heads of Revenue Bodies from 35 economies, met in Seoul, Korea under the auspices of the OECD's Forum on Tax Administration¹ to share our concerns and experiences and ideas to deal with two of the key challenges facing revenue bodies in the 21st century.

(i) Organizational Developments and Reforms for More Effective Tax Administration

National revenue bodies are increasingly expected to carry out a broad range of functions and we must continue to adapt our organizational structures to fulfill these expectations. Nevertheless, the core activity of every revenue body is the effective administration and implementation of the tax laws. This means collecting the tax legally due under domestic legislation while fully respecting the rights of taxpayers. Revenue bodies are under constant pressure to close the gap between the tax legally due and the tax actually collected. To do this, we strive to provide a tax administration system that is efficient, effective and provides high standards of service to taxpayers and other stakeholders and, at the same time, collects the revenues required by law to fund necessary public services.

Our discussions, which were based on country presentations, showed that revenue bodies face a range of external and internal drivers for change that must be properly incorporated into their business planning activities. These include changes in tax policy; mandates from government for improved revenue collection and service delivery; reductions in resources requiring revenue bodies to "do more with less"; taking on new non-tax functions; programs to reduce the regulatory burdens on businesses and citizens; managing globalization impacts and advances in technology; new staff recruitment arising from a rapidly ageing workforce; and the trend to whole of government approaches for the delivery of government services.

We agreed that integrating all of these forces for change into a consistent, comprehensive and achievable reform is one of the key challenges for any revenue body, and one which the Forum can facilitate by providing the opportunities for sharing knowledge of experiences, identifying good practices in tax administration and by strengthening practical cooperation between revenue bodies. In this context, officials welcomed the latest update to the Forum's comparative information series, which is expected to be circulated in October 2006.²

(ii) Confronting Non-Compliance with the Tax Laws in an International Context

Each country differs in the level and structure of its taxes, but all countries – both low and high tax countries, developed and developing – agree that once national tax laws have been enacted, they need to be enforced. Enforcement of our respective tax laws has become more difficult as trade and capital liberalisation and advances in communications technologies have opened the global marketplace to a wider spectrum of taxpayers. While this more open economic environment is good for business and global growth, it can lead to structures which challenge tax rules, and schemes and arrangements by both domestic and foreign taxpayers to facilitate non-compliance with our national tax laws. It is our duty as heads of our respective countries' revenue bodies to ensure compliance with our national tax laws by all

¹ The Forum was established by the Committee on Fiscal Affairs in 2002 to promote cooperation between revenue bodies and to develop good tax administration practices. Over the last few years the Forum has examined a wide range of issues in the areas of risk management, taxpayer services, and use of modern technology (see www.oecd.org).

² 'Tax Administrations in OECD and Selected non-OECD Countries: Comparative Information Services (2006)', (draft version on conference website (see www.oecd.org/ctp/fta)).

taxpayers, including activities beyond our borders, through effective enforcement and by taking preventive measures that deter non-compliance.

Our discussions in Seoul confirmed that international non-compliance is a significant and growing problem. Cross-border non-compliance can take many forms, up to and including outright tax fraud. Individuals have, for example, used offshore accounts, offshore trusts or shell companies in offshore financial centres or other countries to conceal taxable assets or income, as well as credit cards held in offshore jurisdictions to provide access to concealed assets; businesses of all sizes have created shell companies offshore to shift profits abroad often taking recourse to over or undervaluation of traded goods and services for related party transactions and some multinational enterprises (including financial institutions) have used more sophisticated cross-border schemes and/or investment structures involving the misuse of tax treaties, the manipulation of transfer pricing to artificially shift income into low tax jurisdictions and expenses into high tax jurisdictions which go beyond legitimate tax minimization arrangements.

Our discussions revealed continued concerns about corporate governance and the role of tax advisors and financial and other institutions in relation to non-compliance and the promotion of unacceptable tax minimization arrangements. We also noted the increased flows of capital into private equity funds and the potential issues this may raise for revenue bodies.

Having shared our individual experiences in responding to these challenges, we agreed that addressing this multifaceted problem requires a response both at the national and international levels. National revenue bodies need to respond in diverse ways taking into account their legal, political and economic environment. At the national level, these responses could include:

- Employing effective risk management techniques at the organizational and operational levels and sharing our assessments of risk with taxpayers.
- Strengthening the enforcement process, taking appropriate civil and criminal actions for non-compliance and putting more resources into international cooperation.
- Exploring the need for dedicated organizational units to deal with offshore non-compliance.
- Addressing the role of accounting and legal firms, investment banks and other institutions in promoting the use of tax shelters to non-comply with the tax rules.
- Encouraging top management and audit committees of large enterprises (e.g. CEOs and boards of directors) to take greater interest in, and responsibility for, their tax strategies.
- Developing a whole of government approach to dealing with the problems posed to law enforcement agencies in today's more open and global environment.

To be fully effective, such national actions need to be reinforced by international actions. The CFA, the parent body of the FTA, and the FTA itself are currently working in a number of areas which will promote better international co-operation, including:

- Sharing, through appropriate legal means, information on the identification of tax schemes and on mitigating strategies being used by different countries.
- Reinforcing, and improving the practical implementation of, the exchange of information provisions found in bilateral tax treaties and, where appropriate, developing tax information exchange agreements with offshore financial centres.
- Keeping the OECD Transfer Pricing Guidelines up to date and promoting their consistent application and thereby ensuring that there are safeguards in place to avoid the misuse of tax treaties.
- Improving practical cooperation between revenue bodies and other law enforcement agencies of governments to counter non-compliance.

We also recognized that taxpayers' attitudes towards paying tax is influenced by other factors such as taxpayers' perception of the quality of public goods and services and the level of trust between citizens and their governments in general.

We are committed to using national, regional and multilateral initiatives to achieve better compliance with the tax laws working within the existing framework of bilateral agreements and, if needed, to explore the need for new tools to assist in the detection of international non-compliance. In this context, we identified four areas in which we will intensify existing work or initiate new work under the auspices of the OECD:

- (i) Further developing the directory of aggressive tax planning schemes so as to identify trends and measures to counter such schemes.
- (ii) Examining the role of tax intermediaries (e.g. law and accounting firms, other tax advisors and financial institutions) in relation to non-compliance and the promotion of unacceptable tax minimization arrangements with a view to completing a study by the end of 2007.
- (iii) Expanding its 2004 Corporate Governance Guidelines to give greater attention to the linkage between tax and good governance.
- (iv) Improving the training of tax officials on international tax issues, including the secondment of officials from one administration to another.

Progress made with these initiatives will be reviewed at our next meeting, which will be hosted by South Africa late 2007 or early 2008.

Finally, we expressed our appreciation to the Korean government for hosting this third meeting of the Forum on Tax Administration. A list of the economies and organizations participating in this meeting is attached.

Participating economies and organizations:

Australia, Austria, Belgium, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Finland, France, Germany, Hong Kong (China), Iceland, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Netherlands, New Zealand, Norway, Poland, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, European Commission, Inter-American Center of Tax Administrators (CIAT), International Monetary Fund (IMF), Intra-European Organisation of Tax Administrations (IOTA).