

News and developments from the first half of 2010

July 2010

The topic of taxation and development has received a great deal of attention since January 2010, when the last ITC workshop was held in Brussels, and many important developments have occurred at the international, regional and the country level. In Brussels, one clearly stated ITC objective has been to contribute to improved knowledge management, relating in particular to the collecting of information on existing approaches and initiatives.

This newsletter will therefore provide an overview of recent international developments, starting with a brief summary of January's workshop, as well as ongoing studies and other selected activities in the field of taxation and development cooperation.



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Developments at international level

Results of the ITC workshop in Brussels, January, 25-27 2010

In **January 2010** the German Federal Ministry for Economic Cooperation and Development (BMZ), the Spanish Ministry of Foreign Affairs and Cooperation and the European Commission (EC) co-hosted the "Joining Forces to Mobilise Domestic Revenues for Development" workshop in Brussels. A total of ninety participants from twenty-four bilateral donor and partner countries and nine multilateral and regional organisations and initiatives attended this government workshop. Subsequently, twenty delegates from civil society, scientific organisations and the private sector attended a one-day meeting together with government participants on 27 January 2010.

The broad-based consultation process once again highlighted the importance of the ITC as an informal platform for action and dialogue, assisting developing countries in establishing fair and efficient tax systems, feeding the results into the international dialogue and promoting best practice in development cooperation measures at both country and regional levels.

UN Tax Committee and subcommittees

Also in **January 2010** the subcommittees on Capacity Building and Transfer Pricing of the UN Tax Committee commenced their work in earnest. Each of them also met in person in June to further develop their programmes and prepare reports for the Tax Committee.

One major ongoing activity is the development of the "Practical Manual on Transfer Pricing for Development Countries". This important work is being developed by the Subcommittee on Transfer Pricing and has received valuable impetus and support from the S4TP (South-South Sharing of Successful Tax Practices) initiative, a partnership of the UN Department Of Economic and Social Affairs, the Special Unit on South-South Cooperation of the UN Development Programme and two NGOs: New Rules for Global Finance and the Tax Justice Network. The first drafts of several chapters have been developed and will shortly be circulated for wider comment.

The Subcommittee on Capacity Building was able to carry out some practical capacity building on treaty negotiations through providing travel and scholarships to 5 tax officials from developing countries with the support of the ITC and the International Bureau for Fiscal Documentation (IBFD) in Amsterdam. Thirty more developing country tax officials are taking the same IBFD course online, also with ITC support.

On 23 July, the UN's Economic and Social Council (ECOSOC) adopted a Resolution calling for a Report by the UN Secretary-General examining the strengthening of institutional arrangements to promote international cooperation in tax matters, including the UN Tax Committee. The resolution also calls on the ECOSOC President to convene a discussion on international cooperation in tax matters within the Council by Spring 2011 and welcomes the Committee's proposal for a Code of Conduct on Cooperation in Combating International Tax Evasion.

Communication of the European Commission on Tax and Development

On April 21, 2010 the EC adopted a Communication on Tax and Development, which sets out its strategy and priorities in that area and addresses the domestic and international factors that hamper a country's capacity to raise tax revenues. The recommendations of the Communication were backed by Council Conclusions on June 14. Support for strengthening tax systems in developing countries is thus being accorded greater importance in the EC's development cooperation (http://ec.europa.eu/development/services/dev-policy-proposals_en.cfm).

On the domestic side, capacity building and technical cooperation will be key elements of the support provided to developing countries. Close cooperation is taking place with existing bodies and initiatives, such as the professional associations of tax administrations - as the Inter-American Center of Tax Administrations (CIAT) or the African Tax Administration Forum (ATAF), the International Monetary Fund (IMF) Regional Technical Assistance Centers, the Extractive Industries Transparency Initiative and the ITC.

In order to assist developing countries in their fight against tax evasion and avoidance, the Commission will provide support in implementing international standards for Good Governance in Tax Matters and OECD Transfer Pricing guidelines. The Commission is also encouraging closer cooperation between relevant bodies of the Organisation for Economic Co-operation and Development (OECD) and the United Nations (UN) when preparing international standards for tax cooperation, in order to ensure the needs and capacities of developing countries are taken into account.

First Meeting of ITC Core Group

On April 26, 2010, a Core Group Meeting of the ITC was held in Brussels, attended by representatives of ATAF, CIAT, France, Germany, the Netherlands, Norway, Spain, Switzerland, the EC, the IMF, the OECD and the UN, to agree on further cooperation commitments to fight tax evasion and tax avoidance.

The meeting was hosted by the German Federal Ministry for Economic Cooperation and Development, the Spanish Ministry of Foreign Affairs and Cooperation (as acting EU Council Presidency), and the European Commission. The participants agreed on support measures for further enhancing South-South cooperation in tax matters as well as promoting the voice and participation of developing countries in international discussions on tax and development. ATAF, CIAT and their member countries will be integrated closely in all further activities.

The ITC Core Group partners decided to meet again on a regular basis to further promote the ITC initiative and to provide strategic guidance for ITC work.

Inauguration of the OECD Task Force on Tax and Development

On May 11, 2010, the first meeting of the informal OECD Task Force on Tax and Development took place in Paris. It was co-chaired by the Netherlands and South Africa (also representing ATAF) and brought together representatives from the tax and development communities of the OECD (UK, US, Norway, Germany, Japan, France, Switzerland, Belgium, Spain, Italy), and developing countries/emerging

economies (India, Uganda, Sierra Leone, Kenya, Zambia, Malaysia, Philippines, Vietnam), business, international organisations (ATAF, EU, CIAT, ITC, ITD, UN) and NGOs (TJN, TJN Africa, Christian Aid, Eurodad and CCFD).

The purpose of the meeting was to introduce the informal Task Force, discuss its purpose, objectives and characteristics (informal with a flexible membership), and agree next steps such as terms of reference and plans for a detailed work programme.

It was agreed that the Task Force will work in sub groups with representatives from all constituencies on (a) exchange of information to address the issue of tax havens, (b) strengthening transfer pricing implementation, and (c) examining the case for country by country reporting of profits and taxes paid by MNEs. GOVNET was invited to work on tax and state building and report on practical ways of linking tax revenue to expenditure outcomes; track risks of aid dependency and the impact on tax and report on aid levels directed to revenue functions.

The ITC was asked to collaborate in various respects and stands ready to respond to these requests.

ITC Analytical Work and Studies

Mapping of activities in the area of taxation and development

The Mapping Survey on Taxation and Development already presented by GTZ at the ITC workshop in Brussels is now available in its final version on the ITC website (http://www.taxcompact.net/mapping_study.html). This mapping of tax-related development assistance activities was developed in order to gain a better overview of different actors and initiatives in the area of taxation and development. The study provides world maps depicting donor activities in different regions of the world as well as descriptions of activities according to the thematic focus of support.

Building on this mapping study, further provision of data and analysis in the area of taxation and development is envisioned and is currently being discussed between the ITC, the International Tax Dialogue (ITD) and OECD.

Study: “Addressing tax evasion and tax avoidance in developing countries”

The preliminary findings of this study were also presented at the ITC workshop in Brussels. It describes and systematises different forms of tax evasion and tax avoidance, analyses the reasons for these practices, and provides an overview of possible strategies and measures to combat them. This study is in the last stages of finalisation and will soon be available.

Study: “Appropriate aid modalities for strengthening tax systems”

Development partners are increasingly interested in expanding their work in taxation. However, effective modes of delivery have still to be refined. Donor support to tax systems is limited (e.g. the leveraging effects of budget support and other program based approaches for tax reforms are not being fully exploited), highly frag-

mented and lacking in effective joint financing mechanisms. The study will therefore guide development partners in the design of appropriate aid modalities and further contribute to a possible future joint donor agenda in taxation.

The study will be commissioned by KfW. The ToRs have been presented to the ITC Core Group and GOVNET members and it will be co-financed by KfW (under the ITC umbrella) and OECD/GOVNET. International competitive bidding is currently underway and the study will run from September 2010 to end 2010.

Tax Performance Assessment Tool

Within the ITC framework, the German Development Institute (DIE) and the German Development Bank (KfW) are working jointly on a Tax Performance Assessment Tool (TPAT). The tool seeks to provide a comparative overview of the tax performance of individual countries or groups of countries, based on macro-quantitative analysis and country-specific data. As a result, governments, donors and international organisations will be better placed to decide on tax reform programs and aid modalities.

Discussion Paper “Taxation in PEFA Assessments”

The ITC Secretariat is currently undertaking an analysis of the four tax indicators of 26 PEFA country reports.¹ This will result in a discussion paper on what can be gleaned from this important database regarding the performance of tax systems and the potential of PEFA as a benchmarking tool in the area of taxation and development.

Selected activities at regional and country levels

Support for the African Tax Administration Forum (ATAF)

ATAF is a Africa-wide professional association of tax administrators set up in November 2009 in Uganda with a view to strengthening efficient and effective tax systems and promoting state building and good governance in Africa. ATAF has already organised several technical events - e.g. on the negotiation of tax treaties and courses on risk management and taxpayer service—in order to provide valuable support for member tax administrations.

There is much interest from international organisations as well as bilateral donors in supporting this important process, and first meetings have taken place to coordinate contributions. The OECD Task Team on Taxation and Governance has assumed an active role in coordinating and supporting the steering process of ATAF. Germany has also supported ATAF since 2008 and is currently finalising plans to provide long-term technical cooperation to further assist the establishment of the institution. Furthermore with respect to technical projects, ATAF is also cooperating with ITD, AfDB and other African initiatives. Norway has initiated contact between the Tax Justice Network (TJN) and ATAF to work on a pilot for Automatic Exchange.

¹ Public Expenditure and Financial Accountability, see www.PEFA.org

Bilateral Cooperation with Ghana

In Ghana the Tax Policy Unit of the Ministry of Finance and Economic Planning is currently examining options to combat tax evasion and tax avoidance. This important work is being jointly supported by Swiss and German Development Cooperation.

Plans include the preparation of a proposal on how to strengthen the legal regime to tighten controls and the further development of measures to reduce the possibility of tax avoidance. Estimations of potential revenue leakages from bonded warehouses, free zones and transit goods and identification of measures to reduce leakages are also scheduled.

The tax policy unit is also working towards the implementation of international standards and the development and implementation of a fair and efficient tax regime through the preparation of a tax policy reform plan identifying areas of the tax system that need to be reviewed. The focus will be on personal income taxation, especially the taxation of professionals and streamlining of fringe benefits.

Joint donor support for the Ugandan Revenue Authority

In June 2010, the IMF, KfW and DFID undertook a first joint mission to the Ugandan Revenue Authority (URA). The objectives were to (a) analyse the status of the reforms defined in the current URA modernisation plan, (b) identify future challenges jointly with URA and (c) discuss possible donor support. As a result, common principles for a joint donor approach were identified. This joint donor approach will allow for smoother URA implementation, facilitate coordination and provide a platform for other donors to intervene.

CIAT: Regional Cooperation in Central America

CIAT, together with the US-American Office of Technical Assistance (OTA), the ITC Secretariat and the GTZ tax project in Guatemala will provide training to Central American revenue administrations in sector-related auditing. The courses and their practical application will be followed up in order to discuss the impact that can be achieved through those measures under the specific Central American tax policy frameworks.

Training on Transfer Pricing in Latin America

CIAT and the German Capacity Building International (InWent) have jointly been implementing a series of advanced training seminars since 2008 on the taxation of internationally active companies. The joint approach involves fostering cooperation between neighboring tax administrations in implementing the OECD norms in their own countries as well as establishing dialogue between tax administrations and the private sector. Chambers of Commerce are strategic partners in this cooperation. Further information can be obtained at <http://qc21.inwent.org/precios-transferencia>.

Support countries peer reviewed by OECD/ Global Forum on Transparency and Exchange of Information for Tax Purposes

The OECD and the Global Forum have started the planned peer review process in order to monitor and review progress made towards the full and effective exchange of information. During the first phase the peer reviews will concentrate on assessing the legal and regulatory framework in each country. The second phase will evaluate the implementation in practice (see documents under:

http://www.oecd.org/document/16/0,3343,en_2649_37427_44826640_1_1_1_1.00.html).

ITC is preparing to support developing countries entering into the peer review process. ITC will also contribute to strengthening partner countries' tax systems in order best to exploit the enhanced transparency of tax-relevant information at international level. Bilateral aid is already working towards creating administrative structures in many countries, enabling the implementation of information exchange mechanisms.

Dialogue and Conferences

Tax Justice in Latin America

In August the Central American Institute for Fiscal Studies (ICEFI) is organising a seminar on public finance and tax evasion in Latin America, focusing on training and advocacy in tax justice. This event is intended to provide information and exchange on recent research results and will contribute to networking among civil society organisations focusing on tax justice in Latin America.

This activity results from the joint work of European and Latin American civil society in their efforts to strengthen taxation in developing countries. The team includes: Tax Justice Network, SOMO (The Netherlands), KEPa (Finland), Christian Aid (U.K), Poder Ciudadano (Argentina), Latindadd (Peru) and ICEFI (Guatemala). The ITC Secretariat is providing additional gap financing.

Annual Conference of the Task Force on Financial Integrity and Economic Development

On September 28 and 29, 2010, the Annual Conference of the Task Force on Financial Integrity and Economic Development will be held in Bergen, Norway.