Introduction:

The Global Tax Simplification Program,
Investment Climate Advisory,
IFC/World Bank
Why Simplify Business Taxation?

**Our objective:** Smart and simple tax administration and processes to lower the cost of doing business

- Tax rates and tax administration constantly ranked across regions among top 3 “major constraints” for businesses

**Filling the niche:**
- We bring business perspective
- Agenda setters on SME Taxation and Tax Compliance Costs
- Collaboration with key players: IMF, PREM, PSD, OECD, ITD

**Highly responsive to macro economic changes**
- Crisis response work and post-crisis preparedness

**Firms identifying issue as “major constraint” [%]**

Source: Investment Climate Assessments data
Shifting lenses to deal with tax

Traditional Revenue Goal

- Raise Revenue for government expenditure

Development/Growth Goals

- Create a “culture of taxation”
- Regularization of the rule of law
- Help increase the size of the formal sector
- Promote growth*

- Good growth prospects for Developing countries
  - WBG projects growth to reach 6% in 2010 for developing countries and about 5.9% in 2011, versus 2.2% and 2.4% for the higher-income countries.
General tax policy issues we observe worldwide

Bad policy . . .
- Discretion, non-transparent laws
- Overly complex legal appeals system
- SME tax policy too complicated
- Insufficient legislation for large multi-national tax payers

... leads to:
- Corruption, tax evasion, less investment
- Deterrence from compliance, investment
- Informality
- Transfer pricing, tax avoidance and evasion
### Meeting Client Demand with KM and Operations

<table>
<thead>
<tr>
<th>Workstreams</th>
<th>Issues addressed</th>
<th>Tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Administration Simplification</td>
<td>Business tax administration is burdensome (CIT, VAT)</td>
<td>METR Analysis</td>
</tr>
<tr>
<td>Sub-national Taxes &amp; Regulations</td>
<td>Misuse of regulatory fees as revenue tools (esp. sub-national)</td>
<td>Tax Admin Process Mapping</td>
</tr>
<tr>
<td>Small Business Tax Reform</td>
<td>Small business facing high compliance costs</td>
<td>Standard Cost Model (SCM)</td>
</tr>
<tr>
<td>Tax Legal &amp; Appeals Reform</td>
<td>Overly complex, cluttered tax laws &amp; appeals system</td>
<td>Compliance Costs Surveys</td>
</tr>
<tr>
<td>Risk-based Audit System</td>
<td>Excessive and discretionary tax audits</td>
<td>Inventory of Fees &amp; Charges</td>
</tr>
<tr>
<td>Tax Incentives Reform</td>
<td>Tax competition has led to sub-optimal tax incentive structure</td>
<td>Incentives Review</td>
</tr>
<tr>
<td>Transfer Pricing</td>
<td>Delineating legal tax planning, from illegal tax evasion</td>
<td>Profit –Margin Analysis</td>
</tr>
</tbody>
</table>

6
Where we work at the moment

Pipeline:
- Balkans Program
- Rajasthan
- Pacific Islands (transparency)

Central Asia Regional Program
- Kyrgyz Republic
- Tajikistan
- Kazakhstan

Vietnam
- Pilot project
- All SME related

Lao PDR
- Pacific Island initiative

Yemen
- Pilot project
- All workstreams

East African Community Initiative

Sierra Leone
- Pilot project
- All workstreams

Nigeria

Bangladesh

India

Kenya

Rwanda

Tanzania

DRC

Madagascar

Armenia

Georgia

Nepal

Balkans Program

Mexico

Peru

Japan

Bangladesh

India

Kenya

Rwanda

Tanzania

DRC

Madagascar

Armenia

Georgia

Nepal

Balkans Program

Mexico

Peru

Japan
Transfer Pricing Technical Assistance of the Global Tax Simplification Program
Impact of globalization

Globalization has changed the world and how trade is performed by the players operating in global markets.

- Example: Around 2/3 of the world trade transactions is performed within multinational companies.

Ongoing loss of revenue every year for many countries. This revenue is sent abroad / offshore. Critical issue especially for developing countries → Current low revenue resources are even more reduced.

- **Main causes:** Aggressive Tax planning and Transfer Pricing.

- Developing countries aware of this situation and want to address this issue.
Developing Countries are Interested in TP Reform

- Often do not have the legal framework in place to enforce against TP violations.

- Sophisticated multinationals may also utilize aggressive tax planning techniques to take advantage of the tax rate arbitrage, but also the differing levels of TP enforcement capacity amongst developing countries => revenue leakage.

- Developing countries also face pressure from key developed country trading partners to enhance their tax transparency and TP enforcement.

- Adequate TP enforcement requires a robust information exchange mechanism between countries. There is a global push towards this by developed and developing countries through the Global Forum for Transparency and Exchange of Information for Tax => part of transparency agenda.

- Part of the tools to combat illicit flows from developing countries.
Decline in revenues means slackening investment and growth

Additional concern → Unilateral adjustments in a jurisdiction may trigger double taxation. Consequence → Disincentive to investors.
GTSP to offer support on Transfer Pricing
TA to clients

- Technical assistance to clients to help set up / improve transfer pricing provisions in tax laws
- Incorporate transfer pricing risk criteria in designing risk based assessment for tax audits
- Client countries that have already demanded assistance in transfer pricing:
  - Georgia
  - Vietnam
  - Serbia
  - Albania
  - Honduras
  - Jamaica
  - Dominican Republic
Components of GTSP’s transfer pricing work program

- Training on transfer pricing principles and regulations
- Training on application of transfer pricing
- Elaboration and preparation of transfer pricing legislation if they don’t currently have such
- Audit approach of transfer pricing matters
- Documentation requirements for taxpayers
Principles of GTSP’s transfer pricing work

- The value of the arm’s length standard
  - Departures from accepted principles creates risk, uncertainty and risk of double taxation

- Balancing the administrative burden
  - Establishing *de minimis rules*
  - Distinguishing between large corporations and small businesses

- Phased approach to transfer pricing enforcement in developing countries
  - Is there a TP-101?
  - Should the focus be on key sectors to start (mining, telecom?)
Partnerships and focus areas

- Partnership with the OECD and IBFD to contribute and help develop legislation and implementing procedures modeled on good practice.

- Work on "identification" tools → Integration of RBA and development of indicators to flag potential tax evaders/tax avoiders via transfer pricing.

- Work on provisions for fair enforcement and collection practices and provisions adopting international TP standards. Key to minimize corruption, curbing illicit flows, ensuring equal application of the law and tackling tax evasion.
Preparation of a practical toolkit on transfer pricing for developing country policy makers is underway.

Estimated completion date: Fall 2011

Topics:

- The context for developing countries, including pre-implementation considerations
- Legal frameworks
- Arm’s length principle
- Key issues: location savings, thin capitalization, etc.
- Documentation
- Dispute resolution
- Administration and audit
Georgia Program – Transfer Pricing Implementation

- Stage 1 – Development of primary and secondary legislation (Spring 2011)

- Stage 2 – Preparation of Transfer Pricing training manual for auditors (Spring 2011)

- Stage 3 – Transfer pricing training for MOF and tax authority officials, combined with audit skills training – June 2011

- Part of a more comprehensive Georgia tax administration simplification program focused on SME tax, appeals reform and strengthening of the audit process
Final thought: compliance burden matters

*Source: IBFD

Number of Countries with Documentation Compliance Duties

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 - 2007</td>
<td>35</td>
</tr>
<tr>
<td>2003 - 2004</td>
<td>30</td>
</tr>
<tr>
<td>2001 - 2002</td>
<td>25</td>
</tr>
<tr>
<td>1998 - 2000</td>
<td>15</td>
</tr>
<tr>
<td>1994 - 1997</td>
<td>10</td>
</tr>
</tbody>
</table>
Thank you!