news and developments

in the field of tax and development since june 2012

December 2012

international tax compact

Dear Reader,

the impact of the ongoing financial and debt crisis on developing and industrialised countries have shown the importance of taxation for achieving economic development, budgetary stability and social cohesion. The current context also underlines the key role of international cooperation for solving common problems in an increasingly economically interdependent world.

In this context, strengthening domestic resource mobilization and international tax cooperation stays high on the international agenda. The G 20 summit in Los Cabos has emphasized the crucial role of strengthening tax administrations as the erosion of the tax base in an environment of increasingly globalized markets and companies has become a growing concern to governments.

The ITC, being a platform for bi- and multilateral development partners for dialogue and action, forms part of this international agenda. During the last months we have expanded our activities to Asia and are also looking forward to start to work in Eastern Europe in 2013.

The following articles present a short overview of the latest developments in international tax cooperation. Kindly note, that the perspectives and opinions expressed in this newsletter are entirely those of the contributing institution and do not necessarily reflect the views of the ITC.

If you have any questions or suggestions regarding the newsletter, or if you would like to contribute an article for the next issue, please do not hesitate to contact us.

Enjoy the reading!

Best regards,
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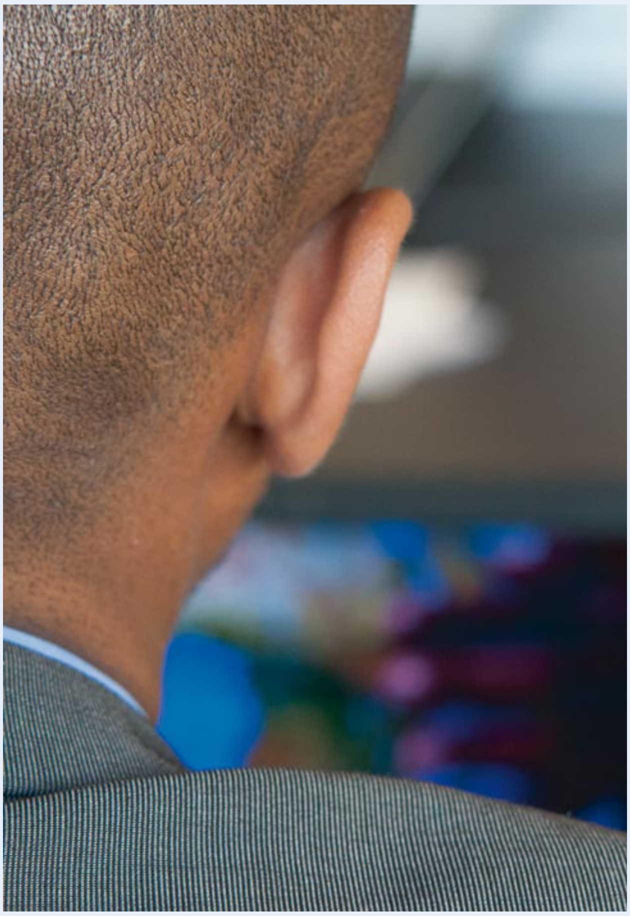
international tax compact:
strengthening
effective, efficient and fair
tax systems

Eighth annual session of the UN Committee of Experts on International Cooperation in Tax Matters

During the eighth annual session of the United Nations (UN) Committee of Experts on International Cooperation in Tax Matters held on 15-19 October 2012, the Committee approved and adopted the United Nations *Practical Transfer Pricing Manual for Developing Countries* **http://www.un.org/esa/ffd/tax/documents/bgrd_tp.htm**

The Manual responds to the pressing need expressed by many developing countries for more extensive and more practical guidance on transfer pricing issues. The Manual is currently undergoing final editing before its official 'release' in the first half of 2013.



After an introductory overview of the issues involved, the Manual includes chapters on the business and legal environments, capacity building, comparability, methods, documentation, audits and dispute resolution. While the first nine chapters of the Manual focus on achieving a broad consensus in the drafting Subcommittee, chapter 10 describes transfer pricing practice in different countries, explained in the country officials' own words. For this edition of the Manual, Brazil, China, India and South African officials have contributed very candid and helpful notes on their country practices and issues that have arisen, and more will follow in the future.

The Manual will no doubt also be used in the future as a basis for UN capacity-building work on transfer pricing. The UN is looking forward to partnering with other stakeholders on such issues.

At this last meeting before the membership of the Committee is renewed in mid-2013, other key decisions of relevance to developing countries included the following: the UN Model Double Tax Convention should include a provision on the taxation of fees for technical services – a provision many developing countries seek to establish in their tax treaties; further work should be done on international VAT issues; and a working group should be formed on resource taxation issues for developing countries.

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ITC Core Group partners confirm their commitment to support developing countries in tax matters in 2013

On 19 October 2012, Core Group partners of the International Tax Compact (ITC) met in Amsterdam to discuss strengthening their support to developing countries to improve tax policy and to fight tax evasion and tax avoidance.

Participants shared encouraging experiences in this field at the national and regional levels in Africa, Latin America and Asia, as well as at the global level. Numerous countries have already made substantial progress in reforming their tax policies and administrations and in raising their tax revenues in order to broaden the fiscal space for poverty reduction and development investment. However, the complex problems of transfer pricing, double taxation, cross-border financial transactions, illicit financial flows and the exchange of information between governments, as well as domestic obstacles, such as inadequate commitment, capacity, assistance and infrastructure for tax policy design and enforcement, still constitute great challenges for most developing countries. The ITC Core Group partners discussed and identified concrete steps to further support developing countries in facing these challenges and to further enhance coordination and harmonisation in relevant projects and programmes.

Participants stressed the importance of keeping the issue of domestic resource mobilisation high on the international development agenda, especially in the G-20 context, the discussions on the Post-2015 UN Development Agenda and the follow-up to the Busan Partnership for Effective Development Cooperation.

The meeting was attended by representatives of the African Tax Administration Forum (ATAF), the Inter-American Center of Tax Administrations (CIAT), France, Germany, the Netherlands, Norway, Spain, the United States, the European Commission, the United Nations Department for Economic and Social Affairs (UN DESA) and the Economic Commission for Latin America and the Caribbean (UN ECLAC), the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD), the International Tax Dialogue (ITD) and the Global Forum on Transparency and Exchange of Information for Tax Purposes. The meeting was jointly hosted by the ITC, the Ministry of Foreign Affairs of the Netherlands and the European Commission.

Shortly before, on 15 October, these issues had also been addressed by the European Union’s 27 development ministers, who decided to systematically incorporate tax administration into policy dialogue with partner countries and support tax policy, administration, collection and reform. The EU and its member countries will help to combat illicit capital flows and identify misuse of transfer pricing. They will also encourage EU companies working in developing countries to 'pay their fair share in taxes' and 'improve the transparency of their payments to governments'. The International Tax Compact will support these endeavours.

For further information please contact the ITC Secretariat:
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Smart Cooperation – The 2012 CIAT Technical Conference

CIAT held its 2012 Technical Conference in Amsterdam from 15 to 18 October 2012. The Conference was hosted by the Netherlands Tax and Customs Administration. The theme of this year’s Conference was 'Smart Cooperation'. Presentations were given on how the efficiency and effectiveness of tax administrations can be improved when there is better cooperation with other intergovernmental entities and taxpayers. Tax administration representatives from over 30 CIAT member countries attended this international tax event, as did representatives from ten invited countries and over 20 international organisations and other institutions collaborating and cooperating with CIAT. For further information, please visit the CIAT homepage or use the following link:
http://www.ciat.org/index.php/en/international-cooperation/international-activities/technical-conferences/2218.html

Selected Activities at Regional and Country Levels

Institutionalising exchange of information in Africa: the African Agreement on Mutual Assistance in Tax Matters (AAMATM)

Domestic resource mobilisation (DRM) remains at the core of ATAF's strategic objectives. With a view to fostering the prosperity of African countries, ATAF has revised its programme for the next three years and unveiled its Strategic Plan 2013-2015. Our objectives include a desire to improve good governance and accountability between state and citizens.

As part of efforts to provide the basis for the development of capable revenue authorities in the African continent, ATAF, through the Working Group on Exchange of Information, developed the African Agreement on Mutual Assistance in Tax Matters (AAMATM). This Agreement on Mutual Assistance is designed to take account of the differing levels of infrastructure in the various tax administrations. It is an African initiative aimed primarily at encouraging exchanges between ATAF members, and it focuses efforts on achieving this aim as soon as possible.

The main objectives of the ATAF project are to prioritise the prevention of tax evasion through information exchange, provide training and expert assistance in information exchange and set up the structures required to ensure that information is effectively exchanged among members.It will allow members to address issues relating to multinational enterprises (such as transfer pricing) together by undertaking simultaneous examinations and examinations abroad.

ATAF will embark on a project to train the competent authorities of its member countries in order to make the agreement fully operational and an integral part of revenue authority practice. To date, 25 member countries have agreed to the text, and a meeting was held in Pretoria (South Africa) on 25-27 July 2012 to further facilitate agreement among members.

Once more, ATAF acts on the belief that capable revenue authorities with strengthened capacities can effectively contribute to the development of their countries and reduce their dependence on aid.

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32nd EARACG delegation in Bujumbura, Burundi (7-8 June 2012)

The Uganda Revenue Authority chairs the East Africa Revenue Authorities Commissioners General Forum

To fulfil the vision of the East African Community (EAC) 'a prosperous, competitive, secure, stable and politically united East Africa', it was necessary for the revenue authorities (RAs) in the region to form a working relationship. Hence the creation of the East Africa Revenue Authorities Commissioners General (EARACG) Forum, which meets periodically. This Forum has been in existence for over 17 years with the mission of attaining harmonised, standardised and efficient tax and customs administration performance within the region.

It is supported by the East Africa Revenue Authorities Technical Committee (EARATC), composed of representatives from the respective RAs in the areas of domestic tax, customs duties, human resources, research & planning, information technology and legal services. Some of the achievements of this Forum so far have been:

- coordination of customs border operations to control smuggling through 24-hour border operations, one-stop border posts, sharing of in-house computerised systems and information from the systems i.e. Revenue Authorities Digital Data Exchange (RADDEX) and the Temporary Vehicle Import System (TEVIS);
- joint studies on questions such as the informal sector, comparative analysis of regional revenue performance, tax incentives and domestic law harmonisation within the EAC;
- development of revenue administration tools to address similar challenges i.e. internet service providers, audit checklists, transfer pricing guidelines, harmonisation of landing certificates and application of rules of origin;
- regional training programmes and sharing of training facilities, with skills transfer across borders and technical assistance given to new RAs (Rwanda Revenue Authority and the Burundi Revenue Authority);
- taxpayer appreciation day adopted regionally;
- signed memorandum of understanding (MoU) on information exchange in the region.

The most recent entrant to this Forum was the Burundi Revenue Authority (OBR) in June 2010 at the 28th EARACG meeting. In August 2012 the chair of the EARATC was handed over by the OBR to the Uganda Revenue Authority (URA), who will host the 33rd EARACG meeting.

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Implementation of revenue administration reforms in the Federal Democratic Republic of Ethiopia

Ethiopia is pursuing a public sector-led development strategy which focuses on promoting growth through high public investment. Strengthening Ethiopia's revenue mobilisation is part of this strategy and a key reform component. The Fiscal Affairs Department (FAD) and the East Africa Regional Technical Assistance Center (East AFRITAC – AFE) have supported implementation of domestic tax and customs administration reforms since 2004, with the Ethiopian Revenues and Customs Authority (ERCA) acting as the implementing agency. Since July 2012, technical assistance under the IMF's Tax Policy and Administration Topical Trust Fund and from AFE has been stepped up.

The reform programme has focused on strengthening taxpayer/trader compliance management at the federal level and better integration of sub-national and federal tax administration operations. Key reform milestones include: integration of tax administration and segmentation of the taxpayer population – for example, large and medium taxpayers' offices are fully operational; integration of the Addis Ababa City's tax administration with ERCA; and strengthening taxpayer compliance management in the Mercato central business district which commands more than 50 percent of Ethiopia's cash transactions.

Key results include: revenue collection improvements, for example, collections rose from 6.9 percent of GDP in 2008/09 to 11.5 percent in 2011/12; progressive streamlining of processes and procedures; staff training, such as the ongoing online mandatory training for all customs administration staff; and continually refining the organisational structure in response to government and taxpayer concerns about ERCA's efficiency. The authorities recognise that revenue collections are still below the sub-Saharan African average of about 18 percent and that there is a critical need to sustain the momentum of revenue administration reform.

Challenges remain in a number of areas including: broadening the tax base; streamlining exemptions; harmonising compliance management practices across the network of field offices; implementing risk-driven compliance interventions; systemic use of a comprehensive suite of performance management indicators; strengthening the headquarters function; and capacity building in specialised areas such as transfer pricing, given the growing presence of multinational entities in the country. ERCA is committed to implementing good revenue administration practices and takes FAD/AFE revenue administration recommendations seriously; it has significantly improved the monitoring of reform implementation and its understanding of the related challenges and opportunities.

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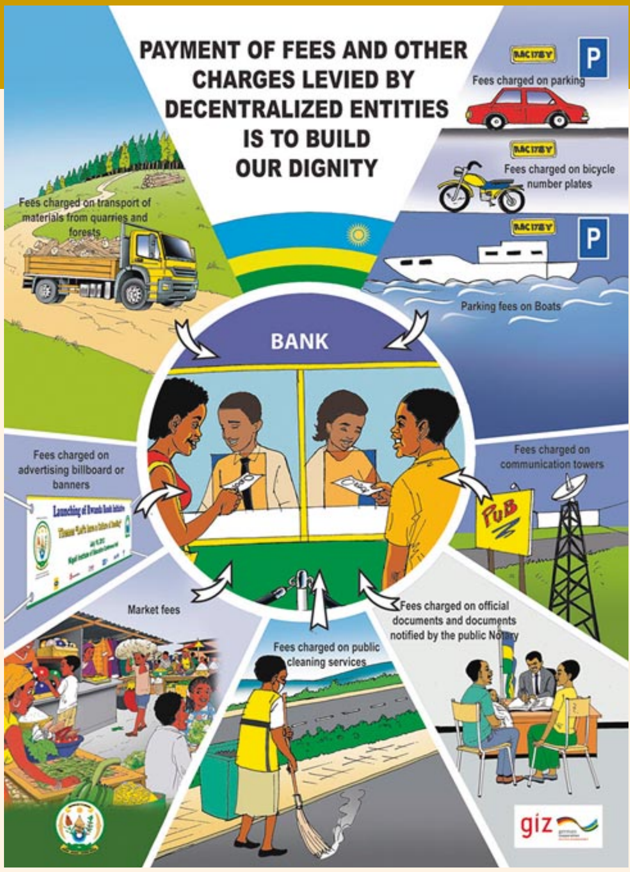
Rwanda adopts a new legal framework for local government own revenues

Over the last two years, Rwanda has implemented a comprehensive reform of the legal framework for local government own revenue, with the objective of increasing their financial resources and their autonomy. In 2012, new legislation, namely law 59/2011 of 16/01/2012 regulating local taxes and presidential order 25/01 of 09/07/2012 regulating local fees, entered into force.



Although no significant changes were proposed, the new regulations are expected to contribute to a more efficient, buoyant and fair local tax system. Many exemptions were abolished, and the revenue base of the districts was broadened while administrative requirements were reduced. Furthermore, regulations were introduced to relieve the financial burden on the poor, ensure a higher contribution by the wealthier and guarantee fair treatment of taxpayers.

Most of the changes affect property and local business taxation. According to the new law, property owners self-assess the value of their fixed assets for taxation based on market value. The revaluation of assets and tax declaration are necessary only once every four years. The Trading License Tax is based either on annual turnover categories or on types of profit-oriented activities to avoid small entrepreneurs paying the same amount of tax as bigger companies. These measures, supported by guidelines published in ministerial order 005/12/10 of 22/06/2012, are intended to make local tax administration easier and to reduce local tax avoidance.

The new presidential order on local fees provides a comprehensive list of fees, including thresholds, that local governments are allowed to collect. For citizens, the advantage is that the fee system becomes more transparent, and opportunities for illegal fee collection at the local level are reduced. The Ministry of Finance and Economic Planning estimates that after full implementation of the new legal framework, the 30 districts in Rwanda will generate up to USD 100 million in additional revenue annually.

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Regional training seminar on exchange of information for tax purposes

International cooperation in tax matters has become more important in recent years, as cross-border tax evasion became easier with the liberalisation of financial markets. Cooperation among tax authorities is crucial to ensure the effective administration and enforcement of a country's tax laws in a globalised world.

Therefore, the Ghanaian Ministry of Finance and Economic Planning (MoFEP) and the Ghana Revenue Authority (GRA), with the support of the ITC, the OECD and the German Development Cooperation, organised a week-long regional training seminar on exchange of information for tax purposes starting on July 30 2012. The delegates were officers – mostly engaged in exchange of information for tax purposes – from the MoFEP and the GRA, as well as from other African tax authorities, such as Nigeria, Cameroon, Liberia, Uganda, Burkina Faso and Morocco.

The training was conducted by specialists from the OECD, the World Bank and the South African Revenue Service. The seminar covered generic topics on the requirements of international standards on transparency and information exchange and gave an overview of the Global Forum including its peer review process. The seminar was divided into different sessions using a methodology mix of presentations, open discussion and work on a case study. The aim of the regional seminar was to expand the benefit of the seminar by developing a core group of exchange of information (EoI) experts in the region, to position Ghana as a leader in this important and high-profile area of tax administration and to support networking among participants in order to lay the ground for an increased number of EoI agreements. The seminar is a good example for the value that can be added through the cooperation between the ITC and national and international development partners.

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Liberia, 2012

First global CRAFT training event in Nairobi

Strengthening civil society's Capacity for Research and Advocacy for Fair Taxation

An organised and informed civil society is considered an important factor for increasing the transparency, accountability and fairness of tax systems in Africa. In this context, Oxfam and the Tax Justice Network Africa jointly organised four days of training at the Kenyan School of Monetary Studies in Nairobi from 30 October to 2 November 2012. It was the first global training event implemented by the Capacity for Research and Advocacy for Fair Taxation (CRAFT) project. The training event was attended by civil society organisations from Senegal, Egypt, Ghana, Mali, Nigeria, Uganda, Zimbabwe and Bangladesh. The objective was to train trainers, provide insights on how taxation works, enable participants to analyse the tax system of a country, develop an agenda for change and mobilise public pressure for fair taxation. Various sessions covered issues such as tax policy: process and key players; democracy, governance and citizen participation; the national tax system; and concrete case studies of tax corruption and avoidance. Oxfam is prioritising fair taxation and domestic resource mobilisation in its global campaigning. The project's innovative strength lies in working between and across countries and leveraging local to global advocacy. The ITC supports the CRAFT project in Senegal, Egypt and Ghana.

For further information on the CRAFT project, please contact Paul Groenewegen: **paul.groenewegen@oxfamnovib.nl**

Increasing transparency in tax matters in El Salvador

On its own initiative, El Salvador joined the Global Forum on Tax Transparency and Exchange of Information for Tax Purposes last year. In order to support this process, the German Development Cooperation's Fiscal Policy Support Project El Salvador, with financial support from the ITC and in coordination with the Secretariat of the Global Forum, has designed a special pre-peer review support package to help El Salvador prepare for the first phase of the Global Peer Review and work on the issues of international taxation. The pre-peer review support consisted of an exchange between the tax administrations of Guatemala and El Salvador this September. Guatemala has already concluded the first phase of the peer review and shared details of its practical experience with its neighbouring country. Additionally, an international consultant worked with Salvadorian officials on identifying weaknesses in the legislation as concerns the international standard, contributing with specific regional experience from Latin America. In December, a first on-site visit by the Global Forum Secretariat, financed by the ITC and organised by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) country project, will take place in order to make a full pre-assessment. A first lesson learned from this pre-peer review process in El Salvador is that a small country with limited resources and little practical experience in exchange of information needs a structured preparation process that not only includes technical advice on tax legislation and the regulatory framework but also capacity building. El Salvador has its first phase peer review scheduled for the first half of 2014. The German Development Cooperation will accompany the Ministry of Finance in its efforts to comply with the international standard on tax transparency.

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Guatemala is on its way to meet OECD guidelines on transparency in tax matters

Guatemala has recently been under pressure as a consequence of not complying with the recommendations of the Global Forum on Transparency and Exchange of Information on Tax Purposes. Those form part of the Global Forum's peer review process.

Guatemala continues to be on the OECD's grey list of countries which meet the tax haven criteria as described in the 1998 OECD Report. Within the next 6 month Guatemala, on an international level, needs to advance with regard to signing further Tax Information Exchange Agreements (TIEAs). On a national level, the country needs to improve transparency regarding the bank secrecy in the country.

The Ministry of Finance of Guatemala and the country's Internal Revenue Service (SAT) are working on this task. The German Development Cooperation in Guatemala together with the ITC provided an international expert on exchange of information in tax matters to support the process.

A main achievement of the technical assistance has been Guatemala's ratification of a multilateral agreement on exchange of information in Paris in December which opens the way for Guatemala to exchange information on tax purposes with 38 countries which already form part of this agreement.

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Strengthening Latin America's tax administrations with regard to the control of multinational corporations and transfer pricing

On 19-20 November 2012, a regional exchange on the control of multinational corporations and transfer pricing took place in Montevideo, Uruguay. The seminar was organized by CIAT together with the ITC, GIZ, the Internal Revenue Service of Uruguay (DGI), the OECD and the German-Uruguayan Chamber of Commerce within the framework of the 'Fiscal reforms for strengthening the social cohesion in Latin America' discussion series.

The first day of the event focused on the exchange of experiences and best practices among the delegations present regarding the control of transfer pricing abuse by multinational companies. In this context, participants also discussed the situation in developed countries and critical issues faced by tax administrations in the region regarding the control of transfer pricing. The lack of comparable information on the various activities of internationally operating companies makes it difficult for tax administrations in the region to control the misuse of transfer pricing for tax evasion.

The second and third day gave the delegation the opportunity to comment on a regional project concerning the development of a Latin American database for the control of multinational companies. The group of participants was composed of delegations from Ecuador, Paraguay, Chile, Costa Rica, Venezuela, Paraguay, Peru, Argentina and Uruguay as well as international experts from Spain and Germany. After the CIAT General Assembly in Santiago de Chile in April 2012, a working group has been established to examine the feasibility of a Latin American database, which could institutionalise the exchange of publicly available data and would be useful for controlling the activities of large enterprises in the region. The project forms part of an initiative by CIAT, the ITC and GIZ to strengthen the capacities of South American tax administrations with respect to international taxation.

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Evasion and income tax in Latin America

Many tax systems in Latin American countries continue to be regressive – a situation which is significantly aggravated by the high levels of income tax evasion. Within this context, UN ECLAC joined forces with the ITC, CIAT, DGI and the Center for Fiscal Studies (CEF) to organise a regional exchange seminar on 'Evasion and Income Tax in Latin America' on 22-23 November in Montevideo.

The event was attended by 47 participants representing Ministries of Finance, Internal Revenue Services and academia from nine countries in the region, namely Argentina, Chile, Ecuador, El Salvador, Guatemala, Mexico, Peru, Dominican Republic and Uruguay. Experts from the IMF and the OECD also participated.

The seminar provided a space for experts and political authorities to exchange different country experiences and best practices regarding the measurement of income tax evasion. Participants stressed the vital importance of improving existing methods. More accurate estimations and analysis are crucial for improving fiscal policies, increasing domestic revenues and reducing social inequality in the region.

In close cooperation with UN ECLAC and CIAT, the ITC will continue to strengthen the capacities of Latin American tax administrations with regard to measuring and effectively reducing tax evasion, by providing, for example, short term technical assistance to tax administrations in this field.

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CIAT and Ecuador's tax administration host an international seminar on tax control for the metal mining sector

The Internal Revenue Service (SRI) of Ecuador, together with CIAT, held an international seminar in the city of Quito on 3-5 October of this year. The main topic was tax control for the metal mining sector.

As metal mining is very important in the region, generating adequate environments for the discussion of best practices and experiences among the tax administrations of Latin American countries in this field is essential.

The seminar was attended by 120 participants, mostly from Ecuador's Internal Revenue Service and other national government agencies concerned with the subject, including delegates from ministries, prosecutors and officials from mining regulation and control agencies, as well as representatives from the tax administrations of Argentina, Colombia, Kenya, Guatemala, Nicaragua, Peru and the Dominican Republic.

The event addressed key issues such as mining legislation, exemptions in the sector, major risks, control procedures and the results of tax audits, tax treatment of mining investments, the implementation of agreements to avoid double taxation for the mining sector, applying transfer pricing, procedures to control ore and refined products, international taxation risks and financial instruments.

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Asia

Second Asian Tax Authorities Symposium (ATAS)

The second Asian Tax Authorities Symposium (ATAS) was successfully held on 4-5 September 2012 in Kuala Lumpur, Malaysia. This year's theme was 'Anti-avoidance rules in taxation: striking a balance'. ATAS was jointly hosted by the International Bureau of Fiscal Documentation (IBFD), the Inland Revenue Board, Malaysia (IRBM), the Financing for Development Office (FfDO) of the United Nations, the Royal Norwegian Ministry of Foreign Affairs (MFA) and the ITC, and supported by the OECD.

The event was attended by high-level tax officials and experts from 19 Asia-Pacific jurisdictions, i.e. Australia, Bangladesh, Bhutan, Cambodia, Cook Islands, Hong Kong, Indonesia, Japan, Malaysia, Maldives, Myanmar, Nepal, New Zealand, Pakistan, Philippines, Singapore, Solomon Islands, Sri Lanka and Thailand. Many of the participants spoke and presented on the relevant issues arising from designing and implementing anti-avoidance regimes and on tackling tax avoidance, especially from a developing country perspective.

Presentations were also given by experts from IBFD, the OECD and the United Nations FfDO. Dr Barbara Dutzler, commenting on the ITC's role as a new partner in ATAS, said that ATAS was a 'forum for exchange, where issues of mutual interest can be discussed with tax authorities' representatives from different countries that have the same technical expertise but different perspectives on policy and implementation questions – 'this is how we see ATAS, and this is why we think it is worthwhile to support it'.

ATAS was first held in 2010 and is a biannual event. The main focus of ATAS is to contribute to building and developing capacity in public governance for tax administration and policy, by creating and enhancing the awareness of Asia-Pacific tax administrations and tax policymakers about domestic and international tax issues associated with the increasing globalisation of economic activities. It seeks to do so by providing a platform for the Asia-Pacific tax authorities of developed and developing countries to explore and address the problems faced and to promote the finding of solutions through the invaluable sharing of country experiences. In particular, ATAS wishes to encourage greater country participation from developing countries in discussing acceptable international tax norms and aims to provide an avenue for these countries to highlight the issues that concern them most.

For further information on IBFD events and technical assistance in Asia-Pacific please contact IBFD: **ibfdasia@ibfd.org**

Workshop Jakarta, Indonesia, October 2012

Discussing challenges for collecting property tax in South-East Asia

The Ministry of Finance of the Republic of Indonesia and the ITC took the initiative to organise an international seminar on challenges posed by property taxation. The seminar was held on 27-28 November 2012 and hosted by the Ministry of Finance in Jakarta with the support of the ITC and AusAID.

Over two days, representatives of public administrations at national and sub-national levels, experts from academia and development partners from eight Asian countries (Indonesia, India, Cambodia, Nepal, Philippines, Malaysia, Bangladesh and Pakistan) exchanged experiences, challenges and good practices with regard to efficient, fair and accountable property taxation.

Property tax can have important fiscal and non-fiscal benefits. Its revenue is often of critical importance to sub-national and national levels of government. However, it is also a tax that requires effort, investment and skilled staff to administer and maintain it appropriately. Taxing property requires a database of properties, with details of their value, owners and geographical data, which must be constantly updated. Property valuation and appraisal is a science in itself and, if not managed correctly, a door-opener for corrupt practices. Not only is appropriate equipment necessary, but also the capacity to manage and update data. This said, the professional administration of property tax can pave the way for urban and rural development and reduce the risk of land speculation.

The seminar gave participants the opportunity to discuss whether, and under what circumstances, property taxes should be a decentralised tax in the different contexts of the represented countries. With enough discretion, local governments can attract investors for private and corporate objectives. However, local governments do not normally have the same level of skilled staff or standard of equipment as national-level administration has.

This is especially true in rural areas, where economies of scale may play a role in the administration of such taxes. Practice may therefore challenge textbook wisdom on whether property tax really should always be a local tax.

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European Commission invests in research on tax policy reform and resilience of fiscal revenues to exogenous shocks

The European Commission (DEVCO – Unit Budget Support, Public Finance and Macroeconomic Analysis) has launched two studies to serve the policy dialogue with partner countries on domestic revenue mobilisation and resilience to shocks. The first study is to refine the understanding of why, for what purpose and how tax policy reforms are conducted, succeed or fail. The starting point is that the feasibility and effectiveness of tax policy reform depend on the political process to set the reform objectives and solve distributional conflicts, the capacity to adapt the tax administration, getting the right mix of tax legitimacy and control to ensure respect for tax law, the economic structure and the macroeconomic challenge, the international context and the policy advice provided by international institutions.

The method applied consists in comparing nine case studies, each defined as a reform sequence in a country. The study aims to be the starting point for building up a publicly available collection of comparable case studies, which can be enriched by further research undertaken by interested stakeholders. The conviction is that the comparison of a growing number of cases, widely shared, will increase the common understanding of the subject. DEVCO will therefore attempt to achieve consensus among interested stakeholders on the methodology to be used to conduct the case studies.

The second study consists of a cross-country statistical and econometric analysis of the factors determining the vulnerability and resilience of fiscal revenues to exogenous shocks. The results will be used as input to design shock absorbing mechanisms. The studies are expected to be finalised by end-2013 and by mid-2013 respectively. The members of the ITC are invited to participate by providing guidance for both studies. A first meeting to this end will be convened in Brussels in January.

For enquiries or further information please contact Europe Aid: **europeaid-taxstudies-2013@ec.europa.eu**

Revenue statistics in Latin America: tax revenues, while rising, are still low with variations among countries

The OECD, UN ECLAC and CIAT have jointly published *Revenue Statistics in Latin America 1990-2010*. The publication provides internationally comparable data on tax levels and tax structures for a selection of Latin American and Caribbean (LAC) countries.

The model for this work is the OECD *Revenue Statistics* database which is a fundamental reference, backed by a well-established methodology, for OECD member countries. By extending this OECD methodology to LAC countries, *Revenue Statistics in Latin America* enables meaningful cross-country comparisons of tax levels and structures to be made not only between LAC economies, but also between them and their industrialised peers. The report provides an overview of the main taxation trends in Latin America. It examines changes in both the level and composition of taxation and the attribution of tax collection by government sub-level between 1990 and 2010. Overall, tax revenues in Latin American countries are lower as a proportion of their national incomes than in most OECD countries, but are rising slowly. The publication shows that the average tax revenue to GDP ratio in the 15 Latin American countries covered by the report increased from 19% in 2009 to 19.4% in 2010, after falling from a high of 19.7% in 2008.

Furthermore, the report notes that though the tax to GDP ratio did rise significantly across Latin American and Caribbean countries over the period 1990-2008 – by 5.8 percentage points compared to 1.5 for the OECD – at 19.4% in 2010, it is still far lower that the OECD average of 33.8%.

Across both OECD and Latin American countries, there are wide national variations. In 2010, the tax to GDP ratios for the 15 Latin American and Caribbean countries covered by the report range from 33.5% in Argentina (close to the OECD average) to 11.4% in Venezuela and, in OECD countries, from 47.6% in Denmark to 18.8% in Mexico.

The share of tax revenues collected by local governments in Latin America is small in most countries and has not increased, reflecting the relatively narrow range of taxes under their jurisdictions compared with OECD countries.

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Dialogue, Conferences and Upcoming Events

Dialogue on public finance in Central America: status quo and outlook

On 5-6 November 2012, senior officials from Central American Ministries of Finance and revenue authorities came together in the city of Antigua, Guatemala, to discuss critical issues and best practices regarding public finance and domestic resource mobilisation in the region. The regional seminar ‘Public Finance in Central America: Situation and Perspectives’ was hosted by the Ministry of Finance of Guatemala, and realized by the ITC, in cooperation with the UN ECLAC, CIAT and the Central American Institute for Fiscal Studies (ICEFI).

The seminar brought together 60 participants from seven countries, namely Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic. The seminar was attended by the World Bank, the IMF, various regional NGOs working in the field of public finance and representatives from the private sector.

Although Central America has achieved significant improvements in recent years in terms of fiscal and social indicators, considerable challenges remain with regard to social spending and implementing anti-cyclical fiscal policies. Within this context, participants intensively discussed a broad range of topics, such as the region’s situation with regard to fiscal space and public debt, tax administration reform, fiscal quality and transparency as well as public social spending.

As presented in the seminar, the region has made substantial progress in reforming its tax policies – particularly with regard to increasing social spending and strengthening tax administrations. Moreover, participants emphasised the importance of continuing efforts for strengthening regional integration, particularly with regard to fiscal policies. Nevertheless, obstacles at the national level, such as weak political commitment and the lack of capacities and infrastructure for the implementation and enforcement of tax policies, still constitute great challenges for many countries in Central America. The ITC and ECLAC will continue their cooperation in Central America in 2013.

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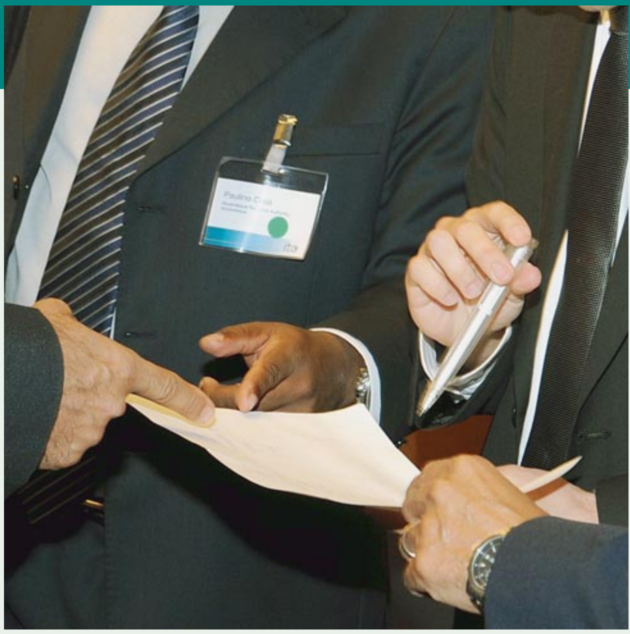
Exchanging perspectives on research on taxation in developing countries

In order to develop more effective and coherent strategies concerning domestic resource mobilisation and tax performance, governments, donors and international organisations need to understand the role political, economic and institutional factors play in defining tax regimes.

Against this background, the German Development Institute (Deutsches Institut für Entwicklungspolitik – DIE) organised the Second International Workshop on 'Mobilising domestic revenue in developing countries' in Bonn on 15-16 November 2012.

The aim of the Second International Workshop was to bring together renowned scholars, government officials and other experts to discuss new research on taxation in developing countries. Some 30 participants from international organisations (OECD, IMF and ITD), academia (Germany, UK, France, Austria, Netherlands, Sierra Leone and Dominican Republic) and development organisations (BMZ, GIZ and KfW) attended the meeting. The papers presented covered a broad range of topics,



regions and methodological approaches, but they shared a common concern for the political economy underlying tax policy and tax administration reforms. There was general agreement that a combination of econometric cross-country analyses with detailed case studies is needed to deepen our understanding of the factors shaping tax systems in developing countries.

For further information on the workshop and the DIE project 'Mobilising domestic revenue in developing countries', please contact: **armin.schiller@die-gdi.de**

Helsinki seminar on alternative transfer pricing methods

Developing countries face enormous challenges in taxing the profits of multinational corporations. To overcome these problems, a first seminar on alternative methods of transfer pricing took place in June 2012 in Helsinki. The speakers at the seminar included senior tax experts and professionals from various disciplines and developing and other countries around the world. Many of the speakers challenged the OECD's dominant so-called 'arm's length' approach to transfer pricing, as determined by the OECD *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. The speakers argued that the arm's length approach does not adequately address current transfer pricing problems and suggested several alternatives, some of which are already being put into practice.

For example, Tatiana Falcão, a Brazilian tax attorney, explained about the Brazilian system, which is based on a series of safe harbours and fixed formulas available to taxpayers for import and export transactions. Kerrie Sadiq, an Australian attorney, emphasised the economic disadvantages of treating multinational financial institutions as separate entities for transfer pricing purposes and suggested instead formulary apportionment as an alternative device, which also reduces profit shifting. Vikram Vijayaraghavan, an Indian tax attorney, pointed out the weaknesses of the Indian transfer pricing system, which is mostly based on the arm's length principle and suggested applying a three-tiered solution which includes sector-wide safe harbours, the use of formulary apportionment and the streamlining of current Indian transfer pricing provisions. It was generally agreed by the seminar participants that there is a need to apply a unitary approach, under which total taxable income is apportioned to countries according to a formula based on economic substance (sales, labour and capital employed). However, it was clear that further operative steps should be taken to promote alternative solutions, including conducting empirical research and case studies, applying unitary taxation to financial institutions and exploring how unitary taxation might benefit countries in other regions.

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http://www.taxjustice.net/cms/upload/pdf/TJF_7-3-2.pdf

Civil society conference on the nexus of tax justice – human rights – future justice

On 27 November, a broad coalition of German civil society organisations organised an international conference in Berlin to discuss the interlinkages of the tax justice agenda with the financing of human rights and eco-social fiscal reforms. The Global Policy Forum Europe, together with the Friedrich-Ebert-Stiftung, MISEREOR and Terre des Hommes and in cooperation with the German branch of the Tax Justice Network, invited a wide range of experts from civil society, politics and academia to discuss how these three agendas could be advanced jointly.

The issue areas of ecological fiscal reform, the financing of human rights and the tax justice agenda have so far been debated in separate circles, neglecting the interdependencies among them. This has led to silo mentalities, with state revenue trumping social equality and the search for resources to finance human rights fulfilment stopping at national borders. To overcome these artificial boundaries, the conference brought together experts from the international struggle for tax justice, such as Attiy Waris from the University of Nairobi, with specialists on south-south cooperation in the field of eco-social fiscal reforms, such as Erika Siu from UNDP.

The outcomes of the conference will be made public in a series of working papers to be published by the Global Policy Forum Europe. The organisation will furthermore keep working on the nexus of issues in the coming years in forthcoming publications and workshops, e.g. a working paper on eco-social fiscal reforms in the global South and the role of civil society.

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