Outcome of the meeting of ATI Consultative Group 3

Date:	1 July 2019
Location:	Berlin, Germany
Participants:	Lisa Brinkmann (ITC Secretariat) Tom Cardamone (GFI) Evan Cunningham (Ireland) Henrique de Alencar (Oxfam Novib) Juvy Danofrata (Philippines) Germain (Madagascar) Maryl Go (Philippines) Geert Holterman (Netherlands) Kenneth Matupa (Malawi) Frankie Mbuyamba (ATAF) Sathi Meyer-Nandi (GIZ) Khamis Mwalim (Tanzania) Gunilla Näsman (Sweden) Rachel Ruamps (France) Joseph Stead (OECD)
Agenda:	1) Illicit financial flows 2) Whole-of-government approach 3) Tax incentives 4) ODA taxation

1) Illicit financial flows

Tom Cardamone (Global Financial Integrity, GFI) initiated the meeting by presenting a short list of recommendations to combat illicit financial flows (IFF). This list is based on a vast number of studies highlighting best practices to adjust the IFF problem. From an original number of 150 recommendations, the following nine recommendations were presented:

1. Establish multi-agency government units to address tax evasion and other IFFs
   Originally, this concept stems from the Australian Government, where establishing such units to address tax evasion has proven to be great success. France introduced such an approach two years ago[1]. When establishing multi-agency government units for these purposes, it is important to make sure that best fit, not best practices, are implemented, which account for the way the respective government operates.

2. Establish public online corporate ownership registries
   Public corporate ownership registries provide transparency in corporate ownership to deter terrorists, drug cartels, human traffickers, corrupt officials, tax evaders and other criminals from using shell companies to launder money and evade taxes. Ultimately, however, the benefit of such registries depends on law enforcement.

3. Establish membership with the Global Forum on Transparency and Exchange of Information for Tax Purposes
   Within the Global Forum, each member commits to sharing information with the other members and to complying with certain standards and peer reviews. In this context, Mr Frankie Mbuyamba, Research Manager for Tax Statistics and Outlook at the African Tax Administration Forum (ATAF), highlighted how ATAF has helped foster the Exchange of Information (EoI) in the continent. ATAF has created an EoI Committee and the ATAF Mutual Agreement on Assistance on Tax Matters was created a couple of years ago. Further, ATAF has been working directly with countries to establish units focused on EoI, enabling them, among others, to implement reforms successfully and present plans to the respective parliaments.

4. Sign and ratify the Multilateral Convention on Mutual Administrative Assistance in Tax Matters
   "The Convention" is a multilateral convention for EoI, tax collection assistance, simultaneous tax reviews, overseas tax reviews and the issuing of documents. As it facilitates EoI without the negotiation of several multilateral tax treaties, helping to ease the administrative burden. However, Ms Juvy Danofrata, Director at the Department of Finance of the Philippines, stressed three major reasons why partner countries still struggle to ratify such initiatives: parliaments oftentimes do not understand their benefits, a low level of security and integrity, and lacking technical capabilities and infrastructure. Addressing these issues would help to bring partner countries to ratify these conventions.

5. Require disclosure of beneficial ownership information from all government contract bidders
   This measure would prevent the misuse of corporate vehicles to obtain government contracts, which could lead to tax evasion. Consequently, this is a way to prevent potential corruption in the system and ensure that funds are spent in a conductive way.

6. Establish transfer pricing units within tax authorities
   This measure enables a more comprehensive examination of tax practices to prevent profit shifting and tax evasion.

7. Adopt a law clearly prohibiting trade misinvoicing
   Such a law helps deter trade misinvoicing and, consequently, prevents losses of customs duties, VAT and corporate income taxes. The problem relates to an information dissymmetry, lack of information exchange on trade. GFI, which considers the topic in a holistic way, has done substantial work on this topic, estimating the losses from trade misinvoicing for a myriad of countries and creating a cloud-based database that allows to identify these gaps. This tool is implemented in customs departments' units specialised on imports. However, achieving data precision in this area remains difficult.

8. Require country-by-country financial reports from multinational companies operating in a country
   These measures provide transparency on corporate tax planning and assist in determining if profit shifting is taking place.

9. Establish (or strengthen) financial intelligence units
   This measure helps to identify and reduce tax evasion, but it ultimately depends on whether there is the political will to fund financial intelligence units.

After the presentation of the results, participants agreed that the Addis Tax Initiative could engage in this topic in different ways. A mapping on existing technical assistance support to these recommended fields could be commissioned and published. This could help ATI partner countries to benefit from ATI development partners' technical know-how in these specific issues. In addition, such a mapping should be extended with concrete case studies and good practice examples. A practical guide could be derived from this mapping exercise. The list could also be extended with an indicator on tax incentives.

2) Whole-of-government approach

The ATI Consultative Group 3 discussed the viability of a whole-of-government approach in the field of tax and development and the challenges related to implementing it. Joseph Stead (Organisation for Economic Co-operation and Development, OECD) shortly presented an OECD whole-of-government survey on tax and development. Eleven, mainly large, development partners responded to the survey and shared their experiences with the co-operation between tax administrations and anti-corruption authorities in combating tax crime and corruption. Overall, getting the development perspective into the Ministry of Finance and other ministries, and the question of how to sensitise governments to this perspective, seem to be the core challenges. Joseph Stead suggests that the best role for the Addis Tax Initiative going forward would be either to identify what is actually needed to succeed in feeding the development perspective into the tax policy arena, or to help ATI partner countries fill in specific needs and overcome challenges they might be facing when it comes to cross-government working.

Gunilla Näsman (Sweden) provided a country example from Sweden, where a whole-of-government approach was introduced with great success. The Ministry of Finance, the Ministry of Foreign Affairs, the Tax Administration and Swedish International Development Cooperation Agency (Sida) are on track, understanding the need for collaboration in order to reach defined goals. Recently, it was decided to include businesses, civil society and academia as well. France made a similar experience, according to Rachel Ruamps (France). In this case, the collaboration between the Ministry of Finance and the Ministry of Foreign Affairs - primarily responsible for multilateral assistance – and the AFD – engaged in bilateral assistance – was fostered. Together, these entities are currently working on a strategy to domestic revenue mobilisation, which will centre around three objectives with activities to pursue these objectives. Both believe that, besides financing, the most important requirement to succeed it a strong political will.

It was raised that in general, partner countries are facing many of the problems development partners have faced when first introducing a whole-of-government approach to international development cooperation in their governments. Therefore partner countries and development partners should work together in collaboration in introducing the whole-of-government approach.

The meeting also discussed the importance of the Addis Tax Initiative and the Forum on Tax Administration (FTA) should work together to bring partner countries and ministries of finance or tax administrations working together, with the BEPS Inclusive Framework meetings serving here as an example. Further, it was stressed that – instead of trying to define what policy coherence is – ATI members should focus on how to improve that process and identifying challenges faced in addressing policy coherence.

3) Tax incentives

Lisa Brinkmann (ITC Secretariat) presented the current status of the ATI study on tax incentives. A consultant was commissioned to draft a study on how to design tax incentive regimes in such a way, that the drawbacks are minimised and the benefits are maximised. This study will account for case studies from Malawi, the Philippines and Ghana. Collen Lediga, Advisor for the Secretariat of the Addis Tax Initiative, will share the Terms of Reference and the first draft of the study with the ATI Consultative Group 3 members.

4) ODA taxation

The last topic discussed was the taxation of official development assistance (ODA). Geert Holterman (Netherlands) presented the case of the Netherlands. After a Ministry-internal study examined the consequences of tax exemptions, the Netherlands refrain from asking for tax exemptions for ODA since 2016. After a transition period, refraining from ODA tax exemptions has become common practice. Mr. Holterman will provide a summary of the study, which will be shared with the ATI members. In general, there is an international move in this direction. Other countries, such as Sweden and France, have followed the Netherlands' example.

Joseph Stead stressed that extensive work is being undertaken by the Platform for Collaboration on Tax (PCT) under the lead of the United Nations (UN). The UN Committee of Experts on International Cooperation in Tax Matters is currently reviewing guidelines that were originally prepared in 2007 and examine which measures are actually valid when it comes to preventing double taxation if countries are not asking for tax exemptions. The process is currently ongoing. Mr. Steads would consider it useful to know more about what the practical challenges of ATI member countries are – both when granting ODA tax exemption and when providing technical assistance to this matter – and to have some degree of quantification (e.g. cost for ATI partner countries). The briefing note "The taxation of foreign aid" by the Overseas Development Institute (ODI) and the African Tax Administration Forum (ATAF) is another interesting publication shedding light on this complex issue.

ATI Consultative Group 3 members agreed that it would be helpful to build a momentum to address ODA taxation in the context of policy coherence for development. Khamis Mwalim (Tanzania), for instance, is very pleased that the Addis Tax Initiative has taken up this topic. At the same time, participants agreed that it would be important to define what exactly the role is for the Addis Tax Initiative within this issue. It might be worthwhile to consider the Addis Tax Initiative as a checks and balances regarding the viability of the PCT guidelines. The initiative could also compile a list of countries that have refrained from ODA tax exemption, countries that intend to do so and countries that will continue with business as usual