# Update on Activities of the Platform for Collaboration on Tax

June 27, 2017

**International Monetary Fund (IMF)**
**Organisation for Economic Co-operation and Development (OECD)**
**United Nations (UN)**
**World Bank Group (WBG)**

# I. INTRODUCTION

The IMF, OECD, UN and World Bank Group established the Platform for Collaboration on Tax (PCT) to intensify their cooperation on tax issues in April 2016. The PCT formalizes regular discussions among staff of the four international organizations (IOs) on tax matters, including on cross border issues; analyzes and supports capacity-building to developing countries; and supports joint delivery of guidance on a range of tax issues. It also increases the organizations' ability to share information on operational and knowledge activities around the world and helps them to use their leverage to bring stakeholders together to take the necessary actions to achieve greater progress.

Improved domestic revenue mobilization (DRM) is a core part of the Sustainable Development Goals (SDGs) framework and the Addis Ababa Action Agenda on financing for development. The Addis Agenda stresses the need for assistance to developing countries to improve their capacity to collect both tax and non-tax revenues, and commits to provide international support to developing countries in reaching targets for enhanced domestic revenue. Under the Addis Tax Initiative (ATI), participating providers of international support have each committed to double their technical cooperation in the area of DRM between 2015 and 2020.

This note provides an update on the work and plans of the PCT.[1] It provides details only of work that is being done formally as part of the Platform, and does not include activities that Platform Partners undertake under their own mandates, separately or in collaboration with others. The rest of the note is divided in three sections: Section II provides an overview of the Platform, explaining its main objectives, joint outputs, as its well as funding strategy. Section III describes main activities carried out, and Section IV highlights the main activities of the Platform planned for the next 12 months.

# II. THE PLATFORM FOR COLLABORATION ON TAX—A RECAP

The Platform is a joint effort by the four IOs to further assist governments in strengthening their tax systems and capacity, and address the complex challenges they face. The Platform serves as a venue for dialogue with and providing guidance to developing countries on international tax issues, and supports the work of other tax bodies (including the Global Forum, Inclusive Framework, and UN Tax Committee) through identifying and analyzing emerging international tax issues, especially, though not only, those of interest to developing countries. The specific objectives and joint outputs, as set out at the inception of the Platform, are summarized in Box 1[2].

1 Such an update, by mid-2017, was requested by the G20: i) Communiqué of the G20 Finance Ministers and Central Bank Governors Meeting, 23-24 July 2016, Chengdu, China, available at http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Featured/ G20/G20-Documents/2016-China-G20-July.pdf. ii) Communiqué of the G20 Finance Ministers and Central Bank Governors Meeting, 17-18 March 2017, Baden Baden, Germany, available at http://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Featured/G20/g20-communique.pdf

2 For more detail, see the Platform's concept note available at: http://documents.worldbank.org/curated/en/801891468196141038/The-platform-for-collaboration-on-tax-concept-note

**BOX 1: The Platform's Objectives and Joint Outputs**

**Objectives:**

1. Producing concrete joint outputs and deliverables under an agreed work plan, implemented in collaboration by all or selected IOs, and leveraging each institution's own work program and comparative advantage. The outputs may cover a variety of domestic and international tax matters.
2. Strengthening dynamic interactions between standard setting, capacity building and technical assistance (experience and knowledge from capacity building work feeding into standard setting and vice-versa, including timing of implementation).
3. Sharing information on activities more systematically, including on country level activities.

**Joint Outputs:**

1. Toolkits to assist developing countries address issues in relation to taxation of Multinational Enterprises (MNEs), including in relation to the new measures from the BEPS reports.
2. Joint analyses to support developing countries to participate in the implementation of the BEPS package and input into future global standard setting on international taxation.
3. Common and jointly owned training materials that support developing countries address capacity development issues, as well as reports covering the impact of effective IO assistance on tax reforms.
4. Analysis of and statement on the benefits/cost for developing countries engaging in international exchange of information provisions, in an effort to improve awareness to build comprehensive and effective exchange of information mechanisms.
5. Joint policy papers, analysis and guidance on taxation.
6. Activities to improve coordination and information sharing on a set of high priority tax issues.

### A. Funding

Thus far, each IO has used its own existing resources to produce Platform products (e.g. toolkits). This will not suffice to meet the ambitious objectives for the PCT. The Platform is therefore seeking donor support to expand and secure the funds needed to ensure the delivery of the Platform's products described in section IV, in particular those outreach activities that promote country relationships, further support the participation of developing countries in international tax matters, and contribute to the visibility of the Platform. The estimated budget for the next two years is $2.8 million.

## III. ACTIVITIES OF THE PLATFORM FOR COLLABORATION ON TAX

The PCT has begun its work in earnest and made progress on several fronts. In addition to consolidating the Secretariat (by hiring a Platform coordinator and setting up a website for the Platform[3]), it has continued to work on production of the various "toolkits", requested in 2015 by the Development Working Group of the G20 in order to assess and recommend how selected international issues of particular relevance to developing countries—including but not limited to those in the BEPS project—can

[3] See http://www.worldbank.org/en/programs/platform-for-tax-collaboration

be best addressed.[4] In July 2016 the PCT prepared a series of recommendations for enhancing the effectiveness of external support on building tax capacity, and is taking forward work on the relevant recommendations for the PCT, most notably on the concept of the Medium Term Revenue Strategy (MTRS). The PCT has also undertaken a number of outreach activities to both take the work of the PCT to a wider audience, and encourage stakeholder engagement with the PCT. The PCT has also been responding to the G20 focus on tax certainty and has commenced planning for the first Platform Conference, on Taxation and SDGs, which is set to be held in early 2018. The following sub-sections summarize the main developments in the last 12 months.

## A. Toolkit addressing difficulties in accessing comparable data for transfer pricing analyses

During the Inclusive Framework meeting held on June 21-22, 2017 in the Netherlands, the PCT presented a toolkit that addresses the difficulties in accessing comparables data for transfer pricing analyses. A report to the G20 Development Working Group on the Impact of BEPS in Low Income Countries[5] highlighted the importance and need to address the lack of comparable data: *"The international standard in transfer pricing, which is routinely incorporated in domestic transfer pricing rules, requires MNEs to price their related-party transactions in line with the pricing they would have used if they were conducting the same transaction with an unrelated party. Financial data about transactions between unrelated parties that are similar to the related party transaction (known as "comparable transactions") is thus a prerequisite for countries to be able to effectively enforce their transfer pricing rules. Developing countries frequently express concerns about the availability and quality of financial data on comparable transactions."*

This toolkit, first puts the problem of finding appropriate comparables in context: the critical first step in any transfer pricing analysis is accurately delineating the transaction since this will be key in determining the most appropriate transfer pricing method, which will in turn drive the search for comparables. That is, it is essential the transfer pricing analysis "asks the right question" before seeking an answer from comparables. While the process is iterative to some extent—an absence of comparables may mean a preferred transfer pricing method cannot be effectively applied—the toolkit stresses that the most appropriate method should not be easily dismissed because the available comparables are imperfect.

Practical tools, like a sample functional analysis questionnaire, illustrative case studies and examples, and cross references to technical guidance are provided to assist tax administrations put these principles into practice.

Next, the toolkit discusses the sources of potential comparables data, both local and foreign, as well as strategies for accessing such data and using it effectively. The toolkit provides practical tools to assist tax administrations select appropriate comparables, which in some cases, may be from outside their local markets. For example, there is a step-by-step screening template, and a number of common approaches

[4] The first of such toolkits "Options for low income countries' effective and efficient use of tax incentives for investment" was published in October 2015 available at https://www.imf.org/external/np/g20/pdf/101515.pdf

[5] Prepared by the OECD in July 2014 and available at https://www.oecd.org/g20/topics/taxation/part-2-of-report-to-g20-dwg-on-the-impact-of-beps-in-low-income-countries.pdf.

to the making of adjustments to account for differences between the available comparables and the tested transaction are discussed. It should be noted, however, that no single approach can be recommended in all circumstances and the toolkit therefore calls for further research on this.

Acknowledging the importance of extractive industries to many developing countries, the toolkit includes a supplementary section addressing information gaps on prices of minerals sold in an intermediate form. This includes case studies examining copper, iron ore, thermal coal and gold, and outlines a methodology for examining the transformation chains, identifying key traded products and establishing common industry pricing practices for these and any other minerals.

Lastly, the toolkit proposes a number of options that could systemically address certain categories of transactions for which access to data can be problematic, e.g. through the development of appropriate safe harbours or prescriptive measures. It discusses how tax administrations could minimise the potential disadvantages of such measures through their design and greater regional or international co-ordination. For example, in some cases data available to tax administrations which cannot be used as comparables could, nevertheless, be used to establish safe harbours which are both transparent and aligned with arm's length outcomes.

In summary, in addition to addressing the problem of a lack of available local comparables data, the toolkit provides practical tools to help direct the search for comparables appropriately, making the best use of the data that is available, and policy options for more systemic approaches, to help ensure that arm's length transfer pricing rules can be practically applied.

The toolkit incorporates responses received from online feedback provided during January 24-April 7, 2017. The draft document was translated into French and Spanish to ensure wide participation. The final toolkit will also be available in French and Spanish within the next two months.

## B. Toolkit addressing Offshore Indirect Transfers

This report—currently in draft form—focuses on, and provides practical tools to address, the tax treatment of 'offshore indirect transfers' (OITs)—in essence, the sale of an entity owning an asset located in one country by a resident of another. OITs have emerged as a significant concern in many developing countries. Not covered by the G20-OECD BEPS project, this topic was identified as a concern in IMF technical assistance work and scoping by the OECD, and, in relation to extractive industries, is also the subject of work at the UN.

The toolkit is intended to facilitate a more uniform approach to the taxation of OITs. Countries' unilateral responses have differed widely, in terms of both which assets are covered and the legal approach taken. Greater coherence could help secure tax revenue and enhance tax certainty.

Importantly, the toolkit finds a strong case in principle, for the taxation of such transfers by the country in which the asset is located. This extends beyond a narrow notion of immovable assets to include more widely those generating location specific rents—returns that exceed the minimum required by investors and which are necessarily tied to the jurisdiction in question. This might include, for instance, telecom

licenses and other rights issued by government. Translating this concept into legal text is not easy, but the report provides illustrative language for a sufficiently broad definition of immovable assets.

There seems indeed to be wide acceptance that capital gains taxation of OITs of "immovable" assets can be appropriately exercised by the location country, with both the OECD and the UN Model treaties including provisions to that effect. It remains the case, however, that the most relevant provision (Article 13(4)) is found only in around 35 percent of all tax treaties, and is less likely to be found when one party is a low income resource rich country. In this respect, the Multilateral Convention on Implementing Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting may have a positive impact by increasing the number of tax treaties that effectively include Article 13(4) of the OECD MTC.

Whatever treaties may or may not come into play, however, the report stresses that such a taxing right cannot be supported without a clear definition in domestic law of the assets intended to be taxed and without a domestic law basis to assert that taxing right.

The report outlines two main approaches for enforcing taxation of OITs by the country in which the asset is located—provisions which require careful drafting. It outlines the two main approaches for doing so and again provides sample simplified legislative language for domestic law in the location country for both. One of these methods treats an OIT as a deemed disposal of the underlying asset. The other method treats the transfer as taking place offshore, but sources the gain on that transfer within the location country and so enables that country to tax it. For relative ease of enforceability, and the logic and simplicity of basis adjustment it implies, the report favors the method of deemed disposal.

The Platform's work in this area has been informed by several interactions with developing country officials: at the spring meetings of the World Bank and IMF, regional IMF events and OECD events including the Inclusive Framework on BEPS. It is currently posted for feedback from all stakeholders, and it is expected that the final version will be issued within the third quarter of 2017.

## C. Support in Building Tax Capacity

Drawing from experiences with delivering technical advice, the PCT delivered in July 2016 a report to the G20 that puts forward a set of recommendations and enabling actions critical for more effective external support to building tax capacity in developing countries.[6] The paper identifies a fundamental prerequisite to improve tax capacity: *country commitment.* It then introduces five key enablers that play an important role in building tax capacity:

- A coherent revenue strategy as part of a development financing plan
- Strong coordination among well-informed and results-oriented providers
- A strong knowledge and evidence base
- Strong regional cooperation and support

[6] IMF, OECD, UN and WBG, July 2016, *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, available at http://pubdocs.worldbank.org/en/858011469113510187/Enhancing-the-Effectiveness-of-External-Support-in-Building-Tax-Capacity.pdf

- Strengthened participation of developing countries in international rule setting.

In order to achieve or strengthen these enablers, the Platform presented a number of recommendations for providers of external support, donors and the four Platform members, as well as recipient countries. These recommendations are summarized in Annex 1.

A key recommendation of the July 2016 PCT is that countries enhance their revenue mobilization efforts by adopting a Medium-Term Revenue Strategy (MTRS), comprising four interdependent components:

1. building broad consensus on revenue goals for the medium term;
2. a comprehensive tax system reform—policy, administration, and tax legal framework—to realize the revenue goals;
3. committing to a steady and sustained implementation of the strategy; and
4. adequate resourcing for reforms and coordinated support from donors during implementation.

The Platform partners committed to support the implementation of 3-5 MTRS pilots. To this end, PCT partners have been taking actions to (a) develop and disseminate the MTRS approach and (b) reach out to countries to support MTRS adoption and implementation.

Developing and disseminating the MTRS approach. The PCT has co-hosted two events with capacity development (CD) partners—in October 2016 (Paris) and May 2017 (London) with the French and UK governments, respectively.[7]The October event discussed the PCT report to G20, notably the MTRS approach—further details on this event are in the following section. The May event, held in London, focused on the MTRS and gathered delegates from several countries—revenue authorities and finance ministries, donors, RTOs, and PCT partners. A key outcome of this event is summarized in the following statement by the chair-person of the event:

> *MTRS provide a flexible framework that allows countries to tailor their plans according to their needs and ambitions. Through addressing the tax system as a whole—including tax policy, tax administration, and tax law—MTRS can support the definition and achievement of quick wins and long-term goals.*[8]

Supporting countries adopt an MTRS. After the Paris and London events, support for MTRS adoption is becoming a greater priority for PCT and CD partners in their dialogue with countries. The London event was particularly targeted at countries considering adoption of an MTRS approach, and on how external actors could orientate their assistance to support a country's MTRS. PCT partners have also held positive discussions with the OECD Forum on Tax Administration (FTA), which has expressed interest in supporting the MTRS adoption. The new IMF Revenue Mobilization Trust Fund (RMTF, financed by several donors supporting IMF TA) is delivering intensive TA programs to assist countries transitioning their RM efforts into an MTRS. More broadly, the MTRS approach is being increasingly incorporated in the IMF dialogue with countries in its TA activities, as well as in surveillance and lending operations.

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[7] Two notes on MTRS (reproduced in Annex 2 and 3) were prepared for this event: (1) an MTRS concept note that develops the MTRS components, including an MTRS document contents, and (2) an MTRS 2-pager note with a summary description of the MTRS and the rationale for countries to embark in this approach to tax system reform. These documents are intended to stimulate further discussion on the MTRS concept, and how to implement the MTRS approach.

[8] See Chair's Summary of the *PCT/UK London Tax for Development Event* reproduced in Annex 4.

## D. Tax Certainty Report

In March 2017 the IMF and OECD presented a report on tax certainty to the G20 Finance Ministers. This report highlighted that tax certainty is an important priority for businesses and tax administrations alike, given the impact it can have on investments and reliability of revenue flows. The report made a number of recommendations for G20 countries including reducing complexity of tax policy and law, improving the predictability and consistency of tax administration, ensuring effective dispute resolution, and strengthening cooperation and coordination on international tax to enable consistent implementation. The report also highlighted that there is further work to do to understand the appropriate tools to help support tax certainty in developing countries, where capacities and economies can be very different from G20 countries. The Platform partners will work with the German government and the African Tax Administration Forum (ATAF) to explore the issues around tax certainty in developing countries, with a workshop planned for October 25-27 in Tanzania.

## E. Outreach Activities

Over the last 12 months, the PCT continued to actively seek and maintain contacts with relevant stakeholders, including governmental institutions and regional organizations to provide an overview of the Platform, its objectives and approach to support for tax capacity development in developing countries, as well as to inform them about the development of the Platform's joint outputs and seek their feedback. These outreach activities include:

- In October 2016 the PCT held a high level meeting with donors and regional tax organizations (CIAT and CREDAF) in Paris to discuss the Platform partners' approach to support for capacity development on tax in developing countries. The meeting was co-hosted by the Platform and the French Ministry for the Economy and Finance, French Ministry of Foreign Affairs and International Development.
- In October 2016, the PCT organized an event in the sidelines of the 71st session of the UN General Assembly Economic and Financial Second Committee, which aimed to introduce the PCT and its work to UN delegates and discuss modalities to further strengthen tax capacity-building support to developing countries.
- Platform representatives participated in the 2nd High Level Meeting of the Global Partnership for Effective Development Cooperation, held in Nairobi, Kenya, 28 November – 1 December 2016.
- Representatives of the four IOs presented and discussed the Platform and its work also at dedicated panels organized during two special meetings of the UN Economic and Social Council (ECOSOC) on international cooperation in tax matters, held in December 2016 and in April 2017.
- Platform members have also participated in the OECD's Inclusive Framework meetings in Kyoto (July 2016) and the Netherlands (June 2017).
- In March 2017, the IMF presented a progress update to its Board regarding the work of the Platform.
- The Platform has held discussions with the Forum on Tax Administration's (FTA) Capacity Building

Network and identified a number of areas for collaboration that will be developed in the coming year. These include: supporting IO's capacity development efforts through the FTA's Knowledge Sharing Platform (KSP), supporting the development of the MTRS's, facilitating the coordination of aid delivered in the field.

- In May 2017, the Department for International Development, HM Treasury, and HM Revenue and Customs, in partnership with the PCT, hosted an event on MTRSs that focused on interconnected core elements of the MTRS. In addition, the event provided the opportunity to discuss key issues relevant to the recommendations of the 2016 Platform report, such as: (i) reviewing existing diagnostic tools; (ii) the development of pilot diagnostic tool for assessing cross-border tax issues; (iii) leveraging the adoption of a whole of government approach; (iv) the demonstration of the FTA's KSP; (v) the development of a manual of good practices.
- The Platform Secretariat has held discussions with regional organizations to have a better understanding about their ongoing efforts on building tax capacity in their member countries, to learn about the challenges they face and limitations, as well as to identify possible areas for collaboration and support.

# IV. Plans for 2017-2018

Moving forward, the Platform will continue to work towards delivering the joint outputs described in section II. It is important to note that the extent of the activities and outreach depend upon the availability of financial resources. Main activities planned include:

## A. First Global Conference

The PCT will hold its first Global Conference on February 14-16, 2018 at the UN Headquarters in New York, under the theme "Taxation and the Sustainable Development Goals (SDGs)". Preparation for the conference is underway: a first draft of the agenda has been produced (see Annex 5) and a full-time conference coordinator has been hired to ensure logistical and administrative arrangements are in place for the conference.

The main objectives of this conference are: (a) to take forward the global dialogue on the role of tax in achieving the SDGs among senior policy makers and tax administrators from developing and advanced countries; and (b) to obtain country insights and viewpoints on the challenges and opportunities countries see in using their tax systems to help achieve the SDGs. This will inform the future work of the Platform partners, and possibly others active in the area, on how best to design support for countries to improve their tax systems.

The conference is aimed at senior tax policy makers and tax administrators and other key partners, including regional institutions. Participants will also include leading academics that have recently contributed to the areas relevant to the Conference agenda, private sector representatives, as well as members of civil society actively involved in the global tax dialogue.

The sessions will revolve around the following areas: (i) domestic resource mobilization and the state; (ii)

the role of tax in supporting sustainable economic growth, investment and trade; (iii) tax and the social dimension--addressing poverty, inequality and health; (iv) capacity development, and (v) tax cooperation and the SDGs.

## B. Medium-Term Revenue Strategy (MTRS)--Moving Ahead

To further progress MTRS implementation, Platform partners will continue to support countries' adoption of MTRSs. Enhanced dialogue and work with countries, donors and other stakeholders in taxation will be undertaken.

Developing and Disseminating the MTRS approach. The PCT intends to host a half-day event at the IMF/WGB Annual Meetings to gather finance ministers, donors, and PCT partners to discuss how MTRS can enhance countries' revenue mobilization efforts and the launch of MTRS pilots. The event will be part of the continuing development of the MTRS approach, and focus on discussing how MTRS can: provide flexibility to build tax system reforms in accordance with country needs and goals, promote country ownership and commitment, and give countries a vehicle for national dialogue and consensus building on revenue collection—leading to improved quality and sustainability of revenues to deliver long-term financial and economic benefits.

Supporting countries adopt MTRSs. Platform partners will continue to work collaboratively in the identification of countries interested in receiving support for MTRS adoption and implementation, and organize such support according to individual IOs' mandates and comparative advantages. In doing so, PCT partners will agree on: (a) the lead Platform IO to assist individual countries formulating their MTRS, and (b) the division of labor for PCT partners in supporting countries in their MTRS implementation. Given the ongoing intensive TA programs with some countries under the IMF/RMTF, the IMF is taking the lead in supporting MTRS formulation in these countries and will help authorities coordinate implementation efforts.

## C. Development of remaining toolkits

During the second half of 2017, the Platform will prepare drafts for public feedback of the following toolkits:

- **Transfer Pricing Documentation**, which will address options for implementing 3-tier transfer pricing documentation package (model regulations, practical and administrative issues).
- **Toolkit on tax treaty negotiation,** which will provide help to low capacity countries to develop policies and parameters for negotiation of tax treaties.

In 2018, the PCT will produce the final toolkits that have been committed for delivery:

- **Toolkit on BEPS Risk assessment**, which will focus on applying information countries have and is closely linked to the transfer pricing documentation toolkit. This toolkit will be split into two

modules: i) a module specifically on Transfer Pricing (TP) risk assessment (focusing on the use of country-by-country reports and other TP documentation); and ii) a more general module on other BEPS risks.

- **Toolkit on base eroding payments**, which will build on recommendations under Action 4 of the BEPS. It will cover as a minimum interest, royalties, management fees which have been identified as examples of potentially base eroding payments for developing countries.
- **Toolkit on supply chain restructuring,** which will cover the potential BEPS risks that can result from supply chain restructuring, in particular the use of "de-risked", low asset entities (Actions 7, 8-10) in source countries and cash/ intangible property/ risk boxes in havens (Actions 3, 6, 8-10), as well as possible anti-avoidance rules.

Through an on-line process, the public will be invited to provide feedback to the toolkits. French and Spanish translations will be made available in order to reach a larger audience. The toolkits will also be discussed at the Inclusive Framework on BEPS. Depending on funding availability, the Platform plans to hold regional events to raise awareness and encourage use of the toolkits, as well as to get feedback and ideas in the development on the toolkits. These events will cover a broad geographical reach and allow the participation of relevant stakeholders and target audiences.

In addition to these toolkits the Platform will also be working on **a cross-border diagnostic tool,** which will cover avoidance, evasion and tax crimes. This diagnostic tool was one of the recommendations in the July report of the Platform.

## D. Outreach Activities

The Platform recognizes the need to implement extensive outreach activities to ensure its work reaches a broad audience. Depending on the availability of the funds, the Platform will undertake a number of outreach activities:

- Organize a number of events and workshops that would allow more engagement with and promote the participation of development countries, RTOs, CSOs, research institutions and the private sector. These events will enable developing countries to provide their inputs in emerging issues in the global tax agenda, and allow all stakeholders to discuss results in capacity development and PCT outputs, such as toolkits.
- Create online content for the dissemination of platform products, for example:
  - Training media and materials for officials on technical issues, including the toolkits and how to use them.
  - Training/Informative media and materials on specific topics, including panel discussions among tax experts.

Finally, Platform members will provide future updates on PCT activities as part of their regular internal reporting to their individual managements and stakeholders. These updates will be made public, and be shared with the G20 and other stakeholders. Updates will be provided annually. The PCT also plans to prepare in 2019 a report following up on July 2016 paper on capacity development, reflecting on lessons learned.

## ANNEX 1: Summary of Platform's Recommendations in Capacity Building

### The Essential: Deep Country Commitment Within a Supportive Political Environment

**Recommendation 1:** G20, the international organizations (IOs) and development partners should encourage political support for tax systems development. Options include explicit requirements for financial support and mutual accountability provisions such as those in the Addis Tax Initiative.

### Enabler 1: A coherent revenue strategy as part of development financing plan

**Recommendation 1a:** National authorities, with support from IOs that are active in a country, and development partners engaged in support on tax reform, to develop country specific MTRSs, with a view to launching [3 to 5] pilot MTRSs by [July 2017]. Building on this experience Platform partners will draw and disseminate lessons for the development of
further MTRSs, and revenue reform plans more generally.

**Recommendation 1b:** Donor/G20 countries to encourage and facilitate capacity building of local stakeholders (business, CSOs, media) to engage in reforms and MTRS development.

### Enabler 1.1: Adequate diagnosis of problems, risks and options for revenue strategy development

**Recommendation 1c:** IOs to develop a diagnostic tool/framework for assessing cross border tax issues, covering avoidance, evasion and tax crimes.

### Enabler 1.2: A strong managerial and skills base to develop and implement reform strategies

**Recommendation 1d:** As part of the efforts to build organizational capacity, G20 and development partners to encourage and support the development of high quality senior management, including in technical and management skills, in agencies that deal with taxation.

**Recommendation 1e:** Platform partners will review and assess the use of diagnostic tools (such as TADAT) in informing the prioritization of reforms through MTRSs and the development of tax reform programs, and will consider as a result of such assessments, what more if anything would be useful in this regard.

### Enabler 2: Strong coordination among well-informed and results-oriented providers

**Recommendation 2a:** IOs involved at the country level should facilitate explicit collaboration among providers and other stakeholders as a central part of the pilot MTRSs and, more broadly, facilitate the development of in-country coordination, by both donor groups and developing coordinating country counterparts.

**Recommendation 2b:** To support country level cooperation, Platform partners to develop a manual for good practices building on the Principles for International Engagement in Supporting Developing Countries in Tax Matters and a voluntary peer review mechanism among development partners. This would include how to facilitate coordination among providers and different in-country stakeholders, such as business and CSOs.

**Recommendation 2c:** The Platform to develop mechanisms to support the development of coordinated plans for all development providers' work in relation to BEPS implementation and wider international tax issues and, more broadly, facilitate the development of in-country coordination, by both donor groups and developing coordinating country counterparts.

### Enabler 2.1: Avoiding fragmentation in the delivery and receipt of support

**Recommendation 2d:** Providers and recipients of CB support on tax matters should be well coordinated, including: effective coordination across different agencies active in tax reform in recipient countries, fully supported by providers of CB support ('*whole of government*' approach); while IOs should ensure internal coordination where they are active in different areas affecting the tax system, and across their different entry points into taxation ('*whole of institutions'* approach).

**Recommendation 2e:** G20 and development partners should more effectively facilitate the participation of their serving tax officials in capacity building, including through the timely and efficient release of such official to participate in capacity building efforts.

### Enabler 2.2: Clear and common measures of the effectiveness of support

**Recommendation 2f:** The Platform will review the range of results indicators currently used with a view to establishing sound-practice results frameworks and guidance to track progress in ongoing reforms of the tax system (policies and administration) against a broad range of indicators, taking account of the need to ensure a proper balance between the needs of development partners and reporting burdens and the appropriateness of fit within the country context.

### Enabler 3: A strong knowledge and evidence base

**Recommendation 3a:** Platform partners and others to intensify their collaborative work to produce comparable, reliable data on revenue statistics and key tax policy parameters, and intensify efforts to build statistical capacity in the tax area (including in revenue administrations)—while avoiding unnecessary duplication.

**Recommendation 3b:** G20 to encourage full participation in the International Survey of Revenue Administrations (ISORA), leading by example.[9]

### Enabler 4: A strong regional co-operation and support

**Recommendation 4:** G20 countries and development partners to continue to work in close partnership with RTOs and provide support for; increasing their strength and coverage, in fostering local networks and exchange of experiences, supporting CD in targeted areas, and in influencing and implementing of international rule setting.

### Enabler 5: Strengthened participation of developing countries in international rule setting

**Recommendation 5:** IOs, RTOs and development partners to support developing countries to participate effectively in international tax policy discussions and institutions. Good experiences would be disseminated with a view to scaling them up.

### Enabler 6: Learning from experience

**Recommendation 6a**: Working with other stakeholders, the Platform will gather and disseminate experiences to further understand what has worked and not worked in tax development programs, including by measuring the impact of different interventions.

**Recommendation 6b:** IOs will produce a follow-up report to this report within [3] years to reflect lessons learnt on effective support for CB in the tax area including on the development and implementation of proposals covered in this report.

[9] An initiative of CIAT, the IMF, IOTA and the OECD to collect comparable, global data on revenue administration.

# ANNEX 2:

# CONCEPT NOTE ON THE MEDIUM-TERM REVENUE STRATEGY (MTRS)

## Concept Note on the Medium-Term Revenue Strategy (MTRS)

The purpose of this note is to further develop the concept of *Medium-Term Revenue Strategy* (MTRS) presented in the paper that the Platform for Collaboration on Tax (IMF, OECD, UN, WB) submitted in July 2016 to the G20 Finance Ministers meeting in Chengdu, China.[1]

The core elements needed for an effective implementation of an MTRS are outlined in Box 10 of the paper, reproduced below. As explained in the Platform paper, the fully-fledged implementation of an MTRS in a given country would require a holistic, synergetic, and steady development of the core elements.

**Box 10. Core Elements of an MTRS**

- ✓ A social contract on the level of revenue mobilization effort for the medium-term (5-10 years) with due consideration to the poverty and distributional implications of the associated measures
- ✓ A comprehensive reform plan for the tax system, reflecting country circumstances and the state of institutional capacity:
  - A redesign of the policy setting to meet the revenue goal.
  - A reform of the revenue agencies to properly administer the policy setting and to achieve a high level of taxpayers' compliance to meet the revenue goal.
  - A strengthening of the legal framework to enable the policy redesign and administration reform, including by balancing revenue agencies' powers and taxpayers' rights.
- ✓ A country's commitment to a steady and sustained implementation, notably by securing political support and resourcing.
- ✓ Secured financing for the CD effort (technical assistance and training) to support the country in overcoming domestic constraints to formulate and implement an MTRS effectively.

As many countries are currently undertaking significant revenue mobilization efforts, notably based around tax system reforms, some of the above elements (or parts of them) are already in place., to some extent—but not necessarily with the reach, synergy, and sustainability that the Platform for Collaboration on Tax (PCT) envisages in its paper. As stressed there, the revenue mobilization effort is not only about the quantity, but also its quality. Elaboration on the Platform vision follows.[2]

**Social consensus on medium-term revenue goals.** Revenue goals should be determined in tandem with expenditure needs/goals. Regarding the latter, there are evident links to be made with the 2030 Agenda for Sustainable Development, centered around 17 Sustainable Development Goals (SDGs) to be achieved by 2030. These goals are more ambitious in reach and revenue requirements than previous development agendas. The medium-term timeframe the PCT paper suggests is 5-10 years to progressively reach the revenue objectives needed to achieve the 2030 timeframe for full implementation of the SDGs.

Governments must lead and inform the national dialogue that determines society's expectations for the level of public services and the related expenditure needs that determines revenue collection targets—health, education, social entitlements, employment, poverty reduction, etc.—and social and economic development countries will be pursuing. In tailoring the SDGs to countries' contexts, political leaders are central to building broad consensus across multiple stakeholders and representatives of the community.[3]

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[1] *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, Platform for Collaboration on Tax (IMF, OECD, UN, WB), July 2016. At: https://www.imf.org/external/np/pp/eng/2016/072016.pdf.

[2] As the Platform paper stresses, the revenue focus of MTRS is the tax system (including in this both customs and the range of fiscal regimes that may be applied to the extractive industries). Other financing sources (lending or external aid) were not addressed, except the external support for capacity development (CD)—technical assistance (TA) and training.

[3] Figure 4 in the Platform document describes the wide range of stakeholders involved in tax reform. Among these, external institutions (e.g. Platform partners), and agencies providing budget support should help in this dialogue, as part of the relationship they maintain with countries—e.g. the IMF through its surveillance and lending activities with countries.

The development agendas will require significant medium-term revenue generation that countries will have to have the capacity to accurately forecast and sustainably generate. These need to be matched with the medium-term expenditure needs—ideally forecast through medium-term budget framework (MTBF), in countries able to do so. Although, in DCs (in most LICs in particular) the capacity to undertake medium-term budgeting is limited (though capacity building support can help), some vision of expenditure needs will have to be periodically estimated to enable setting revenue goals.[4]

This *medium-term revenue mobilization objective* will have to be reflected in formal documents that governments are typically responsible for producing: government programs, annual public sector budgets, medium-term budgets, etc. Periodic reporting to the public on progress with these commitments is central to Government accountability to the electorate.

*A central document is a MTRS, which will describe (at a high level) the road map of the reform of the tax system*—see next section and attachment 1 for the contents of such a document. Implementation of this road map will require a whole-of-government commitment to the revenue mobilization effort—see subsequent section on what country's commitment entails.

**Reform of the tax system.**[5] Under an MTRS a carefully sequenced overhaul of the tax system and its three core components—tax policy, administration and legal framework—will almost certainly be needed. Diagram 1 in the Platform paper provides a framework for this undertaking.

*Redesigning tax policy settings.* When medium term (5-10 years) tax revenue needs have been forecast, the next task is determining (a) how efficient, equitable and effective the current tax policy framework is in meeting the revenue needs, and (b) how it should be adjusted.

- Detailed diagnosis of the policy design features (e.g. neutrality vs bias), tax mix (e.g. consumption, labor, capital, natural resources), and economic and social impact (e.g. on growth, equality, etc.) will be needed.
- A multi-year high level road map of the tax policy options will have to be elaborated, which accompanies the projected expenditure needs/goals. This high level road map will have to be periodically revised (e.g. every year) and updated (e.g. every three years) to timely respond to material adjustments in the needs/goals, change in circumstances (political and other), and emerging issues.[6]

Though revenue needs (to match expenditure needs) will frame this exercise, raising the level of revenues may not necessarily be always the primary objective, not at least in some periods—as described in the Platform paper. The quality of the tax policy framework is important to avoid compromising growth, fairness and other or creating perverse incentives (e.g. harassment of taxpayers, excessive discretion of legal powers, corrupt practices, and aggressive tax planning).[7] In adjusting the policy settings consideration needs to be given to the capacity of taxpayers, the profile of the business environment, and the capacity of the revenue agencies to implement the policy choices and manage the tax system.

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[4] As the Platform paper stresses: *At the outset (of launching an MTRS), a clear revenue mobilization objective for the medium-term has to be determined. This needs to be driven by the country's own objectives, be compatible with achieving the SDGs, reflect the macro fiscal context, and be complementary to the other sources of available (projected) financing*. And as also mentioned, MTRSs focus on the tax revenues, but other sources of financing for development have to be considered.

[5] The term 'tax' comprises all type of taxation: domestic, on external trade, and other special one like on natural resources.

[6] In DCs (in most LICs in particular), undertaking this exercise on a periodic basis will be challenging, perhaps not feasible, and CD support will be needed. Importantly, this CD support should not only help in diagnosing and redesigning the policy setting but also in closing the capability gap and helping create autonomy (for example, by helping to build strong tax policy units).

[7] As the Platform paper states: *It is not just how much revenue is raised, but how it is raised that matters.*

*Reforming the revenue agencies.* Meeting revenue needs will depend on ensuring taxpayers' compliance; and efficient and effective revenue agencies are crucial to this. The policy settings define the best quality policy choices to raise the revenue needs. Achieving success rests on the efficient, equitable and effective implementation of policy by revenue agencies. In many DCs (and most LICs) revenue agencies need to be modernized to fulfill this role. However, addressing their weaknesses has often not been a sufficient priority. The political economy to undertake and sustain administrative reforms is complex, and sometimes more challenging than short-term revenue raising. Often, the choices made are ill-conceived. Hence the importance of the broad national consensus described above to provide the enabling political environment for broader and deeper reforms. [8, 9]

*Strengthening the legal framework.* Taxation establishes a legal relationship between taxpayers and the State Thus, the tax policy and administration components of the tax system are set in laws. And the correct application and respect of the rule of law is crucial for the success of a tax system. In this regard, well-prepared laws are significant determinants of the efficiency and effectiveness of the tax system.

In implementing MTRSs, careful examination of the laws governing the tax system will be required, including both the substantive laws setting the taxes (VAT, PIT, CIT, Excises, Customs Duties, NR taxes, environmental taxes, etc.) and the procedural ones establishing the revenue agencies' powers and taxpayers' rights (registration, filing, payments, audit, collection enforcement, disputes, appeals, etc.). Attention also needs to be paid to meeting international treaty and other obligations.

Enhancement and adaptation of the legal framework will also have to accompany the changes in the policy and administration settings while implementing the MTRSs. A consistent and integrated approach will have to be exercised to ensure the legal framework fully supports the policy and administration settings.

**Country commitment.** Commitment emerges strongly when a sense of urgency arises. In the context of reforming the tax system, motivations can be diverse. For example, a more ambitious medium-term social program can be a high priority for a government and adapting the system to mobilize more revenues could be the primary response to move ahead. Correcting distortions in the design and application of the system that are hampering economic growth can be also a strong motivation.

In any event, governments must lead the effort in reforming the tax system, as a country-owned objective to secure financing, while enabling social and economic development. This reform should become a whole-of-government strategic priority, embraced by key authorities and entities within governments—certainly by those more directly related to the tax system—but also by the several stakeholders that help shape the tax system performance.[10]

Broad consensus (and wide consultation) will be also crucial in defining the agenda for the tax system reform; taxes affect citizens and economic units across a nation and the tax system's legitimacy determines in great part taxpayers' behavior and compliance, consequently the efficiency and effectiveness of the tax system.

To help forge the consensus, this effort should be managed and coordinated by the highest level of government, likely the Ministry of Finance empowered by presidents and/or prime ministers. And a formal

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[8] See '*Current Challenges in Revenue Mobilization—Improving Tax Compliance*', IMF, 2015.

[9] In designing and implementing policy and administration reforms, quick wins in modernization and revenue will have to be considered, in the context of the wider vision of achieving medium and longer terms goals.

[10] As described in the Platform paper (and represented in figure 4 of the paper), the tax system is not only a matter for revenue agencies, taxpayers, tax professionals, and ministries of finances. It also involves a variety of stakeholders impacting how the tax system performs: government, parliament, judiciary, civil society, media, business community.

*reform management approach* should be adopted to ensure: (a) continuity and medium-term vision of the reform process, (b) resources for design and implementation (including partnership with external support), and (c) sustained political support during implementation.

Experience has shown that successful tax system reform deepens on a sound revenue reform strategy, good governance arrangements and teams to manage the strategy, and visible and sustained political support for a steady reform strategy implementation.

Under a reform management process some key governance arrangements have to be put in place: an accountable sponsor (at the highest government level), a steering committee(s) (to provide the whole-of-government support, sometimes with representatives beyond the government), reform management structure and team (identifying the key agencies involved and a core team to help implement the reform strategy), and operational arrangements to help design, implement, and monitor the reform strategy implementation.

**External support.** As mentioned, in DCs (particularly in most LICs) the capacity to formulate and implement MTRSs is limited. Thus, external CD support (by TA providers and donors) will often be essential to its effectiveness. In many countries such support is already present. And the high priority that revenue mobilization has gained in recent years implies that this CD support will increase.

This external support can be used to help the Government establish the medium-term revenue reform strategy. There is some evidence that where multiple CD providers are supporting the country in RA reforms the efforts are not always coordinated or well aligned objectives. In some cases, reform initiatives have been in conflict or not well sequenced. In part, this could be because CD providers have to prioritize their own institutional mandates over collaboration with other CD providers. There are often difficulties in measuring reform outcomes and attributing them to individual providers. All this, in turn, puts additional pressure on recipient countries (particularly those with more limited capacity) to manage an intensified CD support.

A sea-change in helping organize the CD support can be achieved with the adoption of country-owned MTRSs, if the revenue strategy is embraced by the community of CD providers:

- Country recipients should designate one TA provider to take the lead in supporting the authorities in formulating the reform of the tax system, in close collaboration and consultation with other CD providers. This lead TA provider should support the country's reform management governance to safeguard the integrity of the revenue strategy and coordinate CD support. It will also need to provide timely advice for its adjustment and update, and in selected core tax system areas—policy, administrations and legal settings—as needed.
- CD support must be provided and received under the umbrella of the tax system reform strategy, at the appropriate time and with the scope envisaged in the reform strategy. This implies that the CD support to formulate and implement the tax system reform strategy must be sequenced according to the priorities set by the authorities and outlined in the implementation plan of the reform strategy.
- A formal agreement (e.g. MOU) between authorities and CD providers, with some explicit recognition of the roles, contribution, sequencing, etc., on both sides: country and CD providers. New CD providers should be guided to be part of the agreement. to avoid poorly designed and dispersed efforts, not provided in a synergetic manner with other elements of the overall effort. Donors supporting the financing of the CD effort could be organized in multi-donor trust fund to facilitate the formal agreement and simplify the use of funding, implementation, and reporting.[11]

[11] Experience shows some good examples of coordination, without a formal agreement. Mainly based on good will of staff from some CD providers, particularly in the field. However, experience also shows that this good coordination is many times short life and, instead, very fragile and not sustainable. And not strong enough to protect the good coordination when a new CD provider

Embracing the above coordinating approach is an important distinctive feature of the MTRS relative to current revenue mobilization effort, and what CD providers have been undertaking so far. It will require strong willingness and commitment from the CD providers to successful adoption and implementation of MTRSs.

brings 'compelling' new priorities (and sometime 'incentives') to a country. Thus, the good will of some work in the field is not enough, and the country's effort is suddenly jeopardized by a 'lone ranger' trying to gain its own space and in its own conditions.

## Appendix 1. Medium-Term Revenue Strategy Document – Contents

**The MTRS Document should describe the high-level road map that the government will formally adopt to guide the reform of the tax systems.** It should broadly describe the governments' strategy for reforming the tax policy, administration, and legal settings over the next 5-10 years, aiming to finance countries' economic and social programs through 'quality' revenue, i.e. a tax system that will mobilize resources, reflect distributional considerations and create appropriate incentives for economic and social development.[12]

### Reform of the tax system contents

*Redesigning the tax policy setting.* This part of the *MTRS Document* should contain:

- A 5-year projection of Government's revenue needs (maybe as a percentage of GDP)—expenditure plans—including the financing gap to be mobilized through the tax system.
- A two-fold diagnostic of the current policy framework (major taxes):
  - against principles of sound tax policy setting and international trends.
  - against its capacity to meet the projected revenue needs.
- Intentions to change the tax policy setting to meet the revenue needs specified, and at the same time improve its design principles:
  - e.g. replacing sales tax for VAT, changing progressivity of PIT, broadening CIT base.
- A 5-year horizon timetable with the sequencing of intended policy changes and accompanying legislative changes.
- A responsible structure (e.g. policy unit) to lead the: reform process and work, engagement with stakeholders, and discussion in Parliament.

*Reforming the revenue agencies.* This part of the *MTRS Document* should contain:

- A three-fold diagnostic of revenue agencies on their administration of the policy framework to achieve high taxpayer compliance:
  - levels/rates of taxpayers' compliance with main taxes.
  - institutional management and governance arrangements against good international practice and trends (e.g. measured through TADAT and other tools).
  - management and performance of core revenue administration functions against international benchmarks and trends.
- Intentions to reform tax agencies towards modernization and adoption of good international practice and trends.
  - e.g.: full adoption of self-assessment, greater autonomy and accountability of agencies, a shift to digital revenue administration, full automation of processes, securing professionalization and integrity.
- An investment plan to support reform implementation, notably resource needs and sources.
- A 5-year horizon timetable with the sequencing of intended revenue administration changes.
- A governance structure to lead the reform process, engage with stakeholders, and undertake the work, and support Parliamentary discussion.

*Strengthening the legal framework.* The policy and administration reforms will likely require significant shift in the tax legal framework. The *MTRS Document* should identify the major changes need to enable the intended policy and administration changes, especially those to remove barriers to reform modernization of revenue agencies.

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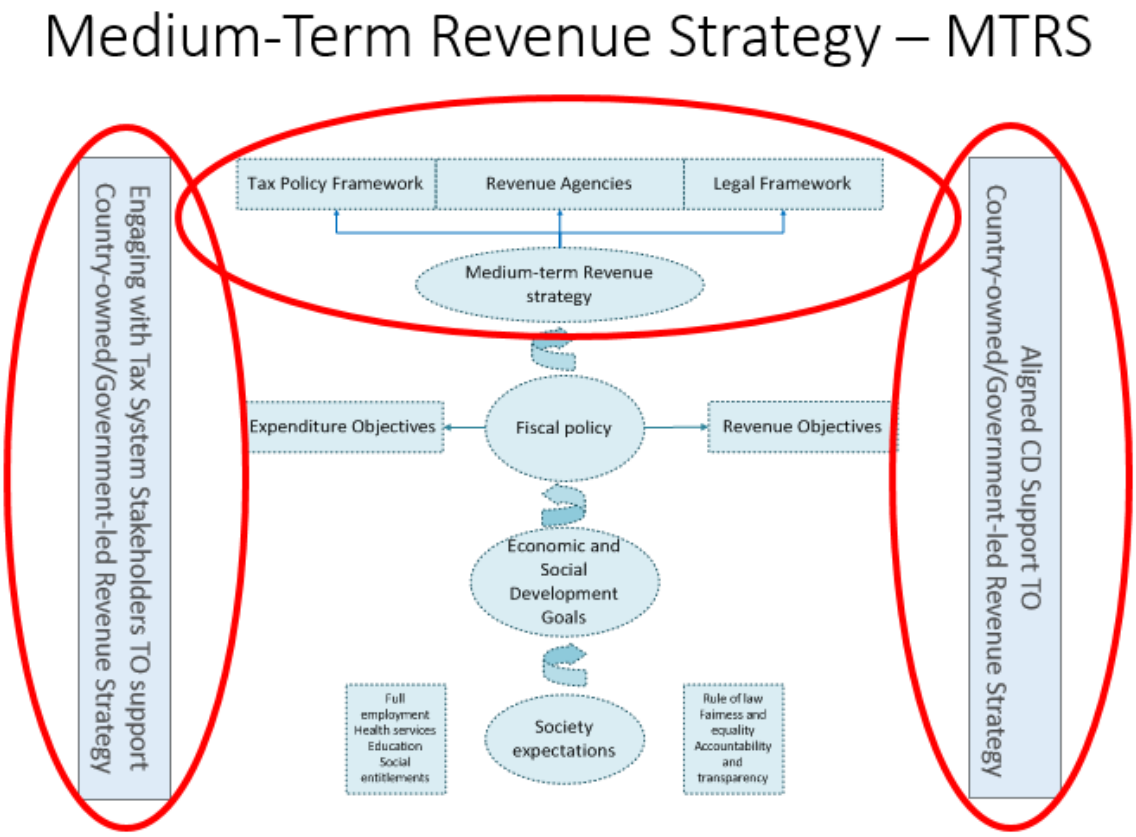
[12] Preparation of this *MTRS Document* will be informed by diagnostics and reform options for tax policy, administration, and legal settings undertaken by countries themselves or with CD support. Thus, this *MTRS Document* should be brief and strategic.

**Beyond the *MTRS Document*, the *process* leading to and supporting an MTRS will be crucial for its success.** Its *inclusive formulation*, *public adoption*, and *sustainable* and *full implementation* will determine its success—going beyond just preparing a paper to store in a shelf or a partial and untidy implementation. The following diagram aims to illustrate the process that will entail an MTRS.




**Though not elaborated on above, the MTRS document would also include a section on commitments by providers of CD,** agreeing to supporting this government-led effort in a coordinated and 'subordinated' manner to government-led effort, providing some assurance against pressures to prioritize the providers own agenda over the country-led effort.

# ANNEX 3:

# EMBARKING ON A MEDIUM-TERM REVENUE STRATEGY (MTRS)

# Embarking on a Medium-Term Revenue Strategy (MTRS)[1]

## What is an MTRS?

*An MTRS is a high-level road map of the tax system reform over 4-6 years*—its policy, administration, and legal components. It embodies a government's strategy to mobilize resources through a tax system that can finance its spending needs and secure macroeconomic sustainability, while reflecting distributional considerations and creating appropriate incentives for economic and social development.

An *MTRS should be a public document*, since wide consultation with the tax system's stakeholders is desirable in its development, including to promote accountability of all concerned. An MTRS thus becomes a government-led and country-owned effort, supported at the highest political level—critical, given the broad reach of the tax system. Some countries may wish to have external support with development and implementation of their MTRS. The formation and implementation of the MTRS will then require support from development partners that is aligned and subordinated (notably in sequencing) to the government-led strategy. The partners in the Platform for Collaboration on Tax (PCT) will provide their inputs with this vision in mind.

## Why an MTRS is needed?

A *medium-term and comprehensive approach to reform the tax system's components* is beneficial because:

- ✓ A medium-term tax policy enables governments to have a clearer picture of their likely revenues over a meaningful planning period, and taxpayers to have more certainty on how they will be treated and what the tax implications of their investment and other decisions will be.
- ✓ Tax priorities are too often driven by short-term considerations. Commitment to reforms over the medium-term can help prioritize intermediate objectives, such as increasing the number of high value taxpayers.
- ✓ Institution building in tax administration is complex and needs sustained effort over several years.
- ✓ The legal framework requires timely change to support evolving policy and administration.
- ✓ Successful reform requires continued commitment and trust among a wide range of stakeholders.

An MTRS provides a setting to achieve all these critical goals.

*An MTRS does not mean that benefits come only in the medium-term*; an MTRS also provides the setting for short-term measures that are of high quality and consistent with the vision of fundamental improvement.

*Countries may be able to build an MTRS on the basis of their current reform efforts*. Country ownership, coherence, breadth (covering tax policy and administration) and effective monitoring are key features that define an MTRS.

## How will an MTRS benefit domestic revenue reform?

*By setting a vision/path of a tax system's changes, an MTRS can enable a guided and sustained tax reform effort,* if country ownership is established and government commitment to its design and implementation is strong. The political economy of tax system reform is complex. Experience points to a consistent and well-guided effort as essential to achieve effective tax system reform; when this effort is erratic, changes can be ill-conceived and modernization short-lived.

[1] The concept of the MTRS is introduced in *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, Platform for Collaboration on Tax (IMF, OECD, UN, WB), July 2016. At: https://www.imf.org/external/np/pp/eng/2016/072016.pdf. A further concept note develops its main components, and illustrates the nature of an MTRS document in an appendix.

*By setting a framework to align external support*. An MTRS can also help countries make more effective use of external support by promoting coordination among CD partners (avoiding duplication and overlapping) and aligning their support under the umbrella of the government-led MTRS. It also helps providers to plan ahead to resource support needs. This is crucial both for the sequencing of active CD partners' support and for integrating new partners into the reform program

### Why now?

*Many countries are currently aiming to intensify their revenue mobilization efforts and tax system reforms*. In some cases, reform efforts have been erratic and not sustained: in others, progress has been slow because of the inherent difficulty and/or lack of a comprehensive strategic approach. An MTRS is an opportunity to break with a focus on short term measures and commit to a more comprehensive reform of the tax system.

*There is increasing recognition of the importance of improving the quality of tax systems*...notably in the context of achieving the Sustainable Development Goals.

...*and increasing interest among donors in providing* support. Donors participating in the Addis Tax Initiative have committed to double their resources devoted to support in the tax area by 2020.

### What does an MTRS involve in practical terms?

*Formulating and implementing a medium-term strategy to reform the tax system*. In doing so, four components need to be progressed—broad consensus on medium-term revenue goals, reform of the tax system, country commitment, and any external support. Depending on a country's level of development and the current state of its tax system, the scope and reach of reform in each component will vary. In some—post-conflict countries, for example—the tax system may need to be rebuilt from a very low level. In this context, the reach of reform should not be too ambitious. But in others, an MTRS may mean building on strategies already in place. In all cases, monitoring progress will be critical.

### What kind of support is being offered?

*Depending on a country's capacity, CD support could span the whole range of tax system reform needs*, including diagnostic assessment, reform design and formulation, implementation, monitoring and evaluation. The reach of reform and the corresponding CD support must be tailored to the country's circumstances and government-led vision. And this government-led stance may have to be nurtured in some cases to help design, manage, and implement complex reforms. External support will need resourcing, but an MTRS will help development partners to plan ahead to ensure appropriate resources are available to deliver the strategy.

### Why are international organizations so enthusiastic about the MTRS?

*An MTRS will help align and coordinate external support* under the umbrella of a government-led tax system reform effort. This contrasts with the situation—not universal, but still too common—in which CD partners provide their support on a bilateral and fragmented basis, not based on a clear 'big picture' of tax system reform and proper sequencing of support.

### Is there international experience illustrating the value of implementing an MTRS?

*Developed and some emerging market countries have shown what can be achieved* with more systematic approaches to tax system reforms. Tax policy changes are part of medium-term budget frameworks and are based on policy objectives, legal support and in coordination with tax administrations; tax administrations guide their modernizations through strategic planning and reform. In these countries, policy design and management capacity are more robust and, critically, resources are allocated to the reform effort. There are also some good examples of developing countries that have succeeded in implementing medium-term reforms by tailoring good managerial practices to their realities.

# ANNEX 4:

# TAX FOR DEVELOPMENT EVENT CHAIR'S SUMMARY

**London Tax for Development Event 4 May 2017: Chair's Summary**

The London Tax for Development event on 4 May energised international efforts to deliver effective tax reform in developing countries. The event was hosted by DFID, HMT and HMRC, and in partnership with the Platform for Collaboration on Tax (IMF, OECD, World Bank and UN). Senior delegates from revenue authority heads and finance ministries from partner countries attended, as well as officials from development partner countries and international organisations.

Plenary sessions focused on Medium Term Revenue Strategies (MTRS), introduced in the Platform for Collaboration on Tax's report to the G20 on tax effective capacity building, drawing on participants' experiences and expertise. The sessions focused on interconnected core elements of MTRS: Broad consensus on revenue goals for the medium term; comprehensive tax system reform to realise the revenue goals (comprising tax policy redesign, strengthening revenue administration, and enhancing tax legal framework); sustained country's commitment to reforms; and coordinated donor support to reform implementation. Key messages from panellists and participants included the following:

- **MTRS provide a flexible framework that allows countries to tailor their plans according to their needs and ambitions.** Through addressing the tax system as a whole – including tax policy, tax administration, and tax law – MTRS can support the definition and achievement of quick wins *and* long-term goals. MTRS also need to be able to respond to economic shocks to an economy.

- **National ownership of MTRS is key to long-term success of reforms**. In many countries more effort is needed to build the necessary political will for reform. This remains a challenge, but the MTRS could help to facilitate this. Donors should support the development and delivery of the MTRS, including through committing aid to long term projects and structuring that commitment in ways that incentivise successful and sustained delivery. Donors should co-ordinate their activity in line with an MTRS.

- **It is not only how much revenue is raised that matters; the quality of revenue is crucial.** Where and how revenue is raised impacts on growth, equity and poverty reduction. Collection systems and processes that promote integrity and sustainability, and are reliable in generating the revenue in terms of the law are fundamental. Analytical capabilities, such as revenue forecasting, risk and gap compliance analysis, are crucial to understanding and reforming tax policy and tax compliance frameworks.

- **Revenue reforms need sustained resourcing, especially in revenue authorities, to deliver long-term financial and economic benefits.** With access to the right funding and people, revenue authorities should be the largest generator of income within a country. They should therefore be appropriately resourced to deliver objectives in strategic plans and maintain revenues sustainably.

- **The MTRS framework offers an opportunity for countries to build on existing plans**. This would allow countries to retain positive elements of their plans and mobilise support from across government, donors, and other stakeholders, for further reforms over the medium term. It would also systematise efforts, allowing government and donors to deliver effective, coordinated, and sequenced support.

- **A key challenge for the MTRS is how it interacts with the design and collection of local and subnational taxes.** As well as their revenue raising potential, their impact on business development, poverty and public perceptions on the fairness of taxes should be considered.

- **Proper monitoring and evaluation is critical**. Processes for feedback and lessons learning ensure that tax authorities can own problems and their solutions. If reform efforts fail, then let them fail fast, correct and succeed. Sometimes systems need to rupture so that new systems can form. MTRS need to be flexible enough to be able to accommodate and learn from unsuccessful efforts.

Breakout sessions in the afternoon focused on broader recommendations of the Platform report, including: the range of available diagnostic tools, including feedback on **a pilot tool to assess cross-border tax risks**; leveraging the expertise of revenue authorities through **a whole of government approach**, including a demonstration of **a new knowledge sharing platform** developed by the Forum of Tax Administrations' Capacity Building Network; and outlines of **a manual of good practices** building on the OECD's principles for international engagement in supporting developing countries in tax matters.

# ANNEX 5:

# FIRST GLOBAL CONFERENCE OF THE PCT

# DRAFT CONCEPT NOTE AND AGENDA

# First Global Conference of the Platform for Collaboration on Tax - Taxation and the Sustainable Development Goals

Concept Note and Agenda

DRAFT June 15, 2017

**International Monetary Fund (IMF)**
**Organisation for Economic Co-operation and Development (OECD)**
**United Nations (UN)**
**World Bank Group (WBG)**

# CONCEPT NOTE

## 1. Introduction

The members of the Platform for Collaboration on Tax will hold their first Global Conference on February 14-16, 2018 at the UN Headquarters in New York, under the theme "Taxation and the Sustainable Development Goals (SDGs)". The conference will use as an input the work developed by Platform members, both jointly and separately, in connection with the themes covered in the conference.

## 2. Objectives

This first Global Conference of the Platform aims to: (a) take forward the global dialogue on the role of tax in achieving the SDGs among senior policy makers and tax administrators from developing and advanced countries; (b) obtain country insights and viewpoints on the challenges and opportunities countries see in using their tax systems to help achieve the SDGs. This would inform the future work of the members of the Platform, and possibly others active in the area, on how best to design support for countries to improve their tax systems.

## 3. Audience

The target audience consists of senior tax policy makers and tax administrators (at the Director level) and other key tax partners, including regional institutions. Leading academics with recent contributions relevant to the Conference agenda, private sector representatives, and members of civil society actively involved in the global tax dialogue will also be invited. As with the global conferences of the International Tax Dialogue, we expect to have around 300 participants to travel to New York to participate face-to-face.

## 4. Outcomes

Following the Conference, and building on its discussions, the Platform will issue a note summarising the discussions, issues and challenges raised, and reflecting on the role of the Platform in helping countries address them.

## 5. Format

The conference will consist of plenary and parallel sessions. There will be five plenary sessions, including an opening and closing session on the link between taxation and SDGs. At least 8 parallel sessions will explore more in detail the linkages between taxation and the SDG.

The sessions will be structured around five thematic areas: i) domestic resource mobilization and the state; ii) the role of tax in supporting sustainable economic growth, investment and trade; iii) tax and the social dimension-addressing poverty, inequality and health; iv) capacity development, and v) tax cooperation the SDGs.

For each session, there will be a session chair, who will summarize the main points, in particular, the challenges and issues identified during the discussions, recommendations to overcome them, as well as, opportunities and possible ways to move forward. The session chairs will play a key role in preparing the technical record of the conference.

Throughout the conference representatives from developing countries (governments, civil society and businesses) will give their views on the challenges to be faced and how they can best be addressed.

# AGENDA

The proposed sessions are as follows:

## Overall Theme: Taxation and SDGs

### Opening Session (Plenary)- The Role of Taxation in Achieving the SDGs by 2030

This first session will focus on how taxation[1]- can be used as policy instrument to achieve the SDGs. It should cover the different dimensions of taxation as it relates to the SDGs, highlighting domestic resource mobilization and including inclusive growth, sustainability, gender equality, fragility, good governance, private sector efficiency and human development, among others. It will draw on the overall follow-up and review process of the implementation of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda on Financing for Development, and will emphasize the universal agenda of the SDGs.

It should take stock of the situation end 2017 with taxation reforms and efforts to support such reforms and discuss possible interrelated actions in order to achieve the SDGs by 2030.

### Session I - Setting the stage (Plenary): Perspectives on taxation's role in achieving the SDGs

This session will allow senior officials and distinguished observers to explain how they see the role of taxation in achieving the SDGs—the obstacles faced in realizing this potential, and how they can be overcome (including lessons from past experiences, good and bad). Attention will need to be paid to countries' quite differing circumstances, including fragile contexts, and appropriate recognition made that many developing countries have managed to increase revenue ratios quite significantly over the last fifteen years or so. While the session will focus on the 'big picture' issue of raising adequate total revenues, it will also raise the challenges faced in reconciling this concern with growth, fairness and state building objectives—and make links between revenue and spending sides of government activities.

[1] For brevity, this term is to be read here as including nontax sources of government revenue.

## Theme A. Domestic Resource Mobilization (DRM) and the State

### Session II-A (Parallel) – DRM, fiscal sustainability and growth: evidence to date

This session will focus on the role of tax policy to mobilize domestic revenue in order to expand fiscal space and ensure fiscal sustainability, drawing a clear link to SDG17. The session should consider DRM strategies in comparison with other forms of financing such as borrowing (internal and external), expansive monetary policy, and foreign grants, and their effects on macroeconomic stability and growth. It should also examine the evidence to test whether policy and administrative approaches currently adopted by lower income countries (including fragile states) are delivering strengthened DRM and imposing macro and growth prospects.

*Panel: policy makers from lower income countries that have substantially improved domestic resource mobilization by conducting responsible fiscal policy, as well as representatives of the private sector.*

### Session II-B (Parallel): DRM and state building: taxation for better governance

This session will be dedicated to the role of DRM in state building by enforcing a social contract between citizens and the state, highlighting the links with SDG16. It should discuss different approaches to building a government's credibility to be more effective in raising fiscal revenues, as well as strategies to motivate citizens and companies to comply with their tax obligations.

### Session III (Plenary): Tax Administration: how reforms can improve compliance

Effective institutions for tax and customs administration are essential to strong compliance, which is important not only for its direct impact on revenues but also for enhancing fairness and building trust in tax system. This session will look at some of the major aspects of understanding and addressing compliance, and experiences in tax administration reform from a range of developing countries. It will highlight some reforms that have been shown to have a greater impact on compliance in areas (such as: organizational, operational, information and relationship management, and address such key issues to address as: What are the key drivers of noncompliance? How can new tools help benchmark tax administrations and measure the outcome/impact of reform?

## Theme B: The role of tax in supporting sustainable economic growth, investment and trade.

### Session IV (Plenary): BEPS and developing countries

This session will be focused on the challenges of implementing business taxation globally, from the perspective of developing countries with different contexts, including fragility and stability. In particular, it should analyze how the design and implementation of business taxation can minimize distortions to economic decisions while, at the same time, ensure that businesses comply with their

tax obligations globally. It should discuss the challenges of taxing corporate income in a globalized world where transactions are often digital, not bound to territories, and many inputs along the value chain are intangible. In particular, different proposals to tax multinational companies should be discussed, with a particular focus on formulating solutions to reduce tax avoidance in developing countries. Relevant work carried out by international and regional organizations should also be presented and discussed.

## Session V-A (Parallel): Resource abundance and taxation: avoiding the curse

This session will capture the complexity of taxing natural resources by analyzing current challenges and concrete examples of tax reform, particularly in the oil and mining sectors. Key questions include: does the prospect of low commodity prices require scaling back expectations of the revenue available to finance SDGs in resource rich countries; what lessons can be learnt from previous commodity price slumps in terms of reforming the natural resource fiscal regime; what is the right balance between increasing general tax revenue and reforming natural tax regimes? The session will cover such dimensions as government sharing of profits, progressivity of the tax instruments chosen, effects of the taxation regime on the local population, political economy of reforms, management transparency, social and environmental effects, and economic diversification issues.

## Session V-B (Parallel): Resource leakages: Illicit Financial Flows

Tackling illicit financial flows is a priority for most countries and is reflected in SDG 16. This session will focus on the impact that illicit financial flows (IFFs), in particular those caused by tax evasion and corruption, may have on sustainable development. It will discuss measures, both at the national and international level, which may help to reduce IFFs and identify opportunities to increase cooperation among the range of actors tackling IFFs. It should also cover policies and actions that may address the underlying behaviors that give raise to IFFs, as well as the challenges limiting progress and taking into consideration fragile settings

## Session V-C (Parallel): Fiscal policy for sustainable development: environmental taxes

Environmental concerns are central to several SDGS—this session will focus on the role that taxation can play in those contexts. It will address experiences to date with carbon taxation and trading systems and their role in meeting countries mitigation pledges for the Paris Agreement (NDCs); recent experiences with broader energy price reform; administrative aspects of environmental taxes; addressing the burdens of higher energy prices on vulnerable households and firms and reconciling higher energy prices with goals for universal access to affordable energy; the potential role of carbon price floor agreements among a coalition of large emitters as a complement to the Paris process; strengthening fiscal frameworks to enhance resilience to climate risk in vulnerable countries.

## Theme C: Tax and the social dimension: addressing poverty, inequality and health.

### Session VI (Plenary): Remaining equity challenges: taxation for better income distribution

This session will address existing and growing equity challenges worldwide from the perspective of taxation, linking to SDG 1 on poverty and 10 on inequality. It will discuss specifically how different tax instruments on, for example, personal income, corporate income, capital gains and wealth assets, could be instrumental to reducing disparities at the country level and globally taking also into account affected

### Session VII-A (Parallel): Transformational development: taxing to improve health and human development

This session will approach health related taxes from the perspective of behavior correction which can curb the consumption of health damaging products and lead to better public health outcomes, and as such link to SDG 3. It should further elaborate on the risks and consequences associated with consumption of those unhealthy products (such as alcohol, tobacco or sugar) as affordability increases in developing countries and young populations, the future of the labor force, consume them. The session should assess recent experiences from developed and developing countries in curbing consumption of health damaging goods and their effects on the well-being of the poorer segments of the population.

### Session VII-B (Parallel): Smarter taxation for better gender equality

This session will assess the gender implications of tax systems in developing countries, providing concrete examples of reforms that can lead to eliminating gender biases in taxation, in reference to, for example, property, family income, or MSMEs owned by women, among others. The links with SDG 5 will be made and explored.

## Theme D: Tax Capacity Development

### Session VIII (Plenary): Tax Capacity Development

This session will highlight successful capacity development initiatives in tax policy and administration, gathering lessons learned and good practices, as well as exploring its links to SDG 17 (and especially 17.1). This session will aim at gathers and share lessons for developing countries facing different challenges in multiple contexts, including fragile settings.

It will also discuss what the Platform could do to further support developing countries, taking into account main directions from the four IOs at the highest level as well as the views expressed by Conference participants.

## Theme E: Tax Cooperation and the SDGs

### Session IX (Plenary): The way forward: role of international tax cooperation in supporting the SDGs

This session will close the Conference with a discussion on how possible tax reforms can contribute to accomplishing the SDGs and on the complementary role that international tax cooperation may play. It should cover the work of international and regional organizations, as well as other relevant international initiatives. The session will cover Automatic Exchange of Information (AEOI), regional agreements, among others.