

OECD's Current Tax Agenda

APRIL 2011



Message from the Secretary-General of the Organisation for Economic Co-operation and Development



"The OECD works to develop better policies for better lives and tax policy has a key role to play in achieving this objective. The OECD's analytical work in the tax area is designed to help governments in the aftermath of the economic crisis by supporting their efforts to restore growth, stimulate employment and innovation, achieve fiscal consolidation and enhance the competitiveness of their economies. Our tax policy work also contributes to the removal of barriers to international trade and investment, and reinforces government efforts to address climate change, foster domestic resource

mobilisation, promote corporate governance, and counter money laundering, corruption and other financial crimes. Through our Tax and Development programme, we are strengthening the capacity of developing countries to mobilise domestic resources for their development through more effective tax systems. In carrying out all of this work, the Centre for Tax Policy and Administration has been at the forefront of innovative approaches to engaging a broad range of jurisdictions in its work: the Global Forum on Transparency and Exchange of Information for Tax Purposes, with its 100 member jurisdictions, is one example and the Forum on Tax Administration, with over 40 Tax Commissioners leading its work, is another. These collective efforts are bringing about changes needed by tax administrations to enforce their tax laws in an increasingly borderless world. As we celebrate the OECD's 50th anniversary, we can be proud of the contribution our tax work makes to building a stronger, cleaner and fairer world."

Mr. Angel Gurría
OECD Secretary-General

Photo credits: © OECD, unless otherwise indicated.

Table of contents

Message from the Secretary-General of the Organisation for Economic Co-operation and Development	1
The OECD: What is it?	4
The Committee on Fiscal Affairs	7
The Centre for Tax Policy and Administration	12

HOT TOPICS

Tax Reforms to Improve Economic Performance	17
The Role of Tax for Development	20
Offshore Voluntary Disclosure	25
Multilateral Convention on Mutual Administrative Assistance in Tax Matters	30
Green Growth and Climate Change: Taxation and Tradable Permits ...	33
Value Added Taxes: Could Do Better?	38
Addressing Tax Risks from Bank Losses	42
Strengthening the Role of Taxation in the Fight Against Corruption and Financial Crime	43
Tax Relief and Compliance Enhancement (TRACE)	51

CORE ISSUES

Tax Conventions and Related Questions	57
Tax Policy Analysis and Statistics	65
Taxation of Multinational Enterprises	75
Consumption Taxes	80
International Tax Co-operation	83
Tax Administration	92
Transparency and Exchange of Information for Tax Purposes	102
Developing a Global Partnership	109
Network on Fiscal Relations across Levels of Governments	113
International Tax Dialogue	117

CTPA Management Team

Want to Know More?

The OECD: What is it?

The OECD, which traces its roots to the Marshall Plan, groups 34 member countries committed to democratic government and the market economy. It provides a forum where governments can compare and exchange policy experiences, identify good practices and promote decisions and recommendations to produce better policies for better lives.

The OECD's mission is to promote policies that will improve the economic and social well-being of people around the world. It provides a forum in which governments work together to share experiences and seek solutions to common problems. The OECD works with governments to understand what drives economic, social and environmental change. It measures productivity and global flows of trade and investment. It analyses and compares data to predict future trends and sets international standards on a range of issues from the safety of chemicals and nuclear power plants to access to bank information for tax purposes.

The OECD also looks at issues that directly affect the lives of ordinary people, like how much they pay in taxes and social security, and how much leisure time they can take. It compares how different countries' school systems are rearing their young people for modern life, and how different countries' pension systems will look after their citizens in old age.

The common thread of OECD work is a shared commitment to market economies backed by democratic institutions and focused on the well-being of all citizens. Along the way, the OECD also makes life harder for the terrorists, tax dodgers, corrupt businessmen and others whose actions undermine a fair and open society. ■

OECD Members:

Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Commission also takes part in the work of the OECD.

Fast facts

Established: 1961	Secretariat staff: 2 500
Location: Paris, France	Secretary-General: Angel Gurría
Membership: 34 countries	Publications: 250 new titles/year
Budget: EUR 328 million (2010)	Official languages: English/French

How is the OECD organised?

Council and Committees

Decision-making power is vested in the OECD Council, which is made up of one representative per member country, plus a representative of the European Commission.

The Council meets regularly at the level of permanent representatives to the OECD and decisions are taken by consensus. The Council meets at ministerial level once a year to discuss key issues and set priorities for OECD work. The 2011 Ministerial Meeting will be chaired by U.S. Secretary of State Hilary Clinton and will focus on new paradigms for development, new sources of economic growth and jobs, and the role of the OECD for the future.

Representatives of the 34 OECD member countries meet in specialised committees to advance ideas and review progress in specific policy areas such as economics, trade, tax, science and technology, employment, education and financial markets.

There are about 250 committees, working groups and expert groups in total. Some 40 000 senior officials from national administrations go to OECD committee meetings each year to request, review and contribute to work undertaken by the OECD Secretariat. Once they return home, they have online access to documents and can exchange information through a special network.

OECD Secretariat

The work mandated by the Council is carried out by the OECD Secretariat. The Secretariat in Paris is made up of some 2 500 staff who support the activities of committees, and carry out the work in response to priorities decided by the OECD Council. The staff includes economists, lawyers, scientists and other

The OECD at a glance

www.oecd.org/aboutoecd

OECD share of world GNI (current USD): 69.4%

OECD share of world trade: 60.4%

OECD share of world population: 18%

OECD GDP growth in 2008: -3.4%

OECD share of bilateral world official development assistance: 95.8%

OECD contribution to world CO₂ emissions: 44.9%


OECD share of total primary energy supply: 45.7%

OECD share of world electricity consumption: 56.2%

professionals. Most staff members are based in Paris but some work at OECD centres in other countries. Support for the Committee on Fiscal Affairs is provided by the Centre for Tax Policy and Administration (CTPA).

Financing

The funding of the OECD's work comes from its member countries. Each country's annual contribution is based on the weight of its economy. Countries also choose to make additional voluntary contributions to support the work of the Organisation. ■

- 
- **Did you know...** Chile, Estonia, Israel and Slovenia became OECD members in 2010?
 - **Did you know...** the Russian Federation is advancing in its membership talks with the OECD?
 - **Did you know...** Brazil, the People's Republic of China, India, Indonesia and South Africa participate in OECD activities through the Enhanced Engagement programme?

The Committee on Fiscal Affairs

“The current economic crisis is putting tax systems to the test. As Chairman of the Committee on Fiscal Affairs, my priorities are to help governments respond to this challenge by developing timely and sound tax policies and guidance to help inform the decisions of policy makers and tax administrations; to strengthen our work on consumption taxes and environmental issues; to adapt the Model Tax Convention and Transfer Pricing Guidelines to a changing business environment and to achieve a more consistent application of these international standards; and to expand our dialogue with non-OECD economies. I am particularly pleased with the joint initiative on tax and development that the CFA launched in January 2010 with the Development Assistance Committee, as a new model for the relationship between the Tax and Development communities.”



Mr. Paolo Ciocca


Chair of the Committee on Fiscal Affairs

The Committee on Fiscal Affairs' work on tax issues has always been an important part of the OECD's overall activities. The Committee's work covers a wide range of domestic and international tax issues and results in standards, guidelines and best practices that are implemented throughout the world. The OECD Model Tax Convention has, for example, long been recognised as the basis for the global network of tax treaties, and the OECD's 1995 Transfer Pricing Guidelines are used as the basis for legislation in OECD countries and an increasing number of non-OECD economies (NOEs). Both of these instruments were updated in 2010.

The Committee brings together senior tax officials from all OECD member countries and Argentina, China, India, Russia and South Africa, which are regular observers in the Committee.

The Committee sets the OECD's work programme in the tax area and provides a forum for exchanging views on tax policy and administrative issues. Its work programme is carried out by groups of national experts:

- Working Party 1 covers tax treaty issues.
- Working Party 2 is responsible for tax policy analysis and for statistical work.
- Working Party 6 covers the taxation of multinational enterprises.
- Working Party 9 examines consumption taxes.

- 
- Working Party 10 investigates how member governments can co-operate to minimise the extent of tax evasion and avoidance.
 - The Forum on Harmful Tax Practices takes forward the OECD's work on harmful tax practices.
 - The Forum on Tax Administration works on taxpayer service and compliance issues.
 - The Task Force on Tax Crimes and Other Crimes works to improve co-operation between tax and law enforcement agencies to counter all forms of financial crime.
 - The Board for Co-operation with Non-OECD Economies works closely with accession, enhanced engagement, and observer countries.
 - The Joint Meetings of Tax and Environment Experts exchange experience about environmentally related taxes.
 - The Global Forum on Tax Treaties and Transfer Pricing engages non-OECD economies in discussions on these topics.
 - The Treaty Relief and Compliance Enhancement (TRACE) Group takes forward the work on improving procedures for cross-border tax claims.
 - The Informal Task Force on Tax and Development serves as an advisory group to help strengthen the role of tax in fostering development.

A number of Working Parties (on company taxes, on the taxation of international bond issues and the issue and negotiation of securities, the taxation of energy and tax avoidance and evasion (3, 4, 5, 7 and 8) were wound up either because their tasks were completed or as a result of a restructuring of the Committee's work.

While most of the Committee's work is undertaken by government officials and the OECD Secretariat, there is frequent consultation with representatives of business, trade unions and NGOs, primarily through the Business and Industry and Trade Union Advisory Committees to the OECD (BIAC and TUAC) and through roundtables or Global Forum events.

Input from business and others is also sought through the publication of consultation drafts on the CTPA website. Tax news alerts are sent out regularly on the latest public consultation documents, reports, press releases and studies. Registration for these alerts is free on the OECD website: www.oecd.org/oecddirect.

The Committee co-operates with other international organisations: the International Monetary Fund, the World Bank, the World Trade Organization and the Financial Action Task Force, as well as regional tax organisations (*e.g.* CATA, CIAT, CREDAF, IADB, IOTA). Occasional inter-disciplinary meetings

are held, involving political figures and academics.

The work of the Committee is steered by a Bureau, elected annually.

Bureau of the Committee on Fiscal Affairs

(as of 30 June 2011)

Officers	Advisory Board
<p>Mr. Masatsugu Asakawa, Ministry of Finance (Japan), Chair</p>	<p>Mr. Armando Lara Yaffar, Ministry of Finance (Mexico)</p>
<p>Ms. Marie-Christine Lepetit, Ministry of Economy, Finance & Industry (France), Deputy Chair</p>	<p>Mr. Ivar Nordland, Ministry of Taxation (Denmark)</p>
<p>Ms. Manal Corwin, Department of the Treasury (United States), Vice Chair</p>	<p>Mr. Urs Ursprung, Federal Tax Administration (Switzerland)</p>
<p>Mr. Michael Rawstron, Department of Treasury (Australia), Vice Chair</p>	<p>Mr. Gert Muller-Gatermann, Federal Ministry of Finance (Germany)</p>
<p>Mr. Mike Williams, HM Treasury (United Kingdom), Vice Chair</p>	<p>Mr. Nakhoe Kim, Ministry of Finance and Economy (Korea)</p>
	<p>Ms. Julia Martínez Rico, Ministry of Finance (Spain)</p>
	<p>Mr. Julio Pereira Gandarillas, Tax Commissioner (Chile)</p>

"I look forward to taking over the Committee on Fiscal Affairs during these times of great change and global challenges. Tax issues are implicated in some of the major challenges governments face: restoring growth, addressing climate change, fostering cross border trade and investment, spurring innovation, supporting sustainable development and statebuilding, countering money laundering and corruption. The Committee has a wealth of knowledge and expertise to contribute to these issues and I welcome the opportunity to work with other OECD Committees and stakeholders to make progress in these areas. I am particularly pleased that during my tenure, a key focus of the OECD will be to strengthen its relations with countries beyond the current OECD membership. Having co-chaired the CFA's Board for Co-operation with non-OECD economies for several years, this will be a major priority for my Chairmanship."



Mr. Masatsugu Asakawa
Chair-elect of the Committee on Fiscal Affairs

MANDATE OF THE COMMITTEE ON FISCAL AFFAIRS

Approved by the Council in November 2008

Objectives

The overarching objective of the Committee on Fiscal Affairs (hereinafter called "The Committee") is to contribute to the shaping of globalisation for the benefit of all through the promotion and development of effective and sound tax policies and guidance that will foster growth and allow governments to provide better services to their citizens. Its work is intended to enable OECD and non-OECD governments to improve the design and operation of their national tax systems, to promote co-operation and co-ordination among them in the area of taxation and to reduce tax barriers to international trade and investment.

In light of this objective, the Committee shall:

- facilitate the negotiation of bilateral tax treaties and the design and administration of related domestic legislation,*
- promote communication between countries and the adoption of appropriate policies to prevent international double taxation and to counteract tax avoidance and evasion,*
- encourage the elimination of tax measures which distort international trade and investment flows;*
- promote a climate that encourages mutual assistance between countries and establish procedures whereby potentially conflicting tax policies and administrative practices can be discussed and resolved;*
- support domestic tax policy design through the development of high quality economic analysis of tax policy issues, comparative statistics and comparisons of country experiences in the design of tax systems;*
- improve the efficiency and effectiveness of tax administrations, both in terms of taxpayer services and enforcement.*
- support the integration of non-OECD economies into the international economy by strengthening policy dialogue with them to increase their awareness of and contribution to the Committee's standards, guidelines and best practices.*

Methods

In order to achieve these objectives, the Committee will focus its work on delivering outputs of high quality and with high policy impacts and shall regularly assess whether these targets are being met. In particular, the Committee shall:

- *develop standards, guidelines and best practices in areas where international co-ordination is desirable and monitor the practical implementation of them and other recommendations;*
- *provide a forum for discussions by senior policymakers and tax administrators, and where appropriate the business community and other parts of civil society, of international and domestic tax policy and administration issues and emerging issues in a global economy which require a response from senior tax policy makers;*
- *supply OECD countries with internationally comparable tax statistics and comparisons of the major taxes used throughout the OECD area, and provide strategic analysis of important tax policy and administration issues for use in publications, briefs, and the like;*

Co-operation

The Committee shall strengthen policy dialogue with non-OECD economies in order to increase their awareness and use of the Committee's standards and guidelines and to explore together the identification of good practices.

The Committee shall monitor and contribute to relevant activities carried out in other international bodies. In particular, it will continue to participate in the UN Committee of Experts on International Cooperation in Tax Matters and will continue its co-operation with the Financial Action Task Force on issues of mutual interest.

It will promote and develop strategic partnerships with regional tax and other international organisations and will continue to develop the International Tax Dialogue. The Committee will monitor and co-ordinate work undertaken by the Organisation in related fields and shall co-operate with relevant OECD bodies. In particular, it will continue to work jointly with other committees carrying out projects having tax policy aspects, in particular with the Economic and Development Review Committee, Economics; in the Environment Policy Committee; in the Employment, Labour and Social Affairs Committee; in the Development Assistance Committee; and in the Working Group on Bribery.

The Committee shall continue to co-operate closely with BIAC and other major stakeholders.

The mandate of the Committee shall remain in force until 31 December 2013 unless the Council decides otherwise.

The Centre for Tax Policy and Administration



“Taxation is the bedrock of any market-based economy. Taxes provide the revenue that governments need to invest in the future of their economies. It encourages governments to be accountable to their citizens, and to make the link between the government services citizens vote for and the means to finance these services. In this context, taxation is increasingly seen as one of the key building blocks for development and the main way by which developing countries can mobilise their domestic resources to build their own futures and to reduce their reliance on aid.”

Today’s global economy requires tax rules to avoid both double taxation and double non-taxation of cross border flows. The OECD, working with other organisations and non OECD countries, is well placed to provide this global tax framework. Today there are more than 3 600 bilateral tax treaties around the world. Yet, because they are primarily based on the OECD Model Tax Convention and the UN Convention, they operate very much like a multilateral network, with many common features and a broadly consistent application. Similarly, the vast majority of countries base their national legislation on the OECD 1995 Transfer Pricing Guidelines and the OECD standards on exchange of information are now universally endorsed. The OECD also issues best practice guidelines on the operation of tax administration. This rule setting role of the OECD in the tax area is likely to grow in importance. In addition, the Organisation provides the analytical framework within which countries design their tax reform packages to reduce their budget deficits and at the same time improve the fairness of their tax system and to promote growth.

These, along with many other issues, are at the core of the work carried out by the Centre for Tax Policy and Administration.

Mr. Jeffrey Owens

Director of the Centre for Tax Policy and Administration

The Centre for Tax Policy and Administration (CTPA) is the focal point for the Organisation’s work on taxation. The Centre provides technical expertise and support to the Committee on Fiscal Affairs and examines all aspects of taxation other than macro-fiscal policy, which is dealt with by the Economic Policy Committee.

Its work covers international and domestic tax issues, direct and indirect taxes, tax policy and tax administration. The Centre’s statistical publications provide annual comparisons of tax levels and tax structures in member countries and the Centre is also responsible for the OECD Tax Database, which has a description of the main parameters of each member country’s tax system. The Centre contributes to the work of other committees of the OECD in projects which have a strong tax component. Recent examples include input into work on the use of tax instruments to achieve environmental policy objectives,

analysis of the impact of taxation on the functioning of labour markets, the role of tax in fostering domestic resource mobilisation and development, the role of tax in spurring innovation and an examination of the link between taxation and growth.

Working with Non-OECD Economies

The CTPA's work is developed with strong input and co-operation from non-OECD economies. It carries out an extensive global programme of dialogue between OECD and non-OECD tax officials through 80 events held annually on the full range of OECD work, bringing together almost 100 non-OECD economies.



“ Governments and business continue to face major challenges – the continued development of a globalised economy, the impact of the

financial crisis on government revenues and fiscal deficits, and the challenges of transformation to a low carbon economy.

From a fiscal perspective each of these issues has major ramifications. Taken together they pose a real challenge to agree, maintain and develop a tax framework on an international basis which is focused on delivering sustainable growth throughout the global economy. The OECD format for tax has been to date the successful means for promoting economic growth as it relates to tax. Business supports the maintenance of the consensus which has been built around the arm's length principle as the primary defence against double taxation.”

Mr. Chris Lenon
Chair of the BIAC Committee on Taxation and Fiscal Affairs

In addition to the CFA and its subsidiary bodies, the CTPA Secretariat provides the technical support for the Co-ordinating Body of the Convention on Mutual Administrative Assistance in Tax Matters, the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Network on Fiscal Relations Across Levels of Government, the Task Force on Tax and Development and the International Tax Dialogue.

Working with Business and Civil Society

The OECD recognises the value of input from business representatives and civil society, and the tax area is no exception.

Working with business and civil society to update the OECD's tax instruments, such as the Model Tax Convention and the Transfer Pricing Guidelines, ensures that they continue to reflect the realities of today's complex global business environment and contribute to the effective elimination of double taxation. Similarly, getting their views on tax administration issues facilitates the development of practical solutions and greater understanding of the issues faced by taxpayers.

The CFA and the Secretariat engage in a dialogue with business representatives and civil society in

a variety of ways, through:

- Technical advisory groups or informal consultative groups made up of business and government officials to further the work;

- Round table discussions on emerging issues;
- Public consultation meetings on discussion drafts or particular issues;
- Release for public comment of discussion drafts through the OECD website;
- Participation in tax seminars, conferences and meetings;
- Regular participation in meetings of the Tax Committee of the Business and Industry Advisory Council (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC);
- Solicitation of stakeholder views on particular issues (*e.g.* transfer pricing aspects of intangibles);
- An ongoing dialogue on how developing countries can benefit from today's more transparent and cooperative tax environment;
- Engaging with NGOs, businesses and developing countries through an informal task force to advise the OECD on work in the area of tax and development;
- Government/business Global Forum meetings on tax treaty and transfer pricing issues.



David McNair, Senior Economic Justice Adviser, Christian Aid, speaking at the June 2010 OECD-USCIB International Tax Conference in Washington DC, USA.



HOT TOPICS



HOT TOPICS

Tax Reforms to Improve Economic Performance

HOT TOPICS

In the wake of the recent financial and economic crisis, all countries face the challenge of restoring public finances without jeopardising economic growth. How can tax structures best be designed to support GDP per capita growth?

Growth-oriented tax systems seek not only to minimise the distortions by the tax system, but also to create as few obstacles as possible to investment, innovation, entrepreneurship and other drivers of economic growth. Recent OECD empirical analysis suggests a “tax and economic growth” ranking order according to which corporate income taxes are the most harmful type of tax for economic growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property being the least harmful. This reflects the different distortionary effects of different taxes. A growth-oriented tax reform would, therefore, shift part of the tax burden from income to consumption and/or residential property, as well as taxes that correct environmental and other externalities.

A move towards a “green” tax system, crucial to a “green growth” strategy, can contribute not only towards achieving environmental objectives but also, depending on how the revenues are used, facilitate wider growth-oriented tax reforms. Extra tax revenues from efforts to strengthen compliance, such as the OECD initiatives to counter offshore non-compliance, may also contribute to reducing tax distortions by ensuring that all citizens pay their fair share of taxes.

Within individual main tax categories – property, consumption, personal and corporate income tax – there is scope for making the design more conducive to economic growth by levying these taxes on a broader base, possibly at a lower rate, rather than providing targeted relief for particular activities and purposes. However, this does not mean that it is optimal to abolish all targeted tax reliefs.

There are good economic reasons for targeted tax reliefs that correct market failures or contribute to redistributing income. Tax concessions are sometimes also introduced to favour a particular interest group or to reduce compliance and administrative costs. Even when tax reliefs have well-founded redistribution and economic policy objectives, they entail a loss of government

revenues, which necessarily means that other taxes have to be higher than they otherwise would be (and/or government expenditure has to be reduced). These higher rates may create additional efficiency losses and have adverse effects on income distribution and on administrative and compliance costs.

Governments need to assess preferential tax treatments periodically to evaluate whether their benefits actually outweigh their costs. Despite a trend over the last 30 years towards broader tax bases, targeted tax provisions continue to be significant in many countries. Maintaining a broad base can be a challenge and in some countries (e.g. the United Kingdom and the United States) which had significant base broadening tax reforms in the mid-eighties, special regimes have crept back in. Tax reliefs in the form of exemptions from tax, reductions of tax liability (deductions and credits) or tax rates that are lower than the standard rate (and which are not a structural feature of the tax regime) are often called "tax expenditures", because they can be seen as equivalent to public expenditure implemented through the tax system. While there is controversy around the definition and measure of tax expenditures, the estimates of their revenue costs can provide a useful starting point for their evaluation. Tax expenditure data suggest that the major tax expenditures relate to provisions for owner-occupied housing, retirement savings, small businesses, R&D expenditures and reduced VAT rates for food.

Economic analysis suggests that a number of tax provisions do not constitute a cost-effective way of achieving either fairness or efficiency objectives. In particular, VAT-preferential treatments (including rate differentiation) are generally not well targeted to those in need, distort consumer choice, and impose additional administrative and compliance costs (e.g., the need of drawing borderlines between standard and reduced rate goods and services).

Growth-enhancing tax policies also include levying the corporate tax on a broader base and with a lower rate, and specific taxes to correct externalities (e.g. taxes related to greenhouse gas emissions). However, some degree of support for research and development through the tax system may also help to increase private spending towards the socially desirable level of innovation.

In the case of personal income taxation, the economic arguments for base-broadening can be less clear-cut. Tax reliefs may reflect not only "ability to pay" concerns, but also economic efficiency arguments that may, for instance, point to lower rates of taxation on capital than on income from labour. However there is also evidence that wealthier individuals are benefiting the most from the tax preferential treatment of savings and that these reliefs have changed the composition of savings rather than increased total private savings. Other growth-enhancing tax policy options include a reduction in the top marginal personal income tax rates, if these rates have a strong negative impact on human capital formation and entrepreneurship, and well-designed incentives to work at low earnings.

In addition to increasing government accountability and transparency of tax policy decisions, economic analysis of targeted tax reliefs may help identify possible candidates for base-broadening tax reform. The final decision on whether to eliminate or reduce such reliefs is, of course, a political one. Economic analysis and a strong economic case, while not guaranteeing success, may help to obtain the political support as well as the support from the civil society needed for a particular base-broadening reform.

Key Publications

- OECD (2010), *Choosing a Broad Base – Low Rate Approach to Taxation*, OECD Tax Policy Studies No. 19, OECD Publishing, Paris.
- OECD (2010), *Tax Policy Reform and Economic Growth*, OECD Tax Policy Studies No. 20., OECD Publishing, Paris.



The Role of Tax for Development

HOT TOPICS

Taxation is key to promoting sustainable growth and poverty reduction. It provides developing countries with a stable and predictable fiscal environment to promote growth and to finance their social and physical infrastructural needs. Combined with economic growth, it reduces long term reliance on aid and ensures good governance by promoting the accountability of governments to their citizens.

Much needs to be done by regional and international organisations, including those of developing countries such as the African Tax Administration Forum, to improve administrative capacity, broaden the tax base, and increase tax revenue as a proportion of GDP. Sharing experience is of critical importance and South-South exchanges of solutions are an important dynamic for change, enabling developing countries to strike the right balance between implementing an attractive tax regime for investment and growth, and securing the necessary revenues for public spending.



Exchange of Information event jointly organised by ATAF and the OECD, hosted by the Botswana Unified Revenue Service (BURS), November 2010.

At the same time, multilateral and multi-stakeholder co-operation is essential in the fight against tax evasion and ensuring developing countries can collect a fair share of taxes. More broadly, tax havens and lack of transparency in reporting of profits and tax payments paid in resource-rich developing countries are linked to problems of corruption, financial crime, money laundering, illicit financial flows and trade, including arms.

At the September 2010 Millennium Development Goals (MDG) Summit, the mobilisation of domestic resources was recognised as crucial for achieving the MDGs by 2015. According to the UN, attaining government revenue representing 20% of GDP is one of the conditions necessary for achieving the MDGs.



“The African Tax Administration Forum (ATAF) is founded on two important and complementary principles: firstly, it has at its core the pursuit of good governance, accountability and state-building as a direct consequence of taxation; and secondly, it exists to boost the administrative and technical capacities of its member states. These two principles together inform what ATAF wants to be: relevant, dynamic and cutting edge, the central platform for African administrators to articulate and develop African tax priorities, policies and best practices, whilst working towards improving the lives of the people of Africa.”

Mr. Oupa Magashula

President of the African Tax Administration Forum

What Needs to be Done to Strengthen Domestic Resources?

- 1) **Increase transparency:** to ensure developing countries take opportunities to tackle tax evasion and avoidance, as well as effectively collect taxes. These include working towards the implementation of agreed standards on transparency and exchange of information (with links to the Global Forum on Transparency and Exchange of Information for Tax Purposes).
- 2) **Strengthen the capacity of tax administrations:** in most developing countries this will require creating an independent revenue service with well-paid officials, free from corruption and political interference. A tax system is only as good as its tax administration and without dramatic improvement in these administrations, it is unlikely that developing countries will meet the Monterrey commitments to mobilise domestic financial resources for development. Support is needed in administration and international tax areas, and working with key regional initiatives such as ATAF helps to put control over the developmental agenda firmly in the hands of developing countries themselves.
- 3) **Phase-in trade liberalisation:** before removing tariffs on cross-border trade, governments need to ensure that alternative sources of revenue are already in place. This suggests that as the process of liberalisation

continues, there needs to be a phase-in period since all the sources of revenue which could replace tariffs – personal or corporate incomes taxes; sales or VAT; taxes on moveable or immovable property – are far more complex to administer than tariffs.

- 4) **Broaden the tax base:** developing countries need to explore how the tax base can be broadened and how people in the informal sector can be brought within the tax base. This may require reviewing the taxation of land and buildings; exploring new ways to tax households; re-examining the tax treatment of small and medium-sized enterprises working to minimise the impact of tax incentives; or introducing simple environmental taxes. It may also require moving towards a heavier reliance on fees and charges.
- 5) **Raise awareness in the donor community:** to ensure tax administrations and related revenue and customs institutions in the poorest countries receive adequate support. Currently, these issues directly attract less than 0.1% of Official Development Assistance. Donors could increase that amount and see aid as a way to kick-start the move towards sustainable tax systems. Such assistance should be seen as an investment in the future of developing countries.

The Role of the Informal Task Force on Tax and Development

The OECD set up an Informal Task Force on Tax and Development in 2010 which is co-chaired by the Netherlands and South Africa. The Task Force brings together developing countries and other key stakeholders, including NGOs, business and other international organisations and serves as an advisory group to advise the CFA and the Development Assistance Committee. The Task Force is focusing on four issues: aid effectiveness, transparency in financial reporting, transfer pricing and exchange of information.

- 1) **Taxation, Statebuilding and Aid.** The aim of this strand of work is to look at the role of taxation to increase accountability, wider statebuilding and development, leveraging on the work carried out by the OECD Governance Network (GOVNET). Capacity building is at the core of these issues and matters to be explored include mapping and policy consequences of aid modalities for supporting tax systems; benchmarking/diagnostics for developing country tax administrations; revenue targets; transparency in operating tax incentives; as well as the impact of tax literacy/education on governance and statebuilding.
- 2) **Transfer Pricing.** The objective is to assist developing countries on the assessment of needs in relation to transfer pricing, the introduction of transfer pricing legislation where needed and the effective implementation of such legislation. This work aims to a) protect developing countries tax revenues against non arm's length pricing of transactions within MNEs and b) provide a business environment conducive to cross border trade and

investment, in particular by preventing and eliminating international double taxation.


- 3) **Transparency in reporting financial data by MNEs.** The Task Force is considering whether, and if so how, reporting of financial and tax data by multinational enterprises on a country-by-country basis will assist development efforts through making governments more accountable for the revenue they receive from MNEs (challenge corruption, deficient law enforcement and opacity in granting tax incentives) and multinational enterprises more accountable so that they do not deny developing countries the correct amount of tax. The best mechanisms to increase disclosure meaningfully are also being explored.
- 4) **Exchange of Information efforts are intended** to support the leading work carried out by the Global Forum on Transparency and Exchange of Information for Tax Purposes so as to ensure developing countries benefit from this initiative. The Task Force will facilitate demand-driven assistance



OECD Deputy Secretary-General Richard Boucher speaking at the Fifth Extractive Industries Transparency Initiative meeting in Paris, 2 March 2011.

on particular issues of interest to developing countries such as automatic exchange within regional information sharing networks.

Proposals and recommendations in these areas were discussed during the second plenary meeting of the Task Force in April 2011.

- 
- **Did you know...** that the OECD Informal Task Force on Tax and Development is one of the mechanisms through which the G20 will seek to further its work on building sustainable revenue bases for inclusive growth and social equity?
 - **Did you know...** that despite recent improvements in revenue-raising efforts, half of sub-Saharan African countries still mobilise less than 17% of their GDP in tax revenues, as against an average of around 35% in OECD countries and 23% in Latin America?
 - **Did you know...** the 2005 United Nations Millennium Project estimated that developing countries could increase their domestic revenue by about 4% of GDP over the next 10 years?

Offshore Voluntary Disclosure

HOT TOPICS

Over the past two years, the international tax environment has made dramatic strides towards greater transparency and exchange of information. The OECD standard on information exchange for tax purposes gained worldwide acceptance, with more than 600 tax information exchange agreements and tax treaties being signed or brought up to the standard. The financial and economic crisis, the growing public deficits and the political support from G20 have accelerated these developments and increased the need to improve tax compliance.

In this changing environment, taxpayers with undisclosed income and/or assets are increasingly realising that soon there will be no more safe havens through which to evade tax. The time required for exchange of information agreements or other mechanisms to come into effect offers a unique opportunity for taxpayers to voluntarily disclose their hidden income and assets. Governments and tax administrations are seizing this opportunity to facilitate such voluntary disclosures.

They do so by offering voluntary compliance programmes. Such rules or programmes provide an opportunity to facilitate compliance in a timely and cost-effective manner, eliminating the need for costly and contentious audits, litigation and criminal proceedings. Furthermore, voluntary compliance programmes can increase short-term tax revenues and improve medium-term tax compliance. However, these initiatives must strike a careful balance between providing sufficient incentives for non-compliant taxpayers to come forward and not rewarding or encouraging such conduct.

Improved information exchange and the use of voluntary disclosure initiatives reflect longstanding OECD policies. For years, the OECD has advocated a policy of improved international tax co-operation, including better information exchange and transparency to counter offshore tax evasion. At the same time, the OECD has encouraged countries to examine voluntary compliance strategies that would encourage non-compliant taxpayers to report previously undeclared income and wealth concealed in jurisdictions with strict bank secrecy laws.

Study on Offshore Voluntary Disclosure

It is against this backdrop that the OECD released its report “Offshore Voluntary Disclosure – Comparative Analysis, Guidance and Policy Advice”. The report illustrates how 39 OECD and non-OECD member countries address offshore tax evasion, comparing the case in which a taxpayer has made a voluntary disclosure with one in which he has not.

The report sets out a number of key policy principles developed by the OECD and includes the experiences of member countries that have introduced such programmes based on those principles. It also provides practical guidance to tax administrations, developed in close co-operation with private client advisors, on the design of voluntary compliance initiatives, with particular emphasis on providing certainty in some key areas.

The main part of the publication compares the key features of offshore voluntary disclosure programmes in the 39 OECD and non-OECD countries, including both general rules and specific programmes. The comparison demonstrates that most countries offer some kind of benefits under a voluntary disclosure programme. However, even if countries do not have provisions for a voluntary disclosure under their general law, tax administrations tend to take voluntary disclosures into account in practice.

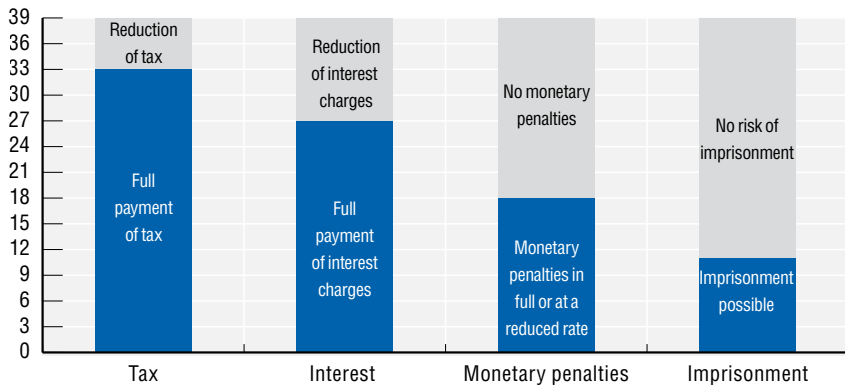
Taxes

In the vast majority of countries, taxpayers must pay the amount of tax that they would have owed in the absence of a voluntary disclosure; however, under special programmes in a certain number of countries, tax is reduced and/or computed differently.

Interest

In all of the 39 countries surveyed, taxpayers are required to pay interest on the tax evaded if their tax evasion is detected by the tax authorities and they have not made a full and timely voluntary disclosure. Interest charges are sometimes reduced in cases of voluntary disclosure. This is a common feature within the context of special voluntary disclosure programmes.





Effect of a voluntary disclosure on key elements of voluntary disclosure programmes in 39 countries

Monetary penalties

In all of the countries surveyed, taxpayers face monetary penalties in cases of tax evasion in which a full and timely voluntary disclosure has not been made. In all but two countries, monetary penalties are provided for separately. About half of the countries (21 out of 39) reduce the monetary penalties to nil following a voluntary disclosure by the taxpayer. Sixteen out of these countries do so by general law (including administrative practice) and five do so through a special programme. Even where penalties are not eliminated, they are often substantially reduced in the case of a voluntary disclosure. However, some countries restrict the mitigation of penalties to a certain number of voluntary disclosures.

Imprisonment

In all of the 39 countries surveyed, taxpayers risk imprisonment if their tax evasion is detected by the tax authorities and they have not made a full and timely voluntary disclosure. However, in most countries (28 out of 39), the non-compliant taxpayer can avoid possible imprisonment through voluntary disclosure. Only in 11 countries does the taxpayer face the possibility of imprisonment. However, in most of those countries, voluntary disclosure is considered a mitigating circumstance and, as such, there may be little practical risk of imprisonment.

Next Steps

The OECD will continue and refine its work on offshore voluntary disclosure to provide information and give advice to decision makers in both tax policy and tax administration and more generally to inform the public debate.

Examples of estimated and actual recovery of offshore assets/tax collected from voluntary compliance programmes

Country	Voluntary Disclosure Programme	Amounts of tax collected in € ¹	Amounts of assets disclosed in €	Estimated or Actual
Australia	2007 and onwards tax amnesty – Project Wickenby	Over 222 million ² <i>Over AUD 300 million</i>		Actual
Belgium	2004 tax amnesty	496 million		Estimated
Canada	Voluntary disclosures 2004-2005	239 million <i>CAD 318 million</i>		Actual
Germany	2004 tax amnesty	901 million		Actual
	Voluntary disclosures 2010	4 billion		Estimated
Greece	2004 tax amnesty		20 billion	Estimated
Ireland	Voluntary disclosure of offshore accounts 2004	856 million		Actual
Italy	2002-2003 Tax Shield	2.1 billion		Actual
	2009-2010 Tax Shield	4.75 billion ³	95 billion ³	Actual
Portugal	2005 tax amnesty	41 million		Actual
South Africa	2003 tax amnesty	44 million <i>ZAR 400 million</i>	7.1 billion <i>ZAR 65 billion</i>	Estimated
United Kingdom	2007 voluntary disclosure facility	473 million <i>GBP 400 million</i>		Actual
	2009 voluntary disclosure facility	97 million <i>GBP 82 million</i>		Actual
United States	2003 voluntary compliance initiative	202 million ² <i>USD 270 million</i>		Actual

1. For comparison, all amounts of tax collected or assets disclosed have been converted into Euros. The conversion rate used was the interbank rate as of 3 December 2010. Amounts in national currency are in italics.

2. Including penalties

3. As of 15 December 2009

Key Publications

- OECD (2010), Offshore Voluntary Disclosure – Comparative Analysis, Guidance and Policy Advice.

Tax Administration on the Web

- www.oecd.org/ctp/ta

- **Did you know...** that in 2010 more than 20 000 taxpayers made voluntary disclosures in Germany resulting in a reported additional revenue to the German government in the range EUR 4 billion?
- **Did you know...** that interest rates applicable on unpaid taxes can range from 2.38% p.a. in Austria to almost 22% p.a. in Estonia?
- **Did you know...** that in Spain monetary penalties can be up to 600% of the unpaid tax?
- **Did you know...** that Ireland and the United Kingdom publish names and other details of taxpayers caught evading taxes?

Multilateral Convention on Mutual Administrative Assistance in Tax Matters

HOT TOPICS

In an environment characterised by increased trade and financial liberalisation, coupled with rapid advances in communication technologies, it has become more difficult for countries to ensure that taxes are fairly assessed and collected.

The 1988 Convention on Mutual Administrative Assistance in Tax Matters (the Convention) is a unique multilateral free standing instrument for international co-operation, which has a wide scope covering all taxes. It not only facilitates the exchange of information, but also provides for assistance in the recovery of taxes, which differentiates it from most bilateral tax treaties. It provides for simultaneous tax examinations and participation in tax examinations in other countries. It contains provisions that provide for a high level of confidentiality. The information received under the Convention can also be used for other purposes besides those related to tax co-operation, for example to counter money laundering, provided certain conditions are met.



Signature of the Tax Convention by Moldova, 27 January 2011, Paris, France, from left to right: HE Mr. Oleg Serebrian, Ambassador of the Republic of Moldova to France; Mr. Veaceslav Negruta, Minister of Finance of the Republic of Moldova; Deputy SG Aart De Geus, OECD; Ms. Grace Perez-Navarro, Deputy Director, CTP, OECD.

The Convention gives countries flexibility in terms of scope and coverage, because it allows for the possibility of reservations on certain provisions, which can be added or repealed at a later date, namely on the taxes covered by the Convention, on assistance in recovery of taxes and on the service of documents. Flexibility is also ensured by the fact that some of the forms of assistance covered by the Convention, such as automatic exchange of information, require a preliminary ad hoc agreement between the competent authorities of the Parties willing to provide each other information automatically. As a consequence, without such agreement of the competent authorities, there is no obligation under the Convention to engage in automatic exchange of information.

The Convention was jointly established by the Council of Europe and by the OECD. It was originally open for signature by the 54 countries that are members of the Council of Europe or the OECD, but has been amended recently to allow any country to adhere. The Convention was amended to respond to the 2009 G20 Summit call for developing a multilateral approach to exchange of information to make it easier for developing countries to benefit from improved co-operation.

“We reiterated our call to improve compliance with international standards and strengthen the process of identifying non-cooperative jurisdictions (...) We call upon more jurisdictions to join the Global Forum and to commit to implementing the standards. We urge all jurisdictions to extend further their networks of Tax Information Exchange Agreements and encourage jurisdictions to consider signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters.”

*G20 Leaders' Declaration,
18-19 February 2011, Paris.*

Due to recent political attention on exchange of information, the increased interest has led to a number of significant developments: the standard on exchange of information is now universally accepted. All jurisdictions surveyed by the Global Forum on Transparency and Exchange of Information for Tax Purposes are now committed to implement this standard. The G20 at its London Summit of April 2009, echoed by the G8 in L'Aquila, stressed the importance of quickly implementing these commitments. It also requested proposals, by the end of 2009, to make it easier for developing countries to secure the benefits of the new co-operative tax environment, including a multilateral approach for the exchange of information. In addition, in a letter sent on 30 March 2009 to the OECD, Prime Minister Gordon

Brown, as Chair of the G20, indicated that “it would be helpful, in this regard, if an effective multilateral mechanism could be developed”.

The Convention was in many ways ahead of its time when it was drafted, and its value to effective tax administration has only recently been recognised. However, as it was drafted before the adoption of the internationally agreed standard on exchange of information, the assistance covered by the Convention was subject to limitations existing in domestic laws. In particular, the Convention did not require the exchange of bank information on request nor did it override any domestic tax interest requirement. The internationally agreed standard on transparency and exchange of information instead provides for full exchange

of information on request in all tax matters without regard to a domestic tax interest requirement or bank secrecy for tax purposes.

The Convention may be particularly useful in the audit of transfer pricing issues because it provides for joint audits. Such an approach is beneficial to the tax administrations involved as they will all have a single legal framework under which to carry out the audit (as opposed to relying on separate bilateral treaties) and they will all have the same information available to them at the same time. It is also beneficial to the taxpayer as the taxpayer will only have to produce information once and such a process is more likely to reduce the possibility of double taxation.

The amended Convention will enter into force on 1 June 2011.

The Parties to the Convention are: Azerbaijan, Belgium, Canada, Denmark, Finland, France, Georgia, Germany, Iceland, Italy, Korea, Mexico, Moldova, the Netherlands, Norway, Poland, Portugal, Slovenia, Spain, Sweden, Ukraine, the United Kingdom and the United States. Other countries are considering signing the convention.

Key Events

- The amending Protocol was opened for signature by the 17 signatories to the existing Convention on the occasion of the OECD Ministerial Council Meeting in Paris on 27-28 May 2010.
- On this same occasion, OECD and Council of Europe members not yet signatories to the Convention were invited to become Parties to the Convention and Protocol.

The Convention on the Web

- www.oecd.org/ctp/eoi/mutual

Green Growth and Climate Change: Taxation and Tradable Permits

HOT TOPICS

Green growth and climate change are global challenges. All countries share the challenge of finding policy instruments that can reduce pollution.

Environmentally-related taxes and emission trading schemes are among the most effective policy instruments: they increase the cost of greenhouse gas emissions and encourage the businesses and households who can most easily change their behaviour to do so (achieving abatement at least resource cost), and they also spur innovation and promote the adoption of climate-friendly technologies. Auctioned emission permits or carbon taxes may also contribute much-needed revenues that can help governments to rebuild sound public finances after the financial and economic crisis.

The CTPA is actively involved in providing countries with analyses of the efficacy of different policy tools to promote green growth and slow and contain



Hosts and speakers at the international seminar on environmental taxation organised by China and the OECD in collaboration, Beijing, 26-27 October 2010

climate change. Over recent years, a series of studies have been undertaken to analyse how taxes on energy and pollution can address environmental problems. In addition new projects are examining how features of tax systems may effectively promote the production and consumption of fossil fuels, and reviewing the tax treatment of tradable permits to identify whether this risks impeding the efficient operation of a tradable permits regime.

Collaboration with emerging economies

Environmental taxation was first embraced by advanced economies. But in recent years it has risen on the political agenda of a number of emerging economies, notably in densely populated Asia. Living standards have risen rapidly in these emerging economies over the past decades, and hundreds of millions of people have been lifted out of poverty. But for progress in living standards and quality of life to continue within the constraints set by natural resources and the environment, economic growth has to take a greener direction.

These issues are part of an ongoing dialogue between the OECD and emerging economies on how taxes and tradable permits can be used to achieve environmental goals sharing and adapting OECD experience to the special circumstances in each country. In October, an international seminar was held in Beijing. Chinese experts described the energy taxes and environmental charges that are currently applied in China. Experts from OECD countries, the European Union and South Africa shared their experience concerning energy and energy-related taxes, including taxes on sulfur oxides and nitrous oxides that cause smog, as well as taxes on water and waste. Among the challenges for both the OECD and emerging economies are to refine the administration of environmental taxes, bring tax rates closer to levels that match the environmental damage and ensure they apply consistently to all sources of pollution.

“ One of the most powerful and efficient approaches to encourage green innovation is to reform our tax systems. I am not speaking about higher taxes; I am speaking about shifting the composition of taxes: using environmental taxes more to create green incentives, perhaps while cutting taxes on corporate and personal income where it matters most for investment, entrepreneurship, employment and growth.”

Angel Gurría, OECD Secretary-General, presenting the Taxation Innovation and the Environment book in at the Global Green Growth Conference in Copenhagen on 8 November 2010

Taxation, Innovation and the Environment

Solving the world's environmental problems could take a significant toll on economic growth if only today's technologies are available. However, innovation – the creation and adoption of new technologies and know-how – provides a means to achieve local and global environmental goals at significantly lower costs. Innovation is also a major driver of economic growth.

As one of the first major reports under the OECD Green Growth Strategy, *Taxation Innovation and the Environment* was released in October 2010.



It explores the relationship between environmentally related taxation and innovation which is critical to understanding the full impacts of this policy instrument.

An example: Sweden was among the first countries to seriously address pollution from Nitrous Oxides that cause smog. Back in 1992 a charge was introduced and after just a couple of years, emissions fell by a third. Power plants used a variety of different technologies depending on what the best fit was – and the least costly – for their particular context. New technical solutions also emerged, and a number of patents were taken out by Swedish companies. If, instead, Sweden had mandated the use of specific technologies, it would not have given room for innovation – the scope for green growth would have been limited. In this sense shifting part of the tax burden onto pollution aligns with the logic of business: it creates market demand for entrepreneurs to develop and sell new smarter and cleaner technologies and promotes green growth.

Aside from Sweden, the report draws on case studies that cover Japan, Korea, Spain, Switzerland, the United Kingdom, Israel and others.



Angel Gurría, OECD Secretary-General, at the Global Green Growth Conference in Copenhagen, 8 November 2010, speaking about the role of tax policies in spurring green innovation and growth.

Putting a Price on Greenhouse Gas Emissions is Crucial

To limit climate change, emissions of greenhouse gases must be reduced. Carbon dioxide (coming mainly from the burning of fossil fuels) accounts for over 80% of greenhouse gas emissions, while methane (coming mainly from agriculture and waste disposal) accounts for close to 10% of greenhouse gas emissions, measured in CO₂-equivalent terms.

Reducing emissions is a global challenge. No matter where emissions happen, or who generates them, they have a broadly similar effect on the concentration of greenhouse gases in the atmosphere. Moreover, because emissions stay in the atmosphere for some 50 years or so, it makes little material difference

when they occur. Correspondingly, the sooner serious abatement efforts start, the better. Moving towards similar disincentives for all types of greenhouse gas emissions will be essential.

Households and businesses are sensitive to prices. Whether in the form of taxes or emission permits under cap-and-trade schemes, putting a price on greenhouse gas emissions creates strong incentives to shift towards cleaner methods of production or transport, and encourages households to invest in energy saving and to switch their spending toward more environment-friendly products. They have a choice about how and when to do so; and this should enable them to seek out optimal solutions instead of having to comply with, for example, specific technology standards set out in rigid regulations. Innovation could also be nurtured in other ways but by making emitters 'pay' for the damage they are doing to the planet, other incentives will be reinforced. Putting a price on greenhouse gas emissions is crucial.

A number of countries are adopting and expanding cap-and-trade schemes, but taxes are still needed to ensure incentives for emission reductions in areas where cap-and-trade schemes cannot realistically be applied. Cap-and-trade schemes are generally being used to address CO₂ emissions for large-scale industrial emitters and electricity generation. Current schemes typically do not cover some important sources of greenhouse gas emissions such as waste, agriculture, and transportation. Yet, transportation alone constitutes a fifth or more of total CO₂ emissions. Hence, taxes on fuel will form an essential component of the overall strategy.

While the instruments used may be different, achieving economy-wide abatement at the lowest cost implies that the aim should be to move towards similar incentives for all types of greenhouse gas abatement.

Successfully addressing the threat of climate change requires a comprehensive strategy for all sources of emissions. Current approaches in many OECD countries, by contrast, provide significant concessions that undermine achieving an ambitious target at the lowest possible cost. Aviation, shipping, agriculture, and energy-intensive industries are routinely subject to reduced tax burdens and, in some cases, are completely exempted or payments are refunded.

The G20 mandate on fossil fuel subsidies

At the Pittsburgh Summit in September 2009, G20 Leaders agreed to phase out subsidies that encourage wasteful fossil fuel consumption. The G20 also asked the OECD, together with the International Energy Agency, the World Bank and OPEC, to produce a report analysing the scope of such subsidies, and subsequent G20 meetings have asked for this work to continue. For OECD countries a large part of these subsidies take the form of tax expenditures related to oil extraction, coal mining, processing of fuels or the use of fossil

fuels either by businesses or final consumers.

Starting from work undertaken by the CFA's Working Party 2, the OECD is now looking into methodologies for assessing how features of the tax systems may promote production and consumption of fossil fuels. A key aim is to help countries achieve reductions in green house gas emissions at least resource cost.

The Tax Treatment of Tradable Permits

Tradable permits will be used increasingly by countries, notably to curb CO₂ emissions. Tax experts need to pay attention to such developments: it is easier to establish solutions to tax issues while tradable permit markets are still being developed before the amounts at stake become high and countries' positions more entrenched.

The CFA is reviewing the tax treatment of permits in member countries, to identify whether there could be impediments to the efficient operation of a permits regime (particularly through international interactions of tax regimes) and consider appropriate responses. ■

Key Publications

- Taxation, Innovation and the Environment, October 2010.
- Green Growth Strategy Synthesis report (forthcoming)
- Taxation and Green Growth (forthcoming)
- Environmentally Related Taxes and Tradable Permit Systems in Practice, June 2008.
- The Political Economy of Environmentally Related Taxes, June 2006, ISBN: 978-92-64-02552-3

Tax and the Environment on the Web

- www.oecd.org/env/taxes

■ **Did you know...**Recent OECD analysis found that, if the proper mix of policies and instruments to price carbon is put in place to reduce emissions by 20% in developed countries by 2020, this could raise the equivalent of up to 2% of their GDP?

Value Added Taxes: Could Do Better?

HOT TOPICS

There is wide diversity in the way countries have implemented VAT. Each country has a specific mix of rates, exemptions, thresholds, etc derived from local historic, economic and political conditions. However, all governments aim to obtain the best yield from the tax, in particular at a time when many are seeking ways to address large fiscal deficits. Raising the standard VAT rate is often considered the easiest way to increase revenues from the tax. However, this has its own limitations, in particular in countries where the rate is already relatively high. Improving the performance of the tax is another option. This includes broadening the tax base, a more limited use of reduced rates and exemptions, more efficient tax administration and better compliance.

The meaning of “performance” in this context requires clarification. In theory, the tax is at its most “efficient” when imposed on all goods and services at a single standard rate. One recent study showed that a single VAT rate is the best policy choice from a purely economic point of view because exemptions and reduced rates involve additional compliance and administrative costs, which reduce the efficiency of the tax. However, it is recognised that, in local circumstances, reduced rates and exemptions in carefully targeted sectors may provide some benefits and, in that sense, be a means of meeting particular policy objectives.

Precise measurement of VAT performance is not easy. A VAT system should be considered, in absolute terms, “efficient” when it covers the whole of the potential tax base (consumption by end users) at a single rate and where all the tax due is collected by the tax administration. One tool considered as an appropriate indicator of such a performance is the VAT Revenue Ratio (VRR).

How is the VAT Revenue Ratio calculated?

Put very simply the ratio is calculated by comparing the VAT actually collected with the application of the standard rate of VAT to consumption by households (taken from the national accounts). Thus, if all consumption was taxed at one rate and all the tax due was successfully collected the VRR outcome is

1 (i.e. 100%). However, this is far from simple as definitions of household consumption need to be carefully considered given that exemptions in VAT (for example in the financial services sector) distort the figures by blocking tax recovery by banks. The tax “collected” by this blocking of input tax recovery becomes part of the overall VAT revenue and therefore overstates the performance of the VAT when compared to household consumption. A lot of work needs to be done on refining the data in order to ensure a consistent approach across all countries.

What are the results of the VAT Revenue Ratio?

The results, which are published in the OECD's biennial publication *Consumption Tax Trends*, should be seen as a trend, over a number of years, within each country rather than a comparative exercise. All countries retain the sovereign right to apply reduced rates and exemptions so a “low” performance may simply reflect the political choice of the country concerned. However, a “low” performance may also suggest that, in times of fiscal deficits, that simply raising the standard rate of VAT is not the only policy option open to governments. Removing reduced rates may also be a policy option, although this would need to be considered within the overall tax package of each country.

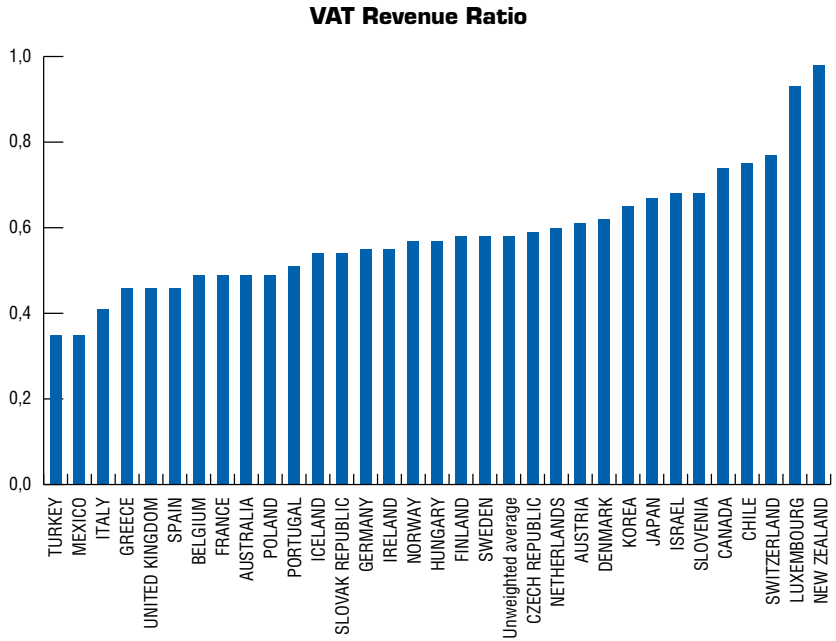
Low performance may also reflect poor compliance and poor tax administration. This would be the case if a country had a relatively wide base at the standard rate and yet fell well below 100% VRR.

The unweighted average for all OECD countries in 2008 was 58% (in other words, 42% of the potential VAT revenue is not collected). It follows, therefore that, in many countries, there is significant room for widening the tax base at the standard rate and improving compliance and tax administration. The figures range from 98% (New Zealand) to 35% (Mexico and Turkey). Eight countries (including major economies such as France and the UK) have a ratio of less than 50%.

It appears that the level of the standard rate has a limited influence on the VRR. Countries with comparable standard rates can have very different VRRs. Luxembourg and Mexico for example both employed a standard rate of 15% in 2008 but their VRR is respectively 93% and 35%. One of the factors explaining the high VRR for Luxembourg is the relatively large financial sector within its economy, which provides additional VAT revenue due to the cascading effect of exemption. On the other hand, the low VRR for Mexico probably result from a combination of an extended use of the domestic zero rate, a reduced rate for the sale of goods in the border regions and a lower compliance rate.

Although the majority of countries (19 of 32) have a VRR between 0.50 and 0.75, they have standard VAT rates which vary widely, from 5% (Canada) to 25% (Sweden) without correlation between the level of the VAT rate and the VRR. Denmark, Norway and Sweden have high standard VAT rates (25%)

with a higher VRR (respectively 0.62, 0.57 and 0.58) while Australia and Spain have lower standard rates (respectively 10% and 16%) with lower VRR (respectively 0.49 and 0.46). It is difficult to draw typical profiles for “efficient” and “inefficient” countries in the collection of VAT revenues on the basis of this VRR. Only Japan combines a single (low) VAT rate, an absence of domestic zero rate and a high VRR (0.72).



Source: Figure 4.1, OECD (2011), *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues*, OECD Publishing, Paris.

The impact of VAT fraud is more difficult to detect through the VRR. For example the UK tax administration discovered a significant increase of large scale VAT carousel fraud (a fraud that exploits a perceived weakness in the operation of intra-Community supplies in the European Union). Although this type of fraud began in the 1990s its impact does not appear to be reflected in the VRR, which remained stable. This might be explained by an offsetting increase in the size of the financial services sector in the UK at the time and the consequent cascading effects.

More globally, the performance of VAT systems depends on three main factors:

- The structural features of the tax, *i.e.* rates, exemptions, bases and thresholds;
- The capacity of the tax administration to manage the system in an efficient way; and

- The degree of compliance of taxpayers.

The interaction between these three factors is crucial. For example, a high standard rate may encourage evasion while multiple lower rates often lead to misclassifications and create high compliance and administrative burdens. Reasonably high registration or collection thresholds may ease the burden on tax administrations by allowing them to concentrate on the larger taxpayers. Exemption by sectors of activity may create distortions and incentives for evasion, which require additional administrative capacities. Inefficient tax administration, burdensome administrative requirements and complex VAT mechanisms may also reduce the degree of compliance of taxpayers.

Whilst the VRR is a useful tool for observing countries' performance, more work is needed to identify the specific factors that influence the performance of VAT and how they interact. An article on this topic appears in the 2010 edition of the OECD's *Consumption Tax Trends*.

Key Publications

- OECD (2011), *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues*, OECD Publishing

Consumption Taxes on the Web

- www.oecd.org/ctp/ct
- *OECD Tax Database*: www.oecd.org/ctp/taxdatabase

Addressing Tax Risks from Bank Losses

HOT TOPICS

The role of banks in the global economy, as well as in the functioning of countries' tax systems, is of vital importance. The financial and economic crisis had a devastating impact on bank profits, with loss-making banks reporting global commercial losses of around USD 400 billion in 2008. As a result of the financial crisis, a large number of banks have sustained substantial losses. The scale of those losses, and the potential regulatory capital, profit and cash-flow benefits for banks able to convert them into cash, mean that revenue bodies must be alert to potential tax compliance risks as a result of aggressive tax planning involving losses.

The OECD published a report dealing with the tax risks involving bank losses in September 2010 which reflects the experiences of the countries which participated in the study team: Australia, Austria, Canada, Denmark, France, Germany, Ireland, Italy, Mexico, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States. South Africa also provided valuable input in the course of drafting the Report. The Report benefitted from the input of other members of the FTA and from consultations with the private sector.



The report sets the market context for bank losses and provides an overview of the tax treatment of such losses in 17 OECD countries; describes the tax risks that arise in relation to bank losses from the perspective of both banks and revenue bodies; outlines the incentives that give rise to those risks; and describes the tools revenue bodies have to manage these potential compliance risks. It concludes with recommendations for revenue bodies and for banks on how risks involving bank losses can best be managed and reduced. Although the report deals primarily with the tax treatment of banks which have suffered overall losses, it also touches on issues which are relevant to write-downs and write-offs which may reduce a bank's profits. The report deals specifically with the banking sector, but similar issues may also arise in other sectors.

Strengthening the Role of Taxation in the Fight against Corruption and Financial Crime

HOT TOPICS

Money laundering, corruption, terrorist financing, tax crimes, and other financial crimes can *threaten the strategic, political and economic interests* of both developed and developing countries.

The common factor in these types of crimes is that they *all thrive in a climate of secrecy* and lax regulation and/or enforcement. Countering these activities therefore requires greater transparency and improved efforts to harness the capacity of different government agencies to work together to deter, detect and prosecute these crimes through a whole of government approach. In March 2011 the OECD organised a Conference on Tax and Crime hosted



Money Laundering and Bribery Awareness, Training Symposium, 8-10 June 2010

by Norway in Oslo to promote a whole of government approach to fighting financial crime in both developed and developing countries.

The links between tax crimes and other financial crimes are well recognised. Tax crimes are predicate offences for money laundering in many countries and FATF is expected to finalise its work on specifying tax crimes in February 2012. In a 2009 *Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions* and 2010 *Recommendation to Facilitate Co-operation between Tax Authorities and Other Law Enforcement Authorities to Combat Serious Crimes*, the OECD has advocated greater co-operation and better information sharing between different government agencies involved in the fight against financial crimes both domestically and internationally. Guidance has been developed to better enable tax officials to detect bribes and instances of money laundering.

Tax as a means to fight corruption

Countries have put in place and are reinforcing a range of tax related measures to strengthen both the legal framework and the practical administrative efforts to counter corruption. The combined effect of these measures is increased deterrence, detection and prosecution of corrupt activities.

On the policy side, countries have explicitly prohibited tax deductions for bribes to foreign public officials as required by the OECD 2009 Recommendation. Such legislation increases the overall awareness within the business community of the illegality of bribing public officials and increases the cost of doing so. Explicit legislation also raises awareness within tax administrations and highlights the need for tax examiners to seek to detect during audits deductions for payments of bribes and to report suspicious payments to the appropriate domestic law enforcement authorities for possible prosecution of bribery.

Policymakers have recognised that sharing of such tax information with domestic law enforcement authorities can improve the detection and sanctioning of serious crimes

like corruption.

On the international side, more and more tax treaties allow the use of information provided by a treaty partner for tax purposes to be used to combat serious crimes such as corruption under certain circumstances if certain conditions are met.



"Bribery in international business, for example, may centre on shell companies and wire transfers, but no matter where – or how – it happens, the corrosive result is the same: stymied development, lost confidence, and distorted competition. The result is unfairness, not justice; the consequence is economic decay, not development."

U.S. Attorney

General Eric H. Holder on

US efforts to fight international corruption, 31 May 2010.

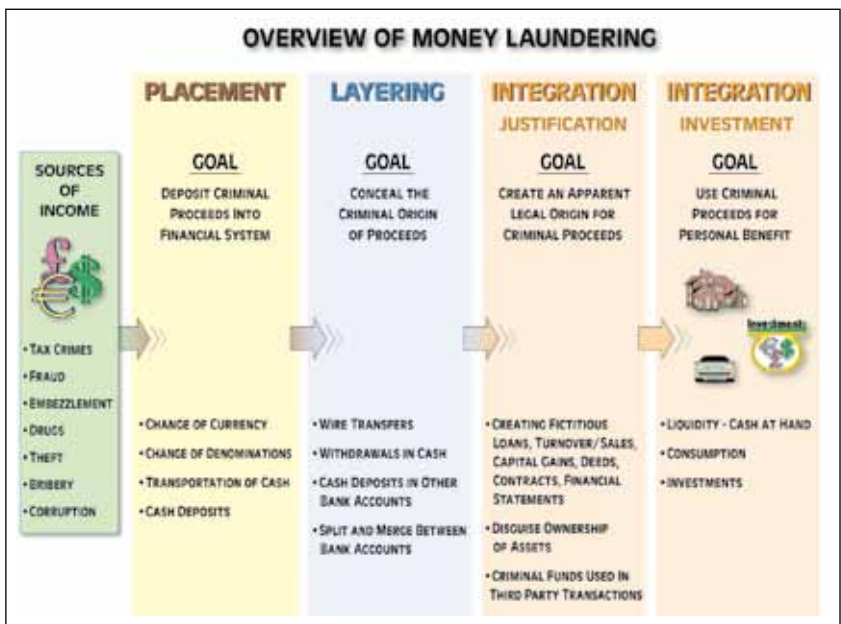
“We are developing a new initiative, clean.gov.biz, that will improve our own anti-corruption tools and reinforce their implementation. We then want to strengthen co-operation with all relevant players to ensure that our instruments complement those of our partners.”

Mr. Richard Boucher
OECD Deputy Secretary-General

Tax administrations are now stepping up their training of tax examiners to identify the types of payments that constitute bribes and the action to take when they suspect a bribe has been paid. Such training is usually based on the OECD Bribery Awareness Handbook for Tax Examiners. It includes practical tips such as indicators of bribery, interviewing techniques and examples of bribes identified in tax audits as well as the new OECD Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions.

Tax Crime and Money Laundering

In a recent international survey, anti-money laundering experts identified tax crime as one of the top three sources of dirty money that criminals seek to hide in the financial system. Tax administrations can therefore play an important role in detecting and deterring money laundering, and at the same time tackle tax crimes.



Criminals accumulate significant sums of money by committing crimes such as drug trafficking, human trafficking, theft, investment fraud, extortion, corruption, embezzlement and tax fraud. Money laundering is a serious threat to the legal economy and affects the integrity of financial institutions. It also changes the economic power in certain sectors. If left unchecked, it will corrupt society as a whole.

There are substantial similarities between the techniques used to launder the proceeds of crimes and to commit tax crimes. In the majority of countries tax crime is a predicate offence for money laundering. In May 1998 the G7 Finance Ministers encouraged international action to enhance the capacity of anti-money laundering systems to deal effectively with tax related crimes.

The G7 considered that international action in this area would strengthen existing anti-money laundering systems and increase the effectiveness of tax information exchange arrangements. In July 2009, the G8 Leaders called for further efforts in combating illicit financing, and acknowledged the progress being made by the Financial Action Task Force (FATF) in improving the standards for combating money laundering and the financing of terrorism and by the OECD on international standards of transparency. The OECD's Committee on Fiscal Affairs, working with FATF, has developed some new tools to help improve co-operation between tax and anti-money laundering authorities.

In the last 20 years, crime fighters have sought to deter criminals by paying more attention to the confiscation of proceeds of crime. More recently, with the introduction of unusual or suspicious transaction reporting by the regulated sector, it is often the flow of money or goods that is investigated even before a criminal offence has been detected. If criminals are arrested or taxed on the proceeds of crime, they will try to avoid having the proceeds traced back to their origin and avoid their confiscation.

In order to be able to spend money openly, criminals will seek to ensure that there is no direct link between the proceeds of crime and the actual illegal activities. They may also seek to construct a plausible explanation for the origin of the money, and thus seek to "launder" their proceeds of crime before spending or investing it in the legal economy.

Handbook on Money Laundering Awareness

Tax administration staff needs to be aware of the nature of money laundering and how they may recognise indicators of money laundering that need further investigation. The OECD has produced the Handbook on Money Laundering Awareness, which provides guidance in identifying money laundering during the conduct of normal tax audits. It describes the nature of money laundering activities so that tax examiners and auditors can better understand how their contribution can assist criminal investigators in countering money laundering.



Tax administrations are able to adapt the handbook to suit their particular circumstances taking account of the varying roles that tax administrations have in relation to reporting unusual or suspicious transactions, receiving suspicious transaction reports and investigating money laundering offences.

The handbook can help tax administrations and law enforcement authorities to:

- identify tax crimes
- identify other crimes and criminals
- locate and confiscate criminal assets

Money Laundering Methods

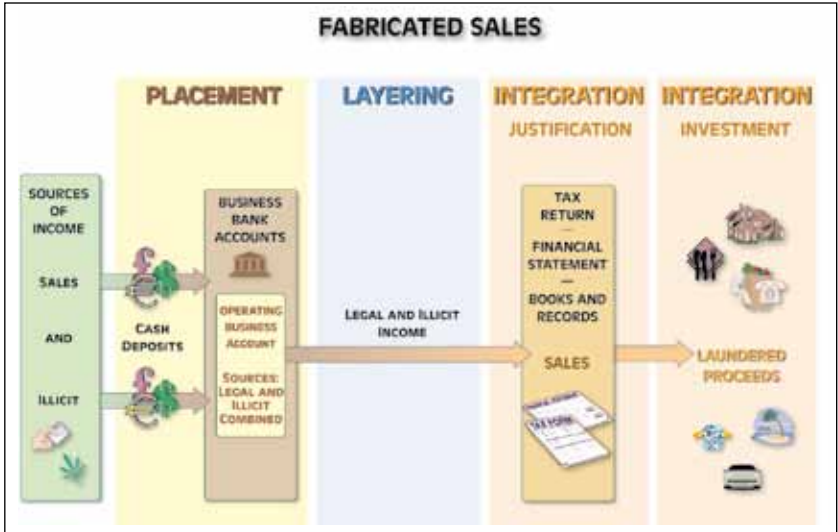
The traditional methods of money laundering have centred on the use of cash based businesses and this remains an important area. However criminals will continue to seek out innovative methods to exploit weaknesses in financial systems and to try to keep ahead of the investigators. Real estate, loans and trade based money laundering are preferred methods for criminals to launder the proceeds of crime and tax fraud. The handbook contains graphic examples of these methods and describes the traces of crime that are used to detect them.

The tax auditor's skills in detecting tax irregularities are well suited to spotting money laundering techniques. The handbook covers indicators that can help detect the methods used in transactions involving:

- real estate
- cash businesses
- international trade
- loans
- professional service providers (lawyers, accountants and others)

An example

One area where tax auditors can bring their expertise is in detecting money laundered through normal businesses. A traditional method involves the fabrication of sales. Here the criminal is depositing the illicit funds into the business bank account along with funds from genuine sales. The illicit funds are recorded in the books and records as if the money came from genuine turnover and the overstated income is reported in their tax returns. The company may not have to pay tax on this increased income if the company has trading losses available or where false deductions are also created.



Money Laundering through the Football Sector

In the past two decades, football has changed from a popular pastime into a global industry. The investment of money into the sector has increased exponentially, and some of this has criminal connections. The FATF, with assistance from the CTPA, recently completed a study, Money Laundering through the Football Sector, to determine what makes the football sector attractive to criminals. The report provides case examples identifying the methods used. One case exposed the diversion of signing on and other fees to supposed "image rights" which had been transferred to a company registered in a tax haven. The club conceded that the image rights were in fact part of the employment contract and had to pay an additional tax bill of over GBP 1.3 million.

Charity Abuse

Another channel for money laundering and tax crimes can be the abuse of charities, either by establishing fake charities, or targeting one of the many bona fide charity organisations. Charities may be perceived as not subject to the kind of tough accounting vigilance afforded to regular businesses. Yet some charities handle vast amounts of money and, just like major corporations, often have to move those finances across borders. As a result, the privileged status of a charitable organisation is often abused, whether by taxpayers, by donors or by tax return preparers.

A 2008 OECD survey identifies a range of common methods and schemes used to abuse charities to commit tax crimes and to launder money. For instance, a bogus company might pose as a registered charity that solicits contributions,

which end up in the pockets of its directors. There are registered charities that sell charity receipts to tax return preparers for a commission. Taxpayers and tax return preparers might counterfeit charity receipts of real charities. Or terrorists use charities to raise or transfer funds to their organisations. Detection is improving, thanks to a combination of intelligence gathering, data matching and risk profiling and analysis to uncover charity frauds. In-depth audits of the charitable organisation's bookkeeping can also help verify the tax status of the donors. The report suggests that valuable tax information could come from domestic intelligence agencies such as the Financial Intelligence Unit (FIU), customs and immigration agencies, or foreign tax authorities.

Informants can also provide leads. Many countries have passed bills to exclude 'remunerated donations', where the 'donor' gets something of value in exchange for their 'donation', while others have made it obligatory to report suspicious transactions to FIU. Several countries have set up special task forces and audit teams to combat the abuse.

International Seminars

To help tax administrations implement their awareness programmes, the OECD has developed a "train the trainers" seminar which is being offered in a number of centres around the globe for all tax administrations. The seminar also covers bribery awareness for tax auditors. Fifty seven participants from twenty two countries attended the first in Washington DC, USA in June 2010 and further events are planned over 2011/12 for the Latin American, Southern Africa and Asia Pacific Regions.

Key Publications

- *2009 Recommendation on Tax Measures for Further Combating Bribery of Foreign Public Officials in International Business Transactions.*
- *2010 Recommendation to Facilitate Co-operation between Tax Authorities and Other Law Enforcement Authorities to Combat Serious Crimes.*
- Handbook on Money Laundering Awareness (October 2009), www.oecd.org/ctp/taxcrimes/laundering, available in five languages.
- Bribery Awareness Handbook (December 2009), <http://www.oecd.org/ctp/nobribes>, available in 18 languages.
- Money Laundering through the Football Sector, FATF (July 2009)
- Report on Abuse of Charities for Money Laundering and Tax Evasion (February 2009)
- Access for Tax Authorities to Information Gathered by Anti-money Laundering Authorities (2008)

- Report on Real Estate Sector: Tax Evasion and Money Laundering Vulnerabilities (2007)
- Report on Identity Fraud: Tax Evasion and Money Laundering Vulnerabilities (2007)

Tax Treatment of Bribes on the Web

- www.oecd.org/ctp/ttb
- *Foreign bribery – OECD Initiative to raise global awareness, www.oecd.org/corruption/initiative*

Tax Crimes and Money Laundering on the Web

- www.oecd.org/ctp/taxcrimes

Tax Relief and Compliance Enhancement (TRACE)

HOT TOPICS

Although the vast majority of publicly traded securities is now held through a complex network of domestic and foreign intermediaries, few countries have adapted their withholding tax collection and relief procedures to recognise this multi-tiered holding environment. If systems are based on the implicit assumption that there is a direct relationship between the issuer (or its local paying agent) and the beneficial owner of income, it may be difficult or impossible to make an effective claim for treaty relief because of the reality of intermediated financial structures.

In addition a substantial part of cross-border portfolio investments are made through collective investment vehicles. Yet until recently, the considerable tax obstacles had discouraged small to medium-sized investors from using this method and there was considerable uncertainty as to the applicable tax treaty.

In 2006, the Committee on Fiscal Affairs and the Business and Industry Advisory Committee agreed to work on improving the process by which portfolio investors may claim treaty benefits. An Informal Consultative Group (ICG) made up of government representatives and of experts from the business community was created to look at legal and policy issues, primarily relating to the extent to which either collective investment vehicles or their investors are entitled to treaty benefits, and procedural aspects of claims for reductions in source country withholding tax provided for by treaty when assets are held indirectly, whether through Collective Investment Vehicles (CIVs) or through nominees and custodians.

In January 2009 the CFA released for public comment two reports by the ICG. The ICG's report on "Possible Improvements to Procedures for Tax Relief for Cross-Border Investors" makes a number of recommendations on best practice procedures for making and granting claims for treaty benefits for intermediated structures. The ICG's Report on the "Granting of Treaty Benefits with respect to the Income of Collective Investment Vehicles", which discusses technical issues and makes recommendations with respect to the treaty eligibility of collective investment vehicles, was used as a basis for updating the

OECD Model Tax Convention in 2010.

The objectives of the work on procedures are to develop systems that are as efficient as possible, in order to minimise administrative costs and allocate the costs to the appropriate parties; and to identify solutions that do not threaten, and that ideally enhance, countries' abilities to ensure proper compliance with tax obligations, from the perspective of both source and residence countries. The ICG's Report recommends that countries develop systems for claiming treaty benefits that allow authorised intermediaries to make claims on behalf of the investors on a "pooled" basis. One of the major benefits of such a system, variations on which have been adopted by a few countries over the past decade, is that information regarding the beneficial owner of the income is maintained by the intermediary at the bottom of the chain, rather than being passed up the chain of intermediaries.

Although a country may be willing to provide benefits on the basis of pooled information, it may want to maintain the ability to confirm that the benefits that have been provided were in fact appropriate. For that reason, and in order to encourage compliance in the residence state, the ICG also recommended that those financial institutions that wish to make use of the "pooled" treaty claim system be required to report directly to source countries (*i.e.* not through the chain of intermediaries) investor-specific information regarding the beneficial owners of the income. By agreeing to assume this information reporting obligation as a condition of benefitting from the streamlined claims procedure, financial intermediaries can contribute greatly to the ability of governments to ensure, through their exchange of information practices, that investors' tax obligations are met in both source and residence countries on the ever-increasing flows of cross border investment income.

In January 2009, the CFA referred further work on the procedural issues to a Pilot Group on Improving Procedures for Tax Relief for Cross-Border Investors ("Pilot Group"), also made up of government and business representatives. The Pilot Group's mandate was to develop standardised documentation for the implementation of the best practices as recommended in the ICG's Report. To fulfil that mandate, the Pilot Group prepared a draft "Implementation Package" consisting of a self-contained set of all of the agreements and forms that would pass between a source country and the financial intermediaries and investors participating in the system. The draft Implementation Package was released for public

"We welcome the ICG's recommendation that countries develop systems for claiming treaty benefits that allow authorised intermediaries to make claims on behalf of their customers on a "pooled" basis. This process would significantly reduce the administrative costs for our members in this regard... We welcome the Report's recommendations that claims for benefits and reporting should be standardised and be capable of transmission in electronic form. This would create efficiencies and cost-savings for all parties – the industry, investors and governments."

Comments by the Investment Management Association on the ICG Report on Possible Improvements to the Procedures for Tax Relief for Cross-Border Investors

comment on 8 February 2010 with a comment period ending on 31 August 2010.

Work on these procedural issues is taken forward through the new Treaty Relief and Compliance Enhancement (“TRACE”) Group, which is reviewing the comments on the draft Implementation Package. This group is made up of government delegates and will continue to consult regularly with a standing advisory group of business representatives as it pursues the work. Because the success of the proposed system depends on robust information exchange procedures, a joint group of government and business experts is developing information technology solutions to support the project.

Key Publications

- ICG Report on Possible Improvements to the Procedures for Tax Relief for Cross Border Investors (January 2009)
- Pilot Group Report on Possible Improvements to the Procedures for Tax Relief for Cross Border Investors: Implementation Package (February 2010)

TRACE on the Web

- *Tax Relief and Compliance Enhancement* www.oecd.org/tax/trace

- **Did you know...**that because of the administrative complexity and cost of claiming treaty relief, many portfolio investors have to pay the full amount of (withholding) tax on their cross-border investments?

- **Did you know...**that the TRACE system provides streamlined treaty claim procedures as well as information reporting to ensure tax compliance?



CORE ISSUES

CORE ISSUES

Tax Conventions and Related Questions

CORE ISSUES

Cross-border investment would be seriously impeded if there was a danger that the returns on such investment would be taxed twice, both where the money was invested and in the country of residence of the investors. The OECD Model Tax Convention and the worldwide network of tax treaties based upon it help to avoid that danger by providing clear consensual rules for taxing income and capital.

For most types of income, especially business profits and investment income, double taxation is avoided in treaties based on the OECD Model Tax Convention



The panel discusses recent international tax developments at the 15th Annual International Meeting on Tax Treaties in Paris on 24 September 2010. *Left to right:* Silke Bruns of Germany, Douglas Rankin of the United Kingdom, Andrew Dawson, Chair of Working Party 1, and Jacques Sasseville and Jeffrey Owens of the OECD.

by allocating taxing rights between the resident and source countries and by requiring the former to eliminate double taxation where there are competing taxing rights. Most bilateral tax treaties follow both the principles and the detailed provisions of the OECD Model. Close to 390 treaties between OECD member countries and over 3 000 worldwide are based on the Model, and it has had considerable influence on the bilateral treaties between non-OECD countries.

As a sign of that influence, the OECD has regular contacts with non-OECD countries to discuss developments in the Model and problems of application and interpretation of bilateral treaties. The OECD Model has not resolved all problems of interpretation and application and requires constant review, resulting in regular changes to the Model. The most recent update to the model was published in July 2010.

The Working Party on Tax Conventions and Related Questions carries out the technical work on the Model. A number of issues could result in further changes to the Model and the Commentary thereon. Some of these issues are described below:

Clarifying the Permanent Establishment Concept (Article 5)

The Commentary on Article 5 of the OECD Model Tax Convention was updated most recently in 2005, in response to requests from representatives of the business community, to set forth some widely-accepted interpretations related to the permanent establishment concept. However, further issues of interpretation have also arisen with respect to several concepts under Article 5: for example, with respect to the scope of the dependent agent permanent establishment concept and to the issue of when premises are "at the disposal" of an enterprise. Work is currently underway to develop Commentary proposals to address these issues.

Taxation of Services (Articles 5 and 17)

A review of the treatment of services under the current provisions of the OECD Model Tax Convention has included a discussion of when it is appropriate to allow source taxation of services, taking into account the need for practical rules to determine the profits that would then be subjected to tax. As part of that work, an alternative provision has been developed for possible use by countries wishing to treat the performance of services within their territory beyond a minimum time threshold as a permanent establishment. That alternative provision was included in the Commentary on the Model as part of the 2008 update. Work is continuing to examine the scope of the application

"While the world of international business has changed and grown and changed again, the OECD model treaty has proven its value over five decades as a framework for how we think about international tax, and the treaty shows every prospect of serving that same role for the next five decades."

Mr. Peter Barnes

*Tax Counsel-International,
General Electric Company,
in "In Praise of the OECD
Model Treaty",
Tax Notes International,
22 September 2008.*

of Article 17 (Artistes and Sportsmen) to particular situations and this will be clarified in a future update to the Commentary.

Tax Treaty Policy Implications of the Communications Revolution (Articles 4, 5, 7 and 12)

Significant work has been undertaken on this issue in recent years. The first results were included in the 2003 update of the Model Tax Convention. These results included changes aimed at clarifying the circumstances in which computer equipment such as a server can constitute a permanent establishment and the tax treaty characterisation of electronic commerce payments. Subsequent results included the final reports of the Business Profits Technical Advisory Group (which included representatives of the private sector and non-member countries) on the use of the concept of place of effective management as a tie-breaker for residence of legal persons (that report was finalised in June 2003) and on whether the current treaty rules are appropriate for taxing business profits arising from electronic commerce, which was finalised in April 2004. Further work has recently been completed on tax treaty issues relating to telecommunications, including an examination of the treatment of transponder leases, roaming payments, broadcasting payments and spectrum licenses, and new Commentary on those issues was included in the 2010 update.

Beneficial Owner (Articles 10, 11 and 12)

The Articles of the Model Tax Convention relating to dividends (Article 10), interest (Article 11) and royalties (Article 12) impose limits on the tax chargeable by a source State on those items of income derived by a resident of the other State where that person is the beneficial owner of the income in question. Issues of interpretation have arisen with respect to the beneficial owner concept under those Articles, and work is underway to develop Commentary proposals to address these issues.

Employment Services Provided on Short-Term Foreign Assignments (Article 15)

According to paragraph 2 of Article 15 of the OECD Model Tax Convention, a non-resident employee who performs services in a country on a short-term assignment is not subject to tax in that country in certain circumstances. The exact scope of the paragraph is sometimes unclear when those services are provided in the context of an arrangement between the individual's non-resident formal employer and the local enterprise where he carries out his assignment. A discussion draft concerning that issue was released in April 2004, and a follow-up consultation with business was held in January 2006.

A further report for public comment was produced in March 2007 and its conclusions were included in the 2010 update to the Model.

Non-discrimination (Article 24)

The Working Party is examining issues relating to the interpretation and application of Article 24 (Non-discrimination) of the OECD Model Tax Convention. The first stage of this work, the results of which were included in the Commentary on Article 24 as part of the 2008 update to the Model, clarified the interpretation and application of Article 24 in its current form. A second stage of the project, involving consideration of the broader issue of whether new or alternative non-discrimination provisions should be included in the Model, was launched in 2008.

Attribution of Profits to Permanent Establishments (Article 7)

Work has now been completed on issues of implementation arising from the project on the attribution of profits to permanent establishments which was finalised in July 2008. That project introduced the so-called "authorised OECD approach" (AOA) aimed at maximising the use of the arm's length principle and the functionally separate enterprise concept in determining the profits of a permanent establishment. In order to provide the maximum legal certainty on the interpretation of existing and new treaties, it was decided to adopt a two-track approach. First, revised Commentary on the existing text of Article 7 was prepared to incorporate as many as possible of the AOA conclusions, without conflicting with the Commentary's prior interpretation of Article 7. That revised Commentary was included in the 2008 update on the Model. Second, text of a new Article 7 and accompanying Commentary, designed to fully implement the AOA, were first released in draft form in July 2008 for public comment. After a public consultation meeting with the commentators in September 2009, a revised draft was released in November 2009. This text has now been finalised and included in the 2010 update to the Model.

Mutual Agreement Procedure (Article 25)

As global trade and investment increase, the possibility of cross-border tax disputes increases as well. Left unresolved, these disputes can result in double taxation and a corresponding impediment to the free flow of goods and services in a global economy. Both governments and business need effective procedures to keep such

Settled tax principles, as promulgated by the OECD Model Tax Treaty and the OECD Transfer Pricing Guidelines, are crucial to renewed investment and growth. In particular, to encourage cross-border trade there must be certainty and stability in two key areas: permanent establishments, and transfer pricing.

The OECD should work to ensure that the fundamental principles of the Model Tax Convention and Transfer Pricing Guidelines continue to have consensus international support in letter and application."

- BIAC statement on Taxation and Recovery from the Financial Crisis, June 2009

disputes to a minimum and to resolve them satisfactorily when they arise. Work was undertaken several years ago to examine ways of improving the effectiveness of the Mutual Agreement Procedure (MAP) under Article 25 of the Model Tax Convention. Two important results of that work were included in the 2008 update to the Model. First, a provision requiring mandatory, binding arbitration to settle issues that remain unresolved after two years of MAP consideration was added to Article 25. Countries can enhance the effectiveness of the existing MAP process by including this arbitration procedure in their bilateral tax treaties. Second, changes were made to the Commentary on Article 25 to provide guidance on the proper application of that provision, to promote consistency and to improve its operation. The “Manual on Effective Mutual Agreement Procedures” (MEMAP) was developed as an online resource to explain the MAP process and to describe “best practices” for effective MAP. (www.oecd.org/ctp/memap).

Other issues: Collective Investment Vehicles

The value of assets that are currently managed by collective investment funds is in excess of USD19 trillion. A substantial part of these assets represent cross-border portfolio investment, the income from which is entitled to the benefits of tax treaties. Unfortunately, there are both legal and practical



Signature of a Memorandum of Understanding on 23 September 2010 relating to a three-year programme of co-operation focused on best global practices for building strong tax treaty networks in the MENA region. Left to right: Jeffrey Owens, Director of the OECD's Centre for Tax Policy & Administration, and His Excellency Younis Haji Al Khouri, Director General of the Ministry of Finance of the United Arab Emirates,

issues that may prevent these benefits from being granted effectively, and may sometimes cause them to be granted inappropriately.

The legal issues relate primarily to the treaty entitlement of the funds themselves and of their investors. Collective investment funds take different legal forms (*e.g.* companies, trusts, contractual arrangements) and their tax treatment varies from country to country; it is therefore often unclear whether the benefits of tax treaties are available to the funds themselves. Where these benefits are not available at the level of the fund, they would normally be available to the investors themselves if they are residents of countries which have concluded a tax treaty with the country from which the fund derives income.

There are, however, very important compliance and administrative difficulties involved in ensuring that the benefits of tax treaties are effectively granted to a large number of investors in a fund, taking into account that the number of investors in a given fund may change on a daily basis and that there are a number of different intermediaries involved. These difficulties may result in the benefits of tax treaties not being granted or being granted inappropriately, with risks of double taxation or double non-taxation that are of concern for both the country of source of the income and the country of residence of the investor.

In May 2010, a Report on the “Granting of Treaty Benefits with respect to the Income of Collective Investment Vehicles” was released.



Mr. Jeffrey Owens, Director of the CTPA, OECD, speaking at the ACCA (Association of Chartered Certified Accountants) Hong Kong Annual Tax Conference, Hong Kong, 12 March 2011. Photo © Acca

The Report included a comprehensive set of recommendations with respect to the legal and policy issues relating specifically to CIVs (*i.e.* the extent to which either the vehicles or their investors are entitled to treaty benefits). The Report analysed the technical questions of whether a CIV should be considered a “person”, a “resident of a Contracting State” and the “beneficial owner” of the income it receives under treaties that, like the OECD Model Tax Convention, do not include a specific provision dealing with CIVs (*i.e.* the vast majority of existing treaties). Further, the Report included proposed changes to the Commentary on the Model Convention which were included in the 2010 update to the OECD Model Convention. The OECD’s ability to undertake this initiative was made possible in part by funding made available from the private sector.

Emerging Challenges

The leading role of the OECD in the area of tax treaties requires it to keep abreast of developments which might affect treaties in the long term. Some of the questions that are being looked at in that context include: What will be the role of tax treaties in the 21st century? How do tax and non-tax treaties interact? What are the tax treaty issues related to the identification and characteristics of the taxpayer? How can the process of amending treaties in a timely fashion be improved? What is the most appropriate method to set out divergent views?

Model Tax Convention on Income and Capital

The OECD Model Tax Convention on Income and on Capital is the benchmark for negotiating, implementing and interpreting tax conventions. Originally developed to harmonise conventions between OECD Member countries, its influence is increasingly extending to non-Member countries. The most recent update was published in July 2010.

Key Events

- 16th Annual International Meeting on Tax Treaties, 15-16 September 2011, Paris
- 15th Annual International Meeting on Tax Treaties, 23-24 September 2010, Paris

Key Publications

- Model Tax Convention on Income and on Capital 2010, July 2010, ISBN: 978-92-64-08948-8
- Report on the Granting of Treaty Benefits with respect to the Income of Collective Investment Vehicles, May 2010
- Discussion Draft on the Application of Article 17 (Artistes and Sportsmen) of the OECD Model Tax Convention, April 2010
- Improving the Resolution of Tax Treaty Disputes, February 2007

Tax Treaties on the Web

- www.oecd.org/ctp/tt
- Model Tax Convention www.oecd.org/ctp/tt/mtc
- Manual on Effective Mutual Agreement Procedures www.oecd.org/ctp/memap

- **Did you know...** 63 countries – 34 OECD Members and 29 non-Members – set out their positions on the 2010 OECD Model Tax Convention?
- **Did you know...** that at least 40 new treaties or protocols that include a mandatory arbitration provision have been signed by almost 30 countries since the OECD first proposed mandatory arbitration in 2006?
- **Did you know...** that over USD 19 trillion is invested through collective investment vehicles worldwide?

Tax Policy Analysis and Statistics

CORE ISSUES

Tax Policy Analysis

The past two decades have been characterised by on-going tax reforms, with governments restructuring their tax systems to achieve their social and economic objectives and, at the same time, secure the revenues required to finance their expenditures. The OECD helps countries in this process by undertaking tax policy analysis from an international comparative perspective, and thereby assisting policy makers in designing tax policies that are suited to their objectives. The OECD's work in this area uses a combination of economic theory and evidence, both statistical and case study materials, to provide an account of likely intended and unintended effects of alternative tax policies.



Stephen Matthews speaking at the Brussels Tax Forum, "Tax Policies for a Post-Crisis World", 1-2 March 2010

These effects are evaluated in terms of their impact on economic efficiency, income distribution, economic growth and other policy objectives.

Taxation and Economic Growth

Much of the OECD tax work involves working across a number of areas where tax is an important issue. A good example is Taxation and Economic Growth – a project which investigated the design of tax structures to promote economic growth. Corporate taxes were found to be most harmful for growth, followed by personal income taxes, and then consumption and environmental taxes. Recurrent taxes on immovable property appear to have the least adverse impact on growth.

"The aftermath of the financial crisis and recession for budget deficits and public debt means that many OECD countries are likely to have to make discretionary increases in taxation as the recovery strengthens to maintain sound public finances. Analysis and discussion of the economic and distributional effects of the balance of taxation between different taxes and the respective merits of raising revenues by broadening tax bases and raising rates will be at the heart of the work programme of the Working Party on Tax Policy and Statistics in coming years."

Mr. Stephen Matthews

*Head of Tax Policy and Statistics
Division, Centre for Tax Policy and
Administration*

In the wake of the recent financial and economic crisis, many countries face the challenge of restoring public finances. So how can countries best raise taxes without jeopardizing economic growth? A growth-oriented tax reform would reduce distortions in current tax regimes and to raise additional revenues from the taxes that do the least damage to prospects of economic growth as consumption and environmental taxes and recurrent taxes on immovable property. Meanwhile, it must be recognized that practical tax reform must achieve a balance between efficiency, equity, simplicity and revenue concerns.

For more information, see the *Hot Topic: Tax Reforms to Improve Economic Performance*.

Tax and the Environment

Tax policies can also contribute to address climate change and other environmental challenges. The OECD's Green Growth Strategy is helping member countries reform public policies in ways that can make environmental concerns and economic growth go hand in hand.

Environmentally related taxes and tradable permits are essential, because adequately pricing pollution is vital for encouraging businesses and consumers to adopt environmentally-friendly practices and spur innovation.

One of the first major publications of the Green Growth Strategy was Taxation Innovation and the Environment has now been released. Through a number of case studies across countries, it sheds light on how the links between environmentally related taxes and innovation works in practice. Are taxes effective in bringing about green innovation? Does the design of environmental taxes matter? And how should tax instruments be combined

“Fair taxation is essential for repairing public finances and building a stronger post-crisis economy. TUAC welcomes the OECD’s ground-breaking work and urges it to drive this agenda forward so as to deliver tax systems that put working people first, promote green jobs, clamp down on tax evasion and international tax arbitrage, and strengthen the tax base of developing countries.”

Mr. John Evans
General Secretary, TUAC

with other environmental and R&D policies to best nurture environmentally friendly innovation? For more information see the *Hot Topic: Green Growth and Climate Change: Taxation and Tradable Permits*.

The OECD, working with business and government, is also examining how to remove the obstacles to a broader use of tradable permits.

Tax policies can also be harmful to the environment. G20 heads called upon the OECD, OPEC, IEA and the World Bank to look at subsidies to fossil fuels and provide guidance in phasing them out. In many OECD countries, these subsidies take the form of tax expenditures, either towards the production of fossil fuels or to their consumption. Work is underway to

identify and quantify such tax expenditures.

Previous work has looked at obstacles to the full use of environmentally related taxes, including the impact on low-income households and concerns about the international competitiveness of energy intensive industries. The 2006 publication *The Political Economy of Environmentally Related Taxes* examined the effects of introducing environmentally related taxes on heavily polluting industries, as well as the effects of possible approaches to mitigate international competitiveness pressures. The report also analysed case studies of countries that have successfully introduced environmentally related taxes on business, including how competitiveness concerns were overcome.

Taxation and Innovation Policy



The OECD Innovation Strategy is a multidisciplinary, multistakeholder project that aims to help governments boost innovation, in order to promote sustainable growth and to address global challenges.

The key drivers of innovation that are affected by the tax system have been identified, along with the main tax policy considerations that might have an impact on R&D spending and innovative activities, the dissemination of knowledge, tax planning with the use of intangible assets, as well as the conceptual frameworks that can be applied to build tax indicators and assess the effectiveness of government actions. Other tax and innovation topics that were discussed are the greening of the economy, business creation and risk-taking, education and the mobility of high-skilled workers.

Taxation and the Distribution of Income

Governments recognise that the tax system has an important role to play in reducing inequalities in the distribution of income and wealth. In a number of

OECD countries top incomes have grown much faster in the past couple of decades than incomes at lower percentile points in the distribution. A joint study with Directorate for Employment, Labour and Social Affairs will look at the impact of globalisation on the distribution of income, analysing trends in top incomes and the potential implications for tax policy.

Tax Statistics

To support analytical work and inform both governments and the wider public, CTPA collects a wide range of information on tax revenues and tax systems in its member countries. The work on tax statistics provides policy makers and business with high quality international comparative data on the levels and structures of taxes in OECD countries. This complements the work on tax policy analysis, by providing regular quantitative comparisons of tax systems across OECD countries. The main outputs are two annual publications.



Revenue Statistics presents a unique set of detailed and internationally comparable tax revenue data in a common format for all OECD countries from 1965 onwards. It also provides a conceptual framework defining which government receipts should be regarded as taxes and classifies different types of taxes. The 2010 edition was published on 15 December 2010, with a special feature on environmentally-related taxation. This publication reports tax revenues for each OECD country, providing a very detailed breakdown by type of tax. This allows a comparison of tax levels between countries (see Figure 1) and within countries across levels of government. It also enables an analysis of the differences in tax structure in OECD economies.

The OECD Revenue Statistics builds on a very long tradition, but it is constantly refined to address emerging trends in government finances. One question currently being discussed relates to global climate change: should revenue from the allocation of tradable permits for CO₂ emissions be considered equivalent to taxes in international revenue statistics? Another relates to whether payments made by banks and other credit institutions to insure deposits made by customers should be classified as tax revenues.

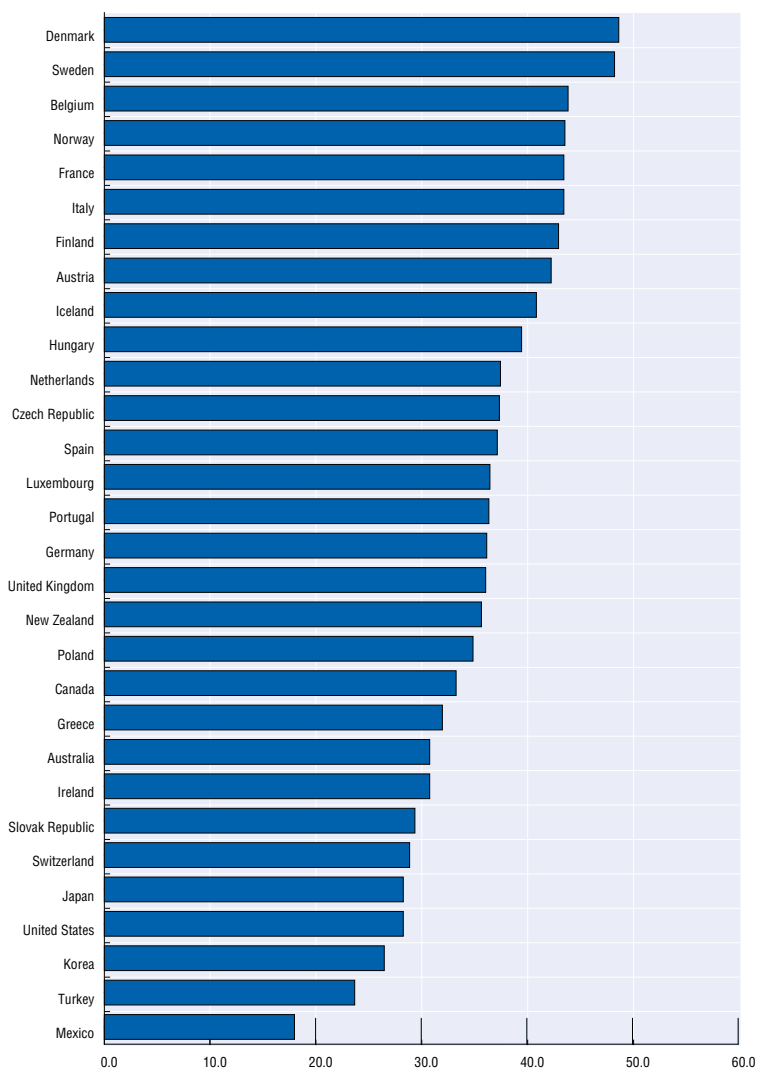


Taxing Wages provides unique information on income tax paid by workers and social security contributions levied on employees and their employers in OECD countries. In addition, it describes those family benefits that are paid as cash transfers. Amounts of taxes and benefits are detailed programme by programme, for eight household types which differ by income level and household composition.

This annual publication provides information on how personal income taxes, social security contributions, payroll taxes and universal cash benefits combine together to affect the disposable income of the different “typical” households. It provides figures on average tax rates (see Figure 2) and marginal effective tax rates that apply to additional earnings. These provide insights into the effects

of direct tax systems on incentives for employment and increasing hours of work, and on the distribution of disposable income between different types of household. The 2009 version was published in May 2010, with a special feature on non-tax compulsory payments. The next version will be published in May 2011, with a special feature on Wage Income Tax Reforms and Changes in Tax Burdens: 2000-09. This special feature calculates the changes in the tax burden on wage income ranging from 50% to 250% of the average

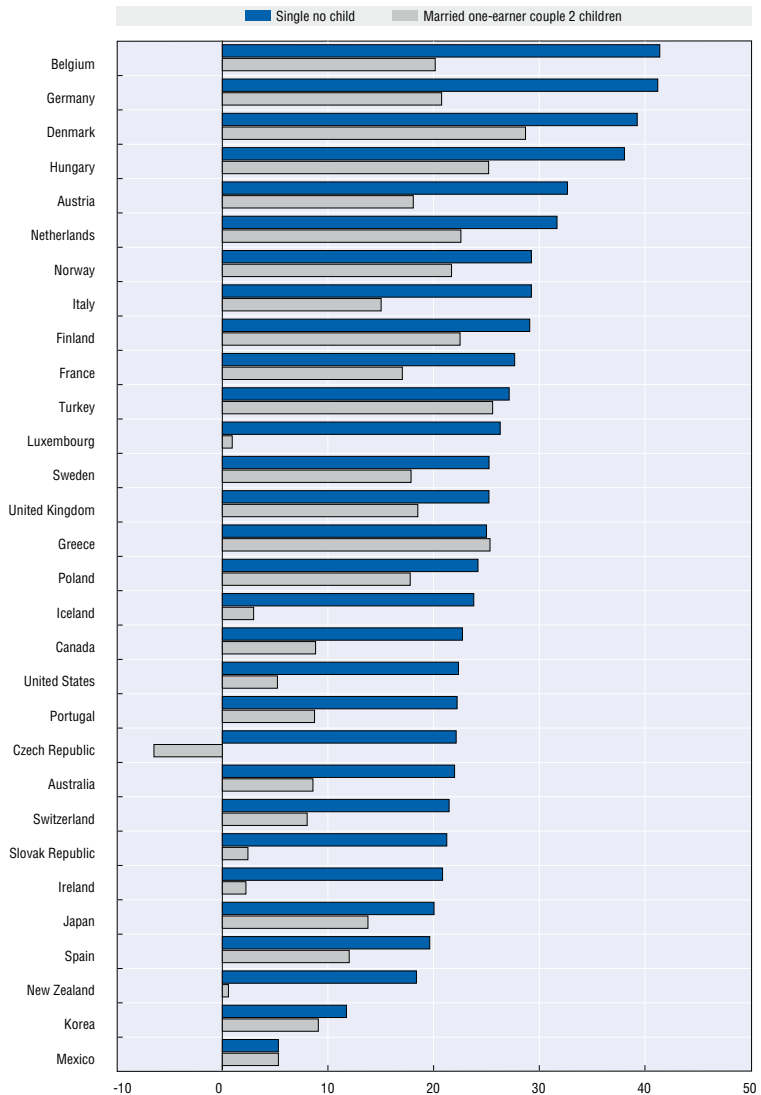
Figure 1. **Total tax revenue as percentage of GDP, 2008**



Source: OECD (2010), Chart A. Total tax revenue as percentage of GDP, 2008, in *Revenue Statistics*, OECD Publishing, Paris.

wage by comparing the tax burden in 2000 and 2009 and calculates the respective contributions of changes in income taxes, employee social security contributions, employer social security contributions and cash benefits.

Figure 2. Income tax plus employee contributions less cash benefits, by family type (as % of gross wage earnings), 2009¹



1. Countries ranked by decreasing tax burden.

Source: OECD (2010), Graph I.3. Income tax plus employee contributions less cash benefits: By family-type, as % of gross wage earnings, 2009, in *Taxing Wages 2009*, OECD Publishing, Paris.

Tax Policy Activities with Non-OECD Economies

For several years, tax policy activities with non-OECD economies have focused on tax-modelling workshops. However, the range of activities has now expanded to include workshops on tax incentives and on a selection of tax policy issues.

The aim of these workshops is to share the experiences that OECD countries have accumulated of using various tax policies, as well as methods that have been developed to analyse and predict their likely impacts. For more information, please see *Developing a Global Partnership*.

Regional Programmes on Tax Policy Analysis

The Tax Policy and Statistics Division of the CTPA currently manages three regional tax programmes – one in the Middle East North Africa (MENA) region, another in South East Europe (SEE) – and a recently launched fiscal initiative for the Latin American and Caribbean countries (LAC). These programmes aim to encourage regional dialogue among senior tax policy officials; and strengthen capacity for tax policy analysis, to help inform policy decision-making. The OECD offers support both by sharing information, data, analyses and experiences of OECD country tax officials, reported in the OECD Tax Policy Studies series, and by organising workshops to help officials implement standard 'tax models' to assess cross-country differences in effective tax rates on labour and capital income, and to estimate changes in and redistribution of tax liability (tax burden) resulting tax reform.

At the fifth meeting of Working Group 3 (Tax Policy Analysis and Tax Administration) of the MENA-OECD Investment Programme, held 1-2 June 2010 in Manama, Bahrain, participants discussed the use of VAT as a potential revenue source funding economic development in the MENA region, including Gulf Co-operation Council (GCC) countries. Over 60 senior policy officials from thirteen MENA countries attended the meeting. Key issues discussed included implications of VAT on income distribution and how best to address possible regressive effects of a broad VAT base, limited experience with tax administration in certain countries, and scope for cross-border shopping and carousel fraud. Further work was required to assess the potential yield and implications for tax administrations in MENA countries currently without a VAT.

The third meeting of the South East Europe Working Group on Tax Policy Analysis held 10-11 June 2010 in Sofia, was hosted by the National Revenue Agency of the Bulgarian Ministry of Finance. The following topics were addressed: taxation, innovation and training; the tax chapter of the OECD publication, *Investment Reform Index 2010 – Monitoring Policies and Institutions for Direct Investment in South East Europe*; SEE and EU country tax responses to the global financial crisis; implementing pro-growth tax reforms; and combating tax fraud in South East Europe.

Questionnaires were reviewed on taxation and innovation, and taxation and training, with the aim of gathering questionnaire replies to enable the drafting of a comparative report, to be considered at the next meeting of the working group to take place in early 2011.

A first meeting of the *LAC Tax Policy Forum* was held 16-17 September 2010, in Panama City. The organisation of this meeting by the OECD, together with the Inter-American Centre of Tax Administration (CIAT) and the Ministry of Economy and Finance of Panama (as host), was an important milestone under the fiscal component of the LAC (Latin America and Caribbean)-OECD Initiative.

Over 60 tax officials participated in the meeting, from 14 Latin American and Caribbean countries. Representatives of various national and international organisations also participated (including CIAT, ECLAC, IADB, IFS of Spain, IMF, USAID, Getulio Vargas Foundation of Brazil, ICEFI of Guatemala, ADETEF of France).

This meeting provided an opportunity to explain to senior tax officials of LAC countries the purpose of the *LAC Tax Policy Forum*, namely to: provide a forum for senior tax officials of LAC countries to critically assess key tax policy issues in the region, by sharing data, analytical tools, analysis and experience; assist with the design of reform measures to improve tax systems and fiscal consolidation in LAC countries; and address expenditure policy and involve fiscal policy officials depending on agenda topics to be decided by participants of the Forum (*e.g.* in addressing fiscal consolidation).



Inaugural LAC Tax Policy Forum 16-17 September 2010, Panama City, from left to right Mr. Dayton-Johnson (OECD), Mr. Verdi (CIAT), Mr. Vallarino (Minister of Finance, Panama), Ms. Pérez-Navarro (OECD), Mr. López López-Ríos (Spanish Embassy to Panama), and Mr. Cucalón (MEF Panama)

The main topic addressed at the meeting was the role of the tax system in reducing income inequality and promoting social cohesion. Participants also reviewed data reported in the *Latin America Revenue Statistics* database and publication, used to support policy dialogue.

For more information, see LAC-OECD Fiscal Initiative: www.oecd/tax/lacfiscal.

Topics that have been addressed by CTPA in Tax Policy Studies include:

- Choosing a Broad Base- Low Rate Approach to Taxation
 - Tax Policy Reform and Economic Growth
 - Tax and SME Creation, Growth and Compliance Costs
- Tax Effects on Foreign Direct Investment: Recent Evidence and Policy Analysis
- Fundamental Reform of Corporate Income Tax
- Encouraging Savings Through Tax-preferred Accounts
- Taxation of Capital Gains of Individuals: Policy Considerations and Approaches
- Fundamental Reform of Personal Income Tax
- Taxing Working Families: A Distributional Analysis
- The Taxation of Employee Stock Options
- E-Commerce: Transfer Pricing and Business Profits Taxation
- Recent Tax Policy Trends and Reforms in OECD countries
- Using Micro-Data to Assess Average Tax Rates
- Fiscal Design Survey across Levels of Government
- Tax and the Economy: A Comparative Assessment of OECD Countries

Key Events

- Bilateral Tax Policy Workshop, Yangzhou, China, 14-18 March 2011.
- Micro-simulation Analysis and Forecasting Workshop, Brazil, 6-10 June 2011.
- OECD 50th Anniversary Tax Reform Conference, Paris, 30 June 2011.
- Fourth Meeting of the South East Europe (SEE) Working Group on Tax Policy Analysis, September 2011.
- International Seminar on Environmental Taxation, Beijing, 26-27 October 2010.
- Expert Workshop on Estimating Support for Fossil Fuels, Paris, 18-19 November 2010.
- First meeting of the LAC Tax Policy Forum, Panama City, 16-17 September 2010.
- Fifth Meeting of Working Group 3 (Tax Policy Analysis and Tax Administration) of the MENA-OECD Investment Programme, Manama, Bahrain, 1-2 June 2010
- 3rd Meeting of the South East Europe Working Group on Tax Policy Analysis, Sofia, 10-11 June 2010.

Key Publications

- Taxation, Innovation and the Environment, October 2010
- Taxing Wages 2009: Special feature: Non-tax compulsory payments, May 2010
- Revenue Statistics 2010: Special feature: Environmentally-Related Taxation, December 2010.
- The Political Economy of Environmentally Related Taxes, June 2006

Tax Policy Analysis and Statistics on the Web

- www.oecd.org/ctp/tpa
- OECD Tax Database: www.oecd.org/ctp/taxdatabase
- MENA Initiative on Governance and Investment for Development: www.oecd.org/mena
- LAC-OECD Fiscal Initiative: <http://www.oecd.org/tax/lacfiscal>

Taxation of Multinational Enterprises

CORE ISSUES

The Transfer Pricing Guidelines

Commercial transactions between different parts of a multinational group may not be subject to the same market forces shaping relations between two independent firms. Transfer prices – payments from one part of a multinational enterprise for goods or services provided by another – may diverge from market prices, with consequences for the division of tax revenues between governments.

The standard, accepted worldwide, for multinational enterprises to price the cross-border transfer of goods, intangibles and services among related



The panel on Information and Transfer Pricing : Document Requirements, Exchange of Information and Burden of Proof Issues, part of the Conference on Transfer Pricing and Treaties in a Changing World, which attracted over 700 delegates from 100 economies on 21-22 September 2009. *Left to right:* Guglielmo Maisto, Maisto e Associati, Italy; Sabine Wahl, Mouvement des Entreprises de France (MEDEF), France; Feng Lizeng, Deputy Division Director, International Taxation Department, State Administration of Taxation, China; Michelle Levac, Canada Revenue Agency, Canada.

enterprises is the arm's length principle set out in Article 9 of the OECD Model Tax Convention and described in the OECD's 1995 Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the Guidelines). The Guidelines are not immovable: flexibility and adaptability are crucial to their success. They are therefore continuously reviewed and updated as needed.

Implementing and Updating the Guidelines: New Guidance on Comparability and Profit Methods

Effective monitoring is key to achieving consistent application of the Guidelines. Monitoring involves examining how far member countries' legislation, regulations and administrative practices are consistent with the Guidelines, and identifying areas where the Guidelines may require amendments or additions.

“Globally, more parent companies identified transfer pricing as the most important tax issue they faced than any other issue. ... In addition to its current level of importance, 74% of parent respondents believe that transfer pricing will be “absolutely critical” or “very important” to their organizations over the next two years.”

Ernst & Young 2007 – 2008 Global Transfer Pricing Survey, Global Transfer Pricing Trends, Practices and Analyses (survey of 850 MNEs from 24 countries).

Two related priority areas were the subject of monitoring in recent years which resulted in a major revision to Chapters I-III of the Guidelines in 2010: comparability issues encountered when applying the transfer pricing methods authorised by the Guidelines, and the application of transactional profit methods, *i.e.* the transactional profit split methods and the transactional net margin method.

One of the pillars on which the arm's length principle is based is the need to conduct a comparability analysis in order to compare conditions made or imposed between associated enterprises and those which would be made between independent enterprises, and to calculate the

profits that would have accrued to the enterprise at arm's length. The new Chapter III of the Guidelines reaffirms the central importance of comparability analyses and provides detailed guidance on how to perform them.

The 2010 update to the Guidelines also took into account the experience acquired with the use of profit methods since the Guidelines were first published in 1995, and it removed their status as methods of “last resort”, indicating instead that the transfer pricing method selected should be “the most appropriate to the circumstances of the case”. The update also contains significant new guidance on the application of transactional profit methods, addressing aspects of the application of the profit split method, *e.g.* determining the combined profit to be split and how to split it, and analyzing issues that arise in applying the transactional net margin method, *e.g.* the standard of comparability, and the selection and determination of the net margin indicator.

New Guidance on the Attribution of Profits to Permanent Establishments

Structures involving permanent establishments (PEs) have long been used by multinational enterprises (MNEs) in the financial sector, primarily by banks, and are increasingly created by business models now used outside the financial sector. The Guidelines address the application of the arm's length principle to transactions between associated enterprises that are actually separate enterprises (*e.g.* subsidiaries). The 2008 Report on the Attribution of Profits to Permanent Establishments, which was issued after a multi-year project involving extensive consultation with business, outlined how this principle should apply to allocate an enterprise's profits between its permanent establishment in one country and its operations in another country (*e.g.* the home office). The report covers general considerations, as well as special considerations for banks, global trading of financial instruments, and insurance. The conclusions of the Report were incorporated into the Model Tax Convention in a two-step process: first, through amended Commentary to the pre-existing Article 7 (Business Profits) which was included in the 2008 update to the Model Tax Convention, and secondly through a new text for Article 7 and accompanying Commentary which was included in the 2010 update. An updated version of the Report was released in July 2010 to conform the Report's cross-references to Article 7 and the Guidelines to the new 2010 versions of each.

Business Restructurings

“Business restructuring is a highly important topic and ... BIAAC commends the excellent work that is set out in the Discussion Draft. The document reflects deep and detailed thinking about how the principles and terms of the OECD Transfer Pricing Guidelines (TP Guidelines) and the OECD Model Tax Convention on Income and on Capital apply to restructurings. It also reflects an understanding that restructurings are important global commercial events. BIAAC specifically commends the Discussion Draft for its articulation of the fundamental principles that will now and in the future help clarify and resolve issues relative to restructurings.”

BIAAC comment on September 2008 Discussion Draft on the Transfer Pricing Aspects of Business Restructuring.

Business restructurings by multinational enterprises have been a widespread phenomenon in recent years. They are typically aimed at rationalizing supply chains and maximising synergies, and they involve the cross-border redeployment of functions, assets and/or risks between associated enterprises, which affects the profit and loss potential in each country.

Restructurings may involve cross-border transfers of valuable intangibles. They typically consist of the conversion of full-fledged distributors into limited risk distributors or commissionaires for a related party that may operate as a principal; the conversion of full-fledged manufacturers into contract manufacturers or toll-manufacturers for a related party that may operate as a principal; and the rationalisation and/or specialisation of operations. These restructurings raise difficult transfer pricing issues, which caused the CFA to decide in 2005 to develop guidance on these issues.

This work, which began with a roundtable discussion with business in 2005 and included the issuance of a public discussion draft in 2008, ultimately led to the addition of a new Chapter IX to the Guidelines in 2010. Chapter IX includes a detailed discussion of the transfer pricing aspects of risk bearing and risk transfers, including the extent to which contractual allocations of risks are to be respected, the role of comparables, and the role of the notions of “control over the risk” and of “financial capacity to assume the risk”. It also includes a discussion of the circumstances where, at arm’s length, the restructuring would be compensated.

The new Chapter IX also clarifies that the arm’s length principle and the Guidelines should apply in the same way to transactions that result from a restructuring and transactions that are structured as such from the start, subject of course to the situations being otherwise comparable. It provides an example of application of the guidance to the implementation of a central purchasing function.

Finally, guidance was added on the exceptional circumstances where a tax administration may not recognise, for transfer pricing purposes, the transactions as structured by the taxpayer.

Future Work

The OECD’s future transfer pricing work will focus on two main projects. The first one, which will get underway in 2011 and for which public comment on its scope was sought in 2010, will be an examination of the transfer pricing aspects of intangibles (see www.oecd.org/ctp/tp/intangibles). The project is expected to lead to a revision of the existing guidance in Chapters VI and VIII of the Guidelines and to deal with issues such as: definitional issues; economic versus legal ownership; characterisation of transfers of intangibles; and valuation issues. With this new project, the OECD intends to tackle one of the most complex and controversial areas of transfer pricing today.

The OECD also intends to increase its monitoring activities in order to promote a more consistent application of the Guidelines in member countries, thus pursuing its efforts to prevent transfer pricing disputes and eliminate double taxation.

At the same time, the OECD is launching a review of transfer pricing administration techniques that may be implemented by countries to optimise the use of taxpayers’ and tax administrations’ resources, including tax administrations’ risk assessment strategies.

Key Events

- Annual International Meeting on Transfer Pricing, 3-4 November 2011, Paris.
- Global Forum on Tax Treaties & Transfer Pricing, 23-24 September 2010, Paris.
- Consultation with Business on the Scoping of a New Project on the Transfer Pricing Aspects of Intangibles, 9 November 2010, Paris.

Key Publications

- Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2010, ISBN 978-92-64-09033-0.
- Report on the Attribution of Profits to Permanent Establishments (Web report), July 2010.

Transfer Pricing on the Web

- www.oecd.org/ctp/tp
- Business restructuring: www.oecd.org/ctp/tp/br
- Comparability and profit methods: www.oecd.org/ctp/tp/cpm
- Intangibles: www.oecd.org/ctp/tp/intangibles
- Profits of permanent establishments : www.oecd.org/ctp/tp/pe

- **Did you know...** the 650 participants at the conference held at the OECD in September 2008 to celebrate the 50th Anniversary of the OECD Model Tax Convention overwhelmingly voted the OECD's 1995 Transfer Pricing Guidelines as the most important treaty development of the past 50 years?
- **Did you know...** that major non-OECD economies like China, India, South Africa, Russia, Indonesia and Singapore base their transfer pricing legislation on the OECD Guidelines?

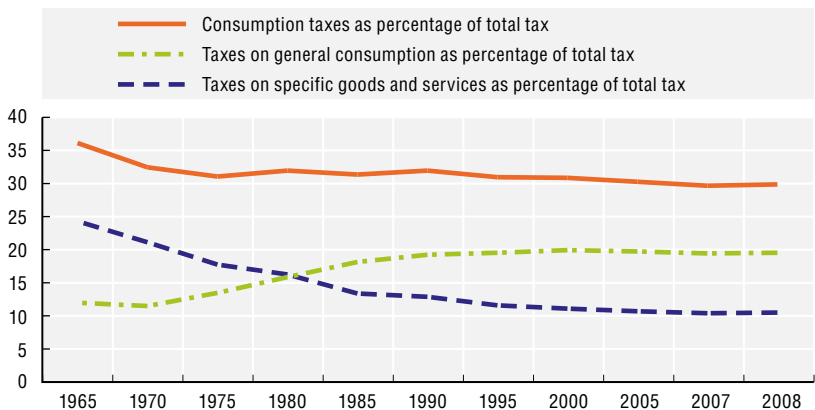
Consumption Taxes

CORE ISSUES

The spread of Value Added Tax (also called Goods and Services Tax – GST) has been the most important development in taxation over the last half century. Limited to less than ten countries in the late 1960s, it has now been implemented by nearly 150 countries and it often accounts for one fifth of total tax revenue. The recognised capacity of VAT to raise revenue in a neutral and transparent manner has drawn all OECD member countries, except the United States, to adopt this broad-based consumption tax. Its neutrality principle towards international trade has also made it the preferred alternative to customs duties and sales taxes in the context of trade liberalisation.

OECD member countries have relied increasingly on Value Added Tax (VAT) as a source of revenues. Over the last ten years, the share of VAT as a percentage of total taxation has risen from 17% to 19%. These ratios vary considerably between countries, but in 27 of the 33 OECD countries with VAT, the tax accounts for more than 15% of total taxation. Following its adoption by a growing number of countries, a shift occurred within the category of taxes

Figure 1. **Share of consumption taxes as percentage of total taxation**



Source: OECD (2011), *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues*, OECD Publishing, Paris.



"I have been impressed by the contributions made by governments, businesses and academia to the work on the International VAT/GST Guidelines, through the Technical Advisory Group to Working Party 9 on Consumption Taxes. This unique co-operation ensures that the OECD builds on the experience of all and takes into account each stakeholder's needs when developing Guidelines for greater efficiency in VAT systems."

Mr. Piet Battiau

Head of Consumption Taxes Unit, Centre for Tax Policy and Administration, OECD.

on consumption so that while the share of VAT rose, the revenue from consumption taxes on specific goods and services (mainly excise taxes) fell from 24% to less than 11%. Figure 1 shows the share of consumption taxes as a percentage of total taxation.

The International VAT/GST Guidelines

At the same time as VATs have been spreading across the world, international trade in goods and services has also been expanding rapidly. As a result, the interaction between value added tax systems operated by individual countries has come under greater scrutiny as potential for double taxation and unintended non-taxation has increased. Recent work, led by the OECD's Committee on Fiscal Affairs (CFA) in co-operation with business, has revealed that the current international consumption taxes environment, especially with respect to trade in services and intangibles, is creating obstacles to business activity, hindering economic growth and distorting competition. Complex, unclear or inconsistent rules across jurisdictions are difficult to manage for revenue bodies and create uncertainties and high compliance costs, which can lead to reduced compliance. Such an environment may also facilitate tax fraud and avoidance.

Since 2006, the CFA has been working on the development of the OECD International VAT/GST Guidelines (www.oecd.org/ctp/vatguidelines). These will include a broad range of issues in the VAT area including international trade in services and goods; refund or relief mechanisms for foreign businesses and dispute resolution mechanisms. In 2008 two consultation documents were issued by the CFA, both of which attracted support for the principle of applying the tax rules of the jurisdiction in which the customer is located for cross-border business-to-business supplies of services and intangibles. Guidelines expanding on this were published for consultation purposes in February 2010 and received support. Work is now progressing on the need for exceptions to this principle where applying it would produce an inappropriate outcome or impose excessive compliance burdens on business. A report on the difficulties businesses have in recovering VAT incurred in countries where they have no establishment was released at the same time and draft Guidelines on Neutrality to address this, and similar problems, were published for consultation purposes in December 2010. Work is also being undertaken on international supplies between establishments of single entities (the so-called "branches" issue).

VAT Abuse

Despite their self-policing features, VAT systems have been subject to a significant level of fraud and aggressive tax planning over recent years, especially among EU countries. Given the extent and nature of abuses of the VAT systems in recent years, the CFA has established a secure system for member countries to exchange information about various types of frauds, avoidance and other abusive practices. This information is not taxpayer specific, but rather acts as a means of alerting member countries to possible attacks on their VAT systems. In 2010 the system was used as an early warning to member governments of suspected VAT frauds in trading exchanges for commodity service areas such as electricity and gas. Further development of the system is now under way.

The OECD also works closely with the Financial Action Task Force (FATF) in this area, notably as regards the laundering of the proceeds of VAT fraud. The emergence of software designed to enable businesses to reduce their VAT liability by artificially reducing sales (so-called “zappers”) is an issue that is being worked on in co-operation the OECD’s Forum on Tax Administration.

Consumption Tax Trends

This biennial publication presents information about VAT/GST and excise duty rates in OECD member countries. It provides information about indirect tax topics across OECD countries and contains articles on recent developments of interest. The 2010 edition contains all the usual data and an expanded description of the VAT Revenue Ratio – see *Hot Topics: Value Added Taxes – Could Do Better?*

Key Publications

- OECD (2011), *Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues*, OECD Publishing, Paris.

Consumption Tax on the Web

- www.oecd.org/ctp/ct
- International VAT/GST Guidelines: www.oecd.org/ctp/vatguidelines

- **Did you know...** in 27 of the 33 OECD countries with VAT, the tax accounts for more than 15% of total taxation?
- **Did you know...** the share of taxes on general consumption as a percentage of total taxation has risen to 19.5%?
- **Did you know...** that growth-oriented tax reforms generally involve shifting revenue from corporate and personal income taxes to consumption and property taxes?

International Tax Co-operation

CORE ISSUES

The unprecedented liberalisation of national economies and progress in information and telecommunication technologies has made cross-border investment and business easier and more accessible to a wider spectrum of the population. In contrast, tax administrations are not free to carry out their functions beyond their national borders. As a result, the proper exercise of fiscal sovereignty depends upon international co-operation. The OECD promotes this approach, rather than tax harmonisation to counter international tax evasion. The Organisation's work in this field includes countering harmful tax practices, improving the legal and practical aspects of exchange of information, combating aggressive tax planning and corruption, strengthening co-operation between tax and antimoney laundering authorities and facilitating collection assistance.

The Harmful Tax Practices Project

OECD members seek to establish standards that encourage an environment in which fair competition can take place. In the tax area this means promoting principles that are designed to enable countries to apply their own tax laws

Signature of the Protocol to the Convention on Mutual Administrative Assistance in Tax Matters, 27 May 2010, OECD headquarters, Paris, France.



without the interference of practices that operate to undermine the fairness and integrity of their respective tax systems.

To achieve this, the OECD sets out criteria for evaluating preferential tax regimes and identifying tax havens, and has worked since 1998 with both OECD and other economies to address harmful tax practices.

In 1998, the OECD issued a report entitled *Harmful Tax Competition: An Emerging Global Issue*. The Report focused on geographically mobile activities, such as financial and other services activities, including the provision of intangibles, and divided the work into three areas: (1) member country preferential regimes, (2) tax havens, and (3) non-OECD economies.

The report set out four key factors used to define tax havens:

- 1) No or nominal tax on the relevant income;
- 2) Lack of effective exchange of information;
- 3) Lack of transparency;
- 4) No substantial activities.

No or nominal tax is not sufficient in itself to classify a jurisdiction as a tax haven. The report *Towards Global Tax Co-operation: Progress in Identifying and Eliminating Harmful Tax Practices (2000)* outlined the progress made and, among other things, identified 47 potentially harmful regimes within OECD members as well as 35 jurisdictions found to have met the tax haven criteria (in addition to the 6 jurisdictions meeting the criteria that had made advance commitments to implement the OECD standards of transparency and exchange of information). Progress reports were released in 2001, 2004 and 2006.

The jurisdictions that had committed to implement the standards were invited to participate in the Global Forum on Taxation along with OECD members to further articulate the standards of transparency and exchange of information to ensure their implementation. The Global Forum developed in 2002 the Model Agreement on Exchange of Information in Tax Matters, and in 2005 agreed standards on transparency relating to availability and reliability of information.

Since 2006, the Global Forum has published annual assessments of progress in implementing the standards.

In September 2009, the Global Forum was renamed the Global Forum on Transparency and Exchange of Information for Tax Purposes, and was restructured to expand its membership and its mandate and improve its governance. For more information, see the *Core Issue: Transparency and Exchange of Information for Tax Purposes*.

Setting Standards

Effective exchange of information requires a legal mechanism that permits exchange of information between two or more jurisdictions. The Committee has developed several bilateral and multilateral instruments that can be used as a framework for exchange of information for tax purposes. The OECD standard on information exchange is relevant not just for OECD members, but has also found wide support beyond the Organisation's membership. The OECD standard has been endorsed by the G20 and by the UN Committee of Experts on International Co-operation in Tax Matters. It can be implemented through a variety of different means including bilateral tax treaties or tax information exchange agreements. Some of the main instruments are described below:

Article 26 of the OECD Model Tax Convention

Article 26 of the OECD Model Tax Convention on Income and on Capital provides for exchange of information in the context of a comprehensive bilateral income tax treaty. Over 3000 bilateral tax treaties are based on the OECD Model Tax Convention. Article 26 sets forth the rules under which information may be exchanged between tax authorities. It does not limit the form of such exchanges, although the main forms used are on request, automatic and spontaneous exchange. Article 26 first establishes the obligation to provide information to a treaty partner and the circumstances under which this obligation exists. It then sets out rules that ensure that any information provided to a treaty partner is subject to strict confidentiality that protect the legitimate privacy rights of any person to whom the information relates. Finally, it provides certain exceptions from the obligation to provide information, but notes specifically that grounds for declining a request cannot be based on bank secrecy or the absence of a domestic tax interest in the information.

Reservations on these latter points have been withdrawn by all OECD and non-OECD countries that previously held reservations. Following the withdrawal of reservations by Austria, Belgium, Luxembourg and Switzerland in March 2009, Article 26 has the support of all OECD members and non-members.

The Committee on Fiscal Affairs promotes all forms of exchange of information and examines best practices in order to improve the efficiency of the operation and use of all forms of information exchange. The Committee continues to develop technological improvements to update the IT standards needed to exchange data automatically in a secure manner. The OECD Standard Magnetic Format and the most recent Standard Transmission Format have been used by the EU to develop its own standard for the implementation of the EU Savings Directive.

The OECD is working closely with the EU on these issues to have consistency and avoid duplication of work. Setting up and operating an automatic exchange system requires sophisticated tax administrations both in the sending and receiving country and a solid IT framework. Sending data which is not standardised is of little value to the receiving country, as it cannot process it and match it against tax returns. Similarly, sending completely standardised data is of limited use if the receiving country does not have the capacity to process it automatically.

Convention on Mutual Administrative Assistance in Tax Matters

The multilateral Convention on Mutual Administrative Assistance in Tax Matters provides for exchange of information for a wide range of taxes as well as other forms of mutual assistance such as assistance in the collection of taxes and the service of documents. It is a multilateral instrument developed in the 1980s jointly by the OECD and the Council of Europe. The Parties to the Convention are: Azerbaijan, Belgium, Denmark, Finland, France, Georgia, Iceland, Italy, the Netherlands, Norway, Poland, Slovenia, Spain, Sweden, the Ukraine, the United Kingdom and the United States. Canada and Germany have signed the Convention but have not yet ratified it. Korea, Mexico, Moldova and Portugal have signed the Convention and Protocol and are going through the ratification procedure.

The Convention allows for exchange of information for all tax purposes, assistance in tax collection, but also for multilateral exchange and in particular



Spain became the 19th country to sign the Protocol amending the multilateral Convention on Mutual Administrative Assistance in Tax Matters, 11 March 2011, OECD Headquarters, Paris, France. *Left to right:* Angel Gurria, Secretary-General of the OECD and Cristina Narbora Ruiz, Spanish Ambassador.

multilateral simultaneous tax examinations. The Convention was recently amended to bring it up to current international standards and to allow all countries to sign it. As five countries (Denmark, Finland, Georgia, Norway and Slovenia) have deposited their instrument of ratification, acceptance or approval of the amending Protocol, it will enter into force on 1 June 2011. For more information, see the *Hot Topic: Multilateral Convention on Mutual Administrative Assistance in Tax Matters*.

2002 Model Agreement on Information Exchange on Tax Matters

This model was developed by the Global Forum in the context of the harmful tax practices project described above. It provides both a bilateral and multilateral model for exchange of information. Unlike Article 26 and the Convention on Mutual Administrative Assistance in Tax Matters, it is limited to exchange of information on request.

Protecting the Confidentiality of Tax Information

Mechanisms for exchange of information need to balance the interest of tax authorities to have access to pertinent information with the need to protect the legitimate interests of taxpayers in privacy and to guarantee the confidentiality of taxpayer information. All exchange of information instruments developed by the OECD recognise that there are legitimate reasons for declining to provide information, for instance, in cases where information contains a trade secret or is protected by attorney-client privilege. In addition, the instruments impose strict rules of confidentiality on any information supplied to the tax authorities of another country and prohibit “fishing expeditions”. These rules restrict the persons to whom information may be disclosed and the purposes for which the information may be used. OECD countries will not respond to requests for information unless they are confident that the confidentiality of the information exchanged will be respected.

Promoting Effective Exchange of Information Beyond the OECD

Effective exchange of information is a global issue, and the OECD continues to promote standards of information exchange throughout the world. Regular events are held with the Inter-American Center of Tax Administrations (CIAT), the Centre for Meetings and Studies of Directors of Tax Administrations (CREDAF), the Intra-European Organisation of Tax Administrations (IOTA), the Study Group on Asian Tax Administration and Research (SGATAR), the African Tax Administration Forum (ATAF), and other organisations, for the purpose of exchanging experiences between OECD and non-OECD economies regarding exchange of information and to identify ways of improving the efficiency of this process.

Improving the Technical and Practical Aspects of Information Exchange

Systems and procedures are continuously being developed to improve the quality of and to facilitate the exchange of tax information between countries, taking into account the latest technological developments. A key aspect of this work is to ensure that existing standards of data integrity and security are not compromised when information is exchanged electronically. The technological and operational improvements developed will incorporate the requirements of both direct and indirect tax administrations. With respect to automatic exchange of information, a new OECD Standard Transmission Format was designed based on Extensible Markup Language (XML) and a tool kit is available on the OECD website: www.oecd.org/ctp/eoi.

There is also an increased focus on the practical and operational aspects of information exchange. For instance, a Manual on Information Exchange has been developed which provides practical assistance to officials dealing with all forms of exchange of information for tax purposes. It is available on the OECD website: www.oecd.org/ctp/eoi/manual. CIAT has developed a similar manual.

Assistance in Tax Collection

Globalisation not only makes it harder for tax authorities to accurately determine the correct tax liabilities of taxpayers but also makes it more difficult to collect taxes owed. Taxpayers may have assets around the world but tax authorities generally cannot go beyond their domestic borders to take action to collect taxes. For this reason an article on collection assistance is now included in the OECD Model Tax Convention as new Article 27. The Convention on Mutual Administrative Assistance in Tax Matters also provides for collection assistance. A manual on the implementation of collection assistance has been developed and is available on the OECD taxation website (www.oecd.org/ctp/eoi).

Aggressive Tax Planning

The OECD's work in this area focuses on helping tax authorities to respond more quickly to tax risks, to identify trends and patterns already identified and experienced by some tax administrations, and to share experiences in dealing with them. The timely sharing of such information is intended to assist member states in understanding new schemes, facilitate their detection, and enable countries to adapt their risk management strategies and identify successful legislative and administrative responses. Recent projects in this area include a study on the tax risks involving Bank Losses (*see Hot Topic: Addressing Tax Risk from Bank Losses*).

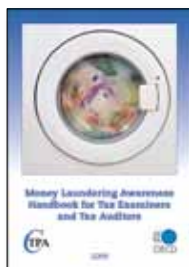
Following up on the study on the tax risks involving bank losses, a project is being carried out on the tax risks involving large business losses. Against the backdrop of the financial and economical crisis, the project focuses on the tax treatment of losses of large businesses and across different industries. It deals with the policy and compliance issues related to the tax treatment of losses, such as the artificial creation of losses for tax purposes and countries' detection and response strategies in these respects.

Building on other OECD reports, another project is examining disclosure initiatives introduced in a number of OECD countries. Considering the importance of timely, targeted and comprehensive information, this project provides an overview of the different disclosure initiatives introduced by countries, discuss the usefulness of such initiatives, and make a number of recommendations.

The work is supported by the OECD's Aggressive Tax Planning (ATP) directory which contains a growing number of descriptions of generic ATP schemes. The scheme descriptions are not taxpayer specific (*i.e.* they do not disclose the identity of the taxpayers involved) and thus protect taxpayer privacy. They set out fact patterns and the legal provisions being exploited.

Tax Crimes and Money Laundering

Tax evasion and money laundering often thrive together. In May 1998 the G7 Finance Ministers encouraged international action to enhance the capacity of anti-money laundering systems to deal effectively with tax related crimes. The G7 considered that international action in this area would strengthen existing anti-money laundering systems and increase the effectiveness of tax information exchange arrangements. Since then, the OECD's Committee on Fiscal Affairs has strengthened its involvement with the Financial Action Task Force (the international standard setter in anti-money laundering) so as to improve co-operation between tax and anti-money laundering authorities and enhance government's ability to combat money laundering and tax crimes.



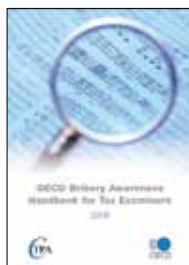
The OECD's work on tax crime and money laundering is designed to complement that carried out by FATF. This work is being pursued in a variety of ways including typologies exercises, developing practical guidance on detection of money laundering for tax auditors, examining key risk areas and reviewing current country practices for sharing information between tax and anti-money laundering authorities. The CFA has designed a Money Laundering Handbook to assist tax examiners in detecting and deterring money laundering. This handbook, along with recent reports produced by the OECD, can be found on www.oecd.org/ctp/taxcrimes (see *Hot Topic: Strengthening the Role of Taxation in the Fight Against Corruption and Financial Crime*).

To facilitate co-operation between tax and other law enforcement authorities, the Commentary to Article 26 of the Model Convention contains optional

language for inclusion in bilateral treaties for countries wishing to share information for non-tax purposes. It allows, under certain circumstances, competent authorities to pass information received for tax purposes to other law enforcement agencies and judicial authorities for enforcement of laws related to high priority areas such as combating money laundering. The OECD Council also adopted a new Recommendation to Facilitate Co-operation between Tax and Other Law Enforcement Authorities to Combat Service Crimes. The Recommendation encourages countries to establish effective legal and administrative frameworks to facilitate reporting of suspicions of serious crimes to domestic law enforcement authorities. It also encourages countries to adopt the optional language of Article 26 so as to allow use of information that has been exchanged for non-tax purposes.

Combating Corruption

In order to discourage the solicitation and payment of bribes to foreign public officials and strengthen the ability of tax authorities to co-operate with law enforcement authorities through information sharing, the OECD recommended in 1996 that OECD countries that do not disallow the deductibility of bribe payments to foreign public officials re-examine such treatment, with the intention of denying deductibility. The Committee on Fiscal Affairs has regularly reviewed the self evaluations of countries' progress in implementing the 1996 Recommendation and participated in country reviews undertaken by the Working Group on Bribery. Updates with country-by-country information are regularly published on the OECD taxation website.



The 1996 Recommendation has had an important impact both within and outside the OECD, but its monitoring and the country reviews indicated a need to strengthen the 1996 Recommendation. As a result, a new Recommendation on Tax Measures for further Combating Bribery of Foreign Public Officials was prepared and has adopted by the OECD Council on 25 May 2009 (see www.oecd.org/ctp/ttb). It calls on parties to the OECD Anti Bribery Convention to adopt explicit legislation denying the deductibility of bribe payments to foreign public officials. It also promotes enhanced co-operation between tax authorities and law enforcement agencies to counter corruption both at home and abroad to counter corruption (see www.oecd.org/ctp/nobribes). For more information, see Hot Topic: Strengthening the Role of Taxation in the Fight Against Corruption and Financial Crime.

Key Events

- Tax and Crime Conference: A whole of government approach in fighting financial crime, Oslo, 21-23 March 2011.

Key Publications

- The Convention on Mutual Administrative Assistance in Tax Matters: Twentieth Anniversary Edition, March 2008 (next update due in June 2011).
- Engaging with High Net Worth Individuals on Tax Compliance, September 2009.
- Recommendation to Facilitate Co-operation between Tax and Other Law Enforcement Authorities to Combat Serious Crimes (2010).
- Recommendation on Tax Measures for further Combating Bribery of Foreign Public Officials in International Business Transactions, May 2009.
- OECD Bribery Awareness Handbook for Tax Examiners, September 2009.
- Money Laundering Awareness Handbook for Tax Examiners, October 2009.

International Tax Co-operation on the Web

- Exchange of Information www.oecd.org/ctp/eoi
- Harmful Tax Practices www.oecd.org/ctp/htp
- Tax Treatment of Bribes www.oecd.org/ctp/ttb
- Manual on Information *Exchange* www.oecd.org/ctp/eoi/manual
- Tax Crimes and Money Laundering www.oecd.org/ctp/taxcrimes
- Global Forum on Transparency and Exchange of Information for Tax Purposes www.oecd.org/tax/transparency

- **Did you know...** that all the OECD and non-OECD countries that have set out their position in the OECD Model Tax Convention have withdrawn their reservations to Article 26 of the Model?
- **Did you know...** that an increasing number of countries' tax administrations and Financial Intelligence Units exchange information that helps the efforts against money laundering and financing of terrorism?

Tax Administration

CORE ISSUES

In July 2002, the Forum on Tax Administration (FTA) was established to develop effective responses to tax administration issues in a collaborative fashion. The FTA aims to influence the environment within which tax systems operate: to move away from a conflictual dialogue to a constructive dialogue with taxpayers. To do this, it brings together tax commissioners from around the world to share information and experience, and to identify international good practices for resolving particular administration issues. To ensure that such information and experiences are made available to other revenue bodies, they are published in the tax administration guidance series. The CTPA supports the work of the FTA in the pursuit of its key objectives in a broad range of areas.



U.S. Commissioner of Internal Revenue and Chair of the FTA, Douglas Shulman, speaking at the United States Council for International Business Conference, The OECD's Evolving Role in Shaping International Tax Policy, Washington, 1-2 June 2009.

"I look forward to chairing the OECD's Forum on Tax Administration during these particularly challenging times. Nations across the globe face the harsh reality of declining tax revenues brought about by the economic slowdown and made worse by illegal offshore tax abuse. The OECD and FTA, with the active involvement of its Tax Commissioners, are ideally positioned to provide the experience, expertise and strategies to help governments pay for critical services and contribute to economic recovery efforts.

I am also particularly keen to lead the Forum in building greater co-operation between tax administrations across the world as we work to improve tax compliance both domestically and internationally. This could include utilising innovative techniques such as joint audits to leverage our enforcement resources and streamline our mutual cross-border work. There is much we can learn from each other and I welcome this important dialogue."

Mr. Douglas Shulman

Commissioner of Internal Revenue and Chair of the FTA upon his election as Chair of the FTA.

Istanbul Forum on Tax Administration Meeting

At the Sixth Meeting of the Forum on Tax Administration in Istanbul, Turkey, held in September 2010 Tax Commissioners from OECD and non-OECD countries, including all G20 countries, met to consider:

- The challenges facing revenue bodies in the current business climate and how revenue bodies could more effectively engage global business;
- The conclusions and recommendations from four studies which focused on improving offshore compliance, on joint audits between FTA participating countries as a potential path to improved international compliance and on a number of compliance issues associated with banks; and
- The role of corporate governance to influence corporate behaviour in relation to tax.

The Communiqué issued at the conclusion of the meeting set out the agreement of the Commissioners participating:

- To continue to work together to improve tax administration, taxpayer services and tax compliance – both nationally and internationally;
- To move beyond co-operation to co-ordinated action designed both to boost international tax compliance and reduce costs for taxpayers and revenue bodies alike;



Commissioners at the Sixth Meeting of the Forum on Tax Administration, Istanbul, Turkey, 15-16 September 2010.

"Corporate vehicles should not be misused for illicit purposes. Standards of responsible business conduct should be reflected in corporate decision-making. Corporate responsibility entails timely and accurate fulfilment of tax obligations wherever a company operates. Companies should comply with both the letter and the spirit of the tax law."

Declaration on Propriety, Integrity and Transparency in the Conduct of International Business and Finance, 28 May 2010

- To promote strong corporate governance in the area of tax;
- To support tax administrations in developing economies.

Next Forum meeting of Tax Commissioners

The next meeting of the FTA will take place in Argentina on 18-19 January, 2012.

Improving Voluntary Compliance

The FTA recognises that tax compliance requires a balance between enforcement and service. Recent work undertaken by the FTA has examined compliance management, including risk management, to identify innovative ways that revenue bodies can promote greater voluntary compliance and reduce costs for taxpayers.

Its studies and Information and Guidance Notes aim to provide support for compliance improvement in participating countries across a wide range of taxpayer segments.



Left to right: Mr. Ricardo Echegaray, Administrator Federal, Administración Fedelra de Ingresos Públicos, Argentina and Mr. Jeffrey Owens, Director of the CTPA, OECD, April 2010.

Taxpayers with an international footprint

International compliance has been a key topic for the FTA since its meeting in Seoul, Korea in September 2006 leading to a number of studies focusing on the role of tax intermediaries, compliance by banks and compliance by high net worth individuals. The international compliance theme has again featured in reports published in 2010 on joint audits and on offshore compliance and in two further studies related to compliance by banks.

Reports from FTA studies to support co-ordinated action on international compliance

Joint Audits

A Joint Audits Report examined the experiences of FTA countries who have worked jointly with other countries under various legal structures in conducting audits of taxpayers with multinational interests. The report was accompanied by a Joint Audits Participants Guide which may be used as a roadmap for countries interested in participating in joint audits.

Offshore Compliance

This report compiled a catalogue of the initiatives taken by FTA revenue bodies to recover revenues which have, up to now, been hidden because of the limitations on exchange of information in certain jurisdictions. A parallel report commented in more detail on voluntary compliance or disclosure initiatives initiated by countries to promote the regularisation of their tax affairs by taxpayers with assets held offshore for tax evasion purposes.

Large Business Taxpayers including Banks

At its Seoul meeting the FTA commissioned a study, published in 2008, into the role of tax intermediaries in relation to voluntary compliance and to the promotion of aggressive tax planning. This study evolved into a wider examination of the tripartite relationship between revenue bodies, business and tax intermediaries, and its potential influence on large business compliance.

This theme of finding new ways to improve large taxpayer compliance, including through building enhanced engagement and greater trust between the parties, recurred in a number of subsequent FTA studies and reviews of experience. Because of the financial crisis a number of these studies had a particular emphasis on banking. Identifying country experience of finding more effective ways of improving large business compliance will also be a focus of the new network of heads of Large Business Operations in FTA countries.

FTA studies to support large taxpayer compliance and services

Compliance Management of Large Business- Experience and Practices of Eight OECD Countries. This and a number of subsequent studies looked at the experience of initiatives taken and strategies implemented by these countries in a range of important areas of large business compliance.

Building Transparent Compliance by Banks. This 2009 study analysed the nature of banking, the complex structured financing transactions developed by banks and how these are then used by both banks and their clients. It also explored the internal governance processes that banks use to manage tax risk and the prevention, detection and response strategies applied by different revenue bodies in responding to the challenges that banks pose.

Addressing Tax Risks involving banks losses. Currently there are over USD 800 billion of bank losses around the world driven by the financial crisis. This report examined the opportunities for aggressive tax planning constructed around tax-effective use of these exceptional losses and the possible responses of revenue bodies to deal with the consequent tax risk.

Framework for a Voluntary Code of Conduct for Revenue Bodies and Banks. This report introduced a Voluntary Code of Conduct for Revenue Bodies and Banks which is available for use as a guide by countries interested in working towards improved compliance by banks through the medium of a Code of Conduct which stresses good corporate governance and encapsulates commitments by both parties. The Framework for the Code draws on the experience of the UK and South Africa in introducing voluntary Codes of Conduct for the banking industry.

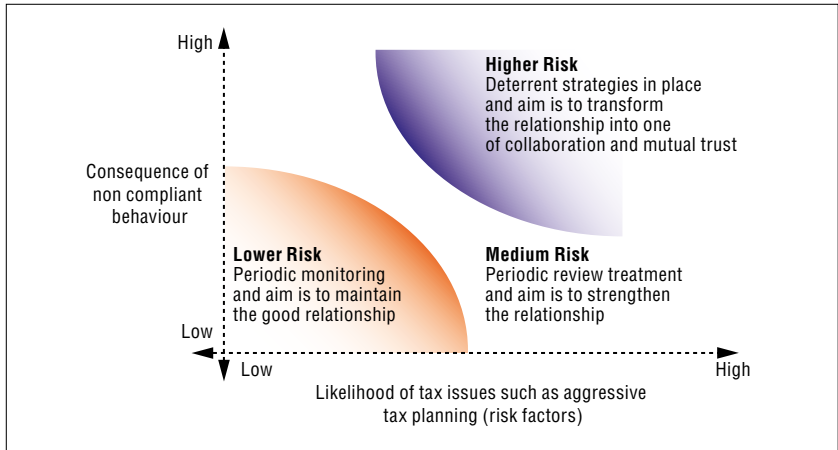
High Net Worth Individuals (HNWIs)

The study, *Engaging with High Net Worth Individuals on Tax Compliance*, examined tax compliance within the HNWI taxpayer segment. The study concluded that HNWIs pose significant challenges to revenue bodies because of the complexity of their affairs, their revenue contribution, the opportunities that they have for aggressive tax planning and the impact of their compliance behaviour on the integrity of the tax system. It found that focusing resources on the HNWI segment can achieve significant improvements in compliance. The report also identifies and recommends to tax administrations a number of best practices for dealing with HNWIs.

To support the work of participating revenue bodies in dealing with tax compliance and service issues related to HNWIs, the FTA established a network of revenue body experts with responsibility for HNWI compliance. This network reviews good practice and initiatives in revenue bodies aimed at improving compliance by HNWI's.

To support the work of participating revenue bodies in dealing with tax compliance and service issues related to HNWI's, the FTA established a network of revenue body experts with responsibility for HNWI compliance. This network reviews good practice and initiatives in revenue bodies aimed at improving compliance by HNWI's.

An example of risk ranking and possible matching treatment or response strategies

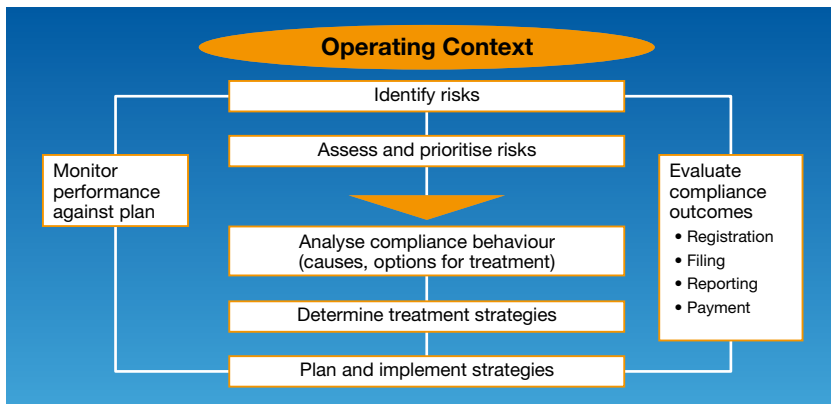


Effective Compliance Risk Management Techniques

The vastly increased demands on revenue bodies in today's world require them to have a thorough and systematic approach for identifying key compliance risk areas and the treatments for those risks, such as service, education, audits, enforcement or legislative change. Tax administrators must design a treatment strategy for each of their major compliance risks, recognising that non-compliance behaviours and attitudes vary substantially across different taxpayer segments. This represents one of the most significant challenges to effective administration of tax laws.

The FTA helps member countries share approaches on compliance risk management (and associated research efforts) and to prepare materials on successful practices for the guidance of OECD member countries and non-members.

In 2004 a Guidance Note – Compliance Risk Management: Managing and Improving Tax Compliance was published. That Guidance Note promoted compliance risk management as an essential management tool for revenue bodies and described practical approaches that could be adopted. The recommended model of compliance risk management, which draws on leading revenue body experience and underpins the work of the FTA, is set out below.



The Compliance Risk Management Process

In 2010, work in this domain included the development of practical guidance for revenue bodies to assist with the evaluation of their risk treatment strategies. A guidance note, and accompanying background materials, published in October 2010 set out a practical methodology for conducting outcome evaluations of compliance risk treatment strategies undertaken by revenue bodies in priority areas. The guidance draws on innovative work carried out by one of the leading revenue bodies in the OECD, as well as research carried out by staff working on EC tax programmes, and is supplemented by further practical guidance (including by way of many case study examples) from a number of other revenue bodies.

The current work programme in this area includes a study of revenue bodies' successful strategies for reducing opportunities for informal/cash/underground economy activities, and the use of electronic payment systems to conceal (and reveal) taxpayers' incomes, especially those in offshore locations. Also underway is a separate study of revenue bodies' successful strategies entailing proactive measures to prevent non-compliance in the SME sector.

Recent key reports include:

- Measuring the effectiveness of compliance risk treatments (October 2010);
- Understanding and influencing taxpayers' behaviour (October 2010);
- Withholding and Information Reporting Regimes for Small/ Medium-sized Businesses and Self-employed Taxpayers (September 2009);
- Developments in managing the VAT Compliance Management in Selected Countries (September 2009).

Corporate Governance

Following on from the Study into the Role of Tax Intermediaries, a report issued in 2009 examines the experience of three countries (Australia, Canada and Chile) in promoting tax risk management as an important element of corporate governance. The report encourages enhancing relationships with large business tax payers through the engagement of their Boards and CEOs in dialogue about shared approaches to improving compliance.

This report suggests that large businesses with good corporate governance and more transparent relationships with tax administrations can expect fewer audit interventions and hence greater certainty.

Taxpayer Service Delivery

Service is a key component of any revenue body's strategy for improving compliance with tax laws. Over the last decade, the capacity of revenue bodies to expand the range of services provided, and improve service delivery, has been greatly enhanced by developments with, and growth in the use of, modern information technology systems.

The FTA continues to examine how revenue bodies can improve the delivery of taxpayer services, including the use of electronic services. Electronic services enable tax administrations to deliver faster, cheaper, more tailored services.

In late-2009, a major survey of revenue bodies in OECD and selected other countries was undertaken to assess their progress, and plans for, the deployment of modern electronic services in taxpayer service delivery. The survey report and related tabulations, which were published in March 2010, provide a very comprehensive assessment of revenue bodies' progress with, and plans for, the deployment of technology to deliver services to taxpayers and topics examined included; 1) revenue bodies' strategic directions; 2) specific e-services (*e.g.* e-filing, e-payment, pre-filing, online/real time personal taxpayer information); 3) use of telephony; 4) 'whole of government' service delivery approaches; and 5) security, authentication, and authorisation. The work also included the development of a "maturity" framework for the provision of electronic services that would enable revenue bodies to gauge their progress towards achieving a "transformational level" of capability.

The study's findings note that many revenue bodies have made considerable progress over the last 5-6 years in the development, delivery and exploitation of electronic services. However, many challenges remain and most revenue bodies have some way to go to realise the transformational level of competence set out in the framework.

Other recently published reports include:

- Programmes to Reduce the Administrative Burden of Tax Regulations- follow-up report (March 2010);

- Tax Reference Mode-Application Software Solutions to Support Revenue Administration in Selected Countries (March 2010);
- Framework for the Provision of Electronic Services (March 2010).

The current work programme in this area includes studies associated with identifying key issues related to security and authentication in the delivery of electronic services to taxpayers and how these issues are being addressed by revenue bodies, and developments with the use of social media technologies in tax administration.

Comparative Data on Tax Administration

In today's rapidly changing environment revenue bodies are being asked to do more with less, to take on new tasks, and at the same time ensure that governments have the revenues they need to finance important programmes that benefit their citizens. In facing this challenge revenue bodies around the world are seeking ways to make tax administration within their countries both more effective and more efficient. One of the ways many of them seek to do this is by comparing their structures, operations and performance with comparable organisations.

The CTPA and the FTA have been supporting revenue bodies in this area through its research and associated report, *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series*. Published every two years, and now in its fourth (2010) edition, this series contains a wide range of insightful, comparative data on aspects of tax administration around the world. Almost 50 countries have contributed to the research that went into this publication – every OECD member country, as well as EU, G20, and selected other countries. It provides a unique insight into the tax administration environment. Not only does it promote greater understanding between countries by setting out the

context in which revenue bodies operate, but it is also a key tool to assist both administrators and policy makers in identifying the key trends and innovations in tax administration.

The latest edition describes institutional setups, organisational arrangements and reforms, aspects of strategic management, resourcing, key areas of operational performance, the use of technology, and elements of the legislative and administrative framework for administration across the 49 countries covered by the series. There is also a new section dealing with selected aspects of human resource management.

The series uses data, analysis and country examples to highlight key trends, recent innovations, and examples of good practice and performance

Countries covered by the Comparative Data :

Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States.

measures/indicators. Armed with such knowledge, revenue bodies should be better equipped to undertake their own comparative analyses and benchmarking studies, particularly for performance-related aspects and for assessing comparative efficiency.

Key Events

- Tax and Crime Conference, Oslo, 21-23 March 2011.
- Seventh Meeting of FTA, Argentina, 18-19 January 2012.

Key Publications

- Evaluating the Effectiveness of Compliance Risk Treatment Strategies (November 2010).
- Understanding and Influencing Taxpayers' Compliance Behaviour (November 2010).
- Joint Audit Report and Joint Audit Participants Guide (September 2010).
- Framework for a Voluntary Code of Conduct for Revenue Bodies and Banks (September 2010).
- Addressing Tax Risks Involving Banks (September 2010).
- Guidance and Specifications for Tax Compliance of Business and Accounting Software (GASBAS) (April 2010).
- Guidance on Test Procedures for Tax Audit Assurance (April 2010).
- Guidance for the Standard Audit File-Tax, version 2.0. (SAF-T) (April 2010).
- Guidance for the Standard Audit File-Payroll, version 1.0. (SAF-P) (April 2010).
- Tax Compliance and Tax Accounting Systems (April 2010).
- Study into the Role of Tax Intermediaries (2008).
- Information Note, General Administrative Principles : Corporate Governance Tax Risk Management (July 2009)

Tax Administration on the Web

- www.oecd.org/ctp/ta

Transparency and Exchange of Information for Tax Purposes

CORE ISSUES

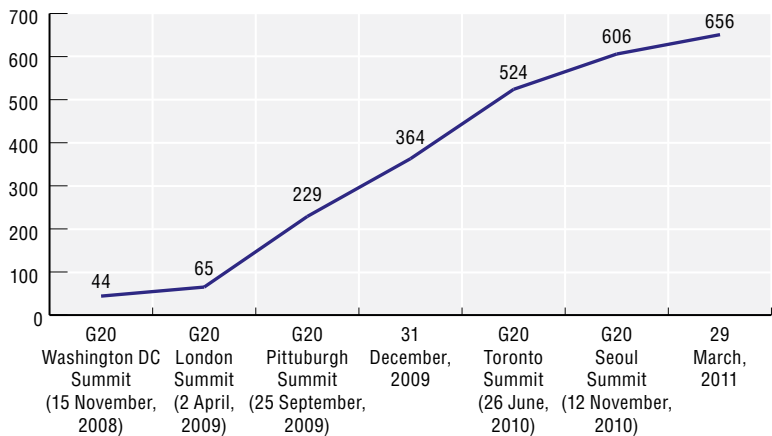
International tax evasion and the implementation of high standards of transparency and exchange of information to tackle it have been very high on the political agenda, reflecting recent scandals that have affected countries around the world and the spotlight that the global financial crisis has put on financial centres generally. Tax transparency was a key feature of the G20 Summits in Washington, London, Pittsburgh and Seoul. In 2009, the standard of transparency and exchange of information developed by the OECD has gained universal endorsement with all 97 countries participating in the Global Forum committing to implement it. In October 2008, the UN also introduced the standard in the UN Model Tax Convention. The standard provides for exchange of information on request, in civil and criminal tax matters when the information is foreseeably relevant to the administration or enforcement of the taxes of the requesting party. All types of information, including bank and fiduciary information, must be exchanged. However, fishing expeditions are not allowed.



Press conference at the meeting of the Global Forum Transparency and Exchange of Information for Tax Purposes, 30 September 2010, Singapore, left to right: Pascal Saint-Amans, Head of the Global Forum Secretariat, Mike Rawstron, Chair of the Global Forum and Jeffrey Owens, Director of the OECD Centre for Tax Policy and Administration)

In 2009, more than 300 agreements were signed by jurisdictions which were identified by the OECD as not substantially implementing the standard in the progress report published on 2 April in conjunction with the G20 (see Figure 1). Since that date, 34 jurisdictions have been removed from that category for having signed at least 12 agreements that meet the standards. Even though some offshore financial centres (OFCs) have signed agreements with other OFCs, the vast majority of agreements are with countries which have an interest in obtaining information for tax purposes. Also, many of the jurisdictions which have reached the threshold of 12 agreements continue negotiating and signing more agreements.

Figure 1. TIEAs/DTCs Signed between G20 Summits



G20 Leaders urged the Global Forum to swiftly progress its Phase 1 and 2 reviews to achieve the objective agreed by Leaders in Toronto and report progress by November 2011. Reviewed jurisdictions identified as not having the elements in place to achieve an effective exchange of information should promptly address the weaknesses. We urge all jurisdictions to stand ready to conclude Tax Information Exchange Agreements where requested by a relevant partner."

*G20 Leaders' Declaration
Seoul Summit, 11-12 November 2010*

As a result of these changes, the Global Forum on Transparency and Exchange of Information for Tax Purposes, which was originally established in 2000, was restructured and strengthened in 2009. At its Mexico meeting on 1-2 September 2009, 178 delegates from over 70 jurisdictions and international organisations met to discuss progress made in implementing the international standards of transparency and exchange of information for tax purposes, and how to respond to the G20 call to strengthen the work of the Global Forum. The membership of the Global Forum was expanded to include more than 95 jurisdictions, including all OECD and G20 countries. Its governance and financing were restructured to ensure that all members participate on an equal footing.

They agreed to a three-year mandate, which includes:

- carrying out an in-depth monitoring and peer review of the implementation of the standards of transparency and exchange of information for tax purposes;
- developing multilateral instruments to speed up negotiations; and
- ensuring that developing countries benefit from the new environment of transparency.

Launching the Peer Review Process

The Global Forum will monitor and peer review all its members and any other jurisdictions which may require special attention. The peer review process was launched in March 2010 and is taking place in two phases: Phase 1 reviews assess the quality of a jurisdiction's legal and regulatory framework for the exchange of information, while Phase 2 looks at practical operation of that framework. All jurisdictions will undergo Phase 1 reviews before June 2012 and all Phase 2 reviews should be completed before June 2014. At its meeting in Singapore in September 2010, the Global Forum adopted and published phase one peer reviews of Bermuda, Botswana, Cayman Islands, India, Jamaica, Monaco, Panama, and Qatar. The Global Forum then released ten more reports in January 2011. Five are Phase 1 reports (Barbados, San Marino, The Seychelles and Trinidad and Tobago) and the other five are combined Phase 1 and Phase 2 reviews assessing both the legal framework and the practical implementation of the standard (Australia, Denmark, Ireland, Mauritius and Norway).



In addition, on-going monitoring will be put in place to ensure that developments which occur after a review is complete are acknowledged and to make sure that the most complete and up-to-date information about all the jurisdictions covered by the Global Forum's work is available to the public via the website.

The G20 and the OECD have stressed the importance for developing countries to benefit from the sea change in transparency and exchange of information. Already some emerging economies have entered into negotiations of tax information exchange instruments, in particular Argentina, China, India, and South Africa.

Together with the Development Assistance Committee, the OECD Committee on Fiscal Affairs is developing a technical assistance programme as well as exploring means to ensure developing countries benefits fully from the recent changes. For more information, see the *Hot Topic: Multilateral Convention on Mutual Administrative Assistance in Tax Matters*.

A PROGRESS REPORT ON THE JURISDICTIONS SURVEYED BY THE OECD GLOBAL FORUM IN IMPLEMENTING THE INTERNATIONALLY AGREED TAX STANDARD¹

Progress made as at 29 March, 2011 ([Original Progress Report 2nd April 2009](#))

Jurisdictions that have substantially implemented the internationally agreed tax standard			
Andorra	Cyprus	Jersey	St Vincent and the Grenadines
Anguilla	Czech Republic	Korea	Samoa
Antigua and Barbuda	Denmark	Liberia	San Marino
Argentina	Dominica	Liechtenstein	Seychelles
Aruba	Estonia	Luxembourg	Singapore
Australia	Finland	Malaysia	Slovak Republic
Austria	France	Malta	Slovenia
The Bahamas	Germany	Marshall Islands	South Africa
Bahrain	Gibraltar	Mauritius	Spain
Barbados	Greece	Mexico	Sweden
Belgium	Grenada	Monaco	Switzerland
Belize	Guernsey	Netherlands	Turkey
Bermuda	Hungary	Netherlands Antilles	Turks and Caicos Islands
Brazil	Iceland	New Zealand	United Arab Emirates
British Virgin Islands	India	Norway	United Kingdom
Brunei	Indonesia	Philippines	United States
Canada	Ireland	Poland	US Virgin Islands
Cayman Islands	Isle of Man	Portugal	
Chile	Israel	Qatar	
China ²	Italy	Russian Federation	
Cook Islands	Japan	St Kitts and Nevis	
		St Lucia	

Jurisdictions that have committed to the internationally agreed tax standard, but have not yet substantially implemented					
Jurisdiction	Year of Commitment	Number of Agreements	Jurisdiction	Year of Commitment	Number of Agreements
Tax Havens³					
Montserrat	2002	(11)	Niue	2002	(0)
Nauru	2003	(0)	Panama	2002	(11)
			Vanuatu	2003	(10)
Other Financial Centres					
Costa Rica	2009	(1)	Uruguay	2009	(8)
Guatemala	2009	(0)			

Jurisdictions that have not committed to the internationally agreed tax standard			
Jurisdiction	Number of Agreements	Jurisdiction	Number of Agreements
All jurisdictions surveyed by the Global Forum have now committed to the internationally agreed tax standard			

* Readers are referred to the outcomes from the Global Forum peer reviews for an in-depth assessment of a jurisdiction's (a) legal and regulatory framework (Phase 1 reviews) and (b) implementation of the standard in practice (Phase 2 reviews). [<http://www.oecd.org/tax/transparency>].

¹ The internationally agreed tax standard, which was developed by the OECD in co-operation with non-OECD countries and which was endorsed by G20 Finance Ministers at their Berlin Meeting in 2004 and by the UN Committee of Experts on International Cooperation in Tax Matters at its October 2008 Meeting, requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes. It also provides for extensive safeguards to protect the confidentiality of the information exchanged.

² Excluding the Special Administrative Regions, which have committed to implement the internationally agreed tax standard.

³ These jurisdictions were identified in 2000 as meeting the tax haven criteria as described in the 1998 OECD report.

Schedule of reviews¹

2010		2010		2011		2011	
1 st Half		2 nd Half		ww 1 st Half		2 nd Half	
Phase 1	Phase 1	Phase 1	Phase 1	Phase 1	Phase 1	Phase 1	Phase 1
Australia	Canada	Belgium	Bahrain	Anguilla	Andorra	Chile	Cook Islands
Barbados	Denmark	France	Estonia	Antigua and Barbuda	Brazil	China	Czech Republic
Bermuda	Germany	Isle of Man	Guernsey	Turks and Caicos	Brunei	Costa Rica	Grenada
Botswana	India	Italy	Hungary	Austria	Hong Kong, China	Cyprus	Liberia
Cayman Islands	Jamaica	Liechtenstein	Japan	British Virgin Islands	Macao, China	Gibraltar	Malta
Ghana	Jersey	New Zealand	Philippines	Indonesia	Malaysia	Greece	Russian Federation
Ireland	Monaco	San Marino	Singapore	Luxembourg	Spain	Guatemala	Saint Lucia
Mauritius	Panama	Saudi Arabia	Switzerland	Netherlands	United Arab Emirates	Korea	Slovak Republic
Norway	Seychelles	The Bahamas	Aruba	Netherlands Antilles	Uruguay	Mexico	South Africa
Qatar	Trin. and Tobago	United States	United Kingdom	Saint Kitts and Nevis	Vanuatu	Montserrat	St. Vincent and the Gren.
				Former Yugoslav Republic of Macedonia			
				Lebanon			

2012		2012		2013		2013		2014	
1 st Half		2 nd Half		1 st Half		2 nd Half		1 st Half	
Phase 1	Phase 1	Phase 2	Phase 2	Phase 2	Phase 2	Phase 2	Phase 2	Phase 2	Phase 2
Samoa	Turkey	Belgium	British Virgin Islands	Bahrain, Kingdom of	Malaysia	Anguilla	Andorra	Belize	Czech Republic
Argentina	Portugal	Bermuda	Austria	Estonia	Samoa	Antigua and Barbuda	Botswana	Dominica	Gibraltar
Belize	Finland	Cayman Islands	Hong Kong, China	Jamaica	Slovak Republic	Chile	Ghana	Marshall Islands	Hungary
Dominica	Sweden	Cyprus	India	Philippines	Slovenia	China	Grenada	Nauru	Netherlands Antilles
Israel	Iceland	Guernsey	Liechtenstein	Argentina	U. S. Virgin Islands	Costa Rica	Israel	Niue	Poland
Marshall Islands	Slovenia	Malta	Luxembourg	Turks and Caicos	Vanuatu	Guatemala	Liberia	Saudi Arabia	
Nauru		Qatar	Monaco	United Arab Emirates	Indonesia	Korea	Russian Federation	Cook Islands	
Niue	Phase 2	San Marino	Panama	Barbados		Mexico	Saint Kitts and Nevis	Portugal	
Poland	Brazil	Singapore	Switzerland	Brunei		Montserrat	Saint Lucia	Uruguay	
US Virgin Islands	Seychelles	The Bahamas		Macao, China		Trinidad and Tobago	St. Vincent and the Gren.	Aruba	
				Kenya					

Those jurisdictions having a combined Phase 1-2 review are marked in bold.

Speeding up the Process

The OECD is currently pursuing important strategies to help accelerate the development of adequate exchange of information networks. One stream is a process of multilateral negotiations toward bilateral agreements for the exchange of information. The OECD has conducted three successful pilot projects, two in the Caribbean and one in the Pacific. More than 80 agreements have already been signed or are currently being concluded as a result of the initiative. The initiative has allowed a number of smaller jurisdictions such as Antigua and Barbuda, the Cook Islands, Samoa and the Turks and Caicos Islands to quickly put in place a significant network of agreements with OECD countries. It has also allowed some of these jurisdictions to move into the “substantially implemented” category in the Progress Report.

What governments in developing countries are saying

“These times call for a tougher attitude from employers, workers and governments. We cannot go on living with tax havens”

Luiz Inacio Lula da Silva
Brazilian President, 2009

“We should endorse sharing information and bringing tax havens and non-cooperating jurisdictions under closer scrutiny”

Manmohan Singh
Indian Prime Minister,
2009

The second stream was to update the Multilateral Convention on Mutual Administrative Assistance in Tax Matters to bring it up to the current international exchange of information standard to allow all jurisdictions to become a party to it. *See Hot Topic : Multilateral Convention on Mutual Administrative Assistance in Tax Matters*

Finally, the 2002 Model Agreement on Exchange of Information on Tax Matters sets out two options: a bilateral and a multilateral TIEA. The multilateral model TIEA does not provide for a “multilateral” agreement in the traditional sense. Instead, it provides the basis for an integrated bundle of bilateral treaties, so that a party to it would only be bound by the Agreement vis-à-vis the specific parties with which it agrees to be bound. Perhaps due to the novelty of the multilateral approach, the Model has to date only been implemented in its bilateral form. The OECD has developed a protocol designed to facilitate the implementation of the multilateral approach.

Key Events

- Global Forum on Transparency and Exchange of Information for Tax Purposes, Bermuda, 31 May - 1 June 2011.
- Global Forum on Transparency and Exchange of Information for Tax Purposes, 29-30 September 2010.

Key Publications

- Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Australia, Barbados, Bermuda, Botswana, Cayman Islands, Denmark, Guernsey, India, Ireland, Jamaica, Mauritius, Monaco, Norway, Panama, Qatar, San Marino, The Seychelles, Trinidad and Tobago.

The Global Forum on Transparency and Exchange of Information for Tax Purposes on the Web

- www.oecd.org/tax/transparency



Peer Review Meeting, 20-22 July 2010, The Bahamas.

- **Did you know...** since April 2009, more than 600 agreements were signed by jurisdictions which were identified by the OECD as not substantially implementing the standard in the progress report published on 2 April in conjunction with the G20?
- **Did you know...** since April 2009, 34 jurisdictions have been removed from that category for having signed at least 12 agreements that meet the standards?
- **Did you know...** that China, Brazil, India and South Africa are members of the Steering Group of the Global Forum?
- **Did you know...** some sources estimate that revenues lost by developing countries from offshore non compliance around USD 100 billion annually - more than the level of aid received by developing countries?

Developing a Global Partnership

CORE ISSUES

The OECD engages with a large number of economies outside its current membership. In the tax area, the fragile global economic recovery makes fiscal sustainability imperative, and structural tax reforms are essential to promote sustainable growth and poverty reduction (for more information, see *Hot Topic: The Role of Tax for Development*). Further, globalisation increases the importance, to both governments and business, of developing and implementing internationally accepted principles of taxation and standards for the administration of taxation systems. In short, there is a need for a consistent approach to international taxation issues, and for a truly global dialogue.

The CTPA's Global Relations Programme acts as a bridge between OECD member countries and non-OECD economies to facilitate the implementation of effective and efficient tax systems as a critical platform for development,



Signing Israel's accession agreement. *Left to right:* Angel Gurría, OECD Secretary-General, Orit Noked, Deputy Minister of Industry, Trade and Labor, Nimrod Barkan, Israeli Ambassador to Multilateral Organizations and Israeli Ambassador to France, Daniel Shek after the signature of the Accession Agreement in Paris, 29 June 2010.

as well as to ensure that non-OECD economies have a voice in developing international tax standards and guidelines so that these continue to be of wide relevance in an increasingly interdependent global economy. This means:

- Listening to non-OECD economies, understanding their perspectives and ensuring OECD approaches reflect the reality of non-OECD economies' circumstances;
- Promoting OECD standards and guidelines, and good practices in the international tax area.

"The recent strengthening of the Global Forum on Transparency and Exchange of Information for Tax Purposes, the creation of the African Tax Administration Forum (ATAF), the launch of the Latin American and Caribbean Programme, as well as the intensification of CTPA's ASEAN programme all reflect the increasing importance of international co-operation to reinforce countries' tax systems and to promote economic growth and development. Global Relations will continue to seek to strengthen our partnership with other international organisations working in the tax area."

Mr. Richard Parry
Head, Global Relations
Division, Centre for Tax
Policy and Administration

Enlargement and Enhanced Engagement

The membership discussions launched by the OECD in 2007 with Chile, Estonia, Israel, Russia and Slovenia have resulted in the most significant enlargement in the OECD's 50 year history. In 2010, Chile, Slovenia, Israel and Estonia became OECD members. In addition, good progress continues to be made in the Russian accession process. OECD countries are also pursuing an enhanced engagement strategy, with a view to engaging Brazil, China, India, Indonesia and South Africa, in a closer working relationship as well as engaging more directly with countries in the ASEAN region. The CTPA has established close links with the tax administrations and Ministries of Finance in these countries, involving them in the CFA's work processes and engaging them in the wider international dialogue and experience-sharing in the tax area.

These developments will mean:

- A larger OECD, reflecting a broader range of perspectives and increasing the diversity of the organisation, while providing a wider platform to manage the challenges that such diversity will bring.
- An historic opportunity to develop close dialogue with these key economies and to encourage reform where needed as the process develops.

The Global Relations Programme in Taxation

The programme develops tax partnerships between tax officials in OECD member countries and non-OECD economies, as well as experts from the OECD Secretariat, to share practical experience and expertise on a wide range of taxation issues. It provides a valuable opportunity for non-OECD economies to contribute their own perspectives, so as to influence the dialogue, and for all involved to understand and learn from the tax environment faced by others.

The Global Relations Programme promotes international co-operation on all the core work areas of the CFA, including transfer pricing, exchange of information, tax treaties, consumption taxes, domestic tax policy and revenue administration.

The programme has global reach through OECD multilateral tax centres in Austria, Hungary, Korea, Mexico and Turkey and numerous hosting partners in Africa, Europe, Asia, CIS countries, the Middle East and Latin America. By bringing together high level experts from member and non-OECD governments through more than 75 week long events, involving over 100 countries, the programme is a core element of the global dialogue on taxation.

Developing a Global Partnership

Given new developments such as the strengthening of the Global Forum on Transparency and Exchange of Information for Tax Purposes, the creation of the African Tax Administration Forum (ATAF), the launch of the Latin American and Caribbean Programme (LAC), as well as the intensification of the ASEAN programme, there is an increasing need for the OECD to strengthen our partnership with other international organisations working in the tax area.

In addition, recognising the role that taxation plays in building successful states and in economic and social development, the CTPA is building a stronger relationship with the OECD's Development Assistance Committee and aid agencies and donors.

Increased global demands and generous support from voluntary contributions from interested countries, mean that in addition to our significant work in the ASEAN region and our increased collaboration with ATAF, we will increase activities in Latin America, and support the work of the G20, through additional events on strengthening tax administration and exchange of information.

Delivery

The programme benefits from direct input from an Advisory Group made up primarily of non-OECD economies, which enables it to be strongly demand driven, while benefiting from the interaction of tax officials with deep specialist knowledge and expertise.

Further Information

The Global Relations website (www.oecd.org/tax/globalrelations) includes the Users' Handbook and the 2009 Annual Report, as a guide for anyone who is directly or indirectly involved with the OECD's programme of co-operation with NOEs.

For more information, contact Richard.Parry@oecd.org

Significant Upcoming Events

- High-level event on Transfer Pricing, India, Spring 2011
- High-level event on Transfer Pricing in China, October 2011
- Workshop on Implementing Transfer Pricing Legislation, Guatemala March 2011
- OECD-ATAF-IMF Event on Tax Administration of Large Taxpayers, Kenya, February 2011

Global Relations on the Web

- www.oecd.org/tax/globalrelations



Mr. Jeffrey Owens, Director of the CTPA, OECD and Ms. Rosanna Choi, Chairman, ACCA (the Association of Chartered Certified Accountants) Hong Kong, at the ACCA Hong Kong Annual Tax Conference, Hong Kong, 12 March 2011. Photo © ACCA

- **Did you know...** in 2011, the CTPA will hold 75 Global Relations events in 30 different countries?
- **Did you know...** that more than 40 000 tax officials have attended one of the 1200 Global Relations events delivered since 1992?

Network on Fiscal Relations across Levels of Governments

CORE ISSUES

The OECD Network on Fiscal Relations across Levels of Government was created in 2004 to provide countries with cross-country analytical and statistical analysis to inform decisions on how the financial relations among central, regional and local governments are organised. With decentralisation issues becoming higher on the political agenda in most OECD countries, the Network has established itself as a high level, multidisciplinary platform for policy dialogue, between policy makers for taxation and expenditure. The Network is serviced jointly by three OECD Directorates: the Centre for Tax Policy and Administration (CTP), the Economics Department (ECO) and the Directorate for Public Governance and Territorial Development (GOV) and gathers delegates from different national ministries (Department of Budget, Department of Tax, Ministry of Economy and Finance, Ministry of Interior, etc). This horizontal approach has been found valuable by all participants.

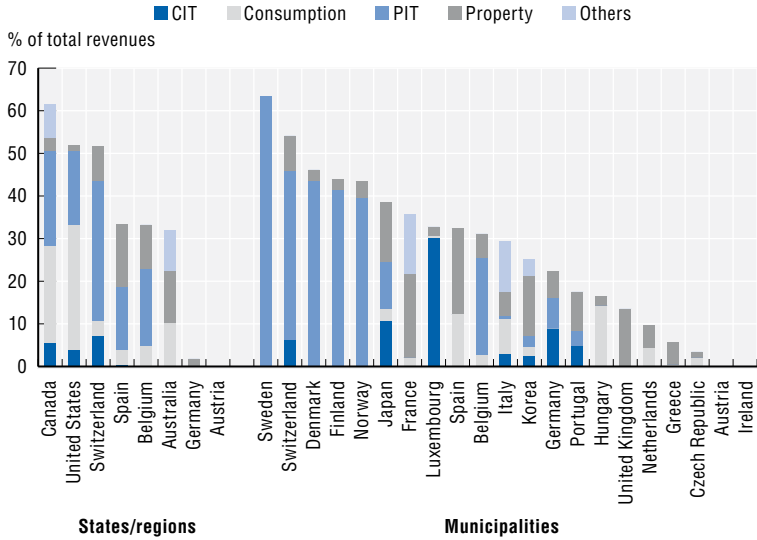
The following sections provide an overview of the most salient activities of the Network and how it contributes to a better understanding of tax and spending policy in a multi-level environment.

Sub-central tax competition

Tax competition arises from sub-central governments seeking to attract and retain investment and mobile tax bases. The views on the merits of tax competition differ widely: while some consider that tax competition brings sub-central fiscal policy closer to citizen's preferences, increases the efficiency of the public sector and avoids tax excesses, others argue that tax competition leads to a distorted tax structure, to growing tax disparities and to an under-provision of publicly provided services.

Analysing this topic in depth should help countries to get a wider understanding of the effects of tax competition and to decide what degree of competition is most appropriate to different institutional arrangements for sub-central tax autonomy and tax mix.

Autonomous taxes by tax type, in per cent of total SCG revenue

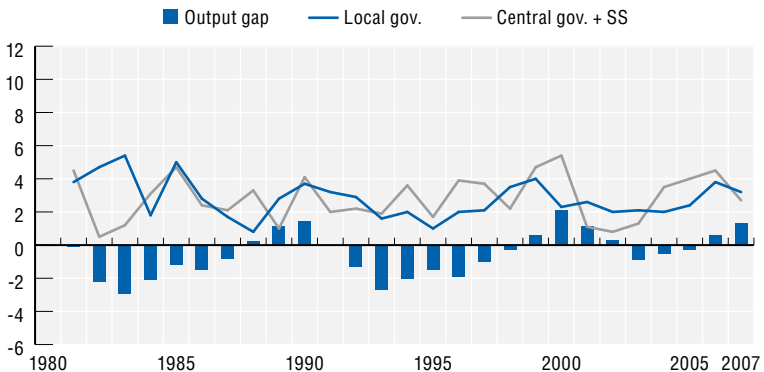


A comprehensive working paper on that issue was made available on the Fiscal Network's website in April 2011 (www.oecd.org/ctp/federalism).

Fiscal policy across levels of government in times of crisis

The world is recovering from the worst economic and financial crisis since the Great Depression. The recovery will probably be gradual and government deficits could remain very large over the next few years in a number of countries. The crisis has a negative impact not only on central governments, but also on sub-national governments. While the situation varies from country

Central and Local government revenue fluctuations. Annual growth rates (%)



to country, depending on the institutional environment, types of revenue sources and spending responsibilities, an increasing number of sub-national governments are facing budget imbalances.

The sub-national dimension of the crisis has been rather neglected, in spite of having major implications.

The Fiscal Network has reacted quickly to growing demands for policy analysis and in 2009-10 organised a workshop and carried out a comprehensive study on this topic. To sum up, good co-ordination between central and sub-central governments' reactions was crucial to make sure that the financial stimulus efforts were as effective as possible in terms of stimulating growth and employment. However, with stimulus being gradually phased out, fiscal consolidation now comes to the fore, with sub-central governments likely to share the burden in terms of spending cuts and likely tax increases.

The results of the study are summarised in Economics Department Working Paper No. 752 (<http://www.oecd.org/dataoecd/49/29/45736985.pdf>)

Reforming Fiscal Relations across Levels of Government

This project can be described as the way in which political and institutional factors influence the design, decision-making process, adoption and long-term implementation of fiscal federal reforms. It describes and analyses the factors that shape reforms such as territorial organisation, equalisation systems, or revenue mix of sub-central governments.

The Fiscal Network is preparing a book describing fiscal federalism and local government reform episodes in ten countries, using a comprehensive and uniform political economy framework. The book will be published in the second quarter of 2011.

Key Publications

- WP 12: Fiscal policy across levels of government in times of crisis. Mar-2010
- WP 11: Explaining the Sub-National Tax-Grants Balance in OECD Countries. Jan-2010
- WP 10: Finding the Dividing Line between Tax Sharing and Grants: A Statistical Investigation. Jun-2009
- WP 9: The Fiscal Autonomy of Sub-Central Governments: An Update. Jun-2009
- WP 8: The Spending Power of Sub-Central Governments: A Pilot Study. May-2009

- WP 7: Taxes and Grants: On the Revenue Mix of Sub-Central Governments. May-2009
- WP 6: Market Mechanisms in Sub-Central Public Service Provision. May-2008
- WP 5: Promoting Performance: Using Indicators to Enhance the Effectiveness of Sub Central Spending. Jun-2008
- WP 4: Fiscal Equalisation in OECD Countries. Sep-2007
- WP 3: Intergovernmental transfers and decentralised public spending. Sep-2006

Fiscal Network Statistics on the Web

- www.oecd.org/ctp/federalism

- **Did you know...** that on 14 February 2011 India became the first non-OECD country to join the Fiscal Network, bringing the membership up to 18 countries?

International Tax Dialogue

CORE ISSUES

The International Tax Dialogue (ITD) is a collaborative project involving the European Commission (EC), Inter-American Development Bank (IDB), International Monetary Fund (IMF), OECD, UK Department for International Development (UK DFID) and World Bank to encourage and facilitate discussion of tax matters among national tax officials, international organisations, regional development banks and other key stakeholders. The ITD aims to facilitate dialogue to share good practices and pursue common objectives in improving the functioning of national systems and is considering broadening its membership to better reflect the range of interested stakeholders.

The ITD was initiated principally in response to the Monterrey Financing for Development Conference call for more international dialogue on tax matters. Increasing dialogue and strengthening national tax systems will in turn assist the mobilisation of tax revenues for development. The ITD believes it is important to develop practical means of pursuing dialogue on this important issue, in a way that minimises the need for additional resources while maximising gains for all countries. The ITD's approach is to build on the strengths of existing organisations and to promote an inclusive forum where all organisations interested in the issues can come together. ITD is currently working with its multilateral members and the UN on the production of a joint report to the G20 on the tax aspects of domestic resource mobilisation.

The main elements of the ITD initiative are:

Objectives

- Promote effective international dialogue between participating organisations and governments on taxation, giving all countries a real input into the discussion of tax administration and policy issues;
- Identify and share good practices in taxation;
- Provide a clearer focus for technical assistance on tax matters; and
- Avoid duplication of effort in respect of existing activities on tax matters.

Scope

- International and domestic tax policy and administration issues.

ITD Website

www.itdweb.org

The ITD operates a free, multilingual, multinational website. The site provides an opportunity for tax administrations, ministries of finance, and international and regional organisations to share experiences and knowledge with peers on a global basis. Over 3 000 documents from around the world are currently online, with more added daily. The site also includes an extensive range of links, a one-click search across more than 300 ministry of finance and revenue administration websites worldwide, feature articles, a tax reform questions service, newsletters and a directory of technical assistance events delivered by key international and regional organisations.

All countries are invited to make use of this resource and to contribute their own knowledge and experience.

International Conferences

ITD global conferences bring together leading experts and practitioners to share developments and consider key challenges and solutions.

Three global conferences have been held to date, all attended by senior officials from approximately 100 countries. The 2005 conference considered value added taxes (VAT) now found in more than 140 countries. The 2007 conference addressed taxation of small and medium enterprises (SMEs), focusing on identifying good practice in ensuring compliance whilst minimising compliance burden and providing the best environment for growth. The 2009 conference provided a unique and timely opportunity to consider 'Financial Institutions and Instruments – Tax Challenges and Solutions'.

The next global conference will be held on 5-7 December 2011. The conference will discuss the theme of Tax and Inequality.

Two regional conferences have also been held to follow up on SME issues. The first was in April 2009 in Rwanda, the most recent in the Philippines in March 2010.

Technical Assistance Activities



This map shows the location of ITD's technical assistance activities.

Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

International Tax Dialogue on the Web

- www.itdweb.org

- **Did you know...** that the ITD database of **Technical Assistance Activities** has currently **1611 items** categorized by provider, location, topics, intended audience, type of activity and dates. This database currently includes information on activities provided by all ITD partners (IMF, WB, OECD, EC, IDB and DIFID), CIAT and USAID, and it is updated on regular basis.

CTPA Management Team

**Global Relations
Division
(BCNOE, Advisory
Group)
CTP/GR**



**Richard Parry,
Head of Division**

- Accession, Enhanced Engagement & NOE Programmes
- Tax and Development Programme
- International Tax Dialogue Unit

**Tax Policy and
Statistics Division
(WP2 & WP9)
CTP/TPS**



**Stephen
Matthews,
Head of Division**

- Tax Policy Analysis
- Fiscal Network
- Consumption Taxes Unit
- Global Relations Programmes & Corporate Tax (LAC, MENA, SEE)
- Statistics Unit

Director's Office



**Jeffrey Owens,
Director**



**Grace Perez-
Navarro,
Deputy Director**

**Tax Treaty, Transfer
Pricing
& Financial
Transactions Division
(WP1 & WP6)
CTP/TTP**



**Mary Bennett,
Head of Division**

- Tax Treaties Unit
- Transfer Pricing Unit

**Global Forum on
Transparency
& Exchange of
Information for Tax
Purposes
CTP/GF**



**Pascal Saint-Amans,
Head of Division**

- Review Unit I
- Review Unit II

**International
Cooperation and
Tax Administration
Division
(FTA, WP8 & FHP)
CTP/ICA**



**Achim Pross,
Head of Division**

- Tax Administration Unit
- International Cooperation Unit

Want to Know More?

Key Links

Consumption tax	www.oecd.org/ctp/ct
Dispute resolution	www.oecd.org/ctp/dr
Exchange of information	www.oecd.org/ctp/eoi
Harmful tax practices	www.oecd.org/ctp/htp
Global Forum on transparency and exchange of information for tax purposes	www.oecd.org/tax/transparency
OECD tax database	www.oecd.org/ctp/taxdatabase
Partnerships with non-OECD economies	www.oecd.org/tax/globalrelations
Tax administration	www.oecd.org/ctp/ta
Tax crimes and money laundering	www.oecd.org/ctp/taxcrimes
Tax evasion	www.oecd.org/tax/evasion
Tax policy analysis	www.oecd.org/ctp/tpa
Treaty Relief and Compliance Enhancement	www.oecd.org/tax/trace
Transfer pricing	www.oecd.org/ctp/tp
Tax treaties	www.oecd.org/ctp/tt
Tax treatment of bribes	www.oecd.org/ctp/ttb

Key Publications

- Revenue Statistics 1995-2009 (2010 edition)
- Taxation, Innovation and the Environment (2010)
- OECD Tax Policy Studies No.19: Choosing a Broad Base – Low Rate Approach to Taxation (2010)
- OECD Tax Policy Studies No. 20: Tax Policy Reform and Economic Growth (2010)
- Model Tax Convention on Income and Capital (2010)
- Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2010 update)

- Taxing Wages (2010)
- Consumption Tax Trends 2010: VAT/GST and Excise Rates, Trends and Administration Issues
- Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series 2010
- Global Forum on Transparency and Exchange of Information for Tax Purposes, 18 Peer Review Reports



Key Events in 2011

- Tax and Crime: A Whole-of-Government Approach in Fighting Financial Crime, Oslo, 21-23 March 2011
- Second Plenary Meeting of the informal Task Force on Tax and Development, Paris, 11-12 April 2011
- 11th Annual U.S. & Europe Tax Planning Strategies Conference, Paris, 14-15 April 2011
- Global Forum on Transparency and Exchange of Information for Tax Purposes, Bermuda, 31 May – 1 June 2011
- OECD-USCIB Tax Conference, Washington, 6-7 June 2011
- High Level Seminar: Current Issues in Transfer Pricing – Delhi, India, 13-14 June 2011
- OECD 50th Anniversary: High Level Tax Reform Conference, Paris, 30 June 2011
- 16th Annual Tax Treaty Meeting, Paris, 15-16 September 2011
- First Annual Transfer Pricing Meeting, Paris, 3-4 November 2011
- Fifth ITD Global Conference on Inequality, 5-7 December 2011
- Seventh Forum on Tax Administration, Argentina, 18-19 January 2012

Tax News Alerts

To receive the latest OECD tax news, register with our free e-mail alert service: www.oecd.org/OECDdirect

OECD*direct*

Tax Publications

Subscribe to our OECDiLibrary and statistics services:
www.oecdilibrary.org

OECD*iLibrary*

Order our publications

Order our publications through the OECD online bookshop at www.oecdbookshop.org, where you can browse titles on your screen before your buy.

OECD^{online}*bookshop*

Write to us:

OECD
Centre for Tax Policy and Administration
2, rue André Pascal
75775 Paris Cedex 16
FRANCE

The Centre for Tax Policy and Administration offers challenging and rewarding opportunities to economists, lawyers and tax administrators with experience in tax policy or tax administration issues of the type described in this brochure. Vacancies are posted on www.oecd.org/hrm/vacancies.

OECD PUBLICATION, 2, rue André Pascal
75775 Paris Cedex 16

OECD's Current Tax Agenda

April 2011

The Centre for Tax Policy and Administration is the focal point for the OECD's work on taxation. We work with countries to address a wide range of issues, such as:

- How to reduce tax barriers to cross border trade and investment?
- How can the administrative aspects of transfer pricing be improved?
- How to design tax systems that are competitive, restore growth, reduce inequality, spur innovation, stimulate employment, and achieve fiscal consolidation?
- How can tax measures be used to address climate change?
- What is the right mix of direct and indirect taxes?
- How can developing countries improve their tax systems so as to mobilise domestic resources?
- How can taxpayer services be improved?
- How can inter-agency collaboration help governments deter, detect and deal with financial crimes more effectively?
- How can administrative co-operation among revenue bodies be improved to tackle international tax evasion?
- How to implement the international standards of transparency and effective exchange of information for tax purposes?