



While this report therefore only gives a relatively short summary of the main discussion points, and includes the Recommendations of the Group, specific presentations made at the Meeting can be found at the Financing for Development Office's Tax Matters website<sup>4</sup>.

### ***A Central Theme – addressing development issues means addressing tax issues***

A key theme in discussions was the centrality of tax issues, and international tax cooperation, towards allowing for sustained development in developing countries (a term which is used in this report to also include economies in transition) most notably in the domestic and international mobilisation of resources.

It was recognised that tax issues played a key role in encouraging investment, but that this by itself was not enough to sustain and further such development. A workable tax system, effectively administered, could assist in expanding a jurisdiction's fiscal space. By enhancing the mobilisation of its own domestic resources - supplemented by official development assistance - the necessary fiscal framework conditions can be established for financing public infrastructure and for providing necessary health, education and other services that all play an important part in ensuring development is not merely sustained but is in fact broadened and deepened over time.

Next to taxes' key resource mobilisation role, it was noted that the wide spectrum of fiscal charges provide governments with an effective social order and economic policy tool kit. For example, taxes could function as market-based instruments to encourage or discourage certain kinds of activities (negative externalities), investments, and consumption in accordance with a chosen government plan for development. An effective tax systemkurw -0006 Tastruo7000770.0000aand

***A Key Sub-theme – no unnecessary duplication, but recognition of a distinct UN constituency and voice***

The Group recognised that the limited resources available to the UN tax work meant such work had to be closely targeted and focused on the role of international tax c

Some of these tax dimensions of the problem often included issues of a failure of political will, insufficient legal backing or lack of administrative capacity to ensure that taxes due were actually paid. Reliance on taxes from such activities could lead to the fiscal health being precariously tied to one, often very volatile, industry, and unable to ensure sustainable levels of development in the long term. Certain projects might be so large, or so enmeshed in political

and to increase the predictability and certainty of tax treatment in the resource sector, which could increase foreign direct investment into those sectors.

### **Taxation of Fishing**

Discussion of the taxation of fishing noted the link to sustainability of the harvesting of fish stocks, itself linked to broader issues of sustainability of development. The difficulties of addressing intensive fishing activities under current Model Tax Conventions, and bilateral treaties based upon them, were also noted. It was recognised that there were issues of enforcement that would be served by better international and intranational cooperation and coordination, and that the UN would have a role in any such developments.

It was noted that adopted tax measures should not create incentives for overexploitation, which would run counter to the quest for sustainable development, and that care must be taken in creating such incentives in any case, as they may, for example, result in low grade timber being used to replenish overexploited high grade timber. In general, the tax treatment of exploited resources must be designed to take into account the dynamics of the resource renewal process.

The hope was expressed that better international cooperation to fight international tax avoidance and evasion could lead to an improved internal position also for some countries. Some participants noted that often the key information necessary to combat tax avoidance and evasion was not available internally because tax crimes were not always treated as strongly as other crimes, even though they were serious inhibitors of country development and impeded the alleviation of poverty. It was noted that there needed to be greater international recognition of this, including the importance of not in practice encouraging crimes against *other* jurisdictions, while simultaneously deterring such activities against a country's *own* taxation system.

### **Land Tax**

On land tax, it was noted that land taxation was an important way of ensuring water sanitation, law and order and education, including for the benefit of both landowners and those not sharing in that ownership of land. It was recognised that there were problems in having accurate ownership information readily available, and that sharing of best practice and technical assistance would be helpful in this regard. There were also great difficulties in achieving high levels of land tax compliance, and it was suggested that one way of achieving this might be to link ownership rights to having paid tax. It was also acknowledged, however, that land tax set at too high a level could unfairly deprive landowners of their land, especially if they were no longer in the workforce. It was debated how many of the issues in this area could be regarded as tax issues, but it was noted that the International Fund for Agricultural Development was doing useful work in this area.

### **Environment Taxes**

There was a general discussion on developments in the area of environment taxes and the part such taxes would in future play in alleviating environmental damage and helping to restore the environment. It was noted that nearly all of the initiatives and activities regarding environmental

taxes had hitherto come from environmental bodies and agencies, as would be expected, but that the sums involved in ameliorating some current environmental issues, such as climate change, and the targeting of tax incentives towards better environmental practices would inevitably need substantive and material tax structure changes. This would trigger broad policy discussions on appropriate tax structure changes, but also discussions as to how that administration could most effectively implement the policy, and on mitigating resulting burdens to a country's tax administration.

It was recognised that international cooperation in areas characterised by international pollution spillover effects would constitute a natural area for UN involvement, with a focus on assisting developing countries to engage with these complex matters of policy design, international cooperation and administration.

It was noted that very useful work had been done in this area by others<sup>6</sup>, and that it was important not to unnecessarily duplicate that work, but the Group considered that the UN Committee of Experts on International Cooperation in Tax Matters might be in a position to undertake some preliminary work in this area. One option would be for the Committee to task a small subcommittee or working group with preparing a short report on the tax issues likely to arise in this area and that fall within the Tax Committee's mandate on cooperation in the field of international tax matters. This would be with a view to deciding the role the Committee might play, in this area, in improving cooperation, exchange of experiences and capacity building.

The group also suggested that the Tax Committee, with the assistance of the Secretariat, should consider whether it can formally link-in with the work of other UN environmentally focussed committees or other bodies when tax matters are considered, such as by participating in relevant working parties.

### **Innovative Sources of Financing for Development**

There were two aspects to this discussion, the first being the costs to development of tax avoidance and evasion, with the possibility of reducing such activities to unlock funding for development.

It was noted that tax avoidance and evasion were in many respects a product of enhanced international networks and means of communication, and of an increasingly globalised business and financial environment. Unfortunately, tax administrations had, for historical and other reasons, been very slow to create similar international networks, in terms of effective flows of information to counter tax avoidance and evasion, and to share experiences and develop and enhance capabilities addressing the resulting tax compliance gap.

Participants noted that while safeguards had to be in place for any such flow of information, this was an important area for future international tax cooperation. Important work continued to be done by international organisations active in the area, including regional associations of tax administrations, at both the policy and administrative levels, and it was noted that the United Nations should work with such other fora to internalise the principle that functioning tax systems

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<sup>6</sup> For example, see *The Political Economy of Environmentally Related Taxes*, OECD, Paris (2006).

needed to be based on a solid informational basis and targeted with a certain level of administrative authority to obtain the necessary information when it is not voluntarily provided.

The connection of tax avoidance and evasion with broader capital flight issues, the seriousness of which were recognised at the 2005 World Summit, was noted. One participant indicated that the organisation he represented was promoting a series of recommendations to confront problems of capital flight and related tax avoidance and evasion, with several suggestions for areas where the United Nations Committee of Experts on International Cooperation in Tax Matters could have an important role.

It was noted that some effective work in this area was being undertaken by other fora, including some organisations that were seeking greater cooperation and sharing of experiences and “learnings” among tax administrations, assisting them in addressing some of the data and technology issues in effectively countering tax avoidance and evasion, increasing knowledge, understanding and capacity, and promoting relevant agreements between countries.

It was also noted that the UN could play a role in helping to strengthen coordination mechanisms between those organisations, which in many cases may involve the holding of joint activities, the exchange of experiences and, especially, avoiding unnecessary duplication of activities, to thereby maximise the benefits that such activities will generate for individual countries.

The second aspect of “Innovative Sources of Financing for Development” was the possible role that greater international cooperation at the tax policy and administration level could play in the application of other “innovative sources of finance”, such as levies on money transfers, aircraft flights and the like, including in the prevention of double taxation in these areas. While there was recognition of the significance of this debate, the absence of an expected speaker on the topic meant that the issue was not discussed in any detail at the meeting.

### **Tax Aspects of Trade and Investment**

There was a discussion about the impact on developing countries of reduced tariff and similar revenues as a result of trade liberalisation and it was generally considered that for many countries this would result in a significant squeeze on public finances, since many would be insufficiently prepared to compensate for the impact of such changes in terms of either their tax administration or their tax policy and legislation, and because in any case taxes were generally harder to collect than tariffs and the like.

The increasingly important role of value-added taxes (VATs) in filling the gap was becoming apparent, although it was noted that VATs could be regressive unless, for example, there were effective and non-offsettable import tariffs on luxury goods, and also that in many countries, VATs were a subnational tax, whereas tariffs and the like were generally accruing to central governments.

It was considered that the UN Tax Committee may have a role in promoting international cooperation on indirect tax matters to assist developing countries in dealing with these changes

and in ensuring their tax base was consistent with their development plans, working with, and building upon the work of other organisations active in this area.

It was suggested that the Committee may also have an important role in promoting international cooperation in other areas where tax policy and administration interacted with trade and investment policy and its implementation, including the tax treatment of services



The role of the tax administrator in applying tran

In making these recommendations, the Group also recognised that there are particular procedures and protocols within the United Nations which would need to be followed in dealing with issues having a possible budgetary impact, which the recommendations do not seek to supplant. The Group noted that the Committee would decide the areas of its attention, but the Group hoped that the discussions and recommendations from the meeting in Rome would assist the Committee in that task.

The Group's recommendations are as follows:

### **Recommendation 1 – Tax as a Central Developmental Issue**

The Group notes that the issue of reliable tax bases, and international cooperation to achieve them, are at the heart of any initiatives to achieve sustainable development, including in the proposed follow-up to the Monterey Conference – expected to be held in Doha, Qatar in the latter part of 2008.

The Group therefore recommends that this central aspect of tax cooperation to wider

The Group urges the Committee to put itself in a position to build upon the work already under way at international, country and regional level in this area, including by international organisations, preferably by tasking a small group with preparing a concise document on the tax

The Group noted the growing importance of services in world trade and the potential impact on the tax bases of countries, but also recognised the difficulties in ensuring that taxation of services could be achieved on an equitable and stable basis. It noted that the work so far in the UN had focused on the treatment of services in the UN Model Tax Convention, but that there were also broader taxation issues, including capability issues in developing countries.

The Group therefore recommends that the Committee, as the only truly global body in this field, should draw upon the work of other organisations and countries in this area, and work towards a set of taxing norms in this area which fully reflect the interests of developing countries and their practical administrative capabilities - taking into account economic developments and the way services are provided cross border in modern economies.

The Group also noted that while tax incentives may have an important role in attracting foreign direct investment, they may, unless carefully thought out and their implications well understood, harm the fiscal base of that country or other countries, and that the Committee and Secretariat may have a role in allowing developing countries to share experiences in this regard with a view to ensuring sustainable development.

### **Recommendation 6 – Transfer Pricing**

The Group noted that the Committee has a unique role in assisting developing countries to meet the challenges of transfer pricing issues. This applied especially, but not exclusively, in the case of intangibles - issues such as those relating to the valuation of brand names. The Group recommends that the Committee task a small subcommittee or working group to analyse the real practical issues and the opportunities for improving international cooperation in this area, in line with the Committee's 2008 Terms of Reference for its Study on Transfer Pricing Issues in Developing Countries.

- The identification of UN technical cooperation and assistance funds not currently fully utilised, with a view to their use on technical cooperation and assistance in the field of international cooperation in tax matters;
- Ensuring that the Secretariat to the Committee is sufficiently resourced, in terms of both financial and human resources on a permanent basis, along lines structurally similar to that of the OECD Centre for Tax Policy and Administration. This will allow the Committee to effectively meet its mandate, and will allow the Committee and Secretariat to actively assist developing countries on international tax issues, to help achieve sustainable tax bases with a development focus; and
- Seeking funding, by whatever proper means, to support the mandate of the Committee.

### **Recommendation 9 – Future of this Group**

The Group noted the value of the informal debating model of the Rome meeting, comprising a small group of experts from diverse backgrounds, able to discuss matters freely across a wide range of issues but delivering some concrete recommendations for consideration. BaseDC 0g a wide

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