



UN Capacity Development Programme in International Tax Cooperation: Update

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<http://www.un.org/esa/ffd/>

Addis Ababa Action Agenda and Capacity Development

Capacity building recognized as one of key means of implementation for the 2030 Agenda for Sustainable Development

Separate section on science, technology and innovation (STI) as well as capacity building

Unprecedented number of specific references to capacity development including on:

improving the fairness, transparency, efficiency and effectiveness of tax systems, including by:

- broadening tax base;
- integrating the informal sector into the formal economy in line with country circumstances;

international tax cooperation;

fiscal management of natural resource

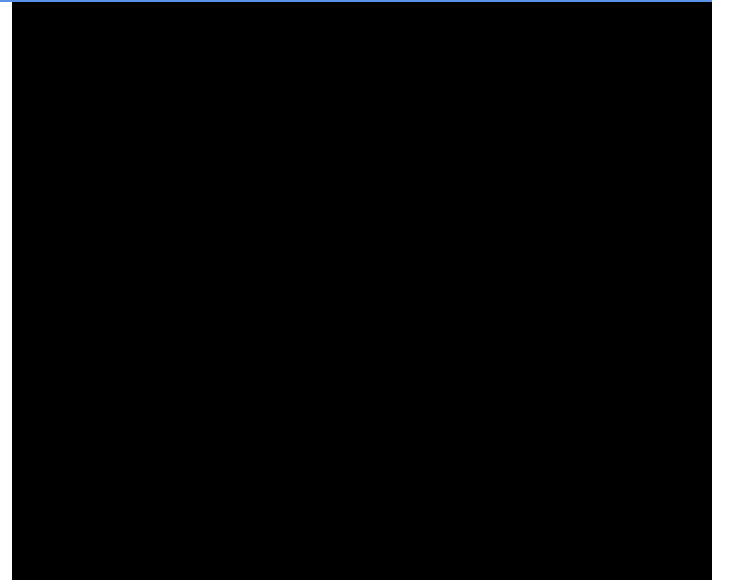


ECOSOC resolution 2014/12



Recognized the progress made by FfDO in developing,





UN Capacity Development Programme in International Tax Cooperation: Progress

Dissemination of Committee's outputs

C&B
E

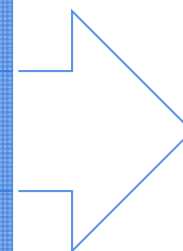
- N M&T
C
- N T&P
M

Development of practical tools

- H
A
T&T
- H
T&B
P
- P
P

Country-level work

- T
E
- C&B
E
 - H
 - P&P



UN Capacity Development Programme in International Tax Cooperation: Highlights

Gradual shift to country-level work making use of the full range of capacity-building materials developed under the Programme

Expansion of activities to Africa and establishment of close working relationship with the African Tax Administration Forum (ATAF)

New provisions for the Francophone countries, including French translation of the UN Handbook on Administration of Tax Treaties and provision of interpretation to French and French version of all materials during events delivered in Africa

New website: search for “UN Tax Capacity Development”

UN Course on Transfer Pricing



UN Primer on Transfer Pricing



UN Course on Tax Treaties

Delivered for the 2



Other Activities on Tax Treaties

Support provided to the Subcommittee on Negotiation
of Tax Treaties – Practical Manual



Protecting the Tax Base of Developing Countries



Papers on Tax Incentives

- **Tax incentives: an overview of key concepts and issues (E/C.18/2015/4)**
- **Tax incentives: benefits and costs, design and administrative considerations (E/C.18/2015/5)**
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Tax Incentives and BEPS

- **Tax incentives raise a number of issues regarding BEPS**
 - **Base erosion through revenue loss with no corresponding benefits**
 - **Profit shifting by taxpayers not otherwise qualified to take advantage of incentive**
 - **Special problem for developing countries given limited resources for evaluation and monitoring**

Evaluation of Tax Incentives

- Empirical data is inconclusive but generally show revenue loss from incentives is not compensated for by positive effects
 - Focused, well-designed, effectively implemented and monitored tax incentive can be beneficial
 - In practice, most do not meet these tests
 - BUT many countries, developed and developing, have them because of political pressures and lack of adequate analysis

Design Issues: General

- **Clear formulation of the objective of the incentive: FDI generally, manufacturing, specific industries, specific regions, R&D, cases of “market failure”**
- **Evaluation of revenue loss, direct and indirect and potential benefits, positive spillovers**
 - Very hard to quantify
- **Discretionary versus objective criteria**
 - Potential corruption issues

Design Issues: Forms of Incentives

- **Tax Holidays**

- **Exemption of profits or reduced rate for some period for qualifying activity**
- **How to define the activity**
- **Simple to administer but should require filing of returns by taxpayer to allow monitoring**
- **Hard to evaluate costs and benefits**
- **What happens to losses when holiday ends?**

Design Issues: Forms of Incentives

- Investment allowances and credits
 - Encourage certain types of investment, typically capital intensive
 - Full write-off of capital assets; accelerated depreciation; “super deductions”
 - Credits generally more effective and transparent than deductions; must be profitable to get incentive
 - “tax credit accounts”
 - Can apply to a wide range of activities

Implementation of Tax Incentives

- **Determination of qualification for the incentive**
 - **The more complex the incentive the harder to administer and the increased likelihood of negative spillovers**
- **Monitoring continued compliance**

Potential Abuses to Guard Against

- Existing activities disguised as new qualified investments
- Transfer pricing schemes to shift profits into the tax-preferred category
- Overvaluation of assets qualifying for the preferential treatment
- “Round-tripping” of domestic investors to qualify for foreign investment incentives

Transparency and Governance

- Transparency with respect to objectives, structure, estimated costs and benefits of proposed incentive
- “Tax expenditure” analysis
- Administrative co-ordination and legislative oversight
- Periodic review and evaluation

If you must.....

- Careful attention to the structure of the incentive and attempt to quantify costs and benefits
- Transparency
- Clearly limited period
- Taxpayer record-keeping requirements
- Periodic monitoring and evaluation
- Terminate unsuccessful program if necessary

