

# DEVELOPING THE INTERNATIONAL DIALOGUE ON TAXATION

A JOINT PROPOSAL BY THE STAFFS OF THE IMF, OECD AND WORLD BANK

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To better discharge their institutions' mandates, the staffs of the IMF, OECD and World Bank propose to facilitate increased cooperation on tax matters among governments and international organizations by establishing a dialogue to share good practices and pursue common objectives in improving the functioning of national tax systems. The International Tax Dialogue (ITD) which this note proposes will not at any stage have any power to make, enforce or mediate binding tax rules.

## I. Background

1. Developing countries must be able to raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will enable them to move out of poverty. Taxation will play the key role in this revenue mobilization. This in turn requires well-designed tax policies that are translated into clear legislation and are administratively feasible. Perhaps the greatest challenge facing these countries is to improve the effectiveness of their tax administrations.

2. In this context, the increasing globalization of the economy is relevant both for developed and developing countries. The constraints that it places on countries' ability to set and enforce their own taxes are felt increasingly keenly. The list of taxation issues with international relevance is growing rapidly: e.g. the taxation of multinational enterprises; the impact of international tax competition; cross-border VAT and excise issues; the taxation of electronic commerce; and the treatment of mobile labor. But this list is by no means exhaustive, and the dialogue on domestically-oriented aspects of tax policy and administration is equally important when considering the need to mobilize revenue for development. It is of course important to recognize that tax remains national in nature and that even within a new framework for international dialogue all countries will insist on maintaining their fiscal sovereignty.

3. This note arises out of discussions between interested international organizations concerned with taxation. It proposes the development and enhancement of the relations between these international organizations and between national tax authorities through the development of an **International Tax Dialogue**. This proposal is consistent with the revised draft outcome of the UN Conference on Financing for Development, which stresses the importance of strengthening the revenue-raising capacity of developing countries, and with the crucial role of international organizations in supporting these efforts.

4. Following an assessment of the role that international organizations currently play in tax matters, this note describes how this would be enhanced by the proposed International Tax Dialogue. While the current international tax scene is rich in initiatives and programs, it lacks:

- Clear and transparent mechanisms for the co-ordination of these programs; and
- A real input from developing countries in the way programs are constructed and international tax issues debated.

5. This proposal sets out a strategy for encouraging an international dialogue without creating a new institution and for developing greater coherence between interested international organizations, to the advantage of both developing and developed countries.

## **II. The representation and roles of existing international structures**

6. **The World Bank and the IMF** work with 183 countries on a global basis and are the main providers of bilateral technical assistance in tax policy and administration issues. They are the pre-eminent repositories of expertise in respect of these issues in developing countries. In addition, the concerns that underlie the call for new international co-operation relate directly to their operational mandates. Clearly, the efficiency of their work would be enhanced by deeper co-operation with other interested organizations. This would allow for the exploitation of synergies between them in respect of working methods and expertise, and help avoid duplication of effort.

7. **The Committee on Fiscal Affairs of the OECD** has a key role in the formulation and pursuit of the international tax policy agenda. Its model tax convention and transfer pricing guidelines are especially influential. While it represents the views of only 30 developed countries, it holds around 60 events a year, primarily on a multilateral and regional basis, which enhance the dialogue with economies outside of the OECD area on such key policy and administrative issues as tax treaties, transfer pricing, international tax avoidance, electronic commerce and exchange of information. Although it has extensive contacts with non-OECD countries and considerable awareness of developing country issues through its non-member programs, the OECD does not represent the views of developing countries.

8. **The UN Ad Hoc Group of Experts on International Co-operation in Tax Matters** focuses on international tax issues and meets on a bi-annual basis. The group comprises about 20 representatives of both developing and developed countries and has particular expertise on tax treaty relations between developed and developing countries. The experts, who attend meetings in their personal capacity, are not all serving government officials.

9. A number of regional development banks and other organizations are also active in the tax area. In particular, the **Committee of International Organizations on Tax Administration** (CIOTA) is a recently formed umbrella group composed of a number of regional and international tax organizations (including the Inter-American Center of Tax Administrations (CIAT), the Commonwealth Association of Tax Administrations (CATA), the Intra-European Organization of Tax Administrations (IOTA), the Centre de Rencontre et d'Etudes des Dirigents des Administrations Fiscales (CREDAF) and the OECD). CIOTA covers more than 140 countries, its primary function being to promote greater coherence in the work programs of the participating tax organizations.

## **III. Tasks for an International Tax Dialogue**

10. While the structure and functions of an **International Tax Dialogue** may need to be shaped over time, some core tasks and considerations, focused on making existing institutions more effective, are apparent. These will be the focus of the ITD's activities for the foreseeable future.

11. The international dialogue will be between existing organizations active in tax policy and tax administration. One of the major advantages of enhancing dialogue in this way rather than creating an international organization is the flexibility and dynamism it allows. It is expected that the functions of the ITD will alter over time as the participating countries/organizations decide to refocus their discussions and exchange of information in the light of their changing concerns. It should be emphasized, however, that the ITD will be built on the clear understanding that it will **not at any stage have any power to make, enforce or mediate binding tax rules**, since countries naturally insist on maintaining their fiscal sovereignty.

12. **The core purpose of the ITD will be to encourage dialogue among governments and international organizations**, fostering the sharing of good practices and the pursuit of common objectives in improving the functioning of national tax systems.

13. To this end, a first guiding principle is that the ITD must provide **clear value-added** over existing arrangements. Such a comparative advantage is not obvious regarding the compilation of statistics or descriptive information on tax systems. Such activities—apart from the fact that they require substantial financial and human resources—are already being carried out effectively by existing public and private institutions. Thus the ITD **will have no significant role in the routine collection of tax information or statistics**.

14. The ITD could add value, however, as **a forum for regular exchange of information and good practice among a wide variety of countries (both developed and developing) and as a focal point for the collection and sharing of information on bilateral and multilateral technical assistance activities** in relation to tax policy and administration (including better coordination of training activities). The difficulties that currently arise from the absence of systematic means of information sharing on technical assistance (TA) activities are an increasing source of concern. The ITD, through both national tax authorities themselves and collaboration with TA-providing agencies, could usefully maintain and make widely available an information base on past and prospective projects. This information-sharing role might in time evolve into a more purposive role of coordinating TA activities.

#### **IV. Main elements of the proposal for the development of an International Tax Dialogue**

15. *a) Objectives*

- Promote effective international dialogue between 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; and
- Avoid duplication of effort in respect of existing activities.

*b) Scope*

- International and domestic tax policy and administration issues.

*c) Approach*

- Build on strengths of existing institutions;
- Develop a Steering Group composed of the representatives of the IMF, OECD, World Bank, and (it is hoped) the UN, with active participation

from regional tax administration organizations, regional development banks and, potentially, other interested organizations; and

- Arrange regular international conferences on issues of common interest in tax policy and administration.

*d) Staffing*

- Draw resources from the sponsoring organizations; and
- Base functions within the existing staffs of the Steering Group members and develop mechanisms for co-operation among them.

## **V. Functions of the International Tax Dialogue**

16. At the core of the ITD will be a Steering Group composed of representatives of the IMF, OECD and World Bank; it is hoped that the UN will also participate. One regional tax administration organization and one regional development bank will be invited to serve, on a rotating basis, as observers to the Steering Group, which will also consult with other interested organizations. The Steering Group will:

- Arrange periodic international meetings** of tax policy and administration experts to discuss issues and activities of common interest and develop a process for deciding on events and agendas in co-operation with participating countries;
- Facilitate the identification and sharing of good practices in taxation**, and discuss how they could be implemented.
- Encourage greater co-ordination of bilateral and multilateral technical assistance** by collecting and sharing information on bilateral and multilateral programs, leading to greater coherence through co-operation among the international organizations; and
- Develop further the OECD's inter-active real-time worldwide communications network, with free access for tax authorities.

17. The **periodic international meetings** of all interested countries, international organizations and development banks organized by the Steering Group will:

- Discuss policy and administration issues of common interest, with particular space being reserved for issues of particular relevance to developing countries;
- Discuss the implementation of good practice initiatives presented on a regional basis; and
- Feedback country and regional priorities to the Steering Group for future program planning and development.

18. The Steering Group will set the agenda and deal with logistics of the meetings. Each organization will be guided by the needs and interests of its member countries. All countries will be welcome to participate, with no pre-conditions.

## **VI. Conclusions**

19. A proposal of this nature is necessarily geared towards developing a framework for action. The proposed International Tax Dialogue aims to enhance discussions on the strengthening of national tax systems, which in turn will assist the mobilization of tax revenues for development highlighted in the preparatory documents for the UN Financing for Development conference.

20. At this stage it is important to develop a practical means of pursuing the dialogue on this important issue in a way that minimizes the need for additional resources while maximizing the gains for all countries. The ITD proposed here holds the prospect of doing just that.