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REPUBLIC OF SOUTH AFRICA

4TH MEETING OF THE FORUM ON TAX ADMINISTRATION
CAPE TOWN, 10 JANUARY 2008

ADDRESS BY TREVOR MANUEL, MP
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Programme Director;
Deputy Secretary General of the OECD, Mr Pier Carlo Padoan;
Esteemed Revenue Commissioners;
Representatives of Multilateral Organisations;
Representatives of the Global Corporate World;
Distinguished Delegates

Welcome to Cape Town and to South Africa for this Fourth Forum on Tax Administration. We are privileged to host the first forum of its kind in Africa. This is a unique opportunity to reflect on the past work of the forum, to evaluate the current challenges and to adopt appropriate strategies to assist governments and tax intermediaries navigate their respective responsibilities in a world that is increasingly more integrated and more complex.

Two months ago, we hosted the Annual meeting of the G20 Finance Ministers and Central Bank Governors just outside of this city. That meeting afforded us an opportunity to take stock of the challenges confronting policymakers across the world. We recognised then, as we should emphasise today, that sustaining growth and development and sharing prosperity is a collective responsibility.

This was reflected in the communiqué of that G20 meeting as

> *We (also) agreed that the orderly unwinding of global imbalances, while sustaining global growth is a shared responsibility involving: steps to boost national saving in the United States, including continued fiscal consolidation; further progress on growth enhancing reforms in Europe; further structural reforms and fiscal consolidation in Japan; reforms to boost domestic demand in emerging Asia, together with exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries. The need to address rising pressures on health and social security spending and infrastructure was also stressed.*

In essence, that paragraph reflects the fact that the world as we have known has changed immeasurably. Undoubtedly, this impacts on the immediate tasks of revenue administrations and tax policy everywhere.

There are a series of economic processes underway, including the expansion of international trade in goods and services, the freer exchange of technology, an expansion in foreign direct investment and the large-scale movement of finance and people. All of this was recognised in the declaration of your previous meeting in Seoul.

Stronger emerging market economies are now able to increasingly access the markets of industrialised countries while integrating into global supply chains, attract investment, managerial skills and technology. This prompted the economist Paul Collier to comment, "for the first time in history, developing countries have broken into global markets for goods and services other than just primary commodities", and adds " now, 80 per cent of developing countries' exports are manufactures or service exports."

Undoubtedly, the centres of economic growth have shifted increasingly towards the developing world.

Yet, the measure of growth between countries still reflects deep inequality. In 2005, the Commission for Africa report put it thus, “ Growth and globalisation has brought higher living standards to billions of men and women. Yet, it is not a wealth that everyone enjoys. In Africa, millions of people live each day in poverty and squalor. Children are hungry, their bodies are stunted and deformed by malnutrition. They cannot read or write.”

Let me repeat the consensual refrain that sustaining growth and development and sharing prosperity is a collective responsibility.

So what role is there for tax administration and tax policy? More precisely, the sources of revenue are largely from direct sources such as the profits of corporations or the earnings of individuals, or from indirect sources such as imposts on sales, excises and in some instances from royalties or capital gains, whereas poorer countries still depend on customs duties for the bulk of their revenues. Our tax systems have essentially been designed for sovereign states. The choices available to countries are frequently an expression of their state of development.

To prevent leakage or unfair practices, we have concluded thousands of agreements to prevent double taxation – all in the interests of sustaining sovereign entities.

The conundrum is surely that the scale of integration bypasses these sovereign arrangements, without first requesting permission. Consequently, the tasks at hand, as reflected in the G20 statement are increasingly more difficult to implement – how does a country effect fiscal consolidation when your revenue sources might be volatile? Or, how might an oil-producing country attain macro-economic stability when few experts can ever accurately forecast the oil-price? From what sources will countries finance healthcare and social security when their revenue sources are under immense pressure? And, what about the poor countries who haven't yet had the advantage of refining their tax administrations?

This meeting needs to consider in earnest the role of best practice and the identification of those mechanisms that can be shared in order to assist and build stronger administrations. We have some experience in South Africa – we invested in improving our tax system and tax administration under exceedingly difficult circumstances. But we know that these investments have yielded significant returns, measurable in the improved quality of life of South Africans and in the significantly reduced deficit financing. I offer our experiences as learning points for an information exchange. Yet, I wonder whether our tax administration is sufficiently forward looking to take account of the pace and volumes of cross-border transactions.

In the past decade, our ability to trade, interact and relate to each other on an international level has become increasingly dependent on a set of rules and norms that we all need to be part of setting and that we all need to adhere to. Issues such as climate change have brought to the fore the need for global partnerships in tackling environmental degradation. Organised crime, the drug trade, human trafficking, money laundering, the financing of terrorism and child labour can be added to the set of global issues that require joint responses.

In our context here today, we know that globalisation and inadequacies in global institutions have increased the complexity of tax administration. Off-shore tax havens, transfer pricing, multiple income streams and complex supply chains make the lives of administrators ever more burdensome and complex. Tax and customs evasion have gained dimensions that require increased global co-operation if they are to be addressed.

We also know that this is an area where the legitimate, rational behaviour of a single country can do considerable damage to the global economy or to specific countries. Lower interest rates and a higher budget deficit may have been a legitimate response in the US to the slowdown following the dotcom bubble. Similarly, the accumulation of dollar assets by Asian central banks is a legitimate strategy to grow their exports and cushion their economies against financial contagion. The combined effect of these actions places the global financial system in a much more precarious position.

Similarly, tax policies by a single country can have negative consequences for tax administration globally. I do know that you are dealing with the issue of tax havens. The steady downward adjustment in corporate tax rates reflects both competition between countries as well as a steady erosion of the tax bases of major countries, forcing the tax burden to be shifted to the less powerful but more vulnerable.

Warren Buffet, the sage of Omaha, recently showed that he paid a lower effective rate of tax than anyone in his office, including his secretary. He asked the US Congress to increase his tax rate. In the name of competitiveness, the tax burden on the top 1 per cent of earners has declined precipitously. In a world of rising inequality, this cannot be correct. Again, only joint action by partners in a global village can deal with such inequities. More generally, it must be of concern to policy makers and tax administrators that changes to tax policies have been a significant factor driving rising inequality in the world today.

Multinational enterprises are an essential element of our global economy. They transfer capital, technology, expertise and goods and services in an efficient manner. There is, however, another side to the growing reach of multinationals.

One of the by-products of globalisation is that there are now fewer brands with large global brands usurping smaller regional ones. From a tax perspective, some multinationals engage in behaviour that is aimed at one purpose – the minimisation of tax. Our world needs a set of rules that are simple, transparent and equitable to differentiate legitimate competition between countries from the steps and measures that make tax evasion or avoidance easier.

For the global trade system to work in the long term, everyone – including multinationals - must recognise that such short term behaviour is only likely to result in a backlash, a retreat to protectionism, and inevitably to a world that is poorer.

Smaller, poorer countries with tax administrations that are less sophisticated cannot be expected to develop the expertise required to unravel the complex structures that multinationals and other large companies put in place to minimise tax.

The OECD has led the way in fostering partnerships between nations in response to many of these global public goods issues. These partnerships must be applauded but they must be extended to poorer countries who are often the victims of organised efforts to undermine their tax bases. It is a contradiction to support increased development assistance, yet turn a blind eye to actions by multinationals and others that undermine the tax base of a developing country.

This meeting therefore provides a unique setting to discuss issues of global financial governance and development as it brings together a variety of countries at different levels of development. It is, therefore, essential that, as our discussions unfold, we introduce a sense of partnership into the solutions that we seek to find. Building partnerships is essential, and here I wish to acknowledge the work done by the OECD on cooperation with non-members and through its outreach programmes.

I am confident that your deliberations will enhance our mutual understanding of the challenges we face so that we may together find solutions to ensure greater global stability, equality and prosperity.

Having noted the importance of tax as a fiscal instrument, I agree with your focus on tax intermediaries – the accounting and legal professions, investments banks, and so on. The role and influence of tax intermediaries on the tax-paying public, including corporates is significant. Tax administrations need to demonstrate that they operate on the basis of fairness, that they are transparent, that the laws governing taxes are clear and that good governance is practiced. This goes along with making it easier to comply through innovative measures designed to make paying tax easier.

Intermediaries, however, influence these attempts to raise levels of compliance for good and for ill. On the one hand they may make the tax system more accessible to taxpayers. On the other they may market or facilitate aggressive tax strategies that undermine the policies of government and influence perceptions around what is fair and equitable.

In our environment, this is of particular concern as the role of the fiscus in development, redistribution and providing stability and predictability cannot be understated. It is, therefore, imperative that we build relations with the taxpayer on the basis of a different framework – a framework which is designed around providing a sense of social responsibility and civic duty – one where the community and society benefit.

I have no doubt that tax intermediaries provide an essential function in guiding tax payers on what their duties and responsibilities are within the legal parameters. In this sense it is essential that the parties work towards building relations that seek to maximise compliance levels – what is now termed the ‘enhanced relationship’.

But these ‘enhanced relationships’ should not allow us to deviate from the tasks at hand – to build a more prosperous and more equitable global economy. There is a grim reminder in Kevin Phillips book, ‘Wealth and Democracy’, in it he writes, ‘Either democracy must be renewed with politics brought back to life, or wealth is likely to cement a new and less democratic regime – plutocracy by some other name.’ The world does not have to be that extreme – this forum has convened because you, as tax administrators know that you have a responsibility to producing fairer outcomes.

Everywhere, you implement the tax policies decided elsewhere – your tasks cannot be that exclusive. As the Finance Ministers and Central Bank Governors of the G20 have spoken of a different world, your task is here to agree and then to influence your principals that a better world is both urgently necessary and within grasp.

Thank you.