Ref: DISCUSSION DRAFT: REPORT ON EFFECTIVE CAPACITY BUILDING ON TAX MATTERS IN DEVELOPING COUNTRIES

Dear Sir/Madam,

Thank you for the opportunity to comment on the Discussion Draft: Report on Effective Capacity Building on Tax Matters in Developing Countries.

The Business and Industry Advisory Committee to the OECD (“BIAC”) supports the objectives of The Platform for Collaboration on Tax (“the Platform”). We have provided comments on the Discussion Draft where appropriate, although we note that some of the consultation questions are targeted towards governments rather than business organisations. In our view, there are two key omissions from the Discussion Draft:

- Firstly, businesses have direct knowledge of many aspects of running large organisations effectively, and this hard-won practical knowledge would be a valuable addition to the experience of the International Organisations (IOs) which make up the Platform. The discussion draft asks G20 countries to make a major contribution through mentoring arrangements, linking senior tax staff together, twinning arrangements and training programmes. This effort can be significantly expanded by using private sector resources.

- Secondly, in addition to technical and managerial skills and knowledge, tax authorities must also have a solid understanding of how business works and keep up to date with trends in business. This is experience that business would gladly share, and without this skillset, tax authorities will not be able to effectively function.

In both cases, it should be explicitly noted that business is not seeking to influence the outcome of specific tax cases, but, rather to impart organisational knowledge and expertise that will be of direct benefit to capacity building projects.

Further to our specific points on the draft, we note that we very much hope that the Platform will leverage the excellent work of the OECD’s Taskforce on Tax and Development.

BIAC would welcome the opportunity to engage with the Platform and/or stakeholders, be it through formal or informal input. As the Platform progresses its work, BIAC requests that public consultations be undertaken to ensure that business has opportunities to identify specific areas where it can add value that may enhance the Platform’s success. As a representative organisation for the business community and a key stakeholder in this project, BIAC hopes that it can be an integral part of the Platform’s work and we are willing and keen to contribute in whatever way we can to the Platform’s success. We look forward to working with you.

Yours faithfully,

Will Morris, Chair, BIAC Tax Committee
Introductory comments

1. BIAC thanks the Platform for the opportunity to input into the consultation on Effective Capacity Building on Tax Matters in Developing Countries.
2. Business is a key stakeholder in the ongoing process of change in the international tax system and working with business needs to be at the core of countries’ revenue mobilization efforts and its development strategies. Private sector investment not only generates national tax revenues but creates jobs and generates wealth; that is to say it is in itself an enabler of development. We would welcome recognition of the importance of businesses’ role in development in the final draft.
3. We hope for and strongly support further collaboration between the Platform, governments, civil society and business. Business has engaged constructively in the BEPS process, and hopes to be able to engage equally constructively with the Platform. At the OECD and elsewhere we have made clear our willingness to share knowledge and practices which may be helpful to developing countries, and we have highlighted some areas below where we think business can and ought to support tax administration capacity building.

Question 1: This discussion draft emphasizes the need for country-led and coherent revenue reform strategies, implemented over a period of years by committed governments providing sustained and visible political support, to underpin successful revenue improvement efforts. Does the draft imply the proper balance of roles for governments, technical development assistance providers, donor countries and agencies, and other stakeholders in this process?

Essential prerequisites

4. We welcome the comment in the report for the need to “support and maintain into the long term the political environment that will enable capacity building programs to succeed”. We would go further and note that the environment must also encourage private sector development. That is to say, it should be based on, and consistent with, legal and institutional foundations and countries’ macro-economic policies. This is consistent with the UN’s sustainable development goals which themselves embrace private sector growth as a tool in facilitating growth and reducing poverty.
5. The role of business is noted in the essential prerequisites section, which is appreciated, but we believe that it could be developed further to enhance the success of the Platform’s objectives.
6. Although business leaders are identified as key stakeholders, it is stated on page 3 that “public advocacy efforts will be targeted at business leaders”. We believe that business leaders (and their businesses) should, in fact, be an integral part of capacity building initiatives.
7. Therefore, we believe that the draft should reflect that businesses, as taxpayers, are not “in conflict” with the goals of the capacity building agenda, but should be recognized as key stakeholders and partners in ensuring governments of developing countries can generate sustainable tax revenues through capacity building initiatives in which businesses can play a part.

Enabler 1: A coherent revenue strategy as part of a development financing plan

8. This enabler ought to be broadened to reflect that any tax revenue strategy must consider wider economic impacts of tax reform and increased institutional capacity.
9. Any redesign of the policy setting to achieve a revenue goal should be realistic and reflect the dynamism of the economy and the impact of a change in taxation policies. Although tax is not a primary positive determinant of investment locations for companies, tax regimes (including their
10. For instance, economic growth and job creation should be factored in to any strategy. In “Box 1: Core Elements of a Medium-Term Revenue Strategy to Boost Sustainable Taxation” there is a focus on poverty and distributional implications from taxation. However, it does not mention how job creation through private sector investment (for example) will support this aim.

11. We note the final point in Box 1 is that resourcing for capacity building be secured. We encourage the Platform to call on the expertise of the private sector to assist with this. In particular, recommendation 1b suggests that Donor/G20 countries support capacity building of local countries. The private sector can also contribute to this process and MNEs in particular have a wealth of relevant expertise that could be beneficial in maximizing the benefits that resourcing can achieve. Many businesses would be willing to assist as part of their own corporate social responsibility agendas, and BIAC, along with other business organizations, stands ready to facilitate this knowledge sharing. Again, it is worth emphasizing that this is not pure altruism. Businesses have an interest in strong and stable countries whose inhabitants are increasing their economic resources.

Enabler 1.1: Adequate diagnosis of problems, risks and options for revenue strategy development

12. The Platform should take into consideration the work of the OECD’s Centre for Tax Policy and Administration in this area, particularly its evidence-based work on the value of cooperative compliance strategies in increasing tax revenues in an efficient way. Such strategies require taxpayers to be transparent and responsive, and tax authorities to show sensitivity to the needs of business.

13. For tax authorities, this means taking into account business’ costs of compliance when responding to tax authority requests, and therefore (for example) asking taxpayers only for targeted and relevant information. It also means providing certainty on tax positions wherever possible, for example, by clarifying the authorities’ position on uncertain law if requested and providing rulings to confirm this where appropriate.

14. Cooperative compliance strategies can foster a “culture of tax compliance that is based on rights and responsibilities” as espoused by the OECD’s taskforce on tax and development, rather than an adversarial relationship between taxpayers and revenue collection agencies.

15. We note that the discussion draft encourages the development of a “new diagnostic tool/framework that will help countries both assess the risk and identify possible solutions to the range of cross border issues, including tax avoidance, tax evasion and tax crimes” (pg. 5).

16. We appreciate that such a policy initiative is the prerogative of International Organizations (“IOs”) and governments, but policy makers should exercise caution in developing a blanket tool in respect of tax avoidance, keeping in mind cooperative compliance concepts. The policy should address each of these three components separately. Where tools are to be developed, they should not create additional burdens on taxpayers who already provide a significant amount of information to tax authorities.

17. We believe that in many cases the most efficient way to understand business’ tax positions is simply to ask them directly.

Question 2: The draft emphasizes that both technical skills and especially managerial knowledge/skills are critical to success (Enabler 1.2). Do you agree that the latter are important and if so, do you have thoughts on

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1 World Investment Report 2015, UNCTAD, 2015, ch. 5
3 Building Tax Culture, Compliance and Citizenship, OECD, 2015, pg. 16
Enabler 1.2: A strong managerial and skills base to develop and implement reform strategies

18. We agree with the discussion draft that both technical skills and managerial knowledge and skills are critical to success in capacity building. Investment in and retention of staff in a tax administration, for example, ensures that the organization can function in a successful, efficient and stable way.
19. However, we think the plan laid out in the discussion draft appears to be missing a key opportunity to gather such skills and knowledge through engaging the private sector to assist with this capacity building.
20. Amongst many things, businesses can contribute direct knowledge on systems, human resources, how to manage and run big organizations, how to manage costs, how to incentivize staff, and how to ensure staff’s knowledge continually develops. These are all fundamental aspects of successfully running a business and we know that it is knowledge that many businesses will contribute for free to support this project.
21. Whilst oversight (to avoid real or perceived conflicts of interest) is essential, we suggest that IOs intermediating this knowledge in all cases is unnecessary and could potentially be inefficient and wasteful. Business can provide training and share knowledge directly in many areas of expertise, without such a conflict being even a possibility.
22. Businesses (particularly MNEs) have significant technical knowledge in the field of taxation. Tax, legal and accounting professionals in the private sector apply tax principles and policies in practice as a matter of course, and can contribute to the efforts to build this technical expertise.
23. As an example, in the sphere of consumption taxes, the business community is very familiar with VAT systems design-related aspects, including the application of the International OECD VAT/GST Guidelines endorsed by the Global Forum on VAT last year, which aims to set up an international VAT/GST framework based on two fundamental principles – the neutrality and the destination principles. The indirect tax business community has experience working with governments and is willing to support other countries develop their own efficient and sustainable tax systems.

Question 3: Are current tools for the effective measurement and evaluation of capacity support adequate (Enablers 2.2; 3)? If not, what can countries and development partners do to further improve their design and expand their use?

Enabler 2.2: Clear and common measures of the effectiveness of support

24. BIAC agrees that capacity building ought to be rooted in a country’s development plan. As noted above, this development plan should look not only at the relationship between tax systems and poverty and wealth distribution, but should also factor in the impact of the tax system on economic growth and sustainable private-sector growth.
25. To this end, when measuring effectiveness, we recommend that taxpayers’ experiences are considered in addition to government-specific targets.

Question 4: Are there other factors not mentioned, or not sufficiently emphasized, in the paper that you think are important for successful capacity building and revenue system reforms?

Enabler 6: Lessons are learned and disseminated

26. As noted above, the discussion draft misses an opportunity to exploit private sector, and particularly MNE resource, in organization management and optimization, and technical knowledge building.
27. In addition, the discussion draft misses a key factor in building tax capacity successfully. That is, tax authorities need to understand how business really works and must keep up with trends in business.
28. This requires both an understanding of commercial principles and continual dialogue with business to understand their direction of movement in the realm of tax strategy. Without this knowledge, tax administrations will not be able to effectively target their efforts. This (with appropriate safeguards for commercial secrets) is information that businesses would gladly provide governments in order to lessen misunderstandings.

29. Tax authorities should engage with and learn from business to obtain this knowledge. The business community is willing and able to be part of this effort both through their individual collaborative relationships with tax authorities (e.g. in cooperative compliance models) as well as by being part of the education and training programs for tax authority staff.