

Policy Coherence on tax for development

*A new story.....
Some ideas for research and action*

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addis tax initiative

2x TECHNICAL
COOPERATION

DOMESTIC RESOURCE
MOBILISATION

POLICY COHERENCE FOR
DEVELOPMENT

Addis Ababa Action Agenda

Australia, Belgium, Benin, Burkina Faso, Cameroon, Canada, Denmark, Ethiopia, European Commission, Finland, France, Georgia, Germany, Ghana, Indonesia, Ireland, Italy, Kenya, Korea, Liberia, Luxembourg, Malawi, Namibia, Netherlands, Norway, Paraguay, Philippines, Rwanda, Senegal, Sierra Leone, Slovakia, Slovenia, Solomon Islands, Sweden, Switzerland, Tanzania, Uganda, United Kingdom, United States of America.

PROCESS?

"DFID, Treasury & HMRC take a 'whole of government' approach" (UK)

"The Ministry of Finance and BMZ work closely together" (GERMANY)

DRM Strategy set out in Economic and Financial Sector Policy (Burkina Faso)

PRINCIPLE?

"Transparency, efficiency, effectiveness and fairness"



POLITICS!

What makes things happen...

What stops things happening....

WHAT'S THE PROBLEM?

SUSTAINABLE DEVELOPMENT GOALS

\$2.5 trillion
/year gap

NOT ENOUGH REVENUE

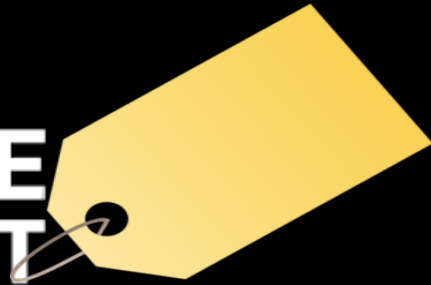
TAXATION EXTORTIVE,
COERCIVE, TAX EXEMPTIONS
GIVEN WASTEFULLY

CITIZENS SEE LITTLE IN
RETURN FOR TAXES:
LOW WILLINGNESS TO PAY
CLIENTELISM

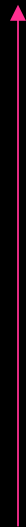
NOT ENOUGH INVESTMENT &
ECONOMIC GROWTH

WHAT'S THE PROBLEM?

**SUSTAINABLE
DEVELOPMENT
GOALS**



NOT ENOUGH REVENUE



INTERNATIONAL TAX SYSTEM:
TAX AVOIDANCE/ TAX EVASION/ TAX COMPETITION

INTERNATIONAL TAX : PROBLEM SOLVING AMOUNTS FOR DEVELOPMENT?

Tax Evasion and Avoidance + Add to myFT

Misinvoicing of commodities costs billions to developing world

UN experts say

If we tackle tax dodging by big business, we can fund free, quality healthcare and education for all.

BEWARE OF WISHFUL THINKING!



IF MULTINATIONAL COMPANIES WERE TAXED IN ALL COUNTRIES COULD RAISE \$242BN* TO FUND HEALTHCARE AND EDUCATION



*Source: ActionAid USD 1,000 and 100,000



Currently, the world is to be losing more than \$50 billion annually in IFFs.

65%
Commercial Transaction

30%
Organized Criminal Activities

5%
Corruption

selling its copper at world market prices, Zambia's GDP would be 50% higher.

8,500
doctors in Malawi

39,000
teachers in Malawi



BEWARE OF WISHFUL THINKING



“Developing countries” \neq “low income countries”



Gaps and mismatches in trade data \neq Illicit financial flows
 \neq Trade misinvoicing
 \neq Trade mispricing
 \neq Transfer mispricing

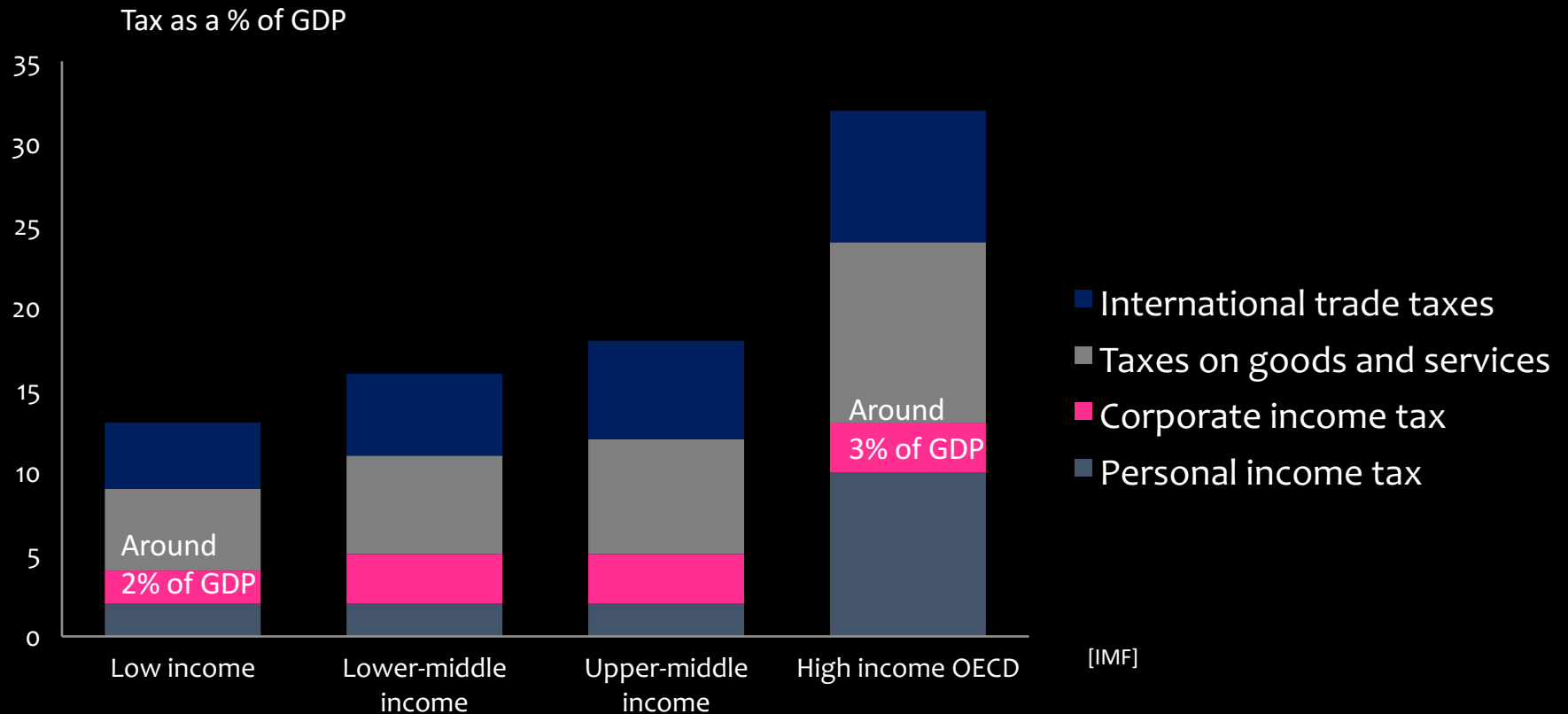


www.hiyamaya.wordpress.com/billions_and_trillions

INTERNATIONAL TAXATION SIGNIFICANT BUT NOT 'PROBLEM SOLVING' AMOUNTS



Revenues at stake depends on size of 'overlapping tax base'

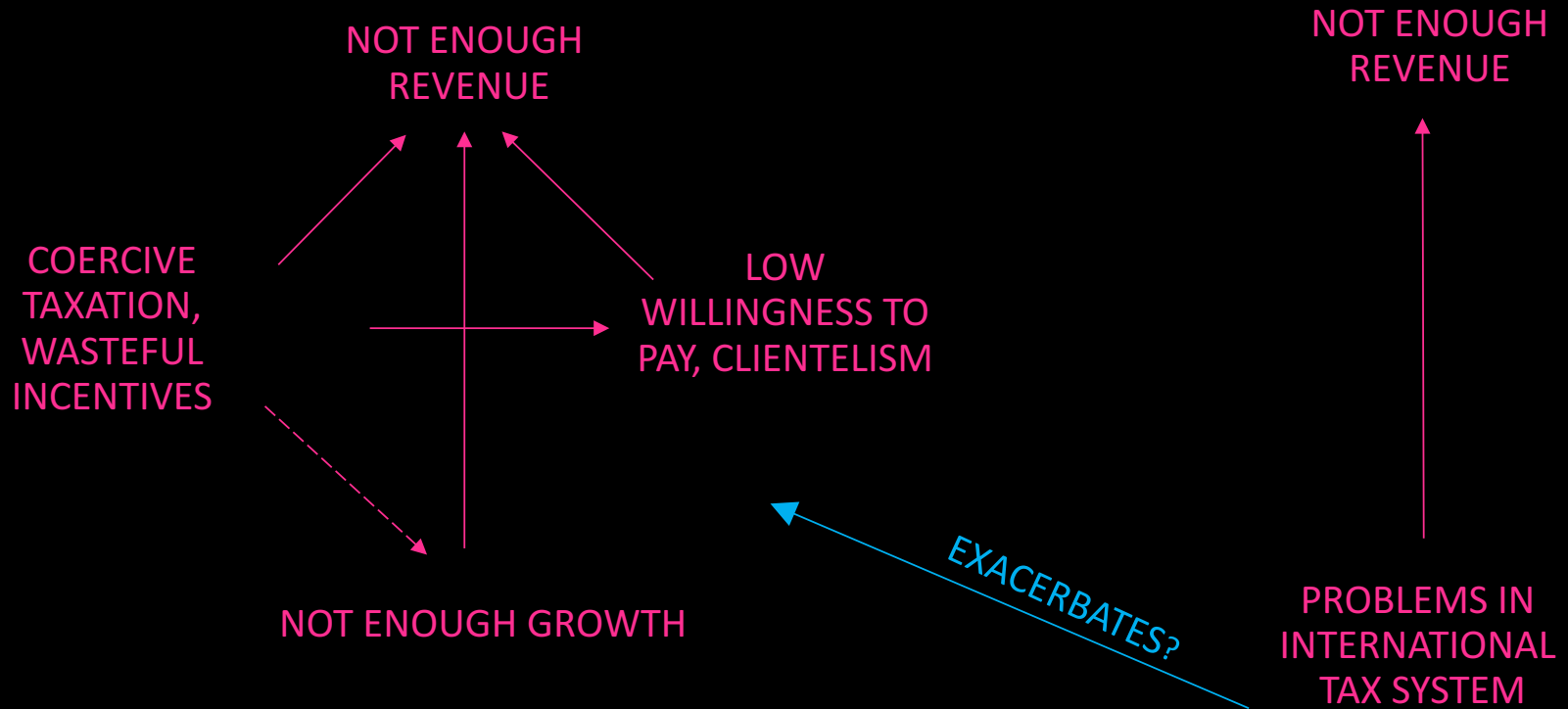


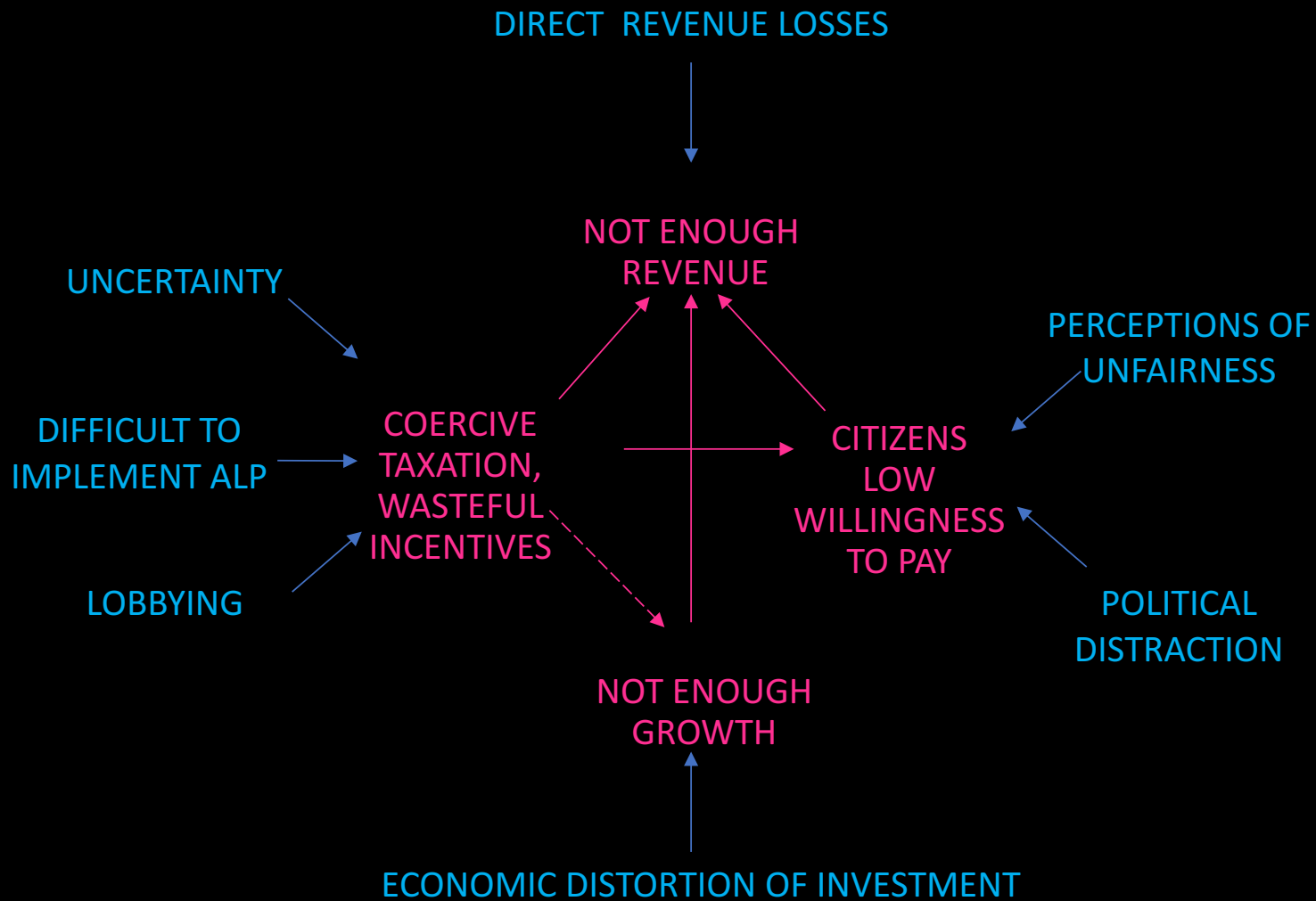
Overall Revenues c \$7 trillion

OUR TWO STORIES

“TAX IS POLITICAL”

“THE RACE TO THE BOTTOM”

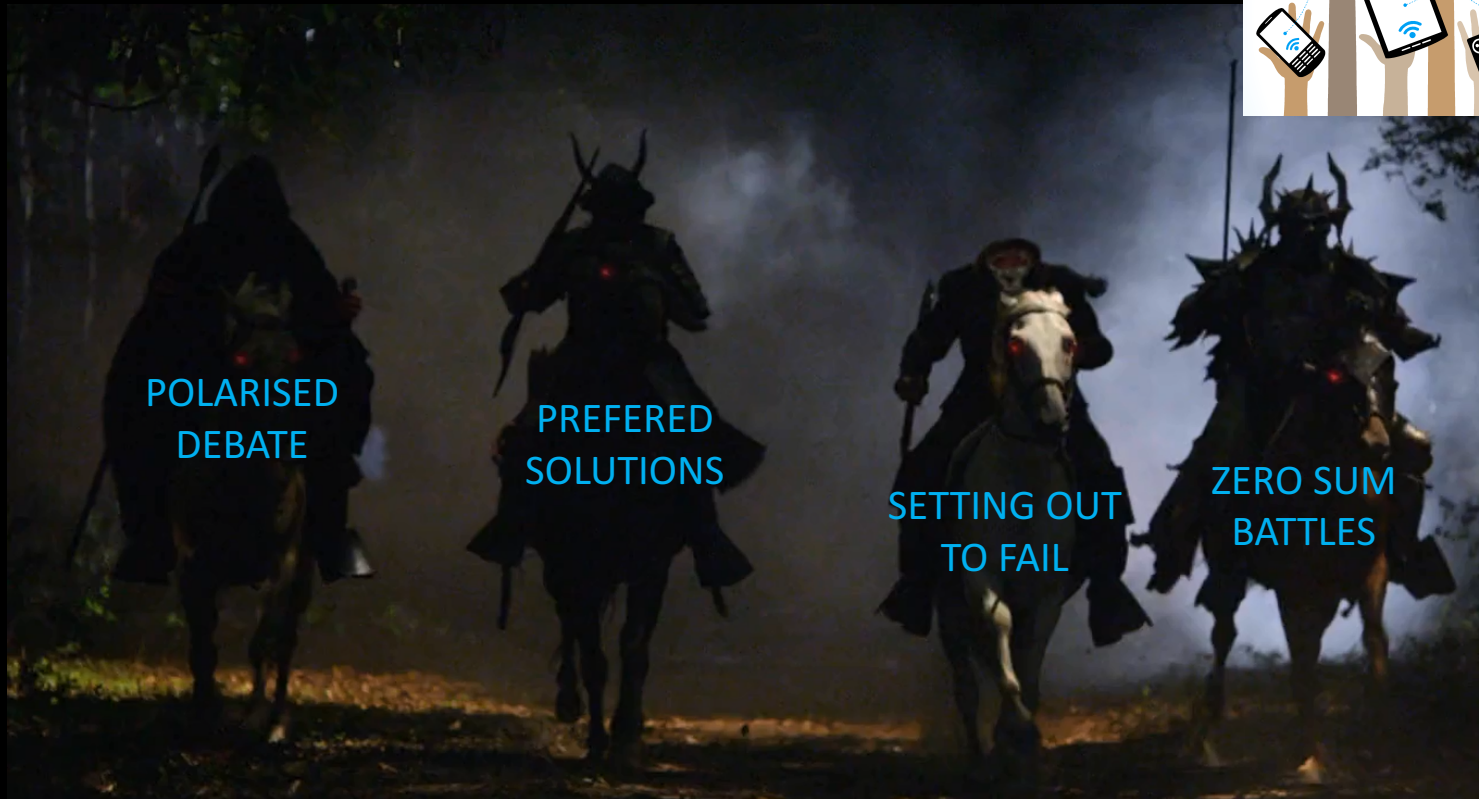




POLARISED DEBATE
SETTING OUT TO FAIL

PREDETERMINED SOLUTIONS
ZERO SUM BATTLES

ESCAPING THE FOUR HORSEMEN



POLARISED
DEBATE

PREFERED
SOLUTIONS

SETTING OUT
TO FAIL

ZERO SUM
BATTLES

FIND COMMON
GROUND
BUILD COMMON
EVIDENCE BASE
& UNDERSTANDING

ADAPT, LEARN,
ITERATE

PRIORITISE SCARCE
CAPACITY ON LOCAL
PRIORITIES
(COUNTRY TAX
EXPERTS)

WIN-WIN
OUTCOMES
ECONOMIC
GROWTH

BEYOND THE RACE TO THE BOTTOM: "DICTATORS DON'T COMPETE"

Incentives on different kinds of jurisdiction

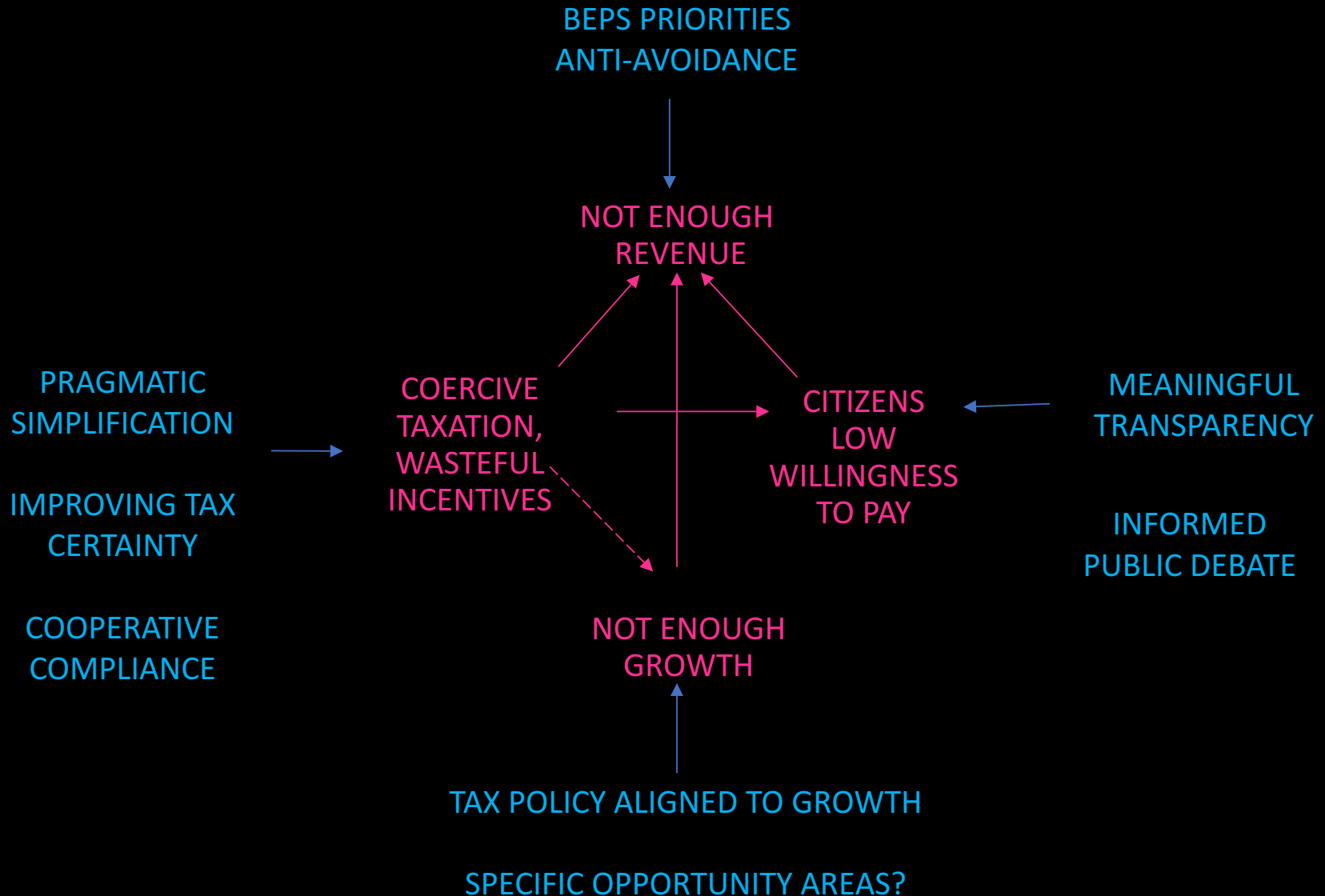
	MORE DEMOCRATIC	MORE AUTOCRATIC
SMALL	<p>LOW TAX</p> <p>TAX COMPETITION TO ATTRACT CAPITAL</p> <p>FREE RIDERS/ UNDERMINE TAX COOPERATION</p>	<p>HIGH RISK INVESTMENT DESTINATIONS</p> <p>MAY HAVE HIGH OR LOW TAX RATES MORE AD HOC TAX EXEMPTIONS</p> <p>LESS WILLING TO COMPETE, EXEMPTIONS FOR SUPPORTERS</p>
LARGE	<p>HIGH TAX</p> <p>MAINTAIN HIGH TAXES TO REDISTRIBUTE</p> <p>'TAX COOPERATION' AGAINST LOW TAX COMPETITORS</p>	<p>ATTRACT LESS INVESTMENT FOR ANY GIVEN TAX RATE (POLICY UNCERTAINTY , CAPRICIOUS)</p>

BEYOND THE RACE TO THE BOTTOM: “FROM DEALS TO RULES”

Incentives on different kinds of business

	HIGH RENT	COMPETITIVE
EXPORT ORIENTED	<p>RENTIERS Natural resource exporters Agricultural concession exporters</p> <p>HIGH SOURCE OF REVENUES HIGH CORRUPTION RISK ONLY REQUIRE NARROW INFRASTRUCTURE CORRIDOR</p>	<p>MAGICIANS Manufacturing and service exporters Horticultural & other agricultural exporters Tourism</p> <p>WANT LOW TAXES IN ORDER TO COMPETE REQUIRE BROADER INFRASTRUCTURE</p>
DOMESTIC PRODUCTION AND CONSUMPTION	<p>POWERBROKERS Monopoly services Banking & financial services Landlords</p> <p>HIGH CORRUPTION RISK TEND TO RESIST EFFICIENCY IMPROVEMENTS, BENEFIT FROM BARRIERS TO ENTRY</p>	<p>WORKHORSES Importers, traders & retailers Subsistence farmers Local manufacturers Non-tradable services restaurants, building, healthcare, social care</p> <p>INFORMALITY TAXES SHARED BY LOCAL CITIZENS</p>

WHERE ARE THE WIN WINS?





--WIN WINS
--INTERNATIONAL ACTIONS THAT
INFLUENCE DOMESTIC DYNAMICS

(some ideas)

- **Politically smart technical assistance** – working with the grain
- **Tax Treaties** – “An MLI for Development”? Modular tax treaty model?
- **Principles for responsible tax practice** – commitments by business
- **Dispute resolution for development** – can dispute resolution mechanisms be made accessible and useful for low income countries?
- **Strengthening the UN Tax Committee** – how should the UN Tax Committee evolve and develop?
- **Safe harbours** and simple transfer pricing (e.g. 6th method)
- **Technology, blockchain** – for tax payments? for identity assurance?
- **Tax simplification for project finance**
- **A race to the top of international financial centres**

A PATHWAY TO POLICY COHERENCE

FINANCE MINISTRY, REVENUE, TRADE/INDUSTRY, DEVELOPMENT
INTERNATIONAL ORGS,
BUSINESS, PROFESSIONS, CIVIL SOCIETY, ACADEMICS

FIND COMMON GROUND, SHARED UNDERSTANDING OF
EVIDENCE

ADAPT, LEARN, ITERATE

PRIORITISE SCARCE CAPACITY
(COUNTRY TAX EXPERTS)

EYES ON THE PRIZE: GROW THE PIE



Thank-you!

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