ESCAP – Tax Policy Meeting

Bangkok

The UN SDG Network has estimated that the attainment of SDGs in low income countries will require an additional mobilization of 2.5 per cent of the GDP in public revenue on average. This will be extremely challenging for many countries in Asia and the Pacific that have had tax-to-GDP ratios close to single digits for decades. To meet this challenge, developing countries will need to adopt a two-pronged strategy of enhancing revenues and saving costs through better management of public expenditures.

- *Is it possible for developing countries to significantly raise their tax revenue in a short period of time? Any successful examples worldwide in the past? Any risk of side-effects or long term negative consequences?*

- *Are Asia-Pacific developing countries receiving adequate guidance on these issues? What roles should development partners play?*

Part 1 – Introduction (Tax revenue/mix + Economic Growth)

Welcome everyone,

Thank you, Shamshad, for your opening remarks and for bringing us here for what I'm sure will be productive meeting.

I think it's fair to say political polarisation in the developed world will make regional co-operation more important in achieving the Sustainable Development Goals (SDGs) in our region.

Low Tax-to-GDP

The UN estimates to achieve the SDGs, low income countries will need to raise an additional 2.5 per cent of GDP on average.

There is also a general acceptance that revenue growth is below potential and that there is a compliance gap.

A Comprehensive Plan

Speedy increases in tax revenue can occur through upskilling, computerisation, risk assessment and closing gaps on transfer pricing and debt dumping, but slower longer term solutions need to be addressed. Most importantly, building up overtime public confidence that revenues raised will be used for beneficial public purposes, rather than the enrichment of a few.

Many countries across the region lack a “tax culture” (where countries appreciate and recognise the importance of paying tax). Given this we need to elevate at every level of the political and policy conversation the importance of the development of strong tax systems and the need for external support in building them.

As tax burden increases it has to be done in such a way that enhances competitiveness in the short term and the longer term. The tax mix between regressive and progressive taxation is critical to sustaining strong equitable growth.

We know from the work of the IMF that it is not just how much revenue is raised but how it is raised that matters for the strength and durability of inclusive growth.

The balance between encouraging investment in physical and human capital while ensuring that consumption is not deterred by regressive taxation is critical. Environmental tax reform can encourage energy efficient investment particularly in urban areas and provide a source of funding to drive investment in renewable energy and energy efficiency.

We know tax bases across the region are narrow particularly due to various exemptions and concessions and that tax compliance is generally weak. In the short term, the elimination of tax exemptions and the strengthening of tax administration are logical first steps.

Even these two short-term actions will mean challenging powerful elites and will require strong political and public resolve. Therefore a plan to link these changes to the funding of public goods like health and education is the best start.

We know that for any tax reform to be successfully implemented and legislated requires a comprehensive plan of who will stand in the way and how to deal with them. Reform is never easy. It is as much about the political-economy as it is the technical design and administration.

Diversity

In building our discussion however we should be conscious of the dramatic differences across countries in our region, in particular between resource rich and non-resource rich countries and smaller, landlocked and Pacific Island states.

Part 2 – Guidance + Co-ordination

Developing countries in our region are in the best position to judge whether or not they’re receiving adequate guidance. Developed countries like Australia should be willing to listen and provide the assistance.

Guidance is fragmented across an increasing number of providers including non-traditional ones - choosing which has the most suitable guidance to their realities isn’t easy, especially if there are disagreements.

The IMF, the OECD, the UN, the World Bank, SGATAR, ATAS, the Platform for Collaboration on Tax and Regional Development Banks all aim to reduce unnecessary duplication. This group can play a role in assessing whether their work is focused on the realities and priorities of our region. The key question for our group is what partnerships we can form with the above organisations?

This forum, if it stays grounded and practical and aware of international developments, can assist in better quality, better dissemination and understood guidance to countries in the region.

There is in turn a need for greater regional input into relevant international tax norm development, such as taxation of services or, more generally, the digital economy, in a way that is fair to taxpayers but also to the budget. Hopefully this forum can help build regional confidence and influence to play a more influential part in these major developments, especially for smaller countries.

- Are countries satisfied with the advice and the tool kits being provided to deal with debt dumping and transfer pricing?

- Can countries co-operate on the taxation of services or, more generally, the digital economy, in a way that is fair to taxpayers but also to the budget.

- Should we co-operate or get involved with regional initiatives such as the three working groups established by SGATAR in New Zealand two weeks ago covering: (1) Consumption tax, (2) Transfer pricing and (3) Common reporting.

- What countries in the region need access to capacity development and who should supply it?

Co-operation & Independence

All our regional forums demonstrate that development partners through discussion can avoid unnecessary differences in approach, but should not be afraid to take differing approaches where warranted. <u>Sometimes a second doctor's opinion is also important.</u>

- Development partners can support regional bodies such as an Asian Tax Administrators' Forum (SGATAR) that has a permanent secretariat and well defined medium to long term work plan.

- Development partners can support spill over analysis in countries, especially developed ones, as to the impact of their tax policies on countries abroad.

- For example, are there any lessons to be learned from the recent VAT conference in Australia? Australia's digital supplies legislation requires businesses pay VAT on digital products imported by Australian consumers. Interesting that some business in the region has opted into the framework.

Conclusion

Prevalent norms need to be driven by country needs and decisions, with a role of assisting countries in the region to make the best informed decisions based on experience elsewhere. They should nurture cooperative rather than purely competitive tax relationships between countries in the region – countries should be encouraged to identify common interests and seek commonly beneficial solutions as a stronger block of countries, even if they compete in other respects.

If countries don't have their hearts and minds in the policy and administrative challenges in the BEPS process then investors in the business community won't get the certainty they require.

Equally, if administrative capacity is not significantly improved, policy certainty won't be enough to drive anticipated investment.

While respecting country sovereignty, governments need to be holistic, addressing not just revenue, but equity, efficiency and impact in other areas, such as on opportunities for tax avoidance and evasion.

The need for a whole of government approach needs to be done by building broad political commitment.