Policy Coherence on tax for development

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

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Significant additional domestic public resources, supplemented by international assistance as appropriate, will be critical to…

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.
“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)

“Transparency, efficiency, effectiveness and fairness”

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?

BEWARE OF WISHFUL THINKING!
BEWARE OF WISHFUL THINKING

“Developing countries” =/= “low income countries”

Gaps and mismatches in trade data =/= Illicit financial flows
  =/= Trade mis invoicing
  =/= Trade mispricing
  =/= 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’

Tax as a % of GDP

Overall Revenues c $7 trillion
OUR TWO STORIES

"TAX IS POLITICAL"

COERCIVE TAXATION, WASTEFUL INCENTIVES

NOT ENOUGH REVENUE

LOW WILLINGNESS TO PAY, CLIENTELISM

NOT ENOUGH GROWTH

"THE RACE TO THE BOTTOM"

NOT ENOUGH REVENUE

PROBLEMS IN INTERNATIONAL TAX SYSTEM

EXACERBATES?
NOT ENOUGH REVENUE

DIRECT REVENUE LOSSES

NOT ENOUGH GROWTH

ECONOMIC DISTORTION OF INVESTMENT

COERCIVE TAXATION, WASTEFUL INCENTIVES

UNCERTAINTY

DIFFICULT TO IMPLEMENT ALP

LOBBYING

PERCEPTIONS OF UNFAIRNESS

POLITICAL DISTRACTION

CITIZENS LOW WILLINGNESS TO PAY

ZERO SUM BATTLES

PREDETERMINED SOLUTIONS

POLARISED DEBATE SETTING OUT TO FAIL
ESCAPING THE FOUR HORSEMEN

Polarised Debate
Preferred 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**

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<th><strong>MORE DEMOCRATIC</strong></th>
<th><strong>MORE AUTOCRATIC</strong></th>
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<td><strong>SMALL</strong></td>
<td><strong>LOW TAX</strong>&lt;br&gt; Tax competition to attract capital&lt;br&gt; Free riders/ undermine tax cooperation</td>
<td><strong>HIGH RISK INVESTMENT DESTINATIONS</strong>&lt;br&gt; May have high or low tax rates&lt;br&gt; More ad hoc tax exemptions&lt;br&gt; Less willing to compete, exemptions for supporters</td>
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<td><strong>LARGE</strong></td>
<td><strong>HIGH TAX</strong>&lt;br&gt; Maintain high taxes to redistribute&lt;br&gt; ‘Tax cooperation’ against low tax competitors</td>
<td><strong>ATTRACT LESS INVESTMENT FOR ANY GIVEN TAX RATE (POLICY UNCERTAINTY, CAPRICIOUS)</strong></td>
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Adapted from: Genschel, Lierse & Seelkopf, 2016
## Beyond the Race to the Bottom: “From Deals to Rules”

### Incentives on Different Kinds of Business

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<th>HIGH RENT</th>
<th>COMPETITIVE</th>
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<td><strong>Export Oriented</strong></td>
<td><strong>RENTIERS</strong>&lt;br&gt;Natural resource exporters&lt;br&gt;Agricultural concession exporters</td>
<td><strong>MAGICIANS</strong>&lt;br&gt;Manufacturing and service exporters&lt;br&gt;Horticultural &amp; other agricultural exporters&lt;br&gt;Tourism</td>
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<td><strong>HIGH SOURCE OF REVENUES</strong>&lt;br&gt;<strong>HIGH CORRUPTION RISK</strong>&lt;br&gt;<strong>ONLY REQUIRE NARROW INFRASTRUCTURE CORRIDOR</strong></td>
<td><strong>WANT LOW TAXES IN ORDER TO COMPETE</strong>&lt;br&gt;<strong>REQUIRE BROADER INFRASTRUCTURE</strong></td>
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<td><strong>Domestic Production and Consumption</strong></td>
<td><strong>POWERBROKERS</strong>&lt;br&gt;Monopoly services&lt;br&gt;Banking &amp; financial services&lt;br&gt;Landlords</td>
<td><strong>WORKHORSES</strong>&lt;br&gt;Importers, traders &amp; retailers&lt;br&gt;Subsistence farmers&lt;br&gt;Local manufacturers&lt;br&gt;Non-tradable services restaurants, building, healthcare, social care</td>
</tr>
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<td></td>
<td><strong>HIGH CORRUPTION RISK</strong>&lt;br&gt;TEND TO RESIST EFFICIENCY IMPROVEMENTS, BENEFIT FROM BARRIERS TO ENTRY</td>
<td><strong>INFORMALITY</strong>&lt;br&gt;TAXES SHARED BY LOCAL CITIZENS</td>
</tr>
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Adapted from: Pritchett, Sen and Werker (2017)
WHERE ARE THE WIN WINS?

BEPS PRIORITIES
ANTI-AVOIDANCE

NOT ENOUGH
REVENUE

COERCIVE
TAXATION, WASTEFUL INCENTIVES

CITIZENS
LOW WILLINGNESS TO PAY

NOT ENOUGH
GROWTH

TAX POLICY ALIGNED TO GROWTH

SPECIFIC OPPORTUNITY AREAS?

PRAGMATIC SIMPLIFICATION

IMPROVING TAX CERTAINTY

COOPERATIVE COMPLIANCE

MEANINGFUL TRANSPARENCY

INFORMED PUBLIC DEBATE
WIN WINS
INTERNATIONAL ACTIONS THAT INFLUENCE DOMESTIC DYNAMICS

- 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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