



Domestic Revenue Mobilisation and Inequality: EU approaches

7th International Workshop on
Domestic Revenue Mobilisation in Developing Countries

Bonn, 13-14 November 2018

Dr Stefan Agne, European Commission

Directorate-General for International Cooperation and Development

Unit A4 – Budget Support, Public Finance Management, Domestic Revenue Mobilisation

OUTLINE

- 1. Introduction**
- 2. Domestic Revenue Mobilization and Inequality**
- 3. EU Initiatives Supporting Tax Fairness**
- 4. Conclusions**

1. Introduction

International Context

- After a period of increase, inequality *between* countries has been declining since 2000.
- Inequality *within* some countries has been increasing since the early 80s (in particular income share of top 1%).
- Developing countries are more unequal than 30 years ago, however
 - Some countries experienced an increase in inequality (China, Vietnam);
 - Others experienced a decrease (Brazil, Mexico).
- Global inequality – which results from both inequality within and between countries – remains high.

Inequalities in Sub-Saharan Africa (SSA)

Background:

- ✓ SSA GDP has grown fast.
- ✓ Per capita consumption growth remains sluggish.
- ✓ Regarding "shared prosperity", per capita consumption of the "bottom 40%" has not grown faster than the average.
- ✓ Inequality within SSA countries (Gini) has remained practically unchanged since 1985.
- ✓ Inequality between SSA countries has been increasing.

Policy recommendations:

- ✓ Design explicit inequality policies
- ✓ Focus on inequality drivers:
 - Inclusive growth
 - Education/human development
 - Access to markets (communication, information, etc.)
- ✓ Focus on addressing the outcomes:
 - Protecting basic consumption needs
 - Safety nets to address transitory poverty
 - **Progressive taxation**

2. Domestic Revenue Mobilization (DRM) and Inequality

EU funded study: How can DRM help tackle poverty and inequality in developing countries* ? (1/2)

Main findings:

- ✓ Correlation between income, and tax revenue as a share of GDP **weaker than expected**
- ✓ Fiscal systems are always **equalizing but they can be poverty inducing**
- ✓ Progressivity of indirect taxation varies across countries, depending on exemptions
- ✓ **Personal income tax always progressive**
- ✓ Wealth taxation, especially on immovable property, can be a complementary feature of a progressive tax system

* Study by Jann Lay, GIGA; Anne-Sophie Robilliard, IRD-DIAL, May 19th, 2017 (European Expert Network on International Cooperation and Development)

EU funded study: How can DRM help tackle poverty and inequality in developing countries* ? (2/2)

Policy recommendations:

- ✓ Rely when possible on **direct taxes and transfers** rather than indirect taxes
- ✓ **Avoid** regressive indirect **tax exemptions**
- ✓ Promote international cooperation to **halt the fall in corporate tax rates** and to **harmonize definitions of tax bases**
- ✓ Invest in **cadastral surveys and property registration** in order to tap into the **revenue potential of property taxes**

* Study by Jann Lay, GIGA; Anne-Sophie Robilliard, IRD-DIAL, May 19th, 2017 (European Expert Network on International Cooperation and Development)

Property taxation: mobilizing revenues to fight inequalities



Study by Briosio, Gerbrandy and Ahmad: "Property Taxation: Economic Features and Revenue Potential." November 2017 (EU funded).

Revenue implications of Property Taxation

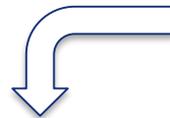
Current yield in LDCs: almost negligible



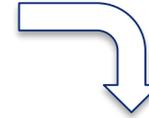
Potential yield in LDCs: 1% of GDP



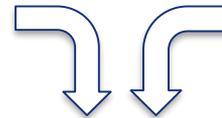
Generates information on assets and living conditions



Help expand the income tax



Expand the revenue potential of the property tax itself



Total additional revenues higher than 1% of GDP, financing source for local services.



Implementation of an effective property taxation

EU policy priority: international cooperation to fight tax evasion, tax avoidance and illicit financial flows

- ✓ Fighting tax evasion, tax avoidance and illicit financial flows can help to reduce inequality
- ✓ Engaging with partner countries on international tax governance (screening of tax jurisdictions and listing of non-cooperative tax jurisdictions)
- ✓ Engaging with partner countries to fight money laundering and terrorist financing

3. EU actions to promote fairer taxation

EU initiatives (1/2)

EU Anti-Tax Avoidance Package (ATAP, January 2016)

- For a fairer, simpler and more effective corporate taxation in the EU
- European Commission **Communication on an External Strategy for Effective Taxation** (setting out a process to screen tax legislation outside the EU and to create an EU list of **non-cooperative jurisdictions** for tax purposes)

Fifth EU Anti-Money Laundering Directive (May 2018)

- to further reinforce EU rules on anti-money laundering to counter terrorist financing and increase transparency about who owns companies and trusts

EU initiatives (2/2)

- ✓ EU legislation to **enhance corporate tax transparency**: allow exchange of **tax rulings** and **country-by-country reporting** by multi-national companies among EU tax authorities
- ✓ EU legislation on **beneficial ownership** (Directive on Administrative Cooperation between EU Tax Authorities)
- ✓ EU Directive on **transparency rules for intermediaries** (May 2018) improving oversight of tax advisors' activities
- ✓ European Commission **proposal** for EU legislation on a **common consolidated corporate tax base (CCCTB)**: sharing of consolidated taxable profits between the EU Member States in which a multinational company is active (using an apportionment formula)

EU development cooperation

- EU support to **global, regional and national** initiatives to enhance domestic revenue mobilisation (DRM) ...
- ... in concert with efforts to strengthen **public finance management**, the **transparency of public finance** and of **public spending**.



Collect More – Spend Better (European Commission Staff Working Document)

<https://ec.europa.eu/europeaid/sites/devco/files/swd-collect-more-spend-better.pdf>

EU support to global DRM initiatives

- Addis Tax Initiative (ATI)
- IMF Thematic Funds (Revenue Mobilisation, Management of Natural Resources Wealth)
- Tax Administration Diagnostic Assessment Tool (TADAT)
- Public Expenditure and Financial Accountability (PEFA) assessment
- UN Committee of Experts on International Cooperation in Tax Matters
- OECD Base Erosion and Profit Shifting (BEPS) Inclusive Framework
- OECD Global Forum on Transparency and Exchange of Information
- OECD revenue statistics (in Africa, Asia and Latin America)
- Extractive Industries Transparency Initiative (EITI)

EU support to regional DRM initiatives

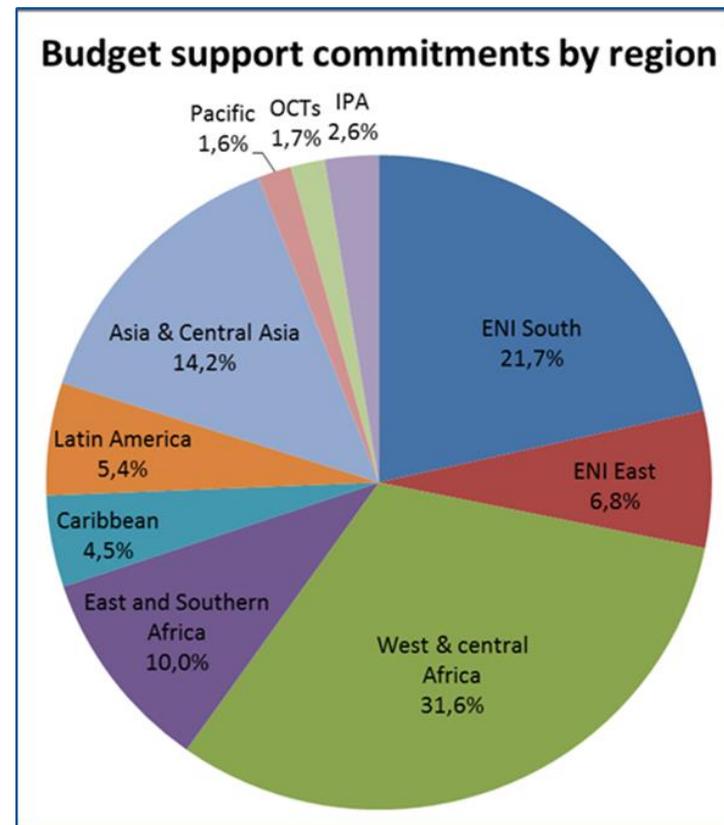
- EU regional programmes (e.g. on fiscal transition in West Africa)
- IMF Regional Technical Assistance Centres (RTACs)
 - Pacific Financial Technical Assistance Centre (PFTAC)
 - South Asia Training and Technical Assistance Centre (SARTTAC)
 - RTACs in Africa, Central America and the Caribbean
- African Tax Administration Forum (ATAF)
- EU-GIZ Panafrican Programme (ATAF-CABRI-AFROSAI-AFROPAC)

EU support to national DRM initiatives

- Support to tax policy analysis and reform and to the strengthening of tax administrations in the context of bilateral **budget support programmes** or via **bilateral capacity building programmes**
- Assistance **to improve tax governance standards** in the context of the EU's screening and listing process of tax jurisdictions

EU budget support to partner countries

- Open portfolio of EUR 13 billion
- 270 budget support contracts
- 90 countries and EU Member States overseas countries/territories
- Implemented in the enlargement context since 2015
- EUR 1.8 billion disbursed in 2017
- **Same budget support guidelines and templates for all regions (updated in 2017)**



Investment climate and taxation

EU External Investment Plan (EIP)

- Emphasising the important **role of taxes** and other government revenues **in improving the investment climate, infrastructure and public service delivery** in partner countries
- Promoting **tax certainty** and **ease of paying taxes**
 - not tax exemptions

4. Conclusions

- **Tax systems** (and public expenditure systems) **have an impact on inequality**
- **The EU works towards more tax fairness – also with a view to reduce poverty and inequality:**
 - EU domestic and international tax policies
 - EU supports partner countries in cooperation with international organisations and via bilateral or regional EU programmes



Thank you!

Contact: Stefan.Agne@ec.europa.eu



European
Commission

ANNEX

Tax design issues of Property Taxation

Traditionnal ownership-valuation model: does not work in LDCs

- Cadasters often incomplete
- Difficult valuation
- Extensive informality

Flat-tax linked to essential characteristics of properties: easier to implement

- Possible "own source" of revenues for local government
- Local Gov. can marginally set the tax rate / base
- Possible for local Gov. to access credit

Distributional impact (all properties are taxed, even the most expensive, that usually escape taxation).

Strong case for equalization framework (high likelihood of property tax revenue concentration)