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Special meeting on international cooperation in tax matters

Summary record of the 27th meeting
Held at Headquarters, New York, on Friday, 18 May 2018, at 3 p.m.

President: Mr. Mahmadaminov (Vice-President) .... (Tajikistan)

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In the absence of Ms. Chatardova (Czechia), Mr. Mahmadaminov (Tajikistan), Vice-President, took the Chair.

The meeting was called to order at 3.05 p.m.

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*) (E/2018/45-E/C.18/2018/1, E/C.18/2018/2)

Interactive dialogue: "Taxation of official development assistance-funded projects"

1. **Mr. Sasseville** (Inter-regional Adviser on International Tax Matters, Capacity Development Unit of the Financing for Sustainable Development Office, Department of Economic and Social Affairs), moderator, said that he would deliver the statement of Mr. Moussa Arreh, Head of the Tax Policy Unit in the Ministry of Economy and Finance of Djibouti, who was unable to attend the meeting but had submitted his digital slide presentation. He would begin by conveying Mr. Moussa Arreh's wish to draw attention to the commitment made by Heads of State and Government and High Representatives in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development to consider not requesting tax exemptions on goods and services delivered as government-to-government aid, beginning with renouncing repayments of value added taxes and import levies. Nonetheless, he wished to add that, in his own view, it was important to bear in mind that that commitment was merely to consider not requesting such exemptions; it was not a promise not to request those exemptions. During the current session, the Council would consider whether exemptions should be reconsidered.

2. Turning to Mr. Moussa Arreh's prepared slide presentation on tax exemptions granted by Djibouti to projects funded by official development assistance (ODA), he said that foreign-funded development projects targeted almost every area of the public sector, and that funding for those projects was provided by a wide range of foreign aid and international organizations. The budgetary impact of ODA projects was significant: the value of donor-funded projects for the period 2013–2017 was almost equivalent to the value of the national budget for those years. Exemptions were granted on customs duties, value-added tax and income tax, depending on the project and the nature of the exemption. The budgetary cost of such exemptions was set out in the slide presentation, which showed that each type of exemption led to significant revenue losses for the State.

3. The presentation identified several difficulties that perhaps other countries also experienced. In the Djibouti Tax Policy Unit, 20 agents worked full-time to administer the exemptions, as they were not uniform but rather were granted to different actors by means of various instruments and in effect constituted a parallel tax regime that required many resources. For example, a loan agreement with the African Development Fund provided for a full exemption on the principal, interest and underwriting fees. In his own view, however, it would be a simple matter for a lender to follow the usual banking practice of adding a clause to the agreement that any tax withheld on the interest must be borne by the borrower. Such language would obviate the need for a special exemption. However, that particular exemption had been required.

4. The final slide in the presentation illustrated the importance of ODA projects in Djibouti. It stated that tax revenues lost to tax exemptions on ODA-funded projects amounted to approximately 13 to 15 per cent of the country's tax revenues.

5. **Ms. Stolte-Detring** (Deputy Head of Division, International Tax Section, Federal Ministry of Finance, Germany), panellist, accompanying her statement with a digital slide presentation, said that exemptions on ODA-funded projects were mainly motivated by the desire to reduce tax burdens on development projects and to simplify tax administration. Exemptions on development projects had a number of benefits: they allowed donor agencies to avoid compliance costs in recipient countries; they made it easier for donors to garner political support at home for targeted projects abroad; they ensured that projects were aligned with the donor country's budgetary constraints; and they helped avoid the costly process of renegotiating bilateral treaties.

6. Exemptions also enabled donors to avoid costly compliance requirements stemming from laws on tax, labour, property, trade or the environment. Tax systems in recipient countries had different rates, bases and compliance requirements that needed to be taken into consideration. Import duties posed particular challenges due to complicated tariff systems, and tax administrations and financial institutions in recipient countries were not always sound. Such administrative burdens prevented donors from concentrating on their core mission.

7. Donors needed to be able to justify to their citizens why national resources should be spent on projects that benefited the citizens of a foreign country and perhaps

why the recipient country would not be able to finance the project itself, from its own resources. Once the recipient country received taxes and duties, it could use those funds according to its own needs, and the donor country would have no control over how it was used. Donor countries had an interest in ensuring that all funds earmarked for development assistance were spent on the targeted project to avoid misuse of funds and promote project sustainability. However, taxation of international aid increased the likelihood that donor country funds would be lost to corruption. Taxation of development projects could also increase the risk that funds provided by the donor country would be diverted to military uses or other purposes that were at odds with the values of the country or of its taxpayers. In addition, taxation of development assistance might mean that fewer resources would be available for investment in important projects, such as hospitals.

8. It was also worth noting that most development assistance was based on framework agreements with the recipient country. Any decision to begin taxing development assistance would mean that those agreements would have to be renegotiated, which could imperil the aspects of the agreements that dealt with other, non-tax, issues, such as labour practices, permits and visas.

9. **Ms. Stewart Tamba** (Commissioner General, Revenue Authority, Liberia), panellist, accompanying her statement with a digital slide presentation, said that her country faced a significant funding gap, as its national budget was approximately $600 million while domestic revenue was around $500 million. Furthermore, the country had poor infrastructure and was dependent on ODA. In 2015–2016, ODA was equivalent to approximately 143 per cent of the national budget, and Liberia also received direct budget support.

10. A typical broad tax exemption provision ensured that all funding was free from the payment or imposition of any existing or future taxes, duties, levies, contributions or similar charges. The Cotonou Agreement between the European Union and the African, Caribbean and Pacific States, for example, provided that the latter should apply to contracts financed by the European Community tax and customs arrangements no less favourable than those applied by them to the most favoured States or international development organizations with which they had relations. World Bank contracts often had particular provisions that exempted contractors from taxes.

11. Several reasons were usually provided for tax exemptions. One reason was that taxation reduced the overall aid available for a country. Another was that it would be more difficult to attract employees or contractors to work in a country if exemptions were not granted. Furthermore, it was argued that the financing of tax costs out of donor support would reduce its actual infusion in the country. Finally, recipient countries such as Liberia often had no choice but to offer exemptions.

12. Broad tax exemptions led to certain effects. There was the cascading effect of tax exemptions from implementing agencies to their subcontractors. In addition, administering tax exemptions imposed heavy burdens on the country receiving the aid. Exemptions led to economic distortions as they incentivized tax avoidance among local producers and they gave rise to black market trading in vehicles, generators and fuel. The non-uniform application of tax law also undermined the effectiveness and fairness of the tax system. The World Bank, in a report, had recognized that its policy of not financing local taxes and duties encouraged Governments, especially those that were fiscally stressed, to provide tax exemptions, thereby undermining the integrity of their fiscal systems.

13. She proposed several solutions to the problems she identified. Exemptions could be granted on capital equipment such as productive machines, raw materials and related imports, but income tax and other related taxes should be paid by profit-making natural and legal persons to the recipient country. The Governments of recipient countries believed that roads, clean air and security were fair consideration for income tax payments. While exemptions on petroleum products were common in her jurisdiction, her Government believed that such exemptions should not be granted, as they were easily subject to abuse. Finally, donor countries should promote practical assistance in the effort to mobilize domestic resources by agreeing to comply with requirements to provide tax identification numbers.

14. **Mr. Waerzeggers** (Senior Counsel, International Monetary Fund(IMF)), panellist, said that little progress had been made on developing a consistent approach to tax exemptions. Three key issues in particular needed to be addressed: consistency, transparency and governance.

15. A consistent approach to tax exemptions was an issue both domestically and internationally. Djibouti was a good example of a recipient country with an inconsistent domestic tax framework: its Government was tasked with administering a general tax system as well as overseeing up to 30 other donor-specific tax systems. The provisions in the governing agreements contained very subtle differences. Internationally, advances had been made in recent years towards a more

consistent approach to tax issues. The International Monetary Fund (IMF) had recently worked with the partners in the Platform for Collaboration on Tax to publish documents concerning tax incentives and tax certainty. The issue of donor-financed projects somewhat undermined high-level goals in the areas of tax incentives, consistency of tax systems and tax certainty, for both tax administrations and taxpayers.

16. Exemption provisions were often contained in agreements, letters or treaties that were not made available to the public, which raised issues of transparency, particularly for tax administrations. Lack of transparency also affected tax administrations themselves. IMF had, for example, worked with countries whose tax administrations were unable to identify the relevant agreement provisions; in other cases, the relevant provision was several decades out of date or lost entirely, which raised significant governance issues.

17. Governance in tax matters was related to transparency. Even though a country's ministry of finance was usually responsible for administering tax agreements, in many cases, ministry representatives were not present when the agreement was negotiated, which meant that the practical implications of the agreement's provisions were not understood until it was too late.

18. **Mr. Pecsteen de Buytswerve** (Permanent Representative of Belgium to the United Nations), lead speaker, said that his country had instituted a new policy on taxation of ODA-funded projects. Belgium had previously requested tax exemptions from recipient countries but no longer did so, as decades of experience had shown that they led to several problems. Firstly, they undermined efforts at domestic resource mobilization; secondly, the rules governing exemptions complicated tax systems and overburdened tax administrations; and thirdly, tax exemptions increased the risk of tax evasion and fraud.

19. The decision to abandon tax exemptions had been precipitated by initiatives developed by IMF, namely, the tax administration diagnostic assessment tool, which analysed government income, and the public expenditure and financial accountability framework, which analysed government expenditures. Belgium had decided in 2017 to bring its policy into line with the Addis Tax Initiative. Therefore, in order to increase fiscal income and strengthen tax administrations in its 14 partner countries, it had decided to cease requiring tax exemptions on its development funding and to follow the normal tax rules of the recipient countries. In doing so, Belgium aligned itself with like-minded donors, and it would make the case at the European level for the cancellation of tax exemptions on development funding.

20. In order to implement the new policy, the existing general cooperation agreements between Belgium and each of its partner countries would have to be renegotiated. A decision to suspend a tax exemption for an initial period of five years would be based on five *ex ante* criteria, including compliance with minimum requirements of public expenditure and financial accountability, ongoing reform of the partner country's tax system, and budget support from the European Commission. Later, an independent party would consider data from the tax administration diagnostic assessment tool to see if there had been an improvement in indicators and a substantial increase in tax income.

21. Preliminary calculations showed that after suspension of tax exemptions, 5 to 10 per cent of the budget of the cooperation programme would be paid in taxes, although that amount could be as high as 15 per cent for programmes involving many infrastructure projects. The fiduciary risk of suspending tax exemptions would be managed through the application of the five criteria he had just referred to and the fact that the measure was only a suspension, not a final cancellation, of tax exemptions. Furthermore, the renewal of the tax exemption suspension after the initial five-year period would be contingent on the outcome of an independent evaluation. Finally, it was believed that fiduciary risk would be offset by improvements in the country's tax system resulting from the application of the new policy.

22. **Mr. Minh** Dang Ngoc (Deputy Director-General, General Department of Taxation, Ministry of Finance, Viet Nam), lead speaker, said that Viet Nam had received significant bilateral and multilateral aid after it had begun to reform its economy in the 1980s. Foreign aid, which currently supplied 0.5 per cent of the national budget, had at times accounted for 5 to 8 per cent. At various times, the Government had granted tax exemptions on foreign aid at the request of donor countries or to ease administrative burdens. The exemptions granted varied depending on the donor, the amount of aid involved and whether the funds were for humanitarian, social, educational or business purposes. ODA had had a positive impact on the country, contributing to infrastructure such as ports and roads and funding vocational training, but exemptions could lead to distortive effects such as unfair competition, financial abuses, administrative burdens on the tax administration, corruption and inconsistencies in policy.

23. Viet Nam welcomed the initiative to task the Committee of Experts on International Cooperation in Tax Matters with a study on suspending tax exemptions on goods and services delivered as government-to-government aid and believed that its draft guideline on the tax treatment of ODA projects was a step in the right direction. In the view of developing countries such as Viet Nam, it would be helpful for donors and recipients to have a general guideline when negotiating ODA projects for purposes of policy consistency, transparency and general standards for selected limited exemptions and in order to minimize abuse and administration costs. Since 2013, Circular 184 of the Ministry of Finance of Viet Nam had regulated all ODA-related issues in line with best practices, and his Government was ready to help facilitate any sources of ODA aimed at the country's development.

24. **Ms. Aristizabal Mora** (Vice-Chairperson, Committee of Experts on International Cooperation in Tax Matters) said that in 2002, in order to address the multiplicity of domestic taxation systems governing ODA-funded development projects, Colombia had adopted a standard on donations by foreign Governments or institutions. The exemption for development projects, granted on all taxes and contributions at the national level, covered the projects, along with their donor and executing agencies. The Government regulated exemptions by requiring each public entity in charge of the project to issue certification on behalf of the international organization to which the exemption was being granted. In order for an exemption to be granted, a country or organization must have concluded a cooperation agreement with Colombia, and the project must be considered to benefit the common good. The relevant public entity was required to inform the international partner that it intended to undertake a project benefiting the common good and that a cooperation agreement was in place. The entity must either request written certification of the exemption and submit it to the National Directorate of Taxes and Customs within a specified time frame, or request reimbursement for taxes paid if the certificate was not presented within the prescribed time. Moreover, since that category of exemption did not qualify for a deduction under Colombian law, the value added tax was regarded as a cost when goods and services were provided by a Colombian entity, increasing the cost of the project. Lastly, with regard to taxes on financial movements, in order to qualify for an exemption, each entity must open a dedicated account for each project.

25. **Mr. Mvula** (Observer for Zambia) said that tax exemptions on ODA-funded projects, while generally beneficial, gave rise to certain distortions and administrative burdens. Coming from a tax administration background, he had had first-hand experience of those administrative burdens. In many cases, the legislation governing tax exemptions made reference to various agreements, which had to be checked by officials to ensure that the projects qualified. Grey areas in the documents meant that officials had to make decisions based on their interpretations. There was also potential for abuse, as certain projects that probably should not be covered by exemption agreements were technically not illegal. He supported the work of the Committee of Experts on International Cooperation in Tax Matters and hoped that the guidelines could be completed quickly. In the meantime, it was useful to observe how countries such as Norway and Belgium approached the issue.

26. **Mr. Steel** (Overseas Development Institute) said that his organization was glad to see the topic of tax exemptions on the agenda, as it had important implications for domestic resource mobilization and the implementation of the Goals. The Institute was particularly pleased to learn that Belgium had joined other countries in reviewing such exemptions. The Institute had prepared a paper in collaboration with the African Tax Administration Forum that set out the arguments for and against the taxation of foreign aid; it also contained the results of a survey recently published by the Institute as well as recommendations for increasing transparency, building the evidence base and ending the most problematic practices.

27. **Ms. Stolte-Detring** (Deputy Head of Division, International Tax Section, Federal Ministry of Finance, Germany) said that tax exemptions were not rare: Germany had tax exemptions written into its treaty models, for example, and the presentation on Djibouti showed that that country had investment zones for attracting foreign investment. She wondered whether the Belgian model was truly simpler in terms of tax administration, as it set numerous conditions.

28. Perhaps more evidence and a broader range of data were needed in order to further the discussion. It should be borne in mind that any guidelines drafted would merely be a model, and that each donor country would need to decide how to realize development assistance.

29. **Ms. Stewart Tamba** (Commissioner General, Revenue Authority, Liberia) expressed the hope that more donor countries would mirror the strategic approach taken by Belgium, Denmark, Norway, the Netherlands and Sweden and act in a manner consistent with paragraph 58 of the Addis Ababa Action Agenda.

30. **Mr. Waerzeggers** (Senior Counsel, International Monetary Fund (IMF)) said that although IMF did not

set standards, it was interested in consistency of approach. The Council had made strides, and there was an opportunity to build on current momentum. While it was not his place to instruct the Council, he believed that the views presented at the special meeting should be incorporated into its work. He hoped that further progress would be made, but recognized that it was up to each country to enact policies as it saw fit.

Interactive dialogue: "Strengthening tax capacity in developing countries"

31. **The President**, moderator, said that the Platform for Collaboration on Tax was an important initiative by IMF, the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank Group aimed at increasing inter-agency dialogue and collaboration on international tax matters. In February, the Platform had held its first global conference on the theme of taxation and the Sustainable Development Goals, where it had discussed the tax policies and administrative reforms needed to achieve the Sustainable Development Goals.

32. **Ms. Kanani** (Practice Manager, Domestic Revenue Mobilization, Equitable Growth, Finance and Institutions, World Bank Group), panellist, accompanying her statement with a digital slide presentation, said that although States had made great strides in strengthening their tax systems with a view to financing public services and achieving the Sustainable Development Goals, much remained to be done. Research showed that in order to adequately fund public services, 15 per cent of GDP should be collected through taxes, but some 30 of the 75 poorest countries in the world did not meet that threshold.

33. The world had entered an era of unprecedented cooperation on tax issues, and new initiatives had created opportunities for developing countries to participate in international tax policy discussions. Important discussions had been held at international forums on how developing countries could make recourse to expertise and assistance when implementing complex standards. The Platform aimed to deepen collaboration on domestic resource mobilization and to promote collective action towards stronger tax systems in developing countries.

34. Even though the Platform had only been in existence for a brief period, it had made progress on several fronts. It had helped developing countries to build tax capacity, created guidance on international tax issues and promoted knowledge exchange and cooperation. With respect to capacity-building, in July 2016, the Platform had drafted a series of recommendations for enhancing the effectiveness of external support for building tax capacity, highlighting the medium-term revenue strategy approach. That approach helped with national priority-setting and increasing collaboration to improve tax policy and administration. Some countries, such as Indonesia and Pakistan, had piloted the approach with positive results. The Platform had also produced toolkits for developing countries on international taxation, the most recent of which addressed difficulties in accessing data for transfer pricing analysis.

35. The First Global Conference of the Platform for Collaboration on Tax: Taxation and the Sustainable Development Goals, an important knowledge-exchange event, had been held in February at United Nations headquarters and attended by representatives from the public and private sectors, civil society and academia. A key outcome of the Conference was that taxation affected achievement of the Sustainable Development Goals. Equitable and non-distortive taxation fostered the private sector development necessary for economic growth; taxes on items such as tobacco and carbon products directly promoted health and environmental sustainability and were more important for their effect on incentives and behaviour than for their impact on revenues; and good tax governance strengthened the social contract between citizens and the State by increasing taxpayers' trust in their Governments.

36. The Conference Statement outlined 14 action points. With respect to strengthening international tax cooperation, the Platform partners pledged to address issues such as tax certainty, spillovers, and tax treatment of ODA. With respect to medium-term revenue strategies and institution-building, the partners had begun to improve coordination and collaboration among themselves but there was a need for greater stakeholder engagement. The Platform would facilitate developing countries' access to information and best practices in the sphere of tax administration and create opportunities that would encourage dialogue among Platform partners and other stakeholders.

37. Immediate actions that had emerged from the 14 action points included a web-based integrated platform on tax activities, which would outline the technical assistance and capacity development activities of the Platform partners. Outreach activities such as conferences and regional circulation of the Platform's products were planned. Increased funding for the Platform secretariat was needed so that it could implement its ambitious programme.

38. **Mr. Hanif** (Director, Financing for Sustainable Development Office, Department of Economic and

Social Affairs), panellist, said that achieving the Sustainable Development Goals would require considerable financial resources. However, while the Addis Ababa Action Agenda recognized that much of the public financing needed for their implementation would have to be generated at the national level, domestic resource mobilization presented a significant challenge for developing countries that had difficulty collecting tax revenues.

39. The First Global Conference of the Platform for Collaboration on Tax had provided an opportunity for an inclusive discussion of two issues: the role of taxation in mobilizing domestic revenue to finance the Goals, and the challenges and opportunities in using tax systems in support of sustainable development. The Conference had made clear that tax systems had economic and social effects that transcended financing alone. Tax policy and administration reforms should not only foster investment, trade and economic growth, but should also address social concerns such as poverty, income and gender equality and health and human development. The Platform had therefore worked to support country-led medium-term revenue strategies and had committed to launching a multi-year programme on tax and the Goals, which would include components on health, education, gender, inequality, environment and infrastructure.

40. The Platform would help developing countries access knowledge, experience and good practices in tax administration. In particular, effective use of technology had an important role in tax administration and tax collection. The importance of cooperation had been emphasized during the Conference, as there were limits to what countries could do on their own through domestic policies. The Platform partners had also agreed that international tax and transparency standards needed to be enhanced to discourage tax evasion and avoidance and illicit financial flows. Such efforts should reflect the diverse needs and capacities of all countries. The Platform would help developing countries address issues of tax transparency as well as base erosion and profit shifting.

41. The Platform would review current practices and provide guidance on the tax treatment of ODA-funded projects. It would also analyse and report changes in the international tax environment that could result in opportunities for developing countries. The Platform partners would establish a regular, structured and inclusive dialogue with all stakeholders on tax matters. It would aim for the highest standards of transparency when providing information about its activities. In order to provide coherent international tax policy advice, the Platform partners would increase coordination among themselves and work closely with other relevant stakeholders by holding regular, structured and inclusive dialogues on tax matters.

42. **Ms. Perez-Navarro** (Deputy Director, Center for Tax Policy and Administration, Organization for Economic Cooperation and Development (OECD)), panellist, accompanying her statement with a digital slide presentation, said that the toolkits developed in the Platform for Collaboration on Tax were intended to help low-income, low-capacity countries tackle base erosion and profit shifting and other issues not included in the OECD Action Plan on Base Erosion and Profit Shifting. Regional discussions held to determine what issues were of concern in each region had informed the development of the toolkits. Efforts were under way to promote the regular use of the toolkits in developing policy and administrative practices that would improve the ability of low-income countries to tackle base erosion and profit shifting. Capacity-building events and the dissemination of information on the Platform's toolkit were vital to those efforts. A pilot event on accessing comparables for transfer pricing would be held to address the issues faced by low-income countries, some of which lacked ready access to comparables within domestic markets.

43. The toolkit on the design of tax incentives provided countries with guidance on how to design prudent tax incentives and establish good governance of those incentives. The aim was to ensure that incentives actually encouraged investment, including investments that might not have occurred otherwise. The toolkit also contained guidance on how to mitigate tax competition.

44. Toolkits on the indirect offshore transfer of interests and on assessing the risk of base erosion and profit shifting were being developed. Discussion drafts of all the toolkits had been released for public consultation. A toolkit on implementing the effective use of transfer pricing documentation provided practical guidance to low-income, low-capacity countries on how best to use documentation, a vital element of transfer pricing, which entailed a facts and circumstances analysis. As part of the OECD/G20 Base Erosion and Profit Shifting Project, new types of transfer pricing documentation had been developed to make the same types of documentation available to all countries. A forthcoming toolkit on treaty negotiations, a joint OECD-United Nations effort, would allow low-income countries to benefit from the experience of developed countries in negotiating tax treaties. Additional information on the toolkits and links to discussion drafts could be found on the OECD Platform for Collaboration on Tax website.

45. **Mr. Waerzeggers** (Senior Counsel, International Monetary Fund (IMF)), panellist, said that the concept of medium-term revenue strategies had emanated from the realization that countries needed to engage in a more medium-term, society-wide and comprehensive approach in order to sustainably increase tax-to-GDP ratios. Medium-term revenue strategies thus provided countries with the tools to achieve the Sustainable Development Goals and attain sustainable levels of tax-to-GDP ratios. A medium-term plan, spanning a minimum of four to six years, was set out in a government document, indicating national ownership and commitment to the tax reforms required to attain the specified target. However, immediate and short-term revenue goals were not ruled out.

46. The medium-term revenue strategy served as a platform for other assistance providers to support a Government in reaching its goals. Its core components were the revenue goal, matched to the Government's expenditure needs and plans; the tax reform aspect; the political commitment and coordination of support. Setting the revenue goal involved quantifying steps in terms of identifying the revenue gaps, quantifying the tax measures that could fill those gaps, and setting out a road map towards that goal. All aspects of tax reform — policy, tax administration measures and the legal framework itself — were examined, underscoring the impossibility of changing a tax system without legislative reform. Securing political commitment on the part of Governments, public and private sector stakeholders and the society at large posed the single greatest difficulty in implementing medium-term revenue strategies. Devising communications strategies, committing reform resources and other aspects of changed management were crucial to the success of any medium- or long-term reform effort. Lastly, medium-term revenue strategies should be used as tools to promote greater coordination of support provided at the country level. IMF had helped a number of African and Asian countries formulate their medium-term revenue strategies and frameworks; during its new fiscal year, the Fund would extend similar support to Thailand and Laos.

47. **Ms. Romero** (Observer for Panama) said that Panama was a good example of a developing country that had undertaken considerable and costly efforts to bring its legislation and practices into line with constantly changing international tax laws and standards. Lacking the resources to participate in the wide array of regional and international forums in which international taxation standards were negotiated, drafted and decided upon constituted a formidable challenge for developing countries. Indeed, such participation was a luxury that developing States could not afford. In that connection, she called for efforts to help developing countries take part in those deliberations alongside developed countries and have a greater say in the design of international tax norms.

48. **Mr. Hanif** (Director, Financing for Sustainable Development Office, Department of Economic and Social Affairs) said that the members of the Platform for Cooperation on Tax were committed to ensuring that developing countries were able to participate in meetings to build their capacity. Under the Platform, all Member States must be equipped with sufficient information on emerging taxation issues in a rapidly changing landscape. The deliberations of the Committee of Experts on International Cooperation in Tax Matters were very open and inclusive, and their work was complemented by OECD. Platform partners would do their utmost to ensure that developing countries had the capacity, knowledge and resources to participate in meetings.

49. **Ms. Kanani** (Practice Manager, Domestic Revenue Mobilization, Equitable Growth, Finance and Institutions, World Bank Group) said that mechanisms must be established to enable developing countries to be represented in forums if they were unable to send participants. The issue was being addressed through the work of the Platform for Cooperation on Tax and that of the institutions that comprised it, in conjunction with most of the developing countries that were members of those institutions. One of the roles of the Platform was to bring the voice of developing countries into international dialogue on tax matters and thus to influence the decisions and standards being discussed.

50. **Ms. Perez-Navarro** (Deputy Director, Center for Tax Policy and Administration, Organization for Economic Cooperation and Development (OECD)) said that initiatives established under the Inclusive Framework on Base Erosion and Profit Shifting included twinning programmes with countries already in the Inclusive Framework and new members. OECD had also undertaken a significant amount of capacity-building to help developing countries understand various actions and measures, in conjunction with the United Nations and the World Bank.

51. **Mr. Waerzeggers** (Senior Counsel, International Monetary Fund (IMF)) said that while the Fund was not a standard-setter, it was conducting technical assistance programmes with Panama and other countries, alongside numerous other initiatives.

General discussion

52. **Mr. Elkhishin** (Observer for Egypt), speaking on behalf of the Group of 77 and China, said that in order to achieve meaningful progress in the action area of the Addis Ababa Action Agenda on domestic public resources, the matter must be contextualized in a transparent manner, with the United Nations playing a normative and convening role for intergovernmental deliberations while respecting Member States' policy space in their efforts to achieve economic growth.

53. Welcoming the increased representation of experts from developing countries on the Committee of Experts on International Cooperation in Tax Matters, he urged the Committee and its subcommittees to fulfil their mandate to consider and address such new and emerging issues as illicit financial flows, tax avoidance, tax evasion and taxation and digitalization of the economy. The Group of 77 and China appreciated the contribution by the Government of India to the Trust Fund for International Cooperation in Tax Matters and called on Member States to follow suit, thereby supporting the increased participation of developing country experts at subcommittee meetings.

54. He expressed concern at the continued absence of a single global inclusive forum for international tax cooperation at the intergovernmental level and of a global, transparent process on setting the norms and standards of the international tax regime, resulting in the agenda and design of ongoing tax reforms taking place in forums outside the United Nations system. The Group of 77 and China would continue to attach priority to the issue and push to upgrade the Committee of Experts to an intergovernmental body composed of experts representing their Governments.

55. He stressed the importance of eliminating safe havens that created incentives for the transfer abroad of stolen assets and illicit financial flows; strengthening regulatory frameworks at all levels to further increase the transparency and accountability of financial institutions, the corporate sector and public administration; and bolstering international cooperation and national institutions to combat money-laundering and the financing of terrorism.

56. The rapid expansion and sectoral spread of digital methods posed serious challenges to the tax systems of developing and developed countries, with the digital economy upending such traditional concepts as permanent establishment and profit-based taxation and standard indicators of economic activity disappearing along the tax bases that they had made possible. As the digital economy became more sophisticated, tax methods would have to be continually adjusted. Amidst the upheaval of basic concepts and policies, a just and universal arrangement must be put in place to set out international tax approaches and update those standards. The efforts of the inter-agency Platform for Cooperation on Tax to strengthen coherence, coordination and consensus-building in international tax matters must be conducted through intergovernmental cooperation and negotiations.

57. **Mr. Bolaji** (Nigeria), speaking on behalf of the Group of African States, said that while the increase in the representation of developing countries on the Committee of Experts was a step in the right direction, the 2030 Agenda for Sustainable Development should be aligned with the African Union Agenda 2063. The success of both agendas ultimately hinged on the strengthening of institutional and human capacities at various levels. In that regard, the African Group joined the call for an inclusive, intergovernmental United Nations tax commission with the mandate and resources to ensure effective and fully inclusive international tax cooperation and domestic resource mobilization, in addition to addressing issues related to illicit financial flows, including international tax avoidance and tax evasion. Such a commission should allow all countries to participate on equal terms and yield a legally binding convention on international tax cooperation that ensured transparency and tackled harmful tax policies and practices, tax havens and secrecy jurisdictions.

58. The African Group also endorsed ongoing efforts by the Human Rights Council to conclude a legally binding international instrument on transnational corporations and other business enterprises. The time had come to criminalize activities leading to illicit financial flows, which diminished the mobilization of resources to deliver the Sustainable Development Goals. To that end, the African Group called on the Council to invite Member States to consider establishing or strengthening independent institutions and government agencies responsible for preventing illicit financial flows and reinforcing good practices in asset recovery to foster sustainable development. In closing, the African Group supported the proposal to establish an intergovernmental body to coordinate the various disjointed international mandates on illicit financial flows and facilitate the recovery and return of those flows, with the participation of the private sector and civil society.

59. **Mr. Malawana** (South Africa) said that it was critical to find broad-based ways to address the challenges that hindered countries, particularly developing countries, from adequately collecting taxes. The role of the United Nations in global tax matters must be strengthened. While his delegation welcomed

both the increase in developing country representation on the Committee of Experts on International Cooperation in Tax Matters and the activities of the Platform for Collaboration on Tax, the potential for duplication of effort in some overlapping areas of work gave cause for concern. He would therefore appreciate information on how the two structures could coexist and on whether they collectively enriched global cooperation in tax matters. Those two structures should not be regarded as a panacea that would obviate the need to establish an intergovernmental body on tax matters in which all countries could participate equally. Elevating the Committee of Experts to the status of a universal, intergovernmental body would be a crucial step towards creating a coherent global system on tax matters. Such a body was a necessity, as it would strengthen fair and consistent global action against tax havens. In that connection, Governments hosting headquarters of multinational companies that invested in developing countries should establish legal parameters to discourage abusive transfer pricing, tax evasion and aggressive tax avoidance and other negative practices generating illicit financial flows.

60. Improvements in digital technology had also facilitated the global exchange of information, making tax evasion harder. His Government's efforts over the previous decade to modernize and automate administrative processes in tax administration had brought the use of electronic tax submissions and customs declarations and payments to close to 100 per cent.

61. The funding by Governments and international organizations of projects using ODA and the requests for tax exemptions on some of those projects should not undermine the development aspirations of countries receiving ODA, nor should it be used as a precondition for ODA, which remained an important source of financing for developing countries. Lastly, he hoped that the call by developing countries for an intergovernmental body on tax matters would be taken seriously instead of being treated dismissively, as decisions on behalf of developing countries in that area must not be left to an exclusively limited number of voices.

62. **Ms. Stoeva** (Observer for Bulgaria), speaking on behalf of the European Union and its member States; the candidate countries Albania, Serbia and the former Yugoslav Republic of Macedonia; and, in addition, Georgia and the Republic of Moldova, said that the New European Consensus on Development, adopted in 2017, recognized the universality of the 2030 Agenda and provided the framework for a common approach to development policy. The Consensus underscored the European Union's commitment to a life of dignity for all that reconciled economic prosperity and efficiency, peaceful societies, social inclusion and environmental responsibility. To that end, efforts would be made to eradicate poverty, reduce vulnerabilities and address inequalities to ensure no one was left behind. Moreover, the European Union and its member States would take action to empower women and girls, promote their role as agents of development and change and redouble efforts to achieve gender equality. The Consensus also underlined that in emphasizing the importance of domestic action and sound policies, the Addis Ababa Action Agenda set a new paradigm for implementation through the effective use of financial and non-financial means.

63. Enhancing domestic resource mobilization increased the predictability and stability of financing for sustainable development and reduced aid dependency, in addition to delivering more public goods and services where they were needed and thereby strengthening the social contract between Government and citizens.

64. The European Union and its member States would work with partner countries to promote progressive taxation, anti-corruption measures and redistributive public expenditure policies and to tackle illicit financial flows, which continued to derail sustainable development, disproportionately affecting developing countries. International cooperation would remain crucial in those efforts. Through such initiatives as "Collect More, Spend Better", the European Union promoted effective and efficient resource mobilization and use. The European Union was among the lead contributors to the Addis Tax Initiative, and was actively engaged in fighting illicit financial flows, tax evasion and tax avoidance, having enhanced the relevant regulatory framework.

65. The European Union and its member States welcomed progress on international tax cooperation, including the work of the Global Forum on Tax Transparency and the First Global Conference of the Platform for Collaboration on Tax. The European Union and its member States noted the Platform partners' statement affirming their commitment to supporting country-led medium-term revenue strategies. The European Union and its member States appreciated the valuable work on base erosion and profit shifting spearheaded by OECD and the commendable initiatives to make the framework inclusive. She also expressed support for ongoing initiatives by Member States, such as the follow-up to the International Expert Meeting on the Management and Disposal of Recovered and Returned Stolen Assets, including in Support of Sustainable Development, hosted by Ethiopia and

Switzerland in Addis Ababa in February 2017; the work on illicit financial flows spearheaded by Nigeria and Norway; and the recent initiative of Sweden to host an international conference on tax capacity-building.

66. The European Union and its member States agreed that meetings of the Committee of Experts should alternate between Geneva and New York on a yearly basis, on the understanding that the decision supported the implementation of paragraph 29 of the Addis Ababa Action Agenda. The European Union wished to emphasize its firm understanding that the arrangement would not alter the expert nature of the Committee and that the decisions adopted on 5 October 2016 concluded the discussion on implementing the agreement contained in paragraph 29 of the Addis Ababa Action Agenda.

67. **Mr. Fox-Drummond Gough** (Observer for Brazil) said that domestic resource mobilization was a crucial aspect of financing for development. Improving tax collection was a fundamental part of that process. Norm-setting in international tax matters had deep and tangible implications for national budgets, especially in developing countries, and could determine their ability to achieve sustainable development. At a time when international taxation norms and standards were undergoing rapid transformations, developing countries must be full participants in all relevant discussions.

68. If not adequately addressed from the taxation side, the digitalization of the world economy could pose a serious threat to the revenues of many developing countries. Standards in the taxation of the digital economy must be set in a manner that recognized the different needs and capacities of each country and the imperative to promote development, lest inequalities between countries be widened. After much discussion, a consensual solution seemed elusive, with countries facing the pressure of losing revenue and the prospect of economically detrimental fiscal imbalances. For its part, Brazil would remain actively involved in efforts to reach a desirable common agreement. It nevertheless recognized the need to preserve the space for countries to take tax measures in the interest of their own people, in line with international obligations. Brazil welcomed efforts to make international tax coordination bodies more democratic and representative, including the increased representation of experts from developing countries on the Committee of Experts, and recognized the Organization’s fundamental role in those discussions.

69. **Mr. Sinha** (India) said that the Committee’s efforts to promote information exchange and capacity-building, while laudable, were no substitute for genuine and equitable multilateralism in adopting global norms and standards on taxation. The Committee of Experts should be upgraded to the status of an intergovernmental body. Universal membership was essential to ensure more effective implementation of tax standards than that occurring under the present system, which was perceived as skewed in favour of those who made the rules. A truly universal agenda would require a platform that gave all countries equal voice on international tax matters. The United Nations could provide such a platform, facilitating an open, transparent and inclusive process and strengthening the link between taxation and development by giving developing countries a voice and redressing the imbalance between the North and the South.

70. His Government would continue to contribute to the Trust Fund for International Cooperation in Tax Matters and hoped that other members would follow suit. A better resourced Committee of Experts would be capable of improving the organization of its work and supporting travel by members from developing countries to subcommittee meetings. The decision to hold sessions of the Committee in New York in the spring and Geneva in the fall had been a milestone in its integration with such related processes as the Council’s forum on financing for development follow-up.

71. **Mr. Castillo** (Colombia), stressing the importance of international cooperation in tax matters to the implementation of the Addis Ababa Action Agenda and the 2030 Agenda, said that all States should commit to building national capacities to effectively mobilize resources for sustainable development. His Government was working to promote sustainable development with a view to facilitating the implementation of the Colombian peace agreement.

72. While it was up to each State to define its tax laws and administration, the international community had an important role to play in supporting domestic resource mobilization, using such tools as the Inclusive Framework on Base Erosion and Profit Shifting and agreements on double taxation. While considerable progress had been achieved in domestic resource mobilization, States would require continued support in the form of technical assistance, training, knowledge-sharing and other means. Cooperation in tax matters provided countries with the tools needed to tackle such phenomena as base erosion and profit shifting, tax evasion and tax avoidance. A coherent system of tax norms, along with capacity-building in developing countries, would significantly contribute to the effective implementation of the 2030 Agenda.

73. **Mr. Viera Salazar** (Ecuador) said that the increase in Committee experts from developing countries constituted a major step towards strengthening international cooperation in tax matters. Developing countries must create effective tax incentives to attract new investments, instead of being trapped in a situation that merely benefited other countries. To that end, transparent mechanisms should be put in place to facilitate the exchange of information on those incentives.

74. Noting the Committee's need for support from Member States in order to fulfil its mandate and make it possible for more experts from developing countries to participate in its deliberations, he welcomed the contribution made by the Government of India to the Trust Fund for International Cooperation in Tax Matters. The Committee should address tax evasion schemes involving shell companies. Lastly, the absence of a transparent, global approach to formulating international tax norms and standards remained problematic, given that international cooperation in tax matters should be universal in focus and scope. Her country looked forward to hosting the next meeting of the Subcommittee on Article 9 (Associated Enterprises): Transfer Pricing in October.

75. **Ms. Benjasil** (Observer for Thailand), welcoming the growing attention to international tax matters at the United Nations and the increased representation of developing countries on the Committee of Experts, said that Thailand fully appreciated the challenges of the digital economy, which accounted for a substantial proportion of the country's trade. Her Government had worked to find the right balance between collecting a fair amount of income tax and maintaining an environment conducive to business. However, national efforts in that regard must be complemented by strong international cooperation to implement long-term solutions.

76. While the impact of information technology on the economy could hinder effective taxation, it could also be a tool to improve the transparency of tax administration. As part of its tax reforms, Thailand was establishing a data platform to allow the public to trace government spending and participate in the anti-corruption process. Her Government had also put in place a national electronic payment programme to facilitate money transfer, card payments, taxation and electronic documentation, thereby reducing the use of cash, increasing the transparency of financial transactions and minimizing the risk of corruption.

77. **Ms. Arrieta** (Mexico) said that Mexico would continue to participate in the activities of the Committee of Experts, including its Subcommittee on Dispute Resolution. The roles of the Committee of Experts and the OECD Committee on Fiscal Affairs should be differentiated in order to create synergies and avoid duplication of effort.

78. Technological advances and the widespread improvements they brought about enabled Member States to make tax collection more efficient and tackle tax evasion, tax avoidance and illicit financial flows. Noting the enormous potential of artificial intelligence and blockchain, she welcomed the Committee's studies on future means of tax collection. The digital economy — increasingly an economic driver in its own right — should be taxed in the most efficient manner possible. In modernizing its own tax legislation, Mexico had benefited from the guidance provided by European Union and OECD initiatives.

Conclusion of the special meeting

79. **The President** said that the meeting had successfully increased the Council's engagement with the Committee of Experts on International Cooperation in Tax Matters on critical tax issues. It had also demonstrated that the Council remained a viable platform to achieve progress in international tax cooperation, with a view to building a global tax architecture aligned with sustainable development priorities and capable of adapting to rapidly evolving global markets.

The meeting rose at 5.50 p.m.