Tax Co-operation for Development

PROGRESS REPORT IN THE COVID-19 ERA

OECD

BETTER POLICIES FOR BETTER LIVES

Preface

The COVID-19 pandemic has had a huge impact on the health of both people and economies, with developing countries hit the hardest. In the past year, governments have been caught between the need to provide income support and liquidity to individuals and businesses and at the same time trying to collect as much revenue as possible to finance spending programmes. Tax administrations are playing a crucial role in delivering pandemic responses and trying to maintain revenue collections. For developing countries that have limited fiscal space to begin with, including many that are already heavily indebted, this has been extremely challenging.

In these circumstances, helping governments in developing countries to gather as much international experience on tax policy and administration responses to the pandemic has been one immediate priority for the OECD. Tackling the 'low hanging fruit' in terms of revenue collection has also been important. For example, as the pandemic accelerated the shift to e-commerce, the work to support developing countries implement effective e-commerce Value Added Tax (VAT) has also grown. In a period of tight fiscal space, and as tolerance for tax avoidance lowers further, ongoing support for the implementation of the Base Erosion and Profit Shifting (BEPS) measures has been equally important. Demand has also remained high for assistance in exchange of information (EOI) to support the fight against tax evasion, and so the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) launched a new capacity building strategy in 2020 to improve the impact of its assistance to developing countries.

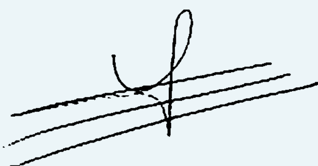
The current tensions in international tax are magnified in today's environment as pressures grow to meet urgent domestic resource mobilisation needs in the poorest countries. At the plenary meeting of the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) in January 2021, Finance Ministers from Canada, Germany, Indonesia, Italy, Jamaica and the United Kingdom all stressed that a multilateral approach to taxing the digital economy will be key to reducing these tensions. Indeed, this is crucial to avoiding uncoordinated unilateral measures causing double taxation and retaliatory trade tariffs, the cost of which could be significant. Developing countries have continued to engage in the negotiations in the Inclusive Framework highlighting the need for simplicity in the design and implementation of both pillars of the proposal.

Following the suspension of travel in March 2020, the OECD made a rapid adjustment to providing virtual technical assistance, allowing us to continue to provide support. The expansion of e-learning was also accelerated, ensuring that there was continued access to training. Virtual workshops were organised to replace face-to-face events. The virtual format enabled significantly greater access, including an increase in female participation. In 2020, the OECD's tax capacity building service managed to cover more than 30 000 tax officials from the developing world, compared to 5 000 in a typical year.

While virtual activities cannot replicate all the benefits of physical events, feedback has been positive, and a hybrid approach is likely to be taken in the future when international travel resumes.

With domestic resource mobilisation (DRM) becoming an increasingly critical element to financing the Sustainable Development Goals (SDGs) and the extraordinary strain that the pandemic has put on developing countries' ability to collect tax, now is the time to examine closely how well the international tax system serves the needs of developing countries and how the OECD can better support DRM. Developing countries have benefited in many ways from participating in the international tax discussions in recent years, particularly the Inclusive Framework on BEPS. However, maintaining the strong delivery focus has necessitated a rapid pace, posing challenges for developing countries with limited capacities. Many are on a steep learning curve, having to adapt to new ways of intergovernmental cooperation. There is also the perception that the agenda is not yet sufficiently balanced to reflect developing countries' interests. Five years after the creation of the Inclusive Framework, the OECD will work with the G20 to consolidate progress by checking that the Inclusive Framework's strong coalition of countries continues to advance together and converge on the successful implementation of the global tax rules, paying particular attention to the needs of lower income/lower capacity countries in the Inclusive Framework. A report reflecting potential improvements to enable developing countries to integrate faster, and deeper, into the new international tax architecture will be available later in 2021.

The OECD will remain flexible in a very dynamic environment. As the world moves from crisis to recovery and the hope to build back better, tax policymakers will be faced with hard choices, and new approaches to tax policy may be needed to recalibrate their tax bases. This report shows the wide range of work that the OECD does to support developing countries in these challenging times and how our work has had a concrete impact around the globe. This has only been possible with support from an impressive range of development partners and, most importantly, the enthusiastic engagement of the tax policymakers and tax administrators from all the jurisdictions that we serve.



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Acronyms & abbreviations

ADB	Asian Development Bank
AEOI	Automatic Exchange of Financial Account Information
AFIP	Administración Federal de Ingresos Públicos
ATAF	African Tax Administration Forum
ATI	Addis Tax Initiative
AUC	African Union Commission
BEPS	Base Erosion and Profit Shifting
CARICOM	Caribbean Community
CATA	Commonwealth Association of Tax Administrators
CbC	Country-by-Country
CFA	Committee on Fiscal Affairs
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate Income Tax
COTA	Caribbean Organisation of Tax Administrators
CRS	Common Reporting Standard
CTPA	Centre for Tax Policy and Administration
DIAN	Dirección de Impuestos y Aduanas Nacionales
DRM	Domestic Resource Mobilisation
ECOWAS	Economic Community of West African States
ECR	Effective Carbon Rate
EOI	Exchange of Information
EOIR	Exchange of Information on Request
ETS	Emissions trading system
EU	European Union
FATF	Financial Action Task Force
FHTP	Forum on Harmful Tax Practices
FTA	Forum on Tax Administration
G20	Group of Twenty
GDP	Gross Domestic Product
GILTI	Global Intangible Low-Taxed Income
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
GRP	Global Relations Programme in Taxation
GST	Goods and Services Tax
IDB	Inter-American Development Bank
IFF	Illicit Financial Flow
IGF	Intergovernmental Forum on Mining, Metals and Sustainable Development
IMF	International Monetary Fund
Inclusive Framework	OECD/G20 Inclusive Framework on BEPS
IO	International Organisation
IOTA	Inter-European Organisation of Tax Administrations
ISM	Information Security Management
IT	Information Technology
LAC	Latin American and Caribbean
MAAC	Convention on Mutual Administrative Assistance in Tax Matters
MAP	Mutual Agreement Procedure
MCM	Mopani Copper Mining
MNE	Multinational Enterprise
NZ-IRD	New Zealand Inland Revenue Department
ODA	Official Development Assistance
PCT	Platform for Collaboration on Tax
PIT	Personal Income Tax
PITAA	Pacific Islands Tax Administrators Association
RTO	Regional Tax organisation
SDG	Sustainable Development Goal
SGATAR	Study Group on Asian Tax Administration and Research
TA	Technical Assistance
TIWB	Tax Inspectors Without Borders
TIWB-CI	Tax Inspectors Without Borders – Criminal Investigations
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group
ZRA	Zambia Revenue Authority

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Introduction

Global economic prospects have improved over recent months with signs of a rebound in goods trade and industrial production becoming clear by the end of 2020. Global Gross Domestic Product (GDP) growth is now projected to be 5.6% in 2021, an upward revision of more than 1 percentage point from the December 2020 *OECD Economic Outlook*. World output is expected to reach pre-pandemic levels by mid-2021, but much will depend on the race between vaccines and emerging variants of the COVID-19 virus[1].

1. *OECD Economic Outlook, Interim Report* – March 2021.

While this is good news, developing countries still face severe challenges. The World Bank Group (WBG) estimates that COVID-19 pushed an additional 100 million people into extreme poverty during 2020 alone[2], with sub-Saharan Africa experiencing its first recession in 25 years. The crisis has forced most countries to take on additional debt, and for low-income countries this may lead to a precarious fiscal position, particularly if interest rates were to rise. Developing countries already struggle with limited fiscal space – for example, average tax-to-GDP ratios in African countries is 16.5%, as compared to the OECD average of 34.3%, and have less scope for borrowing or quantitative easing. Outside of Europe and North America, and in developing countries generally, governments tend to rely more heavily on VAT and corporate income tax, both of which have been very negatively affected by the shocks to the economy in 2020.

This has left tax administrations and tax policymakers in developing countries with enormous challenges in managing the fiscal impact of the crisis and a need for tools and guidance on a wide range of issues – from the very practical questions of ensuring business continuity in a tax administration, to how the COVID-19 pandemic may affect the application of tax treaties or transfer pricing rules, to the tough choices the government needs to make to support trade and investment.

In 2020, the OECD continued its efforts to ensure the international tax architecture remains fit for purpose and the global institutions that have been created in the past decade continue to serve the interest of all their members. The tax policy and administration issues that preoccupy governments around the globe in the wake of this crisis demand a multilateral response, underscoring the utility and vitality of the OECD's global and inclusive tax institutions. Now with 139 members of the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) and 162 members of the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum), the international community has never been more fully represented in discussions on tax matters relating to preventing tax evasion and countering tax avoidance by multinational enterprises (MNEs).

2. World Bank. 2020. Poverty and Shared Prosperity 2020: Reversals of Fortune. Washington, DC: World Bank.

This report shows how developing countries interact with the OECD on tax matters through four inter-connected efforts: inclusive international standards; country-level capacity building programmes delivered through a variety of platforms and modalities; guidance and data developed and analysed by world-class experts on tax policy and administration; and through partnerships with international organisations, regional tax organisations and other stakeholders.

Even as we move beyond the pandemic, the challenges will not subside, as 2021 promises to present developing countries with additional pressures on their tax capacities. The OECD stands ready to help developing countries with the collaboration of its many development partners. The report covers the full range of assistance that the OECD provides to developing countries on tax issues:

- Facilitating knowledge sharing of tax policy and administration responses to the pandemic;
- Helping developing countries prevent tax avoidance;
- Helping developing countries combat tax evasion;
- Supporting developing countries on a range of tax policy and administration issues relevant to achieving the SDGs;
- Taxation and development co-operation;
- Looking ahead to 2021 and beyond.

RESPONSES TO THE COVID-19 PANDEMIC IN DEVELOPING COUNTRIES: TAX POLICY AND ADMINISTRATION

One of the biggest challenges for developing country tax administrations in 2020 was how to mitigate the effects of the COVID-19 crisis on both taxpayers and their day-to-day operations. In partnership with the Inter-American Center of Tax Administrations (CIAT) and the Inter-European Organisation of Tax Administrations (IOTA), the OECD's Forum on Tax Administration (FTA) published three COVID-19 planning reports, covering: measures taken to support taxpayers; business continuity considerations in a pandemic; and recovery period planning. Additional COVID-19 related publications have included a note on privacy, disclosure and fraud risks, and a note on assisting wider government, a report on reputational risk management and on the implications of COVID-19 on gender balance in the short and long term.

Virtual workshops have been held with a wide range of regional partners to provide engagement globally. Workshops with the Asian Development Bank (ADB), the African Tax Administration Forum (ATAF), the Commonwealth Association of Tax Administrators (CATA), the Caribbean Organisation of Tax Administrators (COTA), the Pacific Islands Tax Administrators Association (PITAA) and the Study Group on Asian Tax Administration and Research (SGATAR) were held through the course of 2020, providing an opportunity to both raise awareness in developing countries of the range of resources available to support tax administrations, and to discuss specific challenges.

Two e-learning courses on tackling COVID-19 were developed to further assist tax administrators. Modules on business considerations and recovery planning, drawing on the reports mentioned above, were prepared rapidly to provide a more interactive approach for tax administrators to understand the challenges COVID-19 poses in these areas.

Data to support developing countries responses to the tax challenges arising from the pandemic

The OECD has been collating information on countries' tax policy and administration responses to the COVID-19 pandemic. This unique database includes details of over 1 000 tax policy responses in over 120 countries, of which nearly 400 are from 67 developing countries. The data shows:

- Enhancing business cash flow was the most common objective of measures, with 90% of developing countries taking such measures, while 40% of developing countries took measures to enhance household cash flow;
- Corporate Income Tax was the most common tax targeted, with two-thirds of developing countries implementing Corporate Income Tax (CIT) targeted measures;
- Just over half of developing countries implemented VAT measures, and just under half Personal Income Tax (PIT) measures;
- Nearly half (43%) of developing countries undertook tax measures to support health systems, while nine (13%) implemented measures using the tax system to enable more generous cash transfers, and
- Developing countries were a third less likely than the global average to implement measures to support consumption, and a quarter less likely to implement measures to support employment.

Fighting tax avoidance

Assisting developing country participation in the OECD/G20 BEPS Project

One of the top priorities of the international tax agenda is countering tax avoidance strategies that exploit gaps and mismatches in tax rules, artificially shifting profits to low or no-tax locations. Known as base erosion and profit shifting, or BEPS, these schemes undermine the fairness and integrity of tax systems, allowing businesses that operate across borders to gain a competitive advantage over domestic enterprises. The OECD conservatively estimates that every year, USD 100 to 240 billion in corporate tax revenue is lost to BEPS.

In 2015, the OECD and G20 delivered a comprehensive package of 15 BEPS Actions to support governments in addressing BEPS (the BEPS Package). Implementation of the BEPS Package is accomplished institutionally through the Inclusive Framework and operationally through a variety of bilateral and multilateral support activities. For developing countries, relatively more reliant on corporation tax, the BEPS Package can make a direct contribution to DRM.

OECD/G20 INCLUSIVE FRAMEWORK ON BEPS

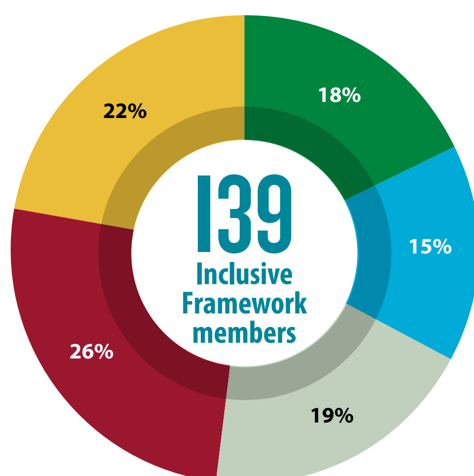
The OECD, working with G20 countries, established the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) in 2016 to ensure developing countries and other stakeholders take part in the work on countering corporate tax avoidance carried out by the OECD's Committee on Fiscal Affairs (CFA). Five years later, the Inclusive Framework has grown to 139 members, almost half of which are developing countries. Inclusive Framework members participate on an equal footing in the BEPS work, including in the review of the four minimum standards and the work to develop new international tax norms to address the tax challenges of the digitalisation of the economy.

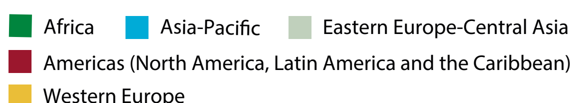
When the Inclusive Framework was established it was agreed that the mandate should be reviewed at the end of 2020. Given the ongoing importance of the progress made under the BEPS Actions, the Inclusive Framework members decided to extend their co-operation on BEPS until 2025.

The Steering Group of the Inclusive Framework reflects its regional balance, with Deputy Chairs from the People's Republic of China (China) and Nigeria, and other members from Brazil, India, Mongolia, Senegal, South Africa and Zambia. To backstop African countries, ATAF continues to attend Steering Group meetings.

Due to the importance of the work on addressing the tax challenges of digitalisation, together with the challenges posed by the COVID-19 pandemic, three plenary meetings of the Inclusive Framework were convened in 2020. The October meeting saw representation from almost all Inclusive Framework jurisdictions and the agreement of draft technical proposals to tackle the tax challenges of digitalisation.

The Inclusive Framework includes 139 members including 66 developing countries, all on equal footing.





The BEPS minimum standards: Peer reviewing progress

Of the 15 actions in the BEPS Package, four are minimum standards that all members of the Inclusive Framework have agreed to implement:

- **Action 5**: Eliminating harmful tax practices,
- **Action 6**: Preventing tax treaty abuse,
- **Action 13**: Ensuring Country-by-Country (CbC) reporting,
- **Action 14**: Improving dispute resolution via Mutual Agreement Procedure (MAP).

All members of the Inclusive Framework commit to participating in peer reviews to monitor how well each jurisdiction has implemented the standard.

Peer reviews are undertaken by the technical working groups dealing with the implementation of each of the four minimum standards. In light of the capacity constraints of developing countries, some flexibility in terms of the timing of the peer review process is available. This is most notably the case for the peer review on Action 14 (MAP) whereby developing countries that do not have a meaningful level of cross-border tax disputes are eligible to request a deferral of the peer review. Initially, it was agreed that the peer reviews should run for the period 2017 to the end of the BEPS project in 2020. However, with the extension of the mandate of the Inclusive Framework, the peer reviews of the BEPS minimum standards have also been extended to cover the period to 2025. The flexibility afforded to developing countries in the peer review process has resulted in a steady increase in their participation in peer reviews over time.

SUPPORTING BEPS IMPLEMENTATION

The BEPS Package equips developing countries with the domestic and international tools to tackle tax avoidance and improve their taxation of MNEs. Support for developing countries in implementing the BEPS Package has always been core to the Inclusive Framework's mandate. This support takes a variety of forms, including bespoke induction programmes to help countries identify and implement priority BEPS measures, support in the peer review processes relating to the BEPS minimum standards, helping developing countries effectively participate in the ongoing standard-setting processes, and multilateral and bilateral support programmes.

Induction Programmes

Developing countries that join the Inclusive Framework are eligible for support in the form of bespoke BEPS induction programmes, which are designed to foster political buy-in for legislative changes through engagement with political stakeholders as well as practical assistance at a technical level.

Generally, the first phase of these programmes is conducted via face-to-face meetings and workshops, but some countries requested a pause on their programmes as limited technical staff and political decision-makers dealt with the first, acute phase of the crisis. However, by the end of 2020, planned induction programmes had largely resumed, albeit in modified, virtual formats.

So far, 43 BEPS induction programmes with developing countries have been launched including four in 2020 in Albania, Honduras, the Maldives and Montenegro.

GLOBAL RELATIONS PROGRAMME IN TAXATION

Supporting BEPS implementation and beyond

The OECD's Global Relations Programme in Taxation (GRP) was established in 1992 as the main conduit for OECD non-member countries to engage with the Committee on Fiscal Affairs and its work, through the provision of training and policy dialogue events.

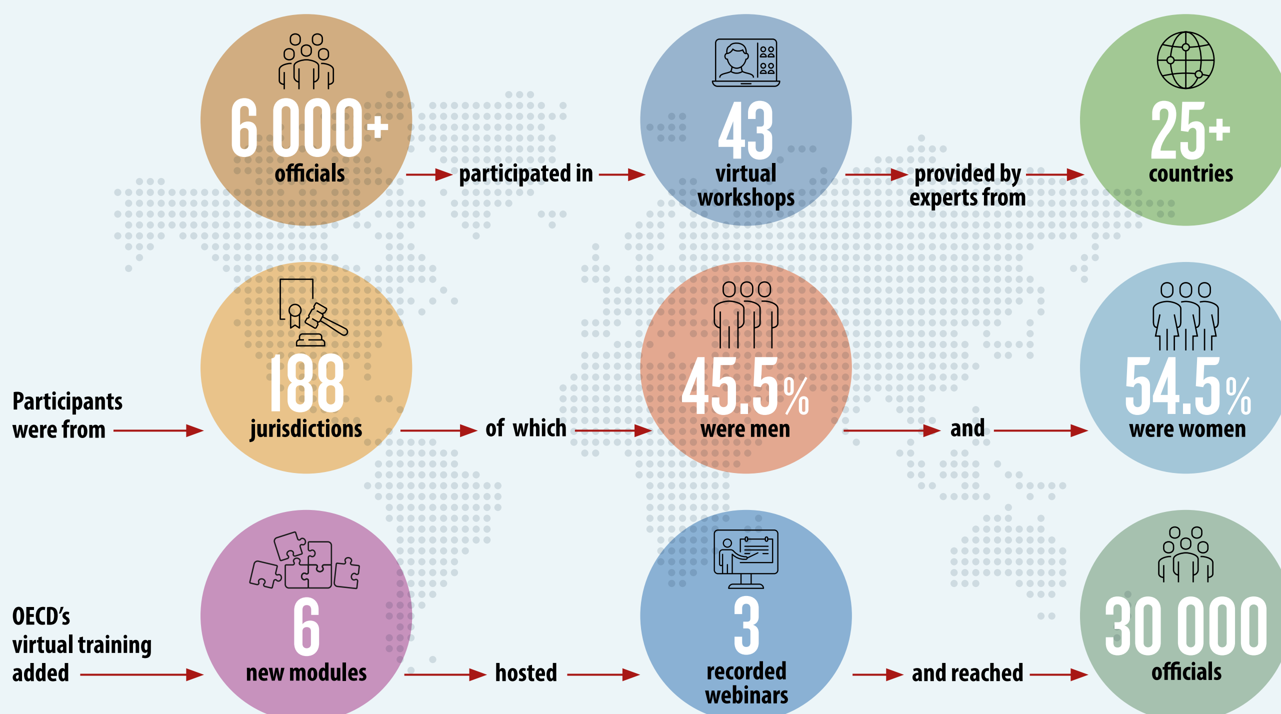
Historically, the GRP has been based on multilateral, face-to-face events, but the need for on-line resources and more efficient ways of working was already being felt in recent years. The transition to virtual classes and e-learning accelerated dramatically in 2020 as the COVID-19 pandemic put restrictions on face-to-face events. Thanks to the investment that has been made since 2018 in building the e-learning infrastructure, it was possible to adjust the GRP to an entirely virtual offering when the COVID-19 pandemic forced this shift to online training.

Over 6 000 officials participated in the 43 virtual workshops organised in 2020, approximately three times the average annual number of participants in GRP face-to-face events. Experts are provided by more than 25 countries, including from OECD and developing countries.

By the end of 2020, almost 20 000 officials had used the GRP's e-learning modules, which cover a wide range of taxation topics – and the totality of the OECD's virtual training had reached 30 000 officials. The e-learning offering expanded significantly in 2020, with a further 6 modules released that year, covering tax and crime, exchange of information, tax administration (including in relation to the COVID-19 pandemic), and beneficial ownership. These modules have been complemented by three recorded webinars, two on COVID-19 pandemic responses (one in English with ATAF, one in Spanish), and a recorded virtual class on transfer pricing.

The shift to online training has enabled more jurisdictions to participate. Staff from 188 jurisdictions participated in the virtual workshops and e-learning courses in 2020. Female participation has also increased: while women already formed the majority of e-learning users in 2019 (52%), this trend has increased in 2020 with female tax officials representing 54.5% of all users.

2020 Global Relations Programme on Tax by numbers



Global Relations Programme in Taxation Life Cycle

LIVE TRAINING

Face-to-face workshops: 3-5 day in-person events featuring thorough and highly-interactive training, including the opportunity to share experiences, best practices and discuss complex case studies with experts and peers.

Virtual classes/workshops: 3-4 hour training sessions held through videoconference, generally delivered in a series over 3-5 days. These sessions feature live presentations, discussions and case studies and make use of interactive tools (e.g. whiteboards, chat boxes, polls and breakout rooms).

Live webinars: 30-90 minute live presentations covering core aspects of selected topics and setting the foundation for more in-depth training.

SELF-PACED TRAINING

E-learning courses: 45-60 minute online learning modules comprising animated videos with voice-over narration, which provide solid knowledge of key issues on a topic. Interactive components aim to ensure participant engagement throughout the training.

Recorded webinars: 1) selected recordings of previously held live webinars and virtual classes; and 2) recordings of live presentations specially designed to introduce the fundamentals of a specific topic.

Training capsules: 5-15 minutes videos raising awareness of emerging issues and/or related initiatives and introducing basic relevant concepts.

PLANS FOR THE GLOBAL RELATIONS PROGRAMME IN TAXATION IN 2021

BILATERAL CAPACITY BUILDING

A rapid shift to remote engagement enabled significant support to be maintained to 26 countries in the bilateral capacity building programme. In most cases, video conferencing on BEPS and other remote communications enabled support to be provided. In some cases, this was limited by the restrictions in place in developing countries, especially where lockdowns were in place and officials had limited information technology (IT) and internet provision at home. In general, however, participation remained high and feedback was positive.

The move to remote engagement has facilitated more frequent dialogue, moving from intensive one-week visits two to four times a year, to shorter more frequent video conferences, in some cases as frequently as weekly. The success of remote engagement has led to calls from recipients for a blended approach once travel restrictions are lifted.

Bilateral support has continued to achieve concrete results, with 13 countries passing the necessary legislation and regulations for BEPS implementation in 2020.

This includes:

- **Benin** – new transfer pricing legislation in January 2020.
- **Mongolia** – passed secondary legislation on transfer pricing, permanent establishment compliance requirements and MAP.
- **Morocco** and **Viet Nam** – passed CbC legislation in January and November 2020 respectively.
- **Nigeria** – new interest deductibility legislation aligned to the BEPS Action 4 recommendations.
- **Paraguay** – passed secondary legislation on transfer pricing for the first time in its history.
- **Tunisia** – passed secondary legislation on transfer pricing, transfer pricing documentation and CbC reporting in June 2020.

26 developing countries provided with bilateral assistance in respect to transfer pricing/BEPS.

Through bilateral support, 13 developing countries passed legislation and regulations for BEPS implementation in 2020.

Focus on West African economies: aligning with regional trade priorities

Fiscal policy coordination in West Africa is a key regional strategy to improve the business environment and increase investment in the region. In this context, since September 2020, the OECD has been delivering a technical assistance programme for West African countries funded by the European Union (EU) under the Fiscal Transition Support Programme in West Africa. This programme covers the 15 member States of the Economic Community of West African States (ECOWAS)[1] plus Mauritania. It aims at strengthening the fight against tax fraud, tax avoidance, and IFFs in order to help increase tax revenue collection.

The programme mainly focuses on (i) drawing up regional tax instruments on transfer pricing and EOI with the support of the ECOWAS and the West African Economic and Monetary Union (WAEMU) Commissions; (ii) reviewing tax treaties concluded by the 16 countries and identifying shortcomings in order to better combat treaty shopping; (iii) strengthening the capacity of tax officials through practical training workshops on transfer pricing, tax treaty negotiations, BEPS and EOI; and (iv) supporting the coordination of the fight against IFFs with the support of civil society.

1. Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

The Platform for Collaboration on Tax: toolkits to support BEPS implementation

A key task for the Platform for Collaboration on Tax (PCT or the Platform) is to deliver a number of toolkits designed to help developing countries implement the measures developed under the OECD/G20 BEPS Project and other international tax issues. These toolkits provide practical implementation guidance on BEPS issues of particular relevance to developing countries. Significant progress was made on three toolkits in 2020. The Toolkit on Offshore Indirect Transfer of Assets, the taxation of which is a significant issue for many developing countries, was published in June 2020, while the Toolkit on Transfer Pricing Documentation was published in January 2021. The Toolkit on Treaty Negotiation was published in March 2021.

The PCT is a joint effort launched in April 2016 by the International Monetary Fund (IMF), the OECD, the United Nations (UN) and the WBG. The PCT is designed to intensify the co-operation between these IOs on tax issues. It formalises regular discussions between the four IOs on the design and implementation of standards for international tax matters, strengthens their ability to provide capacity building support to developing countries, and helps them deliver jointly developed guidance. The Platform also increases their ability to share information on operational and knowledge activities around the world. The work of the Platform is even more vital than ever as countries seek to rebuild finances following the COVID-19 crisis.

Focus on BEPS in the Extractive Sector

The extractive sector underpins economic growth and employment in many developing countries but continues to under-deliver in terms of tax revenues due to BEPS, poorly drafted investment agreements, inadequate laws and weak governance. In 2020, the OECD scaled up its capacity building work, helping 27 developing countries tackle BEPS in the extractive industries despite the constraints that the COVID-19 pandemic presented. This was possible thanks to the strong partnerships with the Intergovernmental Forum on Mining, Metals and Sustainable Development (IGF) and the OECD's regional partnership with ATAF in Africa.

Tax Inspectors Without Borders

The joint OECD and United Nations Development Programme (UNDP) initiative – Tax Inspectors Without Borders (TIWB) – enables sharing of tax audit knowledge and skills with tax administrations in developing countries through a targeted, real-time "learning by doing" approach. This practical approach to helping with concrete cases faced by tax administrations also helps developing countries implement the BEPS Package, supports DRM and strengthens tax administration.

TIWB was able to adjust to a virtual model in 2020, enabling programmes to continue despite COVID-19 restrictions. Following the introduction of travel restrictions in March 2020, TIWB switched focus to provide intensive remote assistance instead of onsite missions. To facilitate this, the TIWB Secretariat developed and disseminated guidance to both experts and Host Administrations to support the secure transmission of confidential information. Such actions allowed the majority (75% +) of programmes to continue operating in 2020.

As of 31 December 2020, 42 TIWB programmes had been completed and 40 programmes are currently underway. As at the end of 2020, TIWB assistance had led to additional tax revenues of USD 775 million (with the USD 1 billion milestone reached in early 2021) from overall tax assessments in excess of USD 2.37 billion. This includes work with ATAF and WBG on anonymised case work. The initiative continues to provide an impressive return on investment – around USD 70 for every USD 1 invested.

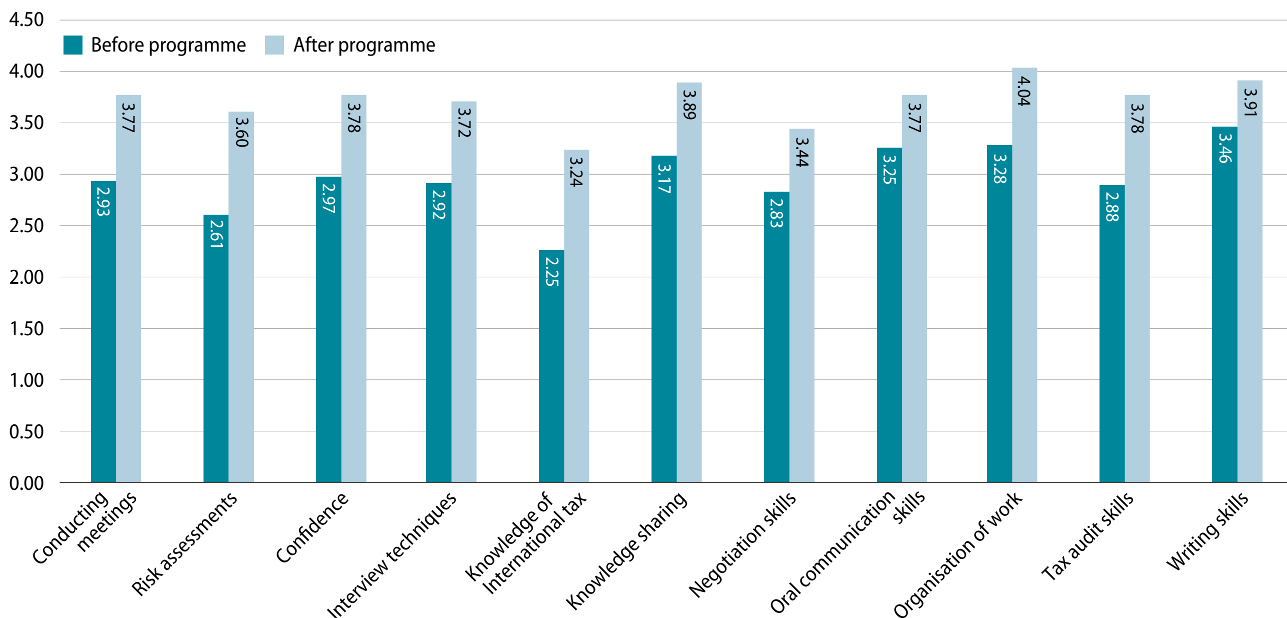
FIGURE 1. **Cumulative Regional Reported Revenue Increases from TIWB Assistance, 2012 to 2020**

Source: TIWB Secretariat

Demand remains high and 11 new programmes commenced in 2020. A further 22 programmes are in the pipeline for 2021. In 2020, TIWB expanded into new areas: criminal tax investigations, effective use of Automatic Exchange of Information (AEOI), joint audits, and natural resources and environmental tax issues.

The TIWB conducted a stocktake exercise to review the progress of TIWB since its inception and provide recommendations as appropriate. Launched in October 2019, the TIWB stocktake was finalised in May 2020 and provided recommendations in several key areas; policy, identifying and responding to demand for support, supply of experts, programme management, and governance.

FIGURE 2. **Increased perceived competence of TIWB-trained auditors, 2017-2020**



Note: 1 = poor 5 = excellent

Source: TIWB Secretariat compiled from self-evaluations from 52 tax auditors participating in TIWB programmes between 2017 and 2020.

Zambia – Victory in the Supreme Court

Since 2013, Zambia has been supported by a long-term ATAF/OECD/WBG technical assistance programme. Over the years, this programme has evolved to respond to different issues arising in Zambia's particular circumstances, including the addition of a TIWB programme, an ATAF/ IGF/ OECD 'deep-dive' programme focussed on the mining sector, and a Global Forum programme on transparency and EOI.

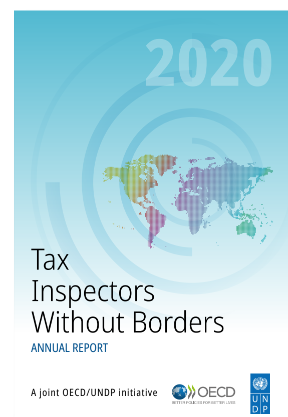
Over this period Zambia has reformed legislation and regulations as well as reorganising the Zambia Revenue Authority (ZRA) to enable it to more effectively tax the MNEs operating in Zambia. Key milestones include:

- Setting up of a transfer pricing unit in March 2016;
- Extensive international tax reform in 2018-19 strengthening ZRAs powers to address non-compliance, and provide increased certainty:
  - New transfer pricing (and TP documentation) regulations (BEPS Actions 8-10);
  - New interest limitation legislation (BEPS Action 4);
  - New transfer pricing Practice Note;
  - Revised transfer pricing legislation on the pricing of copper and other metals;
  - New transfer pricing Audit Manual for ZRA officials.

In total, USD 111 million of additional tax has been collected since 2015. This includes USD 13 million following ZRA's May 2020 victory in the Supreme Court which ruled against Mopani Copper Mining plc (MCM). The Mopani case related to the prices used by Mopani Copper Mines for copper sold to its shareholder company in Switzerland. Enhancing the ZRA's capacity to pursue the Mopani case was a high priority for ATAF/IGF/OECD, the case being one of Zambia's first very large transfer pricing cases. Utilising the advice and training received through the technical assistance programme, the ZRA was able to build its case, contending that Mopani has under-priced the copper sold to its shareholder.

The Supreme Court victory shows the impact that focussed transfer pricing work can have in developing countries, even where resources in the tax administration are limited.

Source: Building capacity to prevent profit shifting by large companies in Zambia, http://www.oecd.org/tax/tax-global/building-capacity-to-prevent-profit-shifting-by-large-companies-in-zambia.pdf

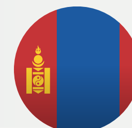


Full details can be found in the *2020 TIWB Annual Report*.

One key recommendation was to revise the TIWB Monitoring and Evaluation framework, to better capture the full range of impacts of TIWB programmes. While increased revenues are an important aspect of TIWB programmes, they should not be the sole metric through which the programmes are assessed. Tax administrations participating in TIWB programmes report a range of outcomes beyond increased tax revenues, including skills development, improved tools and procedures, organisational improvements and improved taxpayer compliance. The revised approach aims to collect this evidence in a more systematic way in the future.

The story of Zambia's and Mongolia's experiences, illustrate the impact of TIWB and other support programmes.

Mongolian Tax Administration issues first transfer pricing tax assessment for USD 228 million



Since 2019, the OECD, TIWB and IGF have been working with the Mongolian Tax Administration to strengthen revenue collection from the extractives sector, which contributed more than 80 percent of Mongolia's exports and 24% of fiscal revenues in 2019.

As a result of the mining tax audit capacity building initiatives, the Mongolian Tax Administration issued its first transfer pricing tax assessment in late 2020 for approximately USD 228 million and a denial of USD 1.5 billion in carried forward losses. The Tax Act ("tax assessment") was reported by the taxpayer's parent entity on 23 December 2020 and although the matter currently remains under dispute, this represents a significant milestone and step forward for the Mongolian Tax Administration in executing its strategy to combat BEPS in the mining sector.

The recent tax assessment builds upon focussed efforts by the Mongolian Tax Administration and the Ministry of Finance to align the country's tax rules and practices with international best practices. Having joined the OECD's BEPS Project and the Global Forum, Mongolia is successfully implementing the BEPS measures by introducing a number of international taxation provisions.

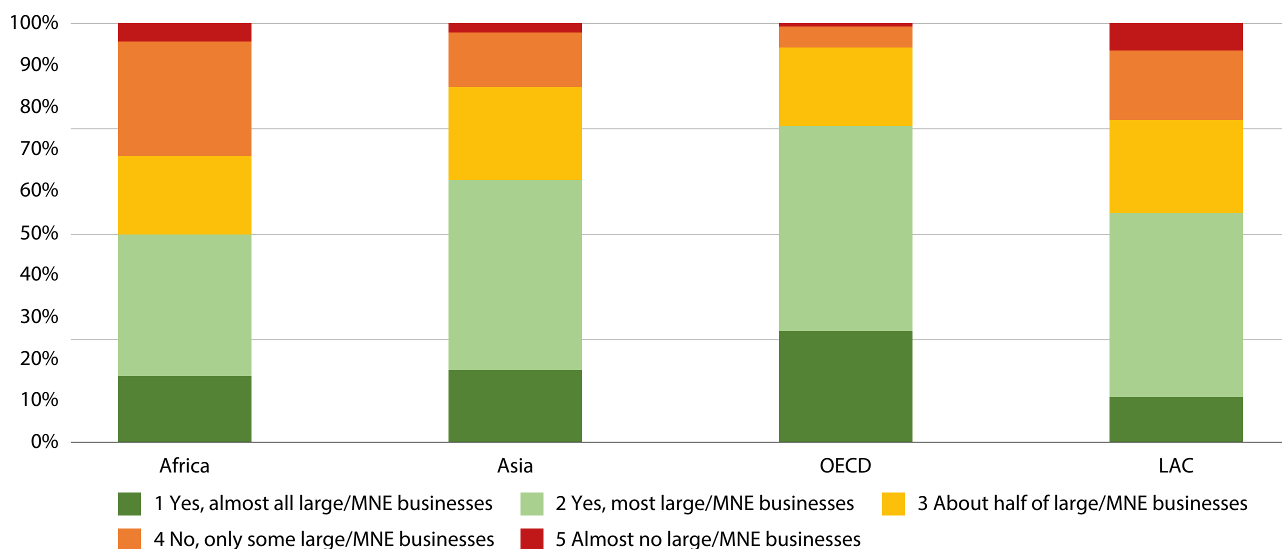
TAX MORALE AND RESPONSIBLE BUSINESS TAXATION

As implementation of the BEPS measures proceeds, responsible business behaviour is an increasingly common discussion point. New data gathered by the OECD on tax authorities' perceptions of MNE/Big 4 behaviour is providing evidence to revitalise the debate on how to encourage tax morale in large corporations. A survey of over 1200 tax officials from over 130 countries and jurisdictions provides data on how tax officials view large business and Big 4 conformity with the most widely endorsed voluntary principles put forward by business. This data identified a range of perceived behaviour, suggesting that there is no intrinsic barrier to adhering to these principles, but that many companies still have some way to go to meet them.

These findings are being discussed in a series of regional round-tables with tax authorities and businesses, the first of which was held for the Asia region on 7-8 December 2020 in partnership with ADB and SGATAR. Over 130 participants from 16 revenue authorities, and 24 businesses/business associations participated in the discussion.

The outcomes of the roundtables will be the subject of a new report on tax morale in 2021.

FIGURE 3. **Response to the question *'When thinking about the large businesses/MNEs in your country, how accurate is the following statement: Large businesses/MNEs respond to information requests from the tax authority within the time limits specified'***



Note: Responses have been weighted so that no country represents more than 10% of responses in a region.

Source: OECD survey of tax officials perceptions.

ADDRESSING THE TAX CHALLENGES OF THE DIGITALISATION OF THE ECONOMY

The work on developing responses to the tax challenges of the digitalisation of the economy further intensified in 2020. However, the pandemic and ongoing political challenges have meant reaching a global solution has been difficult. The fiscal costs of the economic downturn and increased government spending, particularly in relation to the massive economic stimulus undertaken in many countries, make the task of ensuring the long-term sustainability of government finances even more critical. At the same time, the crisis, while having a generally negative impact on the broader economy, has simultaneously benefited some highly digitalised business models, bringing the weaknesses of the current international tax norms into sharp relief.

The pandemic and ongoing political challenges have meant reaching a global solution has been difficult , but renewed engagement by key players is cause for optimism that an agreement in 2021 is possible.

A Two Pillar Approach

At the political level, there were renewed calls for urgent action from the G20, and in October 2020 the Inclusive Framework published detailed 'blueprints' of possible technical changes to the international tax system in the form of two 'pillars'.

Pillar One sets out fundamental changes to the international profit allocation rules, including providing for new 'nexus' concepts to ensure countries retain appropriate taxing rights in relation to highly digitalised businesses that may not require a physical presence in a jurisdiction to do business there, as well as a formula-based allocation of certain 'residual' profits among market jurisdictions (Amount A). Pillar One also includes proposals for simplified approaches to determining an arm's length price to calculate the profits of certain

Key developing country perspectives on Pillar One and Pillar Two proposals

Developing countries have a range of perspectives on the proposals and, like OECD countries or other advanced economies, feel the political pressure to act, both to raise revenue and to remedy what is widely perceived as a tax fairness issue. This is only exacerbated by the fact that the COVID-19 pandemic has accelerated the move to online services.

In this environment, many developing countries are at various stages of introducing unilateral measures to tax digital services. India was one of the first to act, introducing an equalisation levy in 2016. More recently, Kenya and Indonesia have enacted their own measures, though in Indonesia's case the law has not been brought into effect, in anticipation of a consensus solution at the OECD. Other countries are in various planning stages. ATAF has published a report Suggested Approach to Drafting Digital Services Tax Legislation as guidance for its members.

In these circumstances, understanding the concerns of developing countries and how they view key issues in the discussions around the proposals will be crucial to achieving consensus of all members of the Inclusive Framework. The following are the most significant and common priorities expressed by developing countries:

- Concerns have been expressed by developing countries, particularly those with lower capacity, about the complexity of the proposals.
- Developing countries largely support the notion of changes to the current tax nexus and profit allocation rules in order to deal with the tax challenges of digitalisation.
- Most agree that the tax nexus should not be limited to situations where a MNE group has a physical presence in the jurisdiction. Smaller developing countries, in particular, consider that nexus thresholds should be adapted to take account of the size of the relevant economy.
- On Pillar Two, most developing countries consider the Subject to Tax rule to be a particularly important element of the proposal.
- Many developing countries remain wary of binding dispute resolution mechanisms, particularly those that would apply to existing taxing rights. That said, there is broad acknowledgement that such mechanisms and the related international co-ordination may be necessary in relation to a new taxing right such as that embodied by Amount A.

Source: Secretariat based on discussions with developing countries and views expressed in Inclusive Framework and Working Party meetings

130 Inclusive Framework members – including 63 developing countries – attended the October Inclusive Framework Plenary.

low-risk distributors (Amount B). These would be complemented by proposals to ensure tax certainty and avoid double taxation. Pillar Two would provide for a global minimum rate of tax for all large MNEs.

Developing Country Engagement

Throughout 2020, the OECD Secretariat worked to facilitate developing countries' active engagement in the negotiations, both by raising awareness and providing technical support including through supplementary briefings, particularly prior to key meetings of the Inclusive Framework. Developing countries actively participated in focus groups to discuss the design features of the proposed Amount B in particular. The virtual meetings brought together technical specialists from a range of developing countries to discuss their experiences, challenges and preferences in relation to the application of the transfer pricing/profit allocation rules to marketer/distributor entities.

Economic Impact Analysis

Bespoke economic and revenue impact analysis tools for certain aspects of Pillar One and for Pillar Two have been made available to all Inclusive Framework members, together with support in their interpretation and use. These tools are intended to help policy makers estimate the likely range of impacts from the proposals under discussion.

Based on the October 2020 proposals, Pillar One and Pillar Two could increase global combined CIT revenues by about USD 50-80 billion per year. The combined effect of the reforms and the US GILTI could represent USD 60-100 billion per year (i.e. up to around 4% of global CIT revenues). Low-income countries would gain, on average, approximately 1% of CIT revenues from Pillar One and 2-3% from Pillar Two. The OECD analysis shows that developing countries tend to gain from Pillar One from the reallocation of taxing rights to market jurisdictions. They would also benefit from the simplified approach for low risk distributors. Pillar Two would yield a significant increase in CIT revenues across high, middle and low-income economies and would significantly reduce the incentives for MNEs to shift profits to low-tax jurisdictions. Reduced profit-shifting would bring revenue gains in addition to the direct gains from the minimum tax. Developing countries tend to be more affected by BEPS, and tend to rely more on tax incentives leading to an increased focus on Pillar Two. Equipping developing countries with the tools to analyse possible economic impacts has been an essential part of the negotiating process.

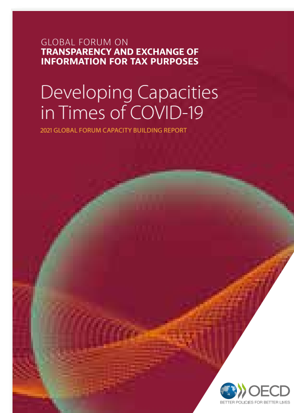
Helping developing countries combat tax evasion

The Global Forum on Transparency and Exchange of Information for Tax Purposes is charged with promoting the effective implementation of the international standards of transparency and exchange of information for tax purposes, both on request and automatic. This is accomplished through monitoring the implementation of the standards, undertaking peer reviews, developing tools and assisting members to implement the standards effectively. Since 2011, capacity building has been a core duty of its work. Globally, developing countries have identified at least EUR 29 billion through voluntary disclosure programmes and offshore tax investigations since 2009.

EUR 29 billion through voluntary disclosure programmes and offshore tax investigations in developing countries to date.

In 2020, an ambitious action plan was implemented to mitigate the impact of the COVID-19 pandemic on the delivery of the capacity building programme and respond to the growing demand for assistance from Global Forum members. The Global Forum has not only been able to ensure continuity of its capacity building activities but also to increase its support to jurisdictions:

- More than 4 200 officials were trained from 155 jurisdictions and 9 international organisations through 26 trainings organised in 2020, out of which 23 were virtual;
- Close to 3 400 officials took the e-learning courses developed by the Global Forum, including the beneficial ownership and EOIR e-learning modules released this year;
- Three new toolkits have also been developed and released, and
- 70 jurisdictions benefitted from technical assistance activities.



Overall, the Global Forum's capacity building programme was rated 4.5 out of 5 by its members. Despite the pandemic, the Global Forum has maintained strong interactions with senior officials and decision-makers around the world to maintain the critical political buy-in and commitment to transparency and EOI, which resulted in significant progress. The membership of the Global Forum has recently increased with three new countries (Mali, Palau and Viet Nam) joining in 2020. The Global Forum has recently revised its capacity building strategy to ensure greater and sustained impact for the benefits of developing jurisdictions in the coming years.

A REGIONAL APPROACH TO PROMOTING TAX TRANSPARENCY

Different regions have different needs and support for the implementation of the standards has to be tailored for the greatest impact.

A New Mandate for the Africa Initiative

In 2014, the Global Forum, together with a number of its African members, launched the Africa Initiative to encourage African countries to participate in international tax co-operation. The Africa Initiative has now been renewed for a third mandate with a new governance framework giving more ownership to African jurisdictions and an ambitious work programme for 2021-2023. In 2021, the Initiative will be chaired by Githii Mburu, Commissioner General of the Kenya Revenue Authority, with Edward Kiesswetter, Commissioner of the South African Revenue Service, as Vice-Chair. Support to the Yaoundé Declaration, which is a call for an African agenda to fight tax evasion and other IFFs from Africa through tax transparency and EOI, has increased to 30 African countries with its endorsement by Eswatini. It has also been endorsed by the African Union Commission (AUC).

"As a step forward, the African Union is committed to playing a leadership role in the implementation of the Africa Initiative on tax transparency and keeping the discussions at the high political level to ensure that all Member States join the Initiative. The Union will also make sure that Member States prioritise domestic resource mobilisation by improving good governance and increasing tax transparency among jurisdictions.

The African Union will spare no effort to work with policy decision makers and tax administrations of its Member States, the Global Forum and development partners to ensure the sustainable financing of its development."

Prof. Victor Harison, Commissioner for Economic Affairs, African Union Commission

The Africa Initiative has led to substantial progress in the region, which is detailed in the *Tax Transparency in Africa 2020* Report, a joint publication with the AUC and ATAF. In particular, the 32 African members benefitted from intensive capacity building activities (31 technical assistance programmes, including 15 comprehensive programmes for the most recent members, and 10 trainings attended by 1 300 officials).

A 2021-2023 Work Plan for the Latin America Initiative

In Latin America, significant progress was made by building on the foundation of the landmark 2018 Punta del Este Declaration to tackle tax evasion, corruption and other financial crimes through improved international tax cooperation. In 2020, Guatemala and Honduras signed on to the Declaration, bringing the signatories to 13. The signatories have also approved an ambitious work plan and a new governance framework to guide the capacity building activities and support the implementation of the objectives of the Declaration over the next three years.

The collaboration and partnership with CIAT, the Inter-American Development Bank (IDB) and the WBG, have strengthened to advance the tax transparency agenda in the region and facilitate the implementation of the Latin American countries' commitments.

A New Initiative for the Pacific Region

In 2020, a Pacific Initiative was launched to raise awareness and enhance tax transparency for the benefit of developing Pacific Islands. This joint initiative of the Global Forum, ADB, the Australian Taxation Office (ATO), the OECD, PITAA, the New Zealand Inland Revenue Department (NZ-IRD) and the WBG was launched in October with a clear objective to support these jurisdictions taking into account their circumstances and specific needs.

Capacity building activities were carried out in the region to support the growing membership – nine Pacific members with Palau joining recently – and to reach out to non-members in the region. Technical assistance was provided to three Pacific jurisdictions and 75 officials were trained.

Effective implementation of international standards on transparency and exchange of information

The demand for technical assistance has significantly increased in 2020. The main drivers have been the increase in membership in recent years, the preparation of the EOIR peer reviews, the implementation of structural reforms aimed at increasing domestic revenues, in particular the implementation of the AEOI standard.

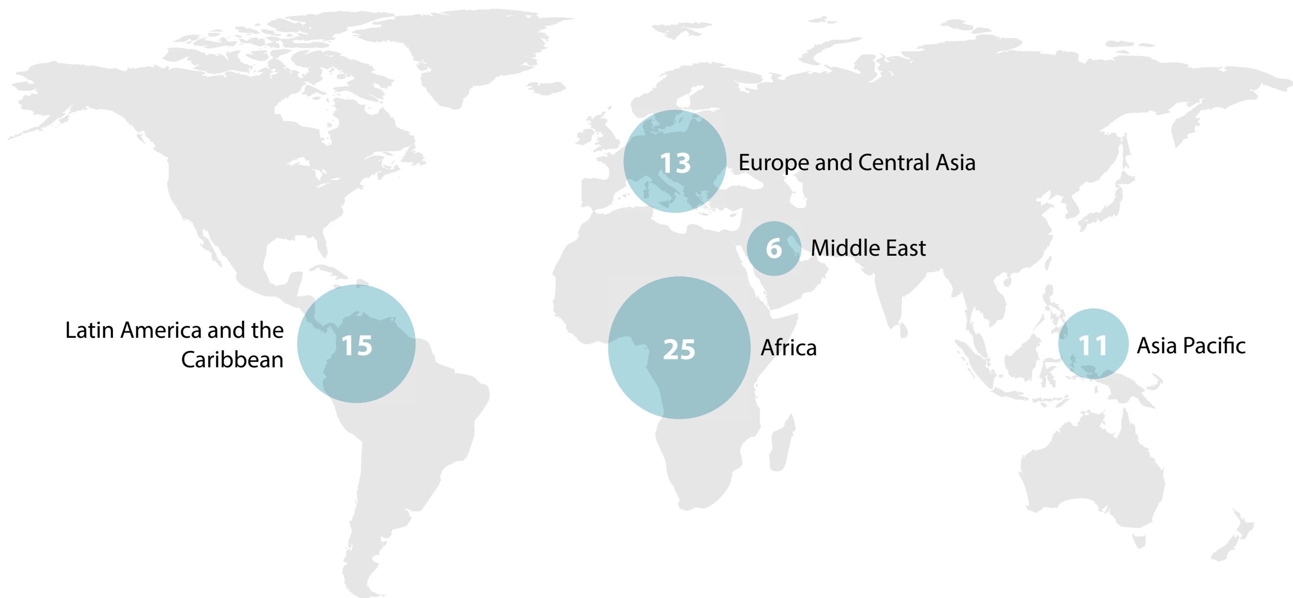
The demand for technical assistance has significantly increased in 2020. The main drivers have been the increase in membership in recent years, the preparation of the EOIR peer reviews, the implementation of structural reforms aimed at increasing domestic revenues, in particular the implementation of the AEOI standard.

In 2020, 70 jurisdictions benefitted from the Global Forum Secretariat expertise. The scope and the intensity of the technical support provided vary from one jurisdiction to another. The geographical distribution is as follows: Africa (36%), Latin America and the Caribbean (21%), Europe (19%), Asia-Pacific (16%) and Middle East (8%).

The key figures in 2020 are:

25 jurisdictions	**assisted in the signing and ratification of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC),** which led to 6 signatures and 8 deposits of the instrument of ratification.
52 jurisdictions	**assisted in implementing the EOIR standard),** including 43 jurisdictions supported in ensuring transparency of beneficial ownership information. This led to 31 jurisdictions improving their legal framework and administrative practice, including 14 on beneficial ownership. In addition, four developing jurisdictions (China, Papua New Guinea, Peru and Tunisia) achieved a successful rating in their peer review.
35 jurisdictions	**benefitted from AEOI assistance,** which resulted in positive outcomes. In particular, Albania, Nigeria, Oman and Peru started their first exchanges in 2020.
29 jurisdictions	**received assistance to strengthen their confidentiality and information security management (ISM) framework.** Positive results were achieved with Albania, Nigeria, Oman and Peru having successfully passed their AEOI confidentiality assessment.

FIGURE 4. **Number of jurisdictions currently supported by the Global Forum Secretariat, by region** (December 2020)



Source: Global Forum on Transparency and Exchange of Information for Tax Purposes.

The successful EOI journey of Tunisia

Since Tunisia joined the Global Forum in 2012 it has benefited from an intense capacity building programme involving remote assistance and numerous on-site missions. This work has been funded by the Middle East and North Africa Transition Fund of the Deauville Partnership.

With the technical support of the Global Forum, Tunisia has carried out significant structural reforms in order to implement the EOIR standard to prepare its peer review, including becoming a party to the multilateral MAAC in 2013. Two examples illustrate the improvements made:

- Tunisia has moved from a situation where the tax administration had to obtain a judge's authorisation to access any banking information to a regime of automatic transmission of much of this information through a national register of bank accounts managed by the tax administration.
- Tunisia has strengthened the transparency of beneficial owners through the upgrading of its anti-money laundering legislation and the establishment of a new national business register *(Registre national des entreprises)* based on a unique tax identifier to ensure the availability of complete and updated information on the legal and beneficial owners of all entities and legal arrangements.

Thanks to the successful implementation of its EOI strategy, Tunisia attained a "Largely Compliant" rating in its 2020 EOIR peer review and is a well-regarded EOI partner in the region and globally. Tunisia now makes routine use of EOI as a tool to protect its tax base. A real EOI culture has developed in Tunisia, which sends more than 200 requests every year, and translates into additional revenue (USD 5 million between 2018 and 2019). Since 2020, Tunisia is benefiting from a new technical assistance programme funded by the European Union, which includes assistance in implementing AEOI through a pilot project with Switzerland and cross-border tax collection.

Source: OECD (2020), *Strengthening tax capacity to increase domestic resources in Tunisia*, OECD, Paris. http://www.oecd.org/tax/tax-global/strengthening-tax-capacity-to-increase-domestic-resources-in-tunisia.pdf.

Supporting developing countries on a range of tax policy and administration issues

The OECD's work on tax and development has evolved from modest efforts in the 1990s; today it reflects the global nature of the tax policy and administration issues that come with a globalised economy. While supporting developing countries in the fight against tax evasion and avoidance has been the main priority in its capacity building work, in 2020, the OECD extended its reach to more systematically include the full range of its tax policy and administration work as part of its development agenda. This provides developing countries with world-class expertise on tax, high-quality internationally comparable data, tailor-made guidance and tools, and direct capacity building support.

TAX AND CRIME

Tax crimes undermine citizens' confidence in their governments, affect tax morale and deprive governments of revenues needed for sustainable development. There is also often a strong link between tax crimes and other financial crimes. The OECD's work on tax and crime aims to improve co-operation among tax and other law-enforcement agencies, including anti-corruption and anti-money laundering authorities. The emerging standards on tackling tax crimes and other financial crimes are of great interest to developing countries committed to curbing IFFs.

Tax Crime Investigation Maturity Model

The Tax Crime Investigation Maturity Model was developed in consultation with developing countries, and aims to help jurisdictions understand where they stand in the implementation of the OECD's Fighting Tax Crime: The Ten Global Principles, based on a set of empirically observed indicators. By setting out indicators for each increasing level of maturity, the model has relevance for jurisdictions at all stages of development. The model also charts out an evolutionary path for future progress towards the most cutting-edge practices in tax crime investigation across four levels of maturity: Emerging, Progressing, Established and Aspirational. It therefore also serves as an important tool for measuring the impact of tax crime capacity building interventions, including those promoted by the Addis Tax Initiative (ATI) and G7 Bari Declaration.

Building Capacity - Tax and Crime Academies

The OECD International Academy for Tax Crime Investigation is hosted by the Guardia di Finanza's Economic and Financial Police School in Ostia, Italy. The Academy has established regional centres for Latin America and the Caribbean, hosted by the Administración Federal de Ingresos Públicos (AFIP)

in Argentina; Asia-Pacific, hosted by the National Tax Agency (NTA) in Japan; and has an ongoing pilot programme for Africa hosted by the Kenya Revenue Authority (KRA).

As of December 2020, the Academies have trained more than 1300 financial crime investigators from more than 130 countries and territories. This includes over 900 participants from 86 developing countries and territories, with demand from participants far outpacing the number of spaces available in each course.

In 2020, the Academy Secretariat started an active outreach campaign to target further participation from lower income developing countries. With the assistance of regional organisations such as the Financial Action Task Force (FATF) style Regional Bodies and ATAF, it worked to raise awareness of the nature of the Academies and the type of programmes it delivers.

TAX INSPECTORS WITHOUT BORDERS – CRIMINAL INVESTIGATION

Tax Inspectors Without Borders Criminal Investigation (TIWB-CI) pilots are part of the expansion of the TIWB model. TIWB-CI pilots are being implemented in eight countries: Armenia, Colombia, Costa Rica, Honduras, Kenya, Pakistan, Tunisia and Uganda. TIWB-CI programmes aim to resolve specific cases, and associated systemic issues which are paramount for establishing the longer-term capacity to successfully resolve cases. In this way, the TIWB-CI programmes complement the Academy training programme and provide a practical application of the maturity model.

ILLICIT FINANCIAL FLOWS

Illicit financial flows continue to be a high priority, especially in Africa, but significant challenges remain in assessing and addressing IFFs at the country level. The high political priority given to IFFs in South Africa has facilitated the establishment of a joint IFF Task Force, bringing together the main government departments with an interest and responsibility for IFFs. The OECD and ATAF are working with the Task Force to undertake an in-depth analysis of IFFs in South Africa, drawing on data from multiple agencies to improve the understanding of IFF risks, and identify scope for policy reforms and better interagency cooperation.

A new tax crime investigation unit in Colombia

The National Directorate of Tax and Customs of the Republic of Colombia *(Dirección de Impuestos y Aduanas Nacionales, DIAN)*, under the Ministry of Finance and Credit, is a participant in the OECD-UNDP's pilot project 'Tax Inspectors Without Borders for Criminal Investigation' (TIWB-CI). TIWB-CI aims to build capacity in participating jurisdictions to help fight tax crimes more effectively. As part of this programme, a self-assessment exercise was conducted through the OECD's newly developed diagnostic tool, the 'Tax Crime Investigation Maturity Model (Maturity Model)', to ascertain the gaps in current capacity. The Action Plan report prepared by the OECD, following the self-assessment process, recommended the creation of a new crime investigation unit within DIAN to address governance gaps and institutional shortcomings.

The President of the Republic of Colombia issued a Decree on 22nd December 2020 to create a new tax crime unit within DIAN. To support DIAN's efforts in tackling criminal organisations operating from both within and across the borders of Colombia, the OECD is now seeking assistance from countries with which Colombia shares a mutual interest to join as a Partner Administration under the TIWB-CI programme to help DIAN in the resolution of complex cases as well as in other capacity building efforts to strengthen the new tax crime unit.

Tax reforms for sustainable health financing: Lessons from Côte d'Ivoire and Morocco

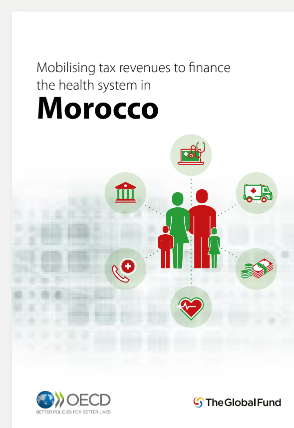
Greater and better-designed health taxes, levied on goods that adversely affect health, can play an important role and create new opportunities as a source of funding. While both Côte d'Ivoire and Morocco have taxes in place on tobacco, alcohol and sugar-sweetened beverages, there is significant scope to increase their revenue-raising potential. In Morocco, tobacco tax revenues are relatively high but the design of the tax could be improved, and tax rates on alcohol could be increased. In Côte d'Ivoire, tax rates on tobacco could be increased, and the plan to introduce new excise duties (such as on cosmetics) should go ahead, as foreseen by recent regional legislation.

Another important area is the broader group of health-related taxes, which are taxes that have a direct or indirect link with health, including health-taxes as well as certain environmental taxes and health social security contributions. Neither country has used environmental taxes to their full potential despite their double dividend: there is strong evidence that an improvement in the quality of the environment improves people's health. Increasing the role of environmental taxes would not only improve environment and health outcomes in the long run, but would also support raising tax revenues while diversifying the tax mix at the same time.

Both Morocco and Côte d'Ivoire can improve the design of their compulsory health insurance schemes, by scaling them up with increased population coverage and a more comprehensive range of health care services. Morocco introduced its compulsory health insurance scheme 15 years ago while Côte d'Ivoire did so last year. In Morocco, where health funds are facing a budget deficit, a revision of the compulsory health insurance financing framework, with a change in the health contribution together with better control of health expenditure, would be welcome. In Côte d'Ivoire, the health contribution should be made more progressive in the long run, while additional sources of financing, beyond taxes on labour income, could complement the overall financing of the system. However, in order to raise more revenues for the general state budget to finance health systems, countries should use their entire tax mix in ways that are fair, the least harmful for economic growth, and with low administrative and compliance costs. This approach should include a wide range of taxes, including corporate and personal income taxes, consumption taxes such as the VAT, and property taxes.

In both countries, earmarked tax revenues for health are limited, which is in line with good tax policy advice. However, there may be a case for soft earmarking of health tax revenues, mainly because the health tax revenues that have been collected in the past remain relatively modest compared to the large existing and emerging health spending needs.

Source: Mobilising tax revenues to finance the health system in Cote d'Ivoire (OECD, 2020[3]), and Mobilising tax revenues to finance the health system in Morocco (OECD, 2020[4]).



HEALTH FINANCING

The COVID-19 pandemic placed the challenges of health financing in the spotlight, illustrating the global nature of challenges in health. Country studies developed in collaboration with the governments in Côte d'Ivoire and Morocco show the potential for tax reforms to contribute to sustainable health financing. Co-funded with the Global Fund to Fight AIDS, Tuberculosis and Malaria these studies look at the multiple ways in which the tax system can affect both health financing and health outcomes, through targeted health taxes, broader social security measures and even environmental taxation. The studies provide a basis for developing a self-assessment tool that will enable a much wider range of countries to undertake such an analysis of their tax and health financing systems.

Following the success of these first two studies, the approach was presented at the Paris Peace Forum in November 2020 and was well received. To respond to this positive outcome further country studies are being considered. In addition, the OECD is working on a self-assessment tool to provide a mechanism to compare countries and identify candidates that may benefit from similar support.

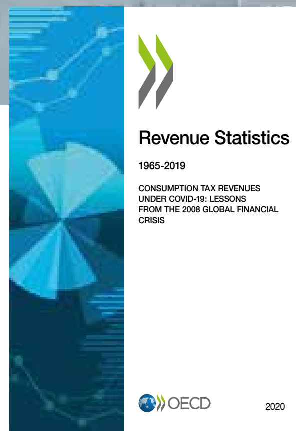
TAX INCENTIVES

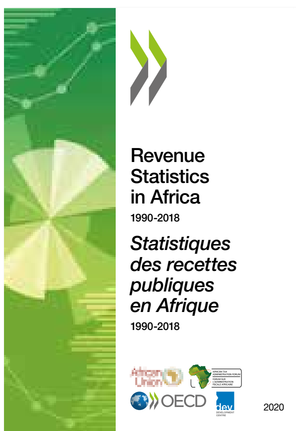
Ensuring tax incentives are effective and reducing their negative effects, notably on revenue-raising capacity, is a long-standing challenge in developing countries. While there has been progress, including through Action 5 and the work of the Forum on Harmful Tax Practices (FHTP), as well as the Platform Toolkit on Options for Effective and Efficient Use of Tax Incentives, challenges remain as the costs and effects of tax incentives are strongly design- and context-specific. New policy challenges are likely to emerge, for example, in the context of the Paris Agreement, as many countries are looking at the role of taxation and for tax incentives to support the transition to a low carbon economy. Following the economic crisis caused by the COVID-19 pandemic, governments with sufficient fiscal space may seek to expand the use of investment tax incentives to support a green recovery as part of their efforts to re-build their economies.

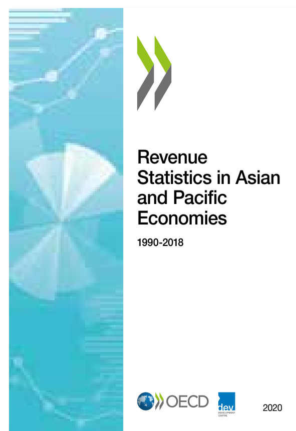
The OECD is working to create an Investment Tax Incentives Database, which will improve transparency by helping deepen the understanding of tax incentives in developing countries and increase the policy relevance of tax incentive analysis.

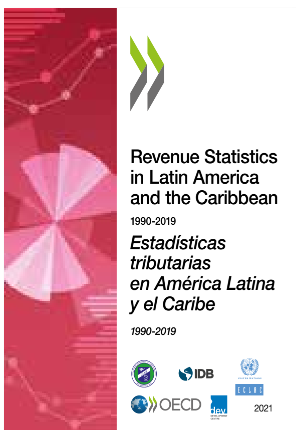
REVENUE STATISTICS

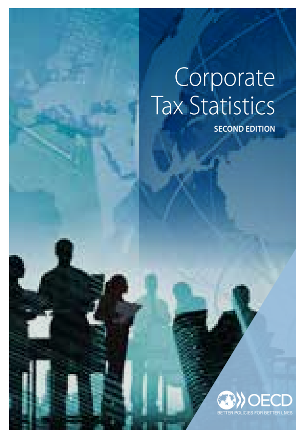
Countries need reliable, up-to-date statistics on public revenue for assessing economic structures, designing tax and customs policies, implementing administrative reforms, and engaging in international dialogue and co-operation around tax policy. To inform domestic and











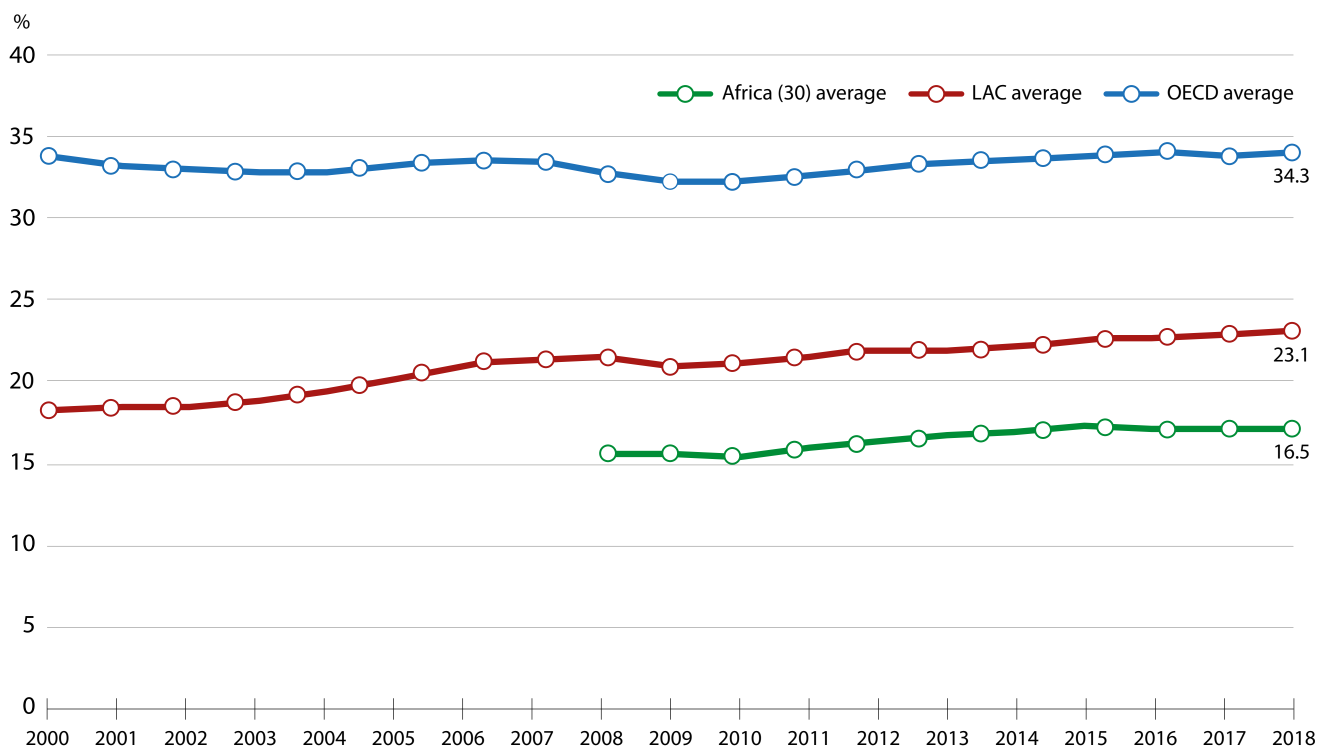
11 developing countries added to Global Revenue Statistics database, which now features over 100 economies.

international tax analysis and policy-making, the OECD's Global Revenue Statistics project makes available high-quality, detailed, comparable statistical tax revenue data for countries worldwide and enables intra-region and cross-region analysis of revenue trends on a consistent basis.

The Global Revenue Statistics coverage continued to increase in 2020 and now produces detailed, comparable data on tax revenues for 109 economies, with nine additional developing countries joining the project in 2020. *Revenue Statistics* data and analysis are widely disseminated by the OECD and partner organisations, resulting in widespread and increasing use by governments, academia and research organisations, and media.

The 2020 edition of *Revenue Statistics in Africa* included four additional countries in comparison to 2019, for a total of 30 countries; the 2020 edition of *Revenue Statistics in Asian and Pacific Economies* had four additional countries, for a total of 21 economies; and the 2020 edition of *Revenue Statistics in Latin America and the Caribbean* had one additional country, for a total of 26 countries. Data from these three publications and from the *OECD Revenue Statistics* publication fed into the *Global Revenue Statistics Database*. *Revenue Statistics* data on corporate income taxes also informed the *Corporate Tax Statistics Database* launched in January 2019, covering a total of 101 jurisdictions.

Figure 5. **Tax-to-GDP ratios, 2000-2018**



Source: OECD/AUC/ATAF (2020), *Revenue Statistics in Africa 2020: 1990-2018*, OECD Publishing, Paris, https://doi.org/10.1787/14e1edb1-en-fr.

VALUE ADDED TAX

As the COVID-19 pandemic has accelerated the shift to e-commerce, the OECD standards on VAT for e-commerce are of increasing interest to developing countries. Over 35 developing countries have announced their intention to implement VAT on e-services in the coming years, of which the OECD has been providing advice to 10, in addition to a pilot programme in Egypt. Virtual regional workshops have provided engagement with an even broader range of countries, reinforcing the demand for regional toolkits. In 2020, the OECD further assisted developing countries on VAT issues through the development of a comprehensive VAT e-learning package covering general VAT design, VAT treatment of international trade, and VAT and e-commerce. In addition, the OECD is developing regional toolkits and delivered a programme of bilateral capacity building.

VAT Regional Toolkits

The OECD and WBG have been developing detailed regional e-commerce toolkits, providing practical and effective measures tailored to the specific circumstances of the region, using a collaborative and inclusive approach. The regional toolkits have continued to progress in 2020, despite the restrictions imposed as a result of the COVID-19 pandemic. The first VAT toolkit for the LAC region will be published in June 2021. Regional outreach in the toolkit development has been maintained virtually with regional toolkit workshops held in LAC, Asia-Pacific and Africa. These workshops attracted significant interest, with nearly 200 participants from 25 jurisdictions at the LAC workshop in July, and 80 participants from 12 jurisdictions at the Asia launch in September.

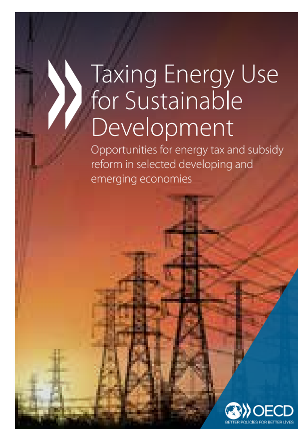
Bilateral

As more developing countries implement the OECD standards on VAT, they are seeking advice and guidance. This assistance has been provided in several ways, depending on the country's needs and requests, including video conferences, written advice and guidance; review of draft legislation and supporting administrative guidance; on-call assistance in addressing specific design and implementation challenges; facilitating consultation with business stakeholders; facilitating consultation with other jurisdictions that have implemented similar reforms, or that are in the process of doing so. In 2020, this type of support was provided to 10 developing countries: Armenia, Ecuador, Jamaica, Kenya, Kazakhstan, Thailand, Viet Nam, Nigeria, Peru and the Philippines.

VAT and the COVID-19 pandemic

The COVID-19 pandemic created additional demands for data and analysis on VAT in response to the crisis. VAT measures have been a critical component of most countries' emergency responses to the crisis (e.g. allowing for deferral of VAT). The OECD has tracked the policy measures taken, and produced a range of analysis to support countries in using VAT measures in their COVID response that have fed into two workshops in 2020 and sharing the reports and underlying documentation with the wide network of Global Forum on VAT delegations (including over 100 non-OECD members). This work has helped developing economies to focus on COVID-19 VAT measures that are most effective in reducing hardship for households and businesses and supporting their healthcare sector, away from costly and ineffective measures (such as poorly targeted VAT rate reductions which had been considered in many developing countries).

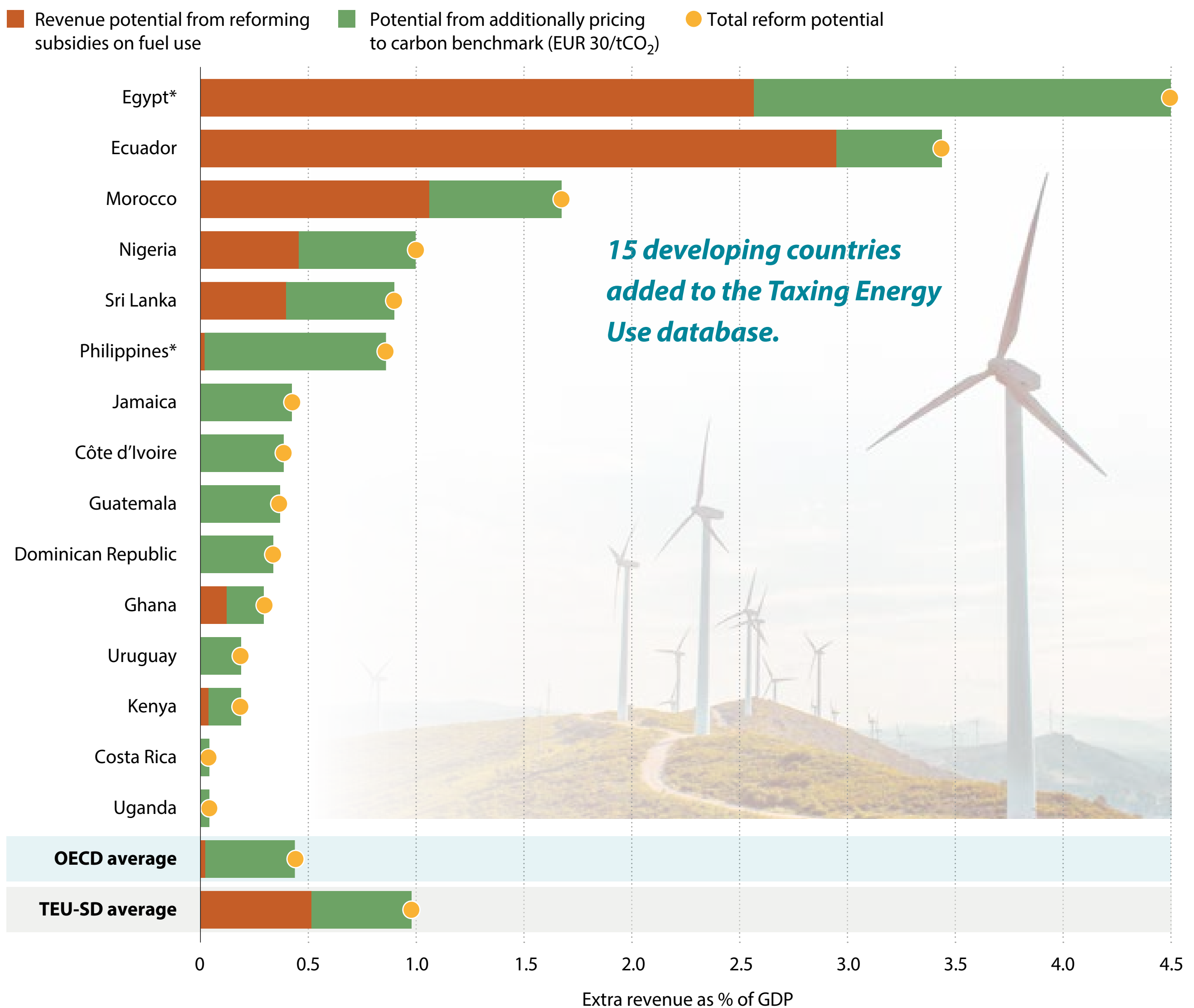
ENVIRONMENTALLY RELATED TAXES



The *Taxing Energy Use for Sustainable Development* report provides a detailed picture of existing forms of carbon pricing and energy use in 15 developing and emerging economies: Côte d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria and Uganda in Africa; the Philippines and Sri Lanka in Asia; and Costa Rica, Dominican Republic, Ecuador, Guatemala, Jamaica and Uruguay in Latin America and the Caribbean. If these countries explicitly priced carbon, the resulting tax could make a sizable contribution to DRM for many countries – around 1% of GDP on average.

FIGURE 6. **Revenue potential from carbon price reform**

Potential increase in tax revenues if ECRs were raised to reach a carbon benchmark of EUR 30/tCO_2 for all fossil fuels



Note: Egypt and Philippines have implemented energy tax and subsidy reform in the meantime, reducing the remaining revenue potential from taxing to a EUR 30 benchmark. Revenue estimates account for behavioural responses using the carbon price elasticities estimated by Sen and Vollebergh (2018). Revenue estimates include auctioning revenues that could be raised by phasing out the free allocation of ETS permits where applicable. Revenue potential from fossil fuel subsidy reform only accounts for reforming fuel subsidies as defined in TEU-SD (see Box 4). Current CO_2 emissions are calculated based on energy use data for 2017 for TEU-SD countries and 2018 for OECD, from IEA (2020), World Energy Statistics and Balances.

Source: OECD (2021), *Taxing Energy Use for Sustainable Development: Opportunities for energy tax and subsidy reform in selected developing and emerging economies*, Paris https://www.oecd.org/tax/tax-policy/taxing-energy-use-for-sustainable-development.pdf

In addition, the OECD has deepened its engagement with the Coalition of Finance Ministers for Climate Action. This coalition brings together 52 finance ministers from developed and developing countries, and provides a forum that can combine the political and technical dialogue necessary for tax reform to support the Paris agreement. In 2020, the OECD organised and hosted a virtual workshop on the Political Economy of Carbon Pricing post COVID-19 on behalf of the coalition. The event brought together over 180 participants from across 50 member countries.

TAX ADMINISTRATION AND DIGITALISATION

The impact of COVID-19 has further illustrated the benefits of digitalisation of tax administrations. Those tax administrations with more effective digitalisation have been able to adjust more effectively to the challenges of the pandemic, from enabling staff to work from home, to be able to quickly adjust systems to facilitate the use of the tax system to administer other services necessary in response to the pandemic.

The FTA *Tax Administration 3.0* report was launched at the FTA virtual plenary in December 2020 and sets out a vision for the digital transformation of tax administration, under which taxation becomes more of a seamless and frictionless process over time. Developing countries need more detailed guidance to support their digital journeys, so a dedicated report on the challenges developing countries face is now being developed.

TAXATION AND DEVELOPMENT CO-OPERATION

The OECD prioritises the smooth co-ordination and alignment of policies between the OECD tax and development agenda and the broader development community, fostering collaboration and avoiding duplication of effort. In 2020, the PCT was strengthened with a dedicated secretariat and the OECD continued to monitor Official Development Assistance (ODA) flows directed to DRM. ODA to DRM has continued to increase. In 2019 (the most recent year for which data is available) disbursements reached USD 274 million, an increase of 50% from 2015 when records begin. Commitments made in 2019 (which includes spending commitments made in 2019 where disbursement will occur in later years) increased more dramatically to USD 365 million, 95% up from 2015. While this is a substantial increase, commitments on DRM still represented just 0.28% of total ODA commitments in 2019.

TAX TREATMENT OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA) FINANCED GOODS AND SERVICES

There was growing support in 2020 for increasing the transparency and accountability of the policies and practices of the tax treatment of ODA financed goods and services by OECD countries. The stage is now set for implementation, with a new ODA taxation hub expected to be launched in 2021. This hub will seek to collate all the relevant resources on the issue, including country policies, links to relevant treaties (where possible), and relevant academic literature, providing a single reference point for policy makers, administrators and researchers.

Looking ahead

The OECD's work with developing countries to build tax capacity and support DRM plays a vital role in levelling the playing field and ensuring that all countries have the opportunity to benefit from the advances in international tax cooperation and have a meaningful say in future decisions.

Developing countries have suffered a serious blow to the bottom line of their balance sheets in 2020, and the shortfalls in revenue have a magnified impact on essential services. While the prognosis for the world economy in 2021 is improving, the recovery for developing countries will be subject to considerable uncertainties, particularly in respect of the roll-out of a vaccine. Heavy reliance on corporate tax revenues means that the inability to effectively tax the profits of MNEs has a proportionately greater impact on their budgets than in developed countries. Government agencies are stretched very thin and the number of staff that have the skills and training to deal with these complex issues are in extremely short supply.

The OECD's work with developing countries to build tax capacity and support DRM plays a vital role in levelling the playing field and ensuring that all countries have the opportunity to benefit from the advances in international tax cooperation and have a meaningful say in future decisions. It will be more important than ever to make this work a priority.

The current crisis underscores the importance of DRM and provides the opportunity for a deeper reflection on the current state of play. It is vital to fully investigate the concerns that developing countries have raised regarding the challenges in international taxation and to make sure that the international tax architecture, and the institutions that serve it, respond to these concerns. Five years after the creation of the Inclusive Framework, the OECD will work with the G20 to consolidate progress by checking that the Inclusive Framework's strong coalition of countries continues to advance together and converge on the successful implementation of the global tax rules, paying particular attention to the needs of lower income/lower capacity countries in the Inclusive Framework. A report reflecting potential improvements to enable developing countries to integrate faster, and deeper, into the new international tax architecture will be available later in 2021.

Countries and organisations supporting the tax and development activities featured in this report

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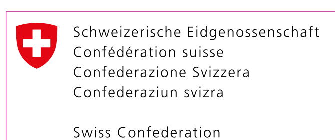

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This report sets out the range of the OECD's work with developing countries in 2020. The COVID-19 pandemic has had a huge impact on the health of both people and economies, with developing countries hit the hardest. Most countries have been implementing emergency tax policy measures to help keep businesses and households solvent, and tax administrations are playing a crucial role in delivering pandemic responses and trying to maintain revenue collections. The OECD Tax and Development programme demonstrated impressive flexibility in 2020 to meet the huge demand for support from developing countries to help them navigate these challenges. Even as we move beyond the pandemic, the challenges will not subside, as 2021 promises to present developing countries with additional pressures on their tax capacities. The OECD stands ready to help developing countries meet these challenges with the collaboration of its many development partners.

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