

POLICY AREA:
International Cooperation in Tax Matters

Tax Collaboration and Capacity Building – Encouraging collaboration between the private and public sectors on tax system reform

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Abstract

Tax system reform is high on the agenda for many tax authorities, governments and public sector bodies, but many administrations lack the capacity and resources to undertake these reforms on their own. The private sector has significant expertise and resource at its disposal, and also stands to benefit from better functioning public financial management systems. It can help to plug this capacity gap through greater collaboration with tax authorities, through activities like the transfer of knowledge and expertise, financial resources, direct service provision and cooperative engagement as a taxpayer. However there are notable barriers to private sector involvement in tax system reform, including lack of mutual understanding, miscommunication and real or perceived conflicts of interest. Although in some cases conflicts of interest may make cooperation infeasible, in most cases these barriers are not insurmountable. This briefing outlines a number of concrete actions the G20 can take in order to mitigate these barriers and foster greater collaboration and capacity building from the private sector in the area of tax reform.

Challenge

Sound tax policy and the effective operation of tax systems are increasingly high on the agenda for governments, international organisations, NGOs, businesses, the media, and the wider public. There is a growing consensus that the mobilisation of domestic resources through a well-functioning tax system is the only sustainable way to finance the vast majority of the important social and economic priorities of society globally. Official Development Aid (ODA) – while important for developing countries – is not a long-term financing solution for public services. At its third International Conference on Financing for Development at Addis Ababa in 2015, the UN made it clear that the effective mobilisation of domestic resources is central to achieving the Sustainable Development Goals

by 2030 and re-emphasised the need to “widen the revenue base, improve tax collection and combat tax evasion and illicit financial flows”.¹

Already, tax revenues are the core source of finance for public expenditure in almost all countries, even in the developing world. There is a long way to go, however, with low-income countries estimated to be mobilising only 13% of their GDP for public expenditure². In advanced economies, tax administrations are looking to transition away from antiquated technological platforms and processes and to adopt smarter ways of analysing and engaging with taxpayers. With such a broad potential tax base and the potential for small improvements to raise significant revenues (and reduce compliance costs), many governments are investing heavily into such transformation programmes.

These reforms are neither cheap nor simple, and most governments need some form of outside help to undertake them. For developing economies, this capacity gap might be a combination of financial resources, expertise and technological know-how. Even in more advanced economies, revenue authorities are unlikely to have the in-house resources required to support such major reforms and instead bring in outside help as needed.

The private sector has the potential to support governments and revenue authorities and to play a much greater role in the worldwide development of strong tax systems – to do more than just paying its taxes. Collaboration happens already, but typically in the form of specialist companies being engaged to undertake specific services (technology, data or consultancy services). However, the private sector has more to offer than just the provision of specialist services not available within the public sector. Many other corporate stakeholders often have interests closely aligned with those of the governments and donors, as it is in their shared interests for countries to have well-functioning tax and public finance systems – where the infrastructure is properly managed, people have money to spend and invest, the law is upheld and corruption is minimised.

Private sector support may take a number of forms, including:

- *Knowledge transfer*: the private sector often has a depth of understanding of new and disruptive market changes that tax authorities can't hope to match in-house. This includes practical experience with technologies and business models such as advanced analytics, cloud computing, artificial intelligence and asset sharing platforms that may pose challenges to the current tax system. Sharing this knowledge and experience can help tax authorities to remain adaptable, and to keep their tax systems fit-for-purpose. Similarly, the private sector has a depth of understanding of complex existing markets that tax authorities may lack, making it difficult to effectively design tax policies and administer the tax system for these sectors. Building this capacity through knowledge sharing can help to bridge this gap.
- *Financial resources*: for developing economies in particular, the tax authority may lack the financial resources required to undertake essential tax reforms, despite the potential for such reforms to bring in significant revenues. Even aside from their tax obligations, private sector taxpayers may wish to support such reforms financially, to promote improvements in public expenditure and the wider business environment in which they operate. Such support should, of course, be given in the right way so as to avoid conflicts of interest, as we outline below.
- *Service provision*: finally, as we noted earlier, the private sector supports tax administrations already through the direct provision of services not provided in-house by the administrations themselves. These services may never be provided by the administrations themselves for sensible reasons – for

¹ United Nations, 2015

² OECD, 2015

example the infrequent need to replace legacy technology platforms makes it inefficient for administrations to maintain their own IT transformation teams on an ongoing basis – or it may be the case that tax administrations work closely with their private sector counterparts to develop some of this capacity themselves for the future. Some private sector service provision may include explicit training and capacity building components for this very purpose.

Cooperative compliance: in their capacity as a taxpayer, large corporate taxpayers may enter into mutually beneficial relationships with the tax authority, undertaking voluntary disclosures and notifying them of possible tax risks early and openly, and in return receiving timely advice on the authority’s likely position. Cooperative compliance builds trust and reinforces tax authority’s understanding of its taxpayers, which allows scarce resources to be directed elsewhere.

But there are notable barriers to this collaboration, many of which can be overcome.

Naturally – given their role as taxpayers – the issue of private sector companies being involved in the reform of tax systems has historically been a sensitive issue, and collaboration around tax reform has not been as strong as it may otherwise have been. These barriers to effective collaboration can be grouped into a number of distinct categories, outlined below:

<i>Procedural barriers</i>	Internal rules and/or legislation designed to prevent conflicts of interest may prevent corporates from being involved. These restrictions can help to prevent legitimate conflicts from arising and ensure private sector involvement is constructive, but may also discourage healthy private sector involvement.
<i>Lack of access</i>	No natural forum or platform for engaging on issues of tax development may exist
<i>The Free Rider problem</i>	Companies may be reluctant to support tax development in a context where non-contributors also benefit
<i>Mutual lack of understanding</i>	Businesses, governments, NGOs and IFIs may not understand each other sufficiently
<i>Lack of trust</i>	Stakeholders may not trust one another sufficiently to cooperate on issues of tax development
<i>Corruption</i>	Companies may be deterred from working with governments due to real or perceived corruption

	within the bureaucratic or political levels
<i>The perception of lobbying</i>	Businesses may be deterred from providing support in case it is perceived by stakeholders as a lobbying exercise
<i>Costs to the business</i>	The cost of providing support for tax development may be prohibitive. This includes financial costs, staff time and management resource.

These barriers are not negligible, but with the right safeguards in place many of them can be overcome. Of course, in some cases a more active engagement with these issues has led to the (correct) determination that the appropriate solution is not to be involved at all, but in many other cases private sector companies are already beginning to overcome some of these obstacles in innovative ways -in acknowledgement of the positive impact that they can have if involved in the right way.

Proposal

There is no single solution to the problems that these barriers can cause, and overcoming them in order to foster greater collaboration between the public and private sector will require a coordinated effort across stakeholders. There are a number of actions corporates themselves can take – and are taking – to overcome the barriers to greater collaboration, but this briefing focuses on actions the G20 can take. As an organised collaboration of influential governments, the G20 is in a unique position to demonstrate the importance of collaboration on tax reform, and to support its improvement.

In the sections below, we have identified a number of policy actions that the G20 can undertake, with a goal of building trust and encouraging greater collaboration between the public and private sector around capacity building. Following the first overarching action, the remaining eight are classified as either measures to remove the stigma sometimes attached to taxpayer involvement in tax reform, or measures to facilitate greater collaboration and capacity building.

1. Measures to develop and improve the thinking around collaboration

Action 1: Creating a task force on tax collaboration

As a primary action, the G20 could establish a task force on tax collaboration, to determine how best to take forward the specific action points outlined below and consider any additional proposals raised by members. This task force could include selected members of the existing G20 engagement groups with an interest in this area, in particular the Business 20 (B20), Civil Society 20 (C20) and Think 20 (T20).

2. Measures to remove the stigma around collaboration

Action 2: Issuing or endorsing guidance on public/private collaboration around tax reform

A culture of greater collaboration on tax matters can be fostered by the formal acknowledgement by the G20 – or individual member countries themselves – that such collaboration is desirable when done in the right way. The G20 can support its member countries and others by publishing high-level principles that governments can adopt and adapt as necessary.

In addition, the G20 can support firms by developing guidelines on how to effectively manage potential conflicts of interest that may arise through collaboration, covering internal procedures (such as confidentiality procedures, separation of teams and roles, and risk processes) and how stakeholders can legitimately engage with one another.

Action 3: Publicising and promoting examples of successful collaboration

Similarly, publically acknowledging successful examples of private-public collaboration on important tax matters can demonstrate that the barriers to collaboration are worth overcoming and show the value that greater collaboration can bring. Some authorities may not even be aware of the kind of support that may be available to them through the private sector, which active promotion of successful partnerships can help to highlight. Again, this can be done at both an individual country-level and through the relevant G20 summits, working groups and publications.

3. Measures to facilitate stronger collaboration

Action 4: Ensuring developing country governments have the minimum capacity to collaborate

Collaboration is most effective when both sides have at least some minimum level of understanding and capacity. Unequal collaboration, for example where a revenue authority is particularly inexperienced or under resourced, can significantly reduce the authority's ability to effectively absorb the support provided, and has the potential to undermine their role as policy-maker, rather than policy-taker.

G20 countries can help to ensure developing country governments have this minimum level of initial capacity by making their own expert staff available to train local staff or by directing financial support towards building local staff capacity.

Action 5: Establishing and promoting Enhanced Engagement Programmes

Enhanced Engagement Programmes (EEPs)³ help to build trust and reduce the costs of compliance with, and administration of, the tax system. They can also help to inform tax policy reforms, by deepening the tax authority's understanding of businesses and the environment in which they operate. In this way the private sector can help build capacity by acting as responsible, engaged, taxpayers.

³ Enhanced Engagement Programmes (EEPs) are formal arrangements between the tax authority and large taxpayers to discuss and disclose key information early in the tax filing process.

Governments themselves should consider setting up such formal arrangements to support cooperative compliance, and G20 governments that have successfully initiated them can provide advice and expertise to others looking to put them in place.⁴

Action 6: Empowering existing platforms for collaboration and/or establishing new ones

A number of platforms for collaboration already exist and could be further endorsed and supported by the G20. For example, the Africa Industry Tax Association is a group of multinational corporations with significant operations in Africa, formed as a platform for engaging with African governments and revenue authorities on issues around tax policy, systems and administration. They have an active working relationship with the African Tax Administration Forum (ATAF).

The OECD has formally incorporated the Business Industry Advisory Committee (BIAC) into its consultation process. Groups like these can be a powerful tool for promoting dialogue and building trust between governments and industry around tax affairs, mitigating the free rider concern and reducing the perception of lobbying.

Existing groups do not cover all regions or industries, however, and there is a role for the G20 in supporting the establishment of further collaborative platforms for other areas, to act as recognised representatives of a particular location, industry or market.

Action 7: Facilitating dialogue between private and public stakeholders

In addition to empowering or establishing formal platforms for collaboration, governments have a role to play in opening up the tax policy and reform processes to input from the private sector (including not only the business sector, but other stakeholders such as individual taxpayers and NGOs), and this input on proposed changes can be crucial in ensuring reforms are well-designed. Governments should build formal consultation into their tax reform processes, so taxpayers have a consistent, regular channel to provide advice.

G20 countries – as a group and individually – can also play a greater role in bringing together public sector entities interested in receiving support and private sector entities interested in providing it. In many cases these two groups may simply be missing the necessary relationships, and by providing a forum for them to be brought together this barrier to collaboration can be mitigated.

Action 8: Providing ODA/financial support in a way that encourages greater collaboration

G20 countries can support capacity building and collaborative support from the private sector through the way in which they provide financial support to less developed countries. Establishing formal mechanisms/funds to attract *blended finance* is one way in which both G20 countries and others can facilitate the flow of financial resources from the private sector into expensive reform programmes. Private sector stakeholders with an interest in promoting stronger tax systems can use these mechanisms to contribute financial resources in an ‘arm’s-length’ way, as their financial resources are pooled with those from other funders (e.g. those of aid agencies and philanthropic organisations). International financial institutions are already using blended finance mechanisms such as these, including specific funds to assist with tax development.

The G20 can also provide financial assistance in a way that encourages greater alignment between tax authorities and private sector service providers, and facilitate greater collaboration. *Payment by*

⁴ More detail around EEPs is contained in a separate policy brief on Tax Certainty.

results approaches can – if well executed – provide a mechanism for aligning incentives between the provider of a service/program and the contracting authority, and may be a way to involve the private sector where poorly aligned incentives or conflicts of interest would otherwise exclude them (e.g. in providing advice on the structure of tax reforms).

Action 9: Encouraging engagement and compliance from corporates by ensuring transparency of public spending

Finally, corporates are likely to be more engaged in, and more likely to comply with, the tax system if they can see that tax revenues are being well used – that corruption in the public sector is minimised and public expenditures are effectively supporting the societies, economies and business environments in which they operate. The G20 should ensure that their tax and public finance systems are free from corruption and that expenditures are open and transparent to the general public (through measures such as published annual budget documents). Support to developing countries can also prioritise this element of public financial management.

Tax reform is undoubtedly a central economic and financial issue. As “the central forum for international cooperation on financial and economic issues”⁵, the G20 has a major role to play in fostering greater collaboration between all stakeholders in order to build the capacity of tax administrations and support stronger tax systems for the future.

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⁵ G20, 2017

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