

# Reforms in International Taxation and Financial Transparency: Towards a Regional Agenda for Asia

A Roundtable by

**Centre for Budget and Governance Accountability and Financial Transparency Coalition**

## Concept Note

Asia has seen remarkable economic growth in the recent years. However, low tax-GDP ratios in many Asian countries continue to limit fiscal space, thereby constraining policy interventions for sustainable development in many of these countries. A number of Asian countries also have high levels of dependence on indirect taxes – with the VAT / GST rates averaging at around 12.5 per cent in the Asia-Pacific region<sup>1</sup> – which have been shown to disproportionately affect the poor. Developing Asian economies also often engage in tax competition in order to attract foreign investment, reflected in tax holidays, incentives and exemptions. Coupled with this, the shadow financial system is increasingly limiting the ability of governments to raise revenue on their own. Developing countries lost over \$1 trillion to illicit financial flows – money that is illegally earned, transferred or utilized – in 2015.<sup>2</sup>

In the past few years, there have been significant and concerted developments across the world with respect to international taxation and cooperation among countries on issues of financial transparency. There is global recognition of the urgent need for and importance of tax revenue for sustainable development, especially in developing countries. Illicit financial flows (or IFFs) found mention at the Financing for Development Conference and in the Sustainable Development Goals, as well as regional spaces such as the launch of the High Level Panel Report on Illicit Financial Flows from Africa. The G20 and the OECD released a package of measures – the Base Erosion and Profit Shifting (BEPS) package – as a roadmap to reform the global tax framework in response to tax base erosion and profit shifting practices employed by multinational companies that exploit gaps in tax rules to artificially shift profits to low tax jurisdictions where there is little or no economic activity, thus undermining the fairness and integrity of national tax systems.<sup>3</sup>

However, the design of global bodies currently setting the rules such as the OECD and the G20 has led to a systematic exclusion of developing countries from making the rules of global finance that affect them directly. The absence of an inclusive and global tax body also contributes to disparities between developed and developing countries. Developing countries have consistently put forward their demand for an inclusive body at the United Nations to design tax norms, where all countries participate on an equal footing.<sup>4</sup>

Countries in the developing regions of Latin America and Africa cooperate with one another by way of the Inter-American Center of Tax Administrators (CIAT) and the African Tax Administrations Forum (ATAF) respectively. The Asia-Pacific region however, does not have a pan-Asian tax forum. The continent of Asia

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<sup>1</sup> KPMG International. 2013. Asia Pacific Indirect Tax Country Guide

<sup>2</sup> Global Financial Integrity. 2015. Illicit Financial Flows from Developing Countries: 2004-2013

<sup>3</sup> <http://www.oecd.org/tax/beps/beps-about.htm>

<sup>4</sup> Inter Press Service. Developing Nations Seek Tax Body to Curb Illicit Financial Flows. August 8, 2016

is unique because of the wide diversity between countries in terms of languages, cultures, macroeconomic frameworks, tax systems as well as levels of domestic resource mobilisation vis-à-vis overseas aid. Asia-Pacific countries are also at very different levels of development; the continent has fast-growing economies, aid-dependent countries, Least Developed Countries as well as Small Island Developing States. Countries in the Asia-Pacific have therefore established several sub-regional forums for cooperation on tax matters, primarily to facilitate sharing of best practices and experiences like the Study Group on Asian Tax Administration and Research (SGATAR), and those that are under political bodies with specific mandates, such as the ASEAN Forum on Taxation.

Recognising Asia-Pacific's challenges with regard to taxation and public finance, the work of existing sub-regional tax cooperation forums, and the need to strengthen the implementation of the 2030 Agenda for Sustainable Development, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) has proposed the Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD). The UNESCAP envisions that the AP-TFSD would serve five key objectives – supporting tax revenue enhancement efforts, strengthening municipal financing, promoting tax policies to support inclusive growth and sustainable development, facilitating exchange of information and coordination to address harmful tax competition, and provision of a platform for developing countries to discuss and coordinate their positions on new international tax standards.

In such a context, Centre for Budget and Governance Accountability (CBGA) and Financial Transparency Coalition (FTC) are planning on organising a one-day Round Table '**Reforms in International Tax and Financial Transparency: Towards a Regional Agenda for Asia**' in **New Delhi on November 21, 2016**.

The Round Table aims to further the discourse on the role of regional cooperation on international tax matters in Asia. Among the different issues pertaining to international taxation and regional cooperation, the Round Table would focus on some emerging developments on the following:

- Given the diversity in the contexts of Asian countries, there are different issues countries face with regard to international taxation. The Round Table would explore if a collective prioritisation of certain tax issues is possible in Asia.
- There are several sub-regional cooperation forums in the Asia-Pacific, and there is a need to document and understand the experiences of these forums, to inform the discourse on Asia-Pacific tax cooperation.
- The UNESCAP has proposed an Asia-Pacific Tax Forum for Sustainable Development, and the Round Table would help strengthen the discourse around cooperation in the Asia-Pacific, and strive to make the process democratic and inclusive.
- The Round Table would also help stakeholders such as UNESCAP, national tax administrators, academics and civil society to have a constructive conversation regarding their respective priorities, and how they could work in solidarity and complement each other's efforts.

The Round Table would bring together senior representatives of tax authorities from several Asian countries, representatives from UNESCAP, academics, technical experts and civil society.

This Round Table would be a closed door event, and the media is not invited. Chatham House Rule applies.

(For more information on the conference, please write to us at [neeti@cbgaindia.org](mailto:neeti@cbgaindia.org))