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THE ASIA-PACIFIC TAX FORUM FOR SUSTAINABLE DEVELOPMENT (AP-TFSD): A PROPOSAL

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Discussion Paper

Macroeconomic Policy and Financing for Development Division

The Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD): a Proposal

by

ESCAP secretariat*

March 2016

Abstract

Taxes, and more generally the public revenue system, have provided the fiscal backbone for the remarkable development of Asia and the Pacific over the past few decades. However, growing public spending requirements for infrastructure, social and environmental investment for implementation of the SDGs, and the region's unprecedented urbanization, call for strengthening fiscal positions. Additionally, globalization and cross-border business activities have created new challenges for national tax administrations. In response to these new trends and the needs of Asia-Pacific countries, the idea to create a new regional tax forum was brought up at ESCAP's 70th Commission Session in 2014 and further developed at a number of regional events. The proposed tax forum would seek to address the key issues that are most pertinent to the region, but yet to be addressed by existing international and regional tax cooperation mechanisms. This paper highlights the rationale of the proposed forum, discusses five potential focal areas for the forum and suggests a working blueprint for the forum.

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I. Introduction

Low taxes have assisted Asia and the Pacific countries in their remarkable developments over the past few decades. However, growing public spending requirements for infrastructure and the social sector development and the need to deal with environmental challenges, including those related to the region's unprecedented urbanization, now call for strengthening fiscal positions. Furthermore, the effective implementation of the 2030 Agenda for Sustainable Development and the potential of pro-active fiscal policies to support economic growth call for an additional mobilization of public domestic resources. Thus, the strengthening of public finances to meet current and future spending needs and to secure a sustainable and prosperous future has become a top priority in Asia and the Pacific, especially when the fiscal positions of many countries of the region are characterized by single-digit tax-to-GDP ratios and persistent fiscal deficits.

At the same time, with globalization deepening beyond trade and investment and the world becoming more interlinked, the tax implications of international investment are becoming increasingly more challenging for national tax administrations. In this regard, tax evasion by enterprises undertaking economic activities in multiple countries is a growing global issue, as highlighted by the high priority that the G20 and the OECD accorded to their base erosion and profit shifting (BEPS) project over the past few years. However, dealing with complex international tax system issues, such as those addressed in the BEPS project, is beyond the capacities of tax authorities in smaller and low-income countries with little expertise in the field, while the policies, standards and practices recommended by G20-OECD in this area might not always be the most suitable for the region's developing countries. A second consequence of increasing globalization is that – in the absence of any form of tax coordination among countries of the region – it is leading to increasing cross-country competition through lowering of rates and through tax incentives. Although tax incentives are common in most, if not all, countries in the region, they reduce tax revenues, increase tax complexity and facilitate corruption and tax evasion.

In response to these new trends and the needs of the Asia-Pacific countries, the idea of creating a regional tax forum with a focus on supporting the region's sustainable development and its developing countries was brought up at ESCAP's 70th Commission Session in 2014. Since then, the idea has been discussed in a number of regional events, and was further developed based on extensive background studies and at the tax expert meeting in November 2015 (annex 1). The consensus reached in this meeting was that the proposed tax forum could provide a useful platform for regional cooperation and coordination in tax matters that would add significant value to its prospective members over existing international and regional tax cooperation mechanisms.

Keeping in view the Asia-Pacific region's key challenges in taxation and public finance, the work of existing tax cooperation forums, and the need to support the implementation of the 2030 Agenda for Sustainable Development, the proposed Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD) would aim at serving five key objectives:

- Supporting tax revenue enhancement efforts;
- Strengthening and rationalizing municipal financing to support the region's continuing urbanization;

- Promoting tax policies that directly support inclusive growth and sustainable development;
- Facilitating exchanges of information and coordination to address harmful tax competition;
- Providing an open platform for developing countries to discuss and coordinate their positions on new international tax standards and practices.

The next section provides further discussion on the rationale for this proposal. Section III provides a brief stocktaking of existing tax forums for cooperation in tax matters. Section IV assesses cooperation gaps of the region's tax forums and highlights the main features and value added of the proposed AP-TFSD. Section V provides initial ideas for a blueprint of the new forum to facilitate further discussion.

II. Proposed focus areas of the AP-TFSD

A. Supporting tax revenue enhancement efforts

An important function of the government is to collect taxes for the provision of public goods such as education, healthcare and infrastructure. While the 'optimal' tax-to-GDP ratios depend on a number of factors, such as the country's preference for public goods and structural characteristics of its economy, there is room to increase tax revenues in a number of Asia-Pacific countries. Many countries have expressed a desire for ambitious public programmes such as universal health coverage, but their tax revenue collection is well below their estimated 'potential'.[1] This apparent mismatch could be resolved by putting in place an efficient and fair tax system that delivered the necessary revenues.

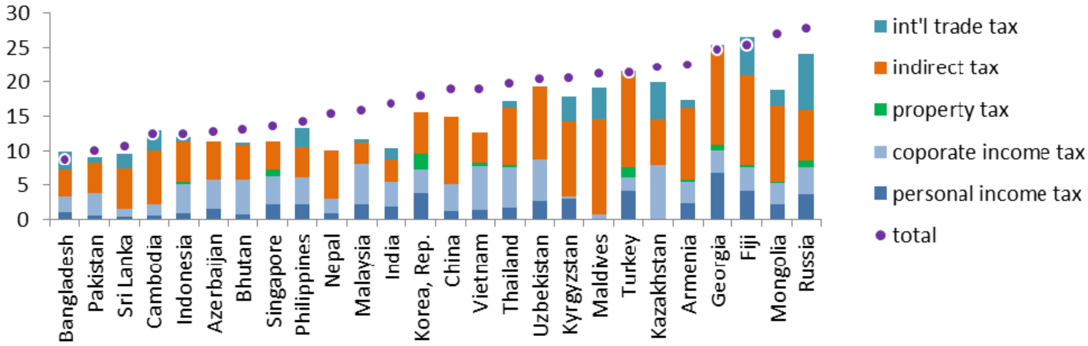
Intuitively, tax revenues can be below 'potential' for two reasons: (i) tax laws that allow for various exemptions, and (ii) an inefficient implementation of the tax laws. While tax exemptions, holidays and deductions offered to specific taxpayers or to economic activities erode the tax base, weak enforcement and inefficient taxpayer services have also a negative impact on tax compliance. The relative significance of these two 'gaps' varies across countries. Some countries have successfully rationalized tax expenditures (revenues foregone due to tax exemptions) but continue to experience revenue shortfalls due to a weak administrative capacity. In other countries there have been significant reforms in tax administration – for instance, through reorganization along functional lines and taxpayer segmentation – but tax collection is undermined by legislation and policies that allow for generous exemptions and provide ample opportunities for noncompliance.[2] Box 1 illustrates the challenges of revenue enhancing reforms in the case of Pakistan.

[1] For instance, Indonesia, with a view to achieve universal health coverage by 2019, has allocated 5% of its 2016 national budget to health expenditures, compared with 3% in 2014. However, the budget has come under pressure amidst revenue shortfalls. ESCAP analysis suggests that Indonesia's 'potential' tax-to-GDP ratio is approximately 4 to 5 percentage points higher than the actual level. See ESCAP (2014).

[2] For instance, agricultural income receives special tax treatment in several South Asian countries, without proper distinction between poor and wealthy farmers. Besides the legally lost revenues, this creates opportunities for tax evasion, as taxpayers can abuse the legislation by declaring business income as agricultural income. See Reva (2015).

This implies that efforts to enhance tax revenues require the engagement of various stakeholders, including legislators, ministries of finance and national tax administrations.[3] Moreover, there seems to be significant scope for knowledge and experience sharing between countries, which could also encourage a healthy dose of peer pressure for reforms. For instance, with a view to improving tax legislation and policy, countries could discuss how the tax mix, or composition, could be enhanced, for which cross-country comparisons can be useful (figure 1).[4] It would also be very useful for countries to discuss best practices for the measurement of tax expenditures and to evaluate whether or not they meet their intended policy objectives and how they compare to present and future direct spending.[5] With a view to improving tax administration, countries could discuss how to effectively engage taxpayers in the process of registration, collection, audit and appeals; how to make good use of information technology and modern tools of enforcement such as withholding and third-party information sharing; and how to ensure the integrity of tax administrations. In some countries, expanding the tax base and simplifying tax paying procedures seem to be low hanging fruits (figure 2).[6]

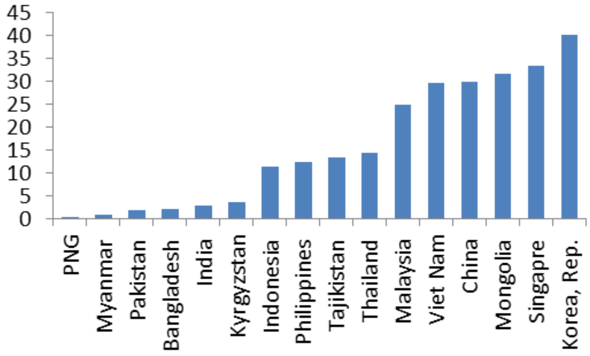
Figure 1. Tax composition and revenues, % of GDP, in selected Asia-Pacific countries

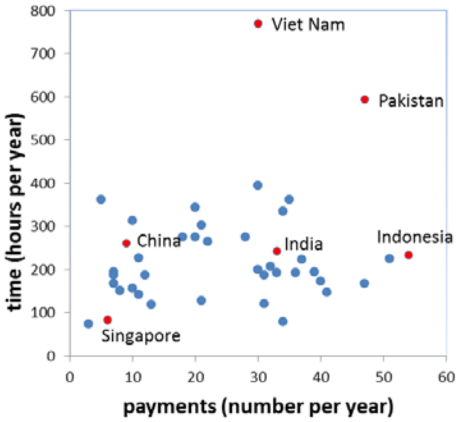


Source: ESCAP, based on Government Financial Statistics, World Revenue Longitudinal Dataset, and CEIC Data.
Note: 2014 or latest available year. Differences between the 'total' and the sum may arise from gaps in data and definitional issues. For instance, countries such as India and Viet Nam have various goods and sales taxes in addition to standard VAT, as well as excise taxes that are not captured under 'indirect tax.'

[3] Boards of investment and other bodies that grant tax incentives are also important. For instance, in the Philippines, as many as 18 investment promotion agencies are allowed to grant tax incentives under 180 pieces of legislation. Regional and local governments should also be engaged in countries with significant degrees of tax decentralization.
[4] Having a balanced tax mix can help raise revenues in an efficient and fair manner. This could be achieved through either adjusting existing taxes (e.g. rates, thresholds) or introducing new taxes (e.g. property, inheritance taxes).
[5] According to the Open Budget Survey 2015, there were 14 countries in the region whose governments publish at least some tax expenditures. Foregone revenues range from 1.5% of GDP in the Philippines in 2011 to nearly 5% in India in 2013, although coverage varies across countries. The Republic of Korea adopted performance-based tax expenditures in 2014, in which special treatments are time-bound and new ones are adopted only when existing ones have expired. Promoting further exchanges of information on this matter will be extremely useful for policy makers.
[6] For instance, in Pakistan, the number of active personal income tax filers is less than 1 million, significantly below the number of 5.7 million people reportedly earning above the income tax threshold, and far lower than the 15.6 million broadband internet subscribers. The government has issued notices to potential taxpayers and is integrating the national taxpayer identification system with the national identity card database. See Cevik and others (2015).

Figure 2. Registered taxpayers, % of population and ease of paying taxes





Source: ESCAP, based on national sources, Araki and Claus (2014), and World Bank, *Doing Business 2016*.
Note: Registered taxpayers for individual income. Data for 2013 or latest available year. Ease of paying taxes shows two indicators – the number of hours per year to prepare, file returns and pay taxes; and the number of payments per year – for a medium size company; based on surveys conducted in 2014.

Box 1. The challenge of revenue enhancement in Pakistan

Like a number of other South Asian countries, Pakistan's tax revenues are very low in relation to the GDP, averaging about 10% in the past decade. This is partly explained by the relatively low diversification of the country's tax structure, which relies disproportionately on personal and corporate income taxes and sales taxes. In addition, the industrial sector contributes over 60% of the total tax revenue although it represents about 20% of the GDP, while the agricultural sector contributes only 2.5% of the total tax revenue although it represents about 25% of the GDP.

The country's narrow tax base is an even more important challenge, with 92% of the population falling below the minimum income bracket for taxation and 3% of the registered General Sales Tax (GST) payers accounting for roughly 90% of the total GST revenue. This may reflect difficulties by the tax authority to track tax-related activities of businesses and individuals, which harm its effectiveness in enforcing the collection of taxes. For instance, a Federal Board of Revenue (FBR) exercise in 2012 that used national databases for individual spending and income tracking revealed that more than 1.5 million adult citizens who had traveled abroad at least once a year over many years, as well as half a million people who had multiple bank accounts, were not registered with the tax authorities.

A study on the introduction of the GST in Pakistan in 1996 notes that the revenue from this tax declined from above 4% in the 1990s to under 3% in 2009.[a] The author argues that although, on the surface, the revenue loss seems to be largely due to the

Box 1. ***(continued)***

long list of exemptions, the perpetuation of temporary concessions and "zero-rate" for certain sectors, a number of capacity, institutional, and political economy factors should be taken into account to better understand it. For instance, capacity deficiencies of the tax authority to effectively collect business data and administer a VAT system resulted in the use of presumptive methods and fixed prices for determining GST liability, refunds and input-credits. This increased the tax incidence on the producers, thus defeating a main purpose of the reform. Capacity deficiencies also contributed to the "zero-rate" decisions. For example, amid difficulties to effectively differentiate between genuine and fake exports' invoices in order to provide tax refunds to exporters, the tax authority lowered the tax rate to zero for a number of export sectors. This broke the input crediting chain for GST determination and created new vested interests that feed on the exemption.

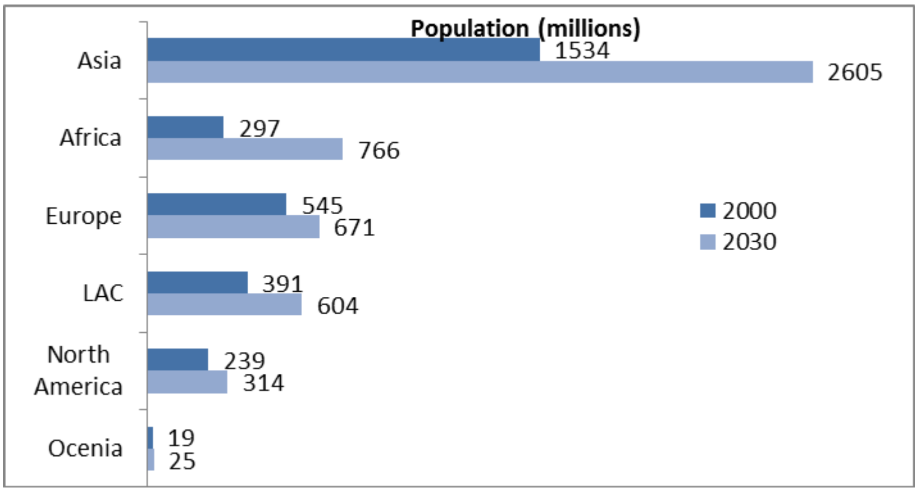
[a] Ehtisham Ahmad, "The political-economy of tax reforms in Pakistan: the ongoing saga of the GST", Asia Research Centre Working Paper, No. 33 (London, London School of Economics, 2010).

B. Strengthening and rationalizing municipal financing to support urbanization

The Asia-Pacific region is at the center of the world's largest rural-urban transition in history. Between 2001 and 2010, almost 200 million people moved to urban areas in East Asia alone, resulting in its urban population growing at an average annual rate of 3%. United Nations predicts that this urbanization trend will continue. By 2030, Asia's total urban population is expected to exceed 2.6 billion, accounting for 60 percent of the increase in the world's urban population over the three decades between 2000 and 2030. Even by that time, the region's overall urbanization rate is expected to be 53%, considerably below the world average of 60% and lower that 55% in Africa and 83% in Latin America.

Unlike other developing regions of the world, Asia's urbanization is also characterized by the dominance of mega cities and the pivotal role of cities and city clusters in the region's integration into the global economy. The region currently hosts 17 of the world's 28 megacities (cities with more than 10 million people); and many of the booming cities and city clusters serve as industry and trade centres as well, linking the region's expanding and deepening value chains. These two features make Asian cities more "capital-intensive" in the sense that they will require more investment in infrastructure and public services per resident.

Figure 3. Urban population growth 2000-2030



Source: United Nations (2000). *World Urbanization Prospects: The 1999 Revision*.

The unprecedented speed and distinct features of Asia's urbanization have put enormous fiscal pressure on the governments, especially municipal governments. The costs of provision of public transportation, ICT infrastructure, housing, urban environmental management and job creation programs are in the scale of trillions[7]. Moreover, such enormous expenditures will need to be undertaken in a relatively short time span. In the larger countries of the region, where local governments normally play a greater role in the provision of public goods, subnational governments already account for more than half of the total public expenditure. And in many smaller ones, this figure has well surpassed 30% (table 1).

Table 1. Estimated subnational government shares of total public expenditure and revenue in Asian countries, 2009 (%)

Country	Share of total public expenditure			Share of total public expenditure		
	Subnational	Upper tier	Lower tier	Subnational	Upper tier	Lower tier
Bangladesh	15.0	5.0	10.0	2.0	1.0	1.0
India	66.0	33.0	33.0	33.0	30.0	3.0
Indonesia	35.0	7.0	28.0	8.0	5.5	2.5
Japan	60.0	20.0	40.0	40.0	20.0	20.0
Republic of Korea	45.0	15.0	30.0	25.0	10.0	15.0
Pakistan	33.0	28.0	5.0	7.0	6.5	0.5
Philippines	25.0	11.0	14.0	10.0	2.5	7.5
China	70.0	20.0	50.0	40.0	15.0	25.0
Thailand	10.0	5.0	5.0	2.0	1.0	1.0
Viet Nam	45.0	30.0	15.0	35.0	25.0	10.0

Source: Blane Lewis and Bob Searle, *Second Global Report on Decentralization and Local Democracy*, Jorge Martinez-Vazquez and Paul Smoke, eds. (2010); United Cities and Local Governments.

[7] China alone spends more than 1 trillion CNY ($160 billion) on subsided urban housing each year.

While subnational governments are increasingly expected to deliver much needed, but very costly, public goods and services, they are not adequately equipped to meet this challenge. Almost all Asian countries suffer from serious vertical imbalances, with subnational governments spending well above their revenue (table 1). As a result, they heavily rely on central government transfers to address their significant fiscal gaps, as they often lack revenue autonomy to collect their own funds. If these imbalances are not urgently addressed, they could lead, in the long run, to chronic spending deficits and the accumulation of local government debts, which could destabilize the financial system.

Ideally, own-resources of subnational governments should be predictable, diversified, and able to finance most of the locally-provided services that primarily benefit local residents. Given the benefits of a certain degree of revenue autonomy, the potential of a package of property taxes, local business taxes, special payroll and sales taxes could be better explored to strengthen the fiscal spaces of subnational governments. So far, such revenue tools are only used in a limited number of countries and, in cases like Indonesia and the Philippines, property tax is still a central tax. Other revenue sources, such as revenues from public land sales/lease and fees, may also prove crucial complementary revenue sources. These non-tax revenues could be of particular importance for countries at an early stage of their development, when their tax potentials and tax collection capacities are constrained.

In practice, however, most subnational governments would still depend on transfers from the central government, even if they are successful in enhancing their own revenues. Therefore, the design of an effective and transparent mechanism for the distribution of expenditure responsibilities and the transfer of funds across different levels of government will be extremely important to ensure subnational fiscal sustainability and balanced development of the region's urbanization.

D. Promoting tax policies that directly support inclusive growth and sustainable development

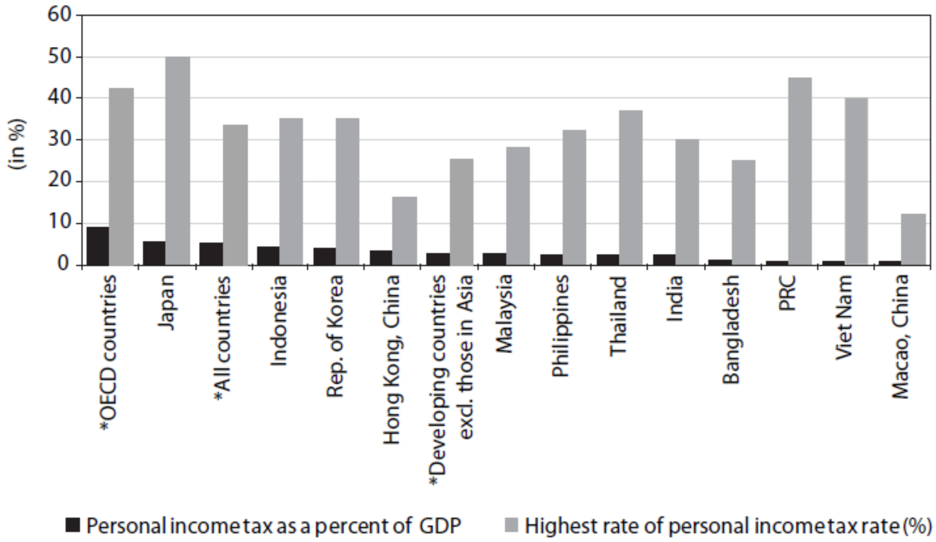
Funding public expenditures on healthcare, education, social welfare and environmental protection through higher taxes can contribute to inclusive growth and can help redistribute income or wealth toward lower income groups. However, the use of progressive taxation has been limited in Asia and the Pacific. While the personal income tax (PIT) contributes less than 2% of GDP in most developing countries of the region compared to around 10% in OECD countries, in some countries only labor income (wages and salaries) is taxed at progressive rates. In contrast, incomes from the remuneration of personal services and from capital sources, which represent a larger share of the total income of richer groups, as well as on aggregate personal income, are taxed at flat and often at zero or low rates, reducing the overall redistributive effect of the PIT.

Interestingly and not surprisingly, the PIT has been found to have a much greater marginal redistributive effect in this region than in other parts of the world, despite the deficiencies in its structure in some countries. [8] This could be due to the relatively high

[8] Claus, Martinez-Vazquez and Vulovic (2012).

tax-free threshold and the existence of a large segment of the labor force employed in the informal sector, which leaves the lower income population largely outside the PIT system .

Figure 4. Personal income tax as a percent of GDP and top personal marginal income tax rate (2009 or latest available year)

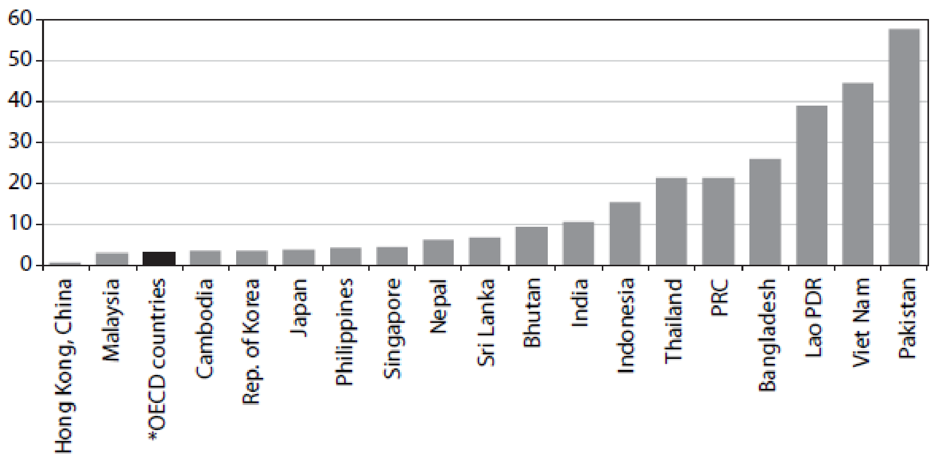


* Unweighted average, PRC = People's Republic of China, GDP = gross domestic product, OECD = Organisation for Economic Co-operation and Development.

Note: Sorted from highest to lowest tax revenue as percent of GDP.

Source: Claus, Martinez-Vazquez and Vulovic (2012).

Figure 5. Ratio of top personal income tax threshold to gross national income per capita (2012)



* Unweighted average, data are for 2009 or 2008, no data are available for Turkey. Lao PDR = Lao People's Democratic Republic, OECD = Organisation for Economic Co-operation and Development, PRC = People's Republic of China.

Note: Gross national income per capita for Asian countries is assumed to grow at the 2000 to 2010 rates.

Source: Claus, Martinez-Vazquez and Vulovic (2012).

Taxes targeting wealth, such as taxes on property, inheritance and gifts, are also relatively underutilized in the region. For instance, only four out of the 10 ASEAN countries currently have inheritance/estate taxes.[9] Although the best tax mix and structure to achieve redistributive objectives is a debatable question, and countries differ about which choice is most desirable,[10] wealth-based taxes should play a greater role in reducing intra- and inter-generational economic inequality.

Tax policies can also play an important role in discouraging “public bads”, such as carbon emissions, environmental degradation or traffic congestion. Yet, the use of environmental taxes, such as those levied on fuel, pollutant discharges or car driving, remain underutilized in Asia and the Pacific, despite their potential benefits. Although a wave of Asia-Pacific countries, including Indonesia, Malaysia and India, recently abolished fuel subsidies, many are still hesitant to take one further step to tax fuel and carbon emission in general.

Fiscal carbon pricing instruments – whether as a tax or cap-and-trade emissions scheme - are a cost-effective means for governments to send market signals to businesses to decarbonize investments in the real economy. While carbon taxes set the price of emitting a unit of pollution, as the quantity of emissions is not set the actual amount of emissions remains uncertain. In comparison, cap emissions trading schemes (ETS) provide certainty on the quantity of emissions, but lead to uncertainties surrounding costs of achieving those reductions. ETS and carbon taxes also differ in administrative complexity. Carbon tax is generally easier to implement as it can build on existing taxation infrastructure, for example, through the expansion of an energy taxation policy. The implementation of EST is more complicated because it requires the creation and allocation of emission allowances and the establishment of a market for trading.

Often, the choice of instrument is not only motivated by the characteristics of these instruments, but also by specific national circumstance. For example, the EU used an ETS rather than a carbon tax partly because the EU legislative remit does not cover fiscal policies such as carbon taxation. Certainly, ETS and carbon tax can also be deployed together. For example, carbon taxes in France, Ireland, Portugal and Sweden are applicable to selected, non-EU ETS sectors.

In the ESCAP region, China, the Republic of Korea, New Zealand, Kazakhstan, the United States, and three member states of the EU (France, Netherlands, and the United Kingdom) are the countries that have implemented national or sub-national ETS; Japan, France, and the United Kingdom have implemented carbon tax; and Thailand has implemented a voluntary carbon market.

The Republic Korea launched its ETS on January 1, 2015, which covers 23 subsectors, including steel, cement, petro-chemicals, refinery, power, building, waste, and aviation. In the first phase (2015-2017), no auctioning is foreseen and all allowances will be given out free of charge based on the average 2011-2013 GHG emissions of participating entities as well as the national GHG reduction target. Companies can also use CDM

[9] The countries are Brunei Darussalam, Philippines, Viet Nam and Thailand, the latter of which instituted an inheritance and gift tax in February 2016. See www.aseanbriefing.com/news/2015/03/10/understanding-inheritance-estate-tax-asean.html.

[10] For example, Singapore abolished the estate tax in 2008 to encourage more local and overseas investors to hold their assets in the city-state.

CERs for up to 10 percent of their compliance obligation.

The seven pilot ETSs in China combined form the largest national carbon pricing initiative in the world in terms of volume, putting a cap on 1.3 GtCO2 (World Bank 2015). At the national level, a nationwide ETS may be launched by the end of 2016 and fully implemented in 2019. The national ETS should cover power generation, metallurgy and non-ferrous metals, building materials, chemicals, and aviation.

Japan is the only country in Asia and the Pacific that has a placed carbon tax. Since 2012, Japan's tax for Climate Change Mitigation has covered the use of all fossil fuels such as oil, natural gas, and coal, depending on their CO2 emissions. By using a CO2 emission factor for each sector, the tax rate per unit quantity is set so that each tax burden is equal to USD 2/tCO2. Box 2 refers to Australia's experience with carbon pricing.

Although environmental taxes and carbon pricing mechanisms are limited in the region, with the adoption of the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change last year, things are beginning to change. Without doubt that there is a growing interest to further explore the potential of tax policies to address the region's long-term challenges and secure a more sustainable future.[11] This will be an exciting but challenging task, as many of the tax tools for this purpose are new even to developed countries. Stronger capacity building and peer learning efforts, together with indigenous policy innovations, will be required to achieve this objective. The Forum may play an important role in spreading knowledge and in providing a focus for exchanging experiences in this area.

Box 2. Australia's experience with carbon pricing

From 1 July 2012 until 30 June 2014, Australia had a carbon pricing scheme in place, however, following a change of government in September 2013, the carbon price was repealed in July 2014. The carbon pricing mechanism was a permit scheme where, the price was fixed at $23AUD per tonne of carbon dioxide and equivalent in 2012-13 and $24.15 in 2013-14. The Government sold an unlimited amount of permits at the fixed price and neither international trading nor banking of permits was allowed. Research by the Australian National University (ANU) found that carbon emissions in Australia's national electricity market would have been 11 to 17 million tonnes higher during 2012/13-2013/14 if Australia had not introduced a carbon price.

Because the revenue from the carbon price was recycled to reduce distortionary taxes for low-income earners, invest in renewable energy and provide incentives for energy efficiency for households and businesses, the actual economic cost of the scheme was much smaller than the value of permits sold, or the tax take. Political uncertainty however dogged the carbon pricing policy over its entire existence. At the

[11] For instance, China recently published a draft law on environmental taxes aimed at cutting down water, soil and air pollution in key industries. India has increased the excise tax on fuel in addition to phasing out fuel subsidies.

Box 2. ***(continued)***

introduction of the carbon price in mid-2012, a survey found that 40 per cent of experts, including decision makers at liable entities under the Australian carbon pricing mechanism, expected the scheme to be repealed by 2016. As a result its effect was not as great as it would have been under a stable policy framework.

For investors in assets with lifetimes of several decades, what matters most is the expectation of policy settings over the medium to longer term. For any country seriously considering moving to a carbon pricing or emissions trading scheme, a stable, bipartisan, long-term policy framework that creates economic incentives to cut emissions will be the foundation of its success. The world's major economies are pushing ahead with policies that will clean up their energy systems and modernize their economies, and cut carbon emissions in the process and many are incorporating some form of emissions pricing policy. The Australian experience shows that pricing the emissions externality directly is the most efficient and cost-effective approach to tackling climate change. Other mechanisms such as implementing strict regulations or introducing subsidies and incentive schemes can play a complementary role to emissions pricing and help to address areas where emissions pricing alone is insufficient because other externalities are at play (for example, in targeting clean energy innovation where positive externalities exist). But Australia's experience is that a rigorous pricing mechanism should be the primary vehicle for emission reduction.

By adopting a carbon price, Australia was not only putting a price that captures the externalities of carbon emissions and thereby changing behaviour, but also incentivizing investment in more sustainable forms of energy production. Carbon pricing presented an opportunity to generate alternative forms of finance for development, while the policy itself also contributed to the achievement of sustainable development.

E. Addressing harmful tax competition

Corporate income taxes have come under pressure with increased global mobility of capital. While declining corporate tax rates is a worldwide phenomenon, the problem seems to be exacerbated in the region as countries expand tax incentives as well as cut rates in the attempt to attract foreign investment (table 2). Such incentives include tax holidays, income tax exemptions, reduced tax rates, investment allowances, and import duty and VAT exceptions.[12] Some governments also offer additional incentives related to the amount of investment or number of jobs created in an effort to stimulate investment in priority sectors or locations. Incentives are often targeted at exporters, agriculture, manufacturing, infrastructure and energy, and high-tech sectors.[13] For example, Sri Lanka provides preferential tax treatment for the tourism and construction

[12] ARIC, Tax incentives database list, 2015. Available from https://aric.adb.org/taxincentives.
[13] ARIC, Tax incentives database list, 2015. Available from https://aric.adb.org/taxincentives; and UNCTAD (2013).

sectors, India for the insurance sector, and Pakistan offers power-generating companies permanent exemptions.

Tax holidays are the most commonly employed incentives in the region. Some countries also target tax holidays for investment in rural and underdeveloped locations, such as in Bangladesh, Nepal, Pakistan and Lao PDR. A few countries, also target export promotion by offering reduced tax rates on export earnings, and export processing zones are governed by special tax regimes in every country. In addition to tax incentives, tax competition to attract FDI has resulted in decreasing corporate tax rates over the past decade.

Table 2. Tax incentives in selected Asia-Pacific countries

	Tax holiday/ exemption	Max. tax holiday years	Reduced tax rate	Investment allowance/ tax credit	R&D incentives	Super deductions	SEZ	Discretionary
Cambodia	x	9	x	x			x	**x**
Indonesia	x	20		x			x	x
Lao PDR	x	10	x		x		x	x
Malaysia	x	10	x	x	x	x	x	x
Myanmar	x	5	x	x	x		x	x
Philippines	x	6	x		x		x	
Singapore	x	negotiable	x	x	x	x	x	x
Thailand	x	11	x	x	x	x	x	x
Viet Nam	x	4	x		x		x	x

Source: World Bank, *East Asia-Pacific Economic Update, October 2015: Staying the Course* (Washington, D.C., 2015).

Table 3. Tax expenditure as a percentage of GDP in selected countries, latest available data

Country	In customs duty	In corporate income tax
Bangladesh	0.1	n.a.
China	8.1	0.1
Georgia	0.3	0.5
India	0.5	0.0
Indonesia	0.6	0.2
Malaysia	0.8	0.2
Nepal	n.a.	0.2
Pakistan	1.2	n.a.
Philippines	1.5	0.6
Sri Lanka	n.a.	0.3
Tajikistan	n.a.	0.6
Turkey	0.6	0.3

Source: ESCAP calculations.
Notes: Tax expenditures in customs duties are computed by calculating the tariff loss that arises if the actual applied tariff is less than the average-weighted MFN tariff for each country. The tax expenditure on corporate income taxes is computed by comparing the actual corporate income tax rate with the statutory rate.

As highlighted in the 2014 issue of ESCAP's *Economic and Social Survey of Asia and the Pacific* (*Survey 2014*), tax expenditures, which are the revenue foregone as a result of these deductions and allowances, are also significant in some countries such as Georgia, the Philippines and Tajikistan where it reaches 0.5% of GDP or more (table 3). In several countries, tax expenditures are also significant in customs duties, reaching more than 1% of GDP in Pakistan and the Philippines and more than 8% of GDP in China (ESCAP, 2014).

While limited data access has constrained analyses of tax competition in the region, Keen and Simone (2004) noted that that unlike in other regions, corporate tax reform in Asia and the Pacific has been both rate-reducing and base-reducing. A study by Chen, Huang and Regis (2012) based on 14 Asia-Pacific countries found support to the hypothesis that countries in the region compete with each other in setting their corporate tax rates.[14] A recent KPMG (2014) study has warned that the paucity of coordination and harmonization on tax matters in the ASEAN region, especially in light of the AEC, could result in continued tax competition that will have adverse effects on tax bases in the region.[15]

The effectiveness of these incentives is also unclear as empirical studies suggest that tax incentives cannot be a substitute for good business environment. While certain incentives to attract investment to priority sectors or locations may be necessary, there seems to be room for countries to enter into voluntary discussions to avoid harmful tax competition and maintain the integrity of the tax base.

F. Providing an open platform for developing countries to discuss and coordinate their positions on new international tax standards and practices

There has been a renewed interest in international tax standards and practices in the wake of the global financial and economic crisis of 2008 and the consequent fiscal problems in advanced economies. However, recent discussions are largely led by developed countries through the OECD (e.g. Base Erosion and Profiting-Shifting and Automatic Exchange of Information), raising concerns that the developing countries are marginalized from setting the norms which have important implications for them.[16]

Although the region represents 50 % of global production, it lacks coordination and a there is sense across the region of inadequate involvement in international tax discussions, such as BEPS, which require global consensus to be effective. This concern was partly addressed at the Third International Conference on Financing for Development (Addis Ababa, July 2015), which strengthened the UN Committee of Experts on International Cooperation in Tax Matters.[17] A survey conducted by the Committee showed that certain developing country concerns are not adequately reflected

[14] The countries analysed are Australia, China, Fiji, Hong Kong, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Pakistan, Philippines, Singapore, and Thailand.
[15] See Chia and Whalley (1995) for an earlier study on ASEAN tax competition.
[16] While the OECD has undertaken few outreach meetings, decision making is essentially driven by OECD members.
[17] The Committee sessions have been increased from once to twice a year, but it remains an expert group rather than an intergovernmental body. Currently, six experts in the Committee are from the Asia-Pacific region.

in ongoing OECD and G20 discussions.18 Thus, there is a role for greater regional dialogue and cooperation to achieve the ambition of financing for development through revenue enhancement and a better understanding of tax standards and practices.

Currently, major tax cooperation platforms are being driven through organizations such as the OECD, IMF and the G20. Developing countries, particularly smaller developing countries, have generally been very passive in global negotiations on the tax reform agenda and the development of new international tax standards, even though these may have profound implications on their tax practices. At a minimum, the BEPS proposals in particular will require substantial domestic legislation and enforcement, as well as strong international cooperation. An open and transparent regional forum would help developing countries, including least developed countries, to better engage in matters of international tax cooperation. Additionally, as many of the proposed tax reforms and standards would significantly increase complexity in tax administration and compliance, enhancing cooperation among developing countries in the region would be important tool that would not only allow countries to develop a better understanding of the implications of such tax reforms and standards, but would also permit them to coordinate their positions on them.

III. Existing tax forums and cooperation initiatives

There are a number of global and regional tax forums in which ESCAP member countries participate (annex 2). An important global forum is the UN Committee of Experts on International Cooperation in Tax Matters (UN tax committee); current committee members include Azerbaijan, China, India, Japan, Malaysia, New Zealand and the Philippines. Its core mandate is to review and update the UN Model Double Taxation Convention and the Manual for the Negotiation of Bilateral Tax Treaties. The Committee also reviews new and emerging issues and makes recommendations on capacity-building and technical assistance. It meets biannually and has several sub-committees. The Financing for Development Office of UN DESA acts as the secretariat.

Among OECD-led forums, the Global Forum on Transparency and Exchange of Information for Tax Purposes includes 26 participants from the ESCAP region. Unlike the UN tax committee, it is not a norm-discussing/setting body, but is concerned about the implementation of OECD-developed standards in the area of exchange of information. The OECD Forum on Tax Administration, which focuses on taxpayer services and tax compliance, includes 11 participants from the ESCAP region, including all OECD and G20 members. The OECD launched in 2013 an Action Plan on Base Erosion and Profit Shifting, consisting of 15 areas related to aggressive tax planning practices. The OECD Centre for Tax Policy and Administration serves as the secretariat.

Other global/inter-regional forums include the Commonwealth Association of Tax Administrators, which has 16 participants from the ESCAP region, and the Association of Tax Authorities of Islamic Countries, which has 8 participants from the ESCAP region. There are several tax-related non-governmental bodies – such as the International Tax Compact, the International Tax Dialogue, the International Tax and Investment

[18] Five countries from the region participated in the survey. Available from www.un.org/esa/ffd/tax/ Beps/index.htm.

Center, and the International Bureau of Fiscal Documentation – some of which hold regional tax conferences. In terms of technical cooperation, in addition to bilateral donors such as USAID, DFID and AUSAID, the IMF and World Bank provide assistance through tools such as the Tax Administration Diagnostic Assessment Tool.

Regional tax cooperation in Asia and the Pacific is relatively underdeveloped compared to other regions, which have region-wide tax forums with substantive functions and a dedicated budget. Such regional tax forums include the African Tax Administration Forum (ATAF), the Inter-American Center of Tax Administrations (CIAT), and the Intra-European Organization of Tax Administrations (IOTA). A number of ESCAP members from North and Central Asia participate in IOTA, while India is a non-regional member of CIAT. These forums meet annually, at the level of heads of national tax administrations (the general assembly); has bureaus of elected members, including a president; has sub-forums and working groups consisting national experts who meet regularly and communicate online to discuss specific matters and develop products and services; has a secretariat to perform technical and administrative functions and to work with partners, both organizations and countries, willing to provide resources and expertise; and has a budget, consisting of membership fees (usually based on GDP) and voluntary contributions.

Among forums in Asia and the Pacific, the Study Group on Asian Tax Administration and Research (SGATAR) is the oldest and has the widest membership – 17 members of which 16 are ESCAP members and associate members (Chinese Taipei is the only non-ESCAP member). However, it is primarily an East Asian forum, with no members from South and South-West Asia or North and Central Asia and only PNG from the Pacific islands. SGATAR has annual meetings, working level meetings, joint training programmes and a biennial meeting of heads of training institutions.

Since 2003, the Pacific Islands Tax Administrators' Association (PITAA) has provided a platform for 16 economies in the Pacific to discuss tax-relevant concerns. It was originally set up by the IMF's Pacific Financial Technical Assistance Centre, but the Fiji Revenue and Customs Authority has acted as the secretariat since 2012. So far, PITAA has been primarily a platform for exchange of experiences and for capacity development. It also serves as a platform for coordinating the work of development partners and donors in the area of taxation and public finance management.

The South Asian Association for Regional Cooperation (SAARC) has promoted regional cooperation on tax issues. The SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters was signed in 2005, and the first meeting of competent authorities was held in 2011. The SAARC secretariat serves as the secretariat, but most activities consist of ad hoc seminars hosted by SAARC members on a rotational basis. At the third meeting of SAARC tax authorities in 2014, members discussed proposed amendments to the multilateral agreement and considered a draft SAARC tax information exchange agreement prepared by Pakistan.

The Association of Southeast Asian Nations (ASEAN) Forum on Taxation (AFT) was established in 2011, to provide a platform for dialogues on taxation issues in support of regional integration, namely the ASEAN Economic Community. It has two sub-forums. Sub-forum 1 on Double Taxation and Withholding Tax focuses on developing a comprehensive treaty network and a timetable for reduction of withholding tax rates among ASEAN members. Sub-forum 2 on Enhancing Exchange of Views and Dialogue concerns sharing of experiences on best practices in taxation systems, developing strategies for cooperation, and building capacity support and training for tax administrations. The AFT is also conducting a study on a regional taxpayer identification number.

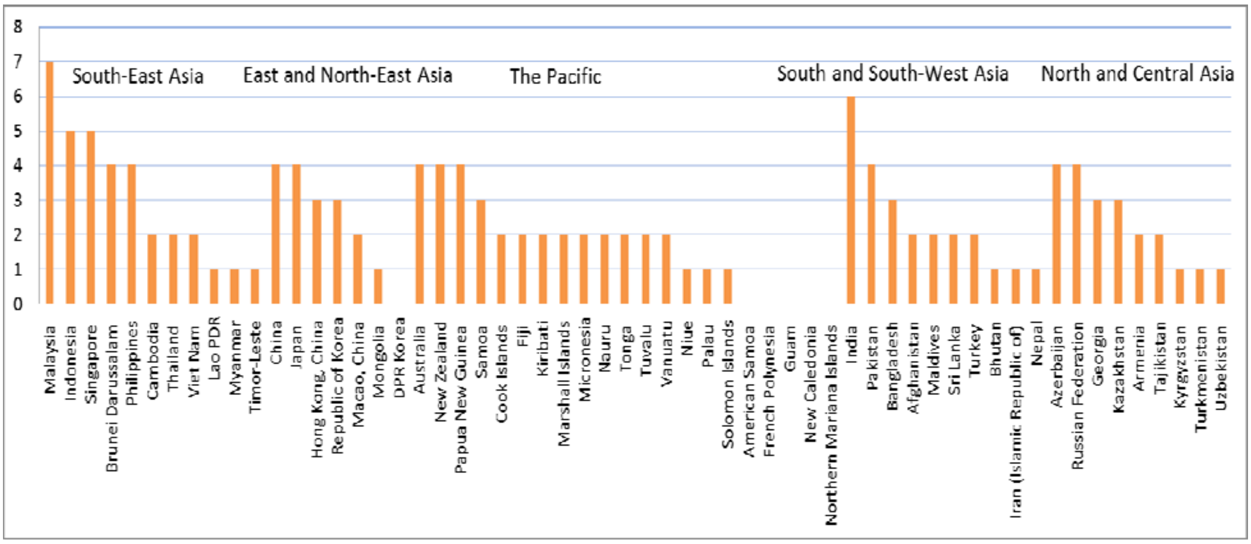
In North and Central Asia, the Eurasian Economic Commission (EEC) has a Consultative Committee for Tax Policy and Tax Administration to discuss tax issues related to economic integration. Its members include Armenia, Kazakhstan, Kyrgyzstan and the Russian Federation. In a recent meeting, members discussed a draft protocol on electronic information exchange between tax authorities as regards certain types of individual and corporate income and assets and a draft agreement on tax policy in the field of excise duty rates on alcohol and tobacco products. Under the Commonwealth of Independent States (CIS), there is also a Coordination Council of the Heads of Tax Authorities (CCHTA).

Aside from forums with memberships, there are a number of regular and ad hoc tax-related conferences. The IMF-Japan High-level Tax Conference for Asian Countries was held six times, mostly recently in 2015, when 17 countries, ADB and OECD participated. The meeting consists primarily of presentations by experts and officials from ministries of finance and national tax administrations on topics such as tax incentives, tax compliance and international taxation. The ADB Institute has also hosted a number of tax-related workshops, including recently on combating cross-border tax evasion through exchange of information, in which tax officials from nine members of the SGATAR participated.

ESCAP, as the most comprehensive intergovernmental platform in Asia and the Pacific, has engaged in taxation issues, including studies on tax systems in the region, since at least the 1980s.[19] Recently, the Economic and Social Survey of Asia and the Pacific 2014 was devoted to the theme of strengthening tax revenues and was discussed at the 70th Commission session. Taxation issues were also discussed by several finance ministers and senior representatives who participated in the Asia-Pacific Outreach Meeting on Sustainable Development Financing (Jakarta, 2014) and the Asia-Pacific High-level Consultation on Financing for Development (Jakarta, 2015).

[19] See, for instance, ESCAP (1983; 1994; 1995).

Figure 6. Participation in global and regional forums



Source: ESCAP.

IV. Assessment of gaps and value addition of the AP-TFSD

A. Assessment of gaps

An accurate assessment of gaps would require participation in forums, access to forum documents, and interviews with relevant officials and experts. The assessment below is based on general information available to the public (such as forum communiques and list of activities) and limited feedback from few officials and experts (including Director of International Finance, Department of Finance, Philippines and Chief of International Tax Cooperation Unit, FfDO, UN DESA). Below are some general observations.[20]

First, in terms of topics, most forums in which ESCAP members participate (whether global or regional) cover general tax policy and administration issues and selected international taxation issues, but areas such as subnational/municipal taxation is relatively overlooked. There is also scope for further regional studies and discussions on tax exemptions and incentives and also issues related to tax compliance (thus tackling both design and implementation aspects), given that tax base broadening is a priority in many countries.

Effectively leveraging tax policies and tax systems to support inclusive and sustainable development for the implementation of the 2030 Agenda is another important area yet to be addressed. Regional tax officials and experts could explore the applicability of health, environment and wealth-related taxes which are underutilized but could provide stable revenues, enhance welfare, and support sustainable development.

Second, regional tax cooperation in Asia and the Pacific is relatively underdeveloped compared to Africa, America and Europe, which have tax forums with a universal regional membership, substantive work programs implemented by committees and working groups, and a dedicated secretariat and budget.

[20] See also tables A.2.3 and A.2.4 in annex 2.

Among tax forums in Asia and the Pacific, SGATAR covers primarily East Asian countries and others are subregional in nature, i.e. ASEAN, SAARC, Pacific islands, and North and Central Asia. Whereas forums such as CIAT in America develop products and services, maintain databases and offer diverse technical cooperation, most forums in the region are limited to occasional workshops. Forums in the region do not have dedicated secretariats (or even websites), compared to CIAT, which has a secretariat with several directorates, management offices and permanent missions.

The degree of cooperation varies among tax forums in the region. All existing tax forums in the region, including SGATAR and PITAA, engage in exchange of experiences and technical cooperation. In addition, some forums engage in tax cooperation in double taxation and exchange of information; for instance, SAARC has a limited multilateral agreement while ASEAN is consolidating bilateral agreements. Going a step further, some forums are exploring opportunities for tax coordination in support of the broader economic integration objectives; for instance, ASEAN is seeking to harmonize tax regimes across countries, albeit without much progress so far, while the Eurasian Economic Commission is seeking for an agreement in the area of excise duties. It should be recognized, however, that tax harmonization is a much more difficult and demanding objective than tax coordination.

Third, the current taxation debate is mostly OECD-driven and existing forums in which ESCAP members participate are mostly for implementation of OECD-developed norms, rather than for norm-setting or discussion more directly relevant to Asian countries. Least developed countries (LDCs) also tend to be marginalized as they participate in fewer tax forums. For instance in South-East Asia, whereas Malaysia participates in seven forums, Lao PDR, Myanmar and Timor-Leste participate in only one each. Similarly, in South and South-West Asia, whereas India participates in six forums, Bhutan and Nepal participate in only one each.

Greater support for LDCs and other developing members of the region to improve their technical awareness of the norm-setting on international tax standards and practices, and more importantly a stronger mechanism to coordinate regional positions and develop regional voice in international taxation debate should therefore be provided.

Fourth, there is a need for tax forums and technical cooperation to be better informed by research and analysis of tax systems in the region. Studies on tax systems in developing countries are lacking in general. Recently, the African tax forum (ATAF) completed a region-wide study on tax reform priorities and also set up an African tax research network. Such efforts can help ensure that training programmes, for instance, are properly tailored to the regional and local contexts.

Fifth, in terms of the forums' finances, tax forums in America and Europe have membership fees which reflect the size of economies (GDP), whereas the relatively new forum in Africa relies heavily on external donor support. Among forums in the region, none of which have dedicated secretariats, very few seem to have membership fees (e.g. PITAA has a small fee) but mostly rely on in-kind contributions of host countries so that participating countries need to pay only for the travel costs to regular meetings and even travel costs might be covered in case of ad hoc workshops. Japan, Australia, Korea, China and Singapore are among major hosts and donors.

B. Key features and value addition of the AP-TFSD

The proposed AP-TFSD is distinct from existing fora because of its unique and sharper focus on the challenges of the Asia-Pacific region. Compared to existing fora in the region, the proposed forum would distinctly differ in its orientation, objectives, and the provided support (table 4).

Table 4. Key features that differentiate the prosed APTFSD from the existing tax cooperation mechanisms in the region

AP-TFSD	**Existing Tax Fora in the Region**
Policy-oriented: • Fostering dialogue and actions to optimize the design of tax systems and maximize the social-economic outcomes of tax policies	Practice-based and issue-specific: • Focusing on adoption of specific standards and practices in reaction to particular problems and challenges
Priority issues: • Revenue enhancement and targeted tax policies to support inclusive growth and sustainable development. • Reducing tax competition in the Region. • Strengthening and rationalizing municipal financing for sustained and high-quality urbanization • Promoting greater regional cooperation to strengthen Asia and the Pacific's voice in international tax negotiations and counter harmful tax competition	Priority issues: • General tax compliance and administration issues • Negotiations on double taxation and bilateral tax treaties • Addressing BEPS challenges(largely driven by OECD/G20 agendas) • Promoting information exchange for tax purposes
Institutionalized support offered: • A broad-based knowledge network of policy makers and renowned experts, supported by permanent in-house research and advisory capacity • Targeted support for the tax reform agenda support in line with the regional and country-specific priorities and needs • A forward-looking approach to aligning regional tax systems and policies toward addressing the region's long-term development challenges, with support of fresh thinking from independent experts • Technical support and capacity building with special focus on the least development countries and other countries of special needs	Institutionalized support offered: • Capacity building, which normally lacks a permanent knowledge base for in-depth research and the accumulation of technical expertise • General support and experience sharing platforms on cross-cutting tax issues • Focusing more broadly on current challenges and agendas

While existing fora have been more practice-oriented and issue specific, the proposed forum would be policy oriented and promote broader based dialogue between policy makers, academia, and relevant international organizations focused on the social and economic outcomes of tax policy. Rather than focusing solely on international tax reforms and agendas, the proposed forum would promote regional dialogue focused on five key issues for the region (discussed in section 2 and outlined in table 4) in order to identify problem areas and find solutions. Additionally, the tailoring of these solutions to region and country-specific needs will ensure ownership of the forum by member countries in the long-run. Instead of focusing on broad challenges and tax reform agendas, the proposed forum will take a forward looking approach that supports the capacity development of tax authorities and administrations in the region by providing technical and advisory support from fresh thinking and independent experts.

Moreover, the network of eminent tax experts from both within and outside the region, which has been created by ESCAP in its preparation of the current proposal, could serve as an independent and neutral advisory board for the proposed APTFSD at the early stage of its establishment and as a source of high-quality intellectual inputs to its agenda in the future.

The proposed forum, however, should also be seen as complementary to the important activities of the existing fora. It will avoid duplication of effort by focusing only on those activities that are not currently undertaken by existing tax fora. It will help supplant the small resources that are currently devoted to tax cooperation, thus enhancing the impact of tax dialogues and training conducted by the existing fora.

V. A Blueprint for the AP-TFSD

The three relatively well-organized regional tax forums outside Asia and the Pacific, i.e. African Tax Administration Forum (ATAF), the Inter-American Center of Tax Administrations (CIAT), and the Intra-European Organization of Tax Administrations (IOTA), are important examples for the proposed Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD).

These three forums feature bureaus of elected members, including a president; dedicated secretariats to perform technical and administrative functions and to work with partners; sub-forums and working groups consisting national experts who meet regularly and communicate online to discuss specific matters and develop products and services; in-house research capacity to produce regular intellectual products and implement technical assistance and capacity building programs; and a budget consisting of membership fees (usually based on GDP) and voluntary contributions. They also work closely with external partners, both organizations and countries, which are willing to provide resources and expertise.

The following proposal is based on the evaluation of the existing international and regional tax forums, in particular ATAF, CIAT and IOTA, and is intended as an initial contribution to the deliberations of ESCAP members and associate members for the establishment of the new Asia-Pacific tax forum. The name proposed in the title was suggested by consensus by a group of eminent tax experts at the High-Level Meeting on Asia-Pacific Cooperation in Tax Matters in Bangkok on 30 November 2015.

Vision: To promote adequate availability of revenues in supporting economic growth and meeting challenges of the 2030 Agenda for Sustainable Development , in a manner that strengthens FAIR (fair, accountable, incorruptible and responsive) governance by aligning public decision making closer to the needs of the people of the region.

Mission: To facilitate governments strengthen their finances for inclusive and sustainable development.

Objective: To help governments mobilize additional domestic revenues for the implementation of the Sustainable Development Goals in the Asia-Pacific region by strengthening efficiency and equity of the tax systems through cooperation in tax matters, including through:

- Supporting national tax reforms aiming at revenue-enhancement and tax system efficiency improvement;
- Promoting tax policies and the introduction of new taxes which are of social-environmental gains;
- Supporting national efforts to rationalize and enhance subnational/municipal public finances to support the region's urbanization;
- Facilitating regional coordination on tax issues, including addressing harmful tax competition;
- Strengthening regional voice in international tax debates.

Proposed institutional structure:

Membership: The forum is open to all ESCAP members and associate members, and the membership can be extended to countries of the greater Asia-Pacific region and key external partner countries. Given the policy-oriented nature of the proposed AP-TFSD, policy makers in charge of the design of tax policies are invited to participate in addition to tax administrations.

Governing bureau: The forum will be governed by an elected bureau comprising representatives of its member countries, including a chair/president.

Secretariat: A dedicated secretariat can be established by the governing bureau to support the functions of the forum. In particular, the secretariat needs to develop strong in-house capacities to support its research and capacity building activities and to manage the cooperation with external partners. Alternatively, the secretariat can also be hosted by a neutral and pan-Asia-Pacific organization with in-house expertise on tax issues.

Budget: The forum should have an annual budget approved by the member countries and the governing bureau and a stable financing for its activities through membership fees and proactive resource mobilization through cooperation with external partners. Member countries could also lend tax national experts for fixed periods of time at their expenses.[21]

Proposed activities:

- Annual conferences of high-level policymakers makers in charge of the design and implementation of tax policies to provide strategic guidance to the work of the forum;

[21] See annex 3 for an example of a possible organizational structure and institutional edifice for the proposed forum.

- Surveillance of national tax reforms that could have regional implications, as when they include tax incentives aimed at attracting foreign investments that might have gone to neighbouring countries.
- Sub-forums/working groups of working-level officials of member countries and experts on tax issues to implement specific work programs in the priority areas of the forum;
- Periodic policy research and policy advocacy pieces in the priority areas to deepen the understanding of tax issues in the region and inform national tax reform efforts and policy making;
- Development and maintenance of an in-house repository of tax policies and tax data of Asia-pacific countries;
- Joint field programs to provide direct technical support to member countries with focus on the least developed countries and other countries with special needs;
- Targeted capacity building and training programs in the priority areas of the forum;
- Collaboration activities with external partners, including with other international and regional tax forums.

Box 3 provides concrete examples of activities undertaken by some of the existing tax forums. These may inform future deliberations on the work programme of the proposed AP-TFSD.

Box 3. Examples of activities of existing tax forums

<u>Revenue enhancement</u> *(e.g. tax expenditures, compliance, research and capacity building)*

- Among the various publications of CIAT is the *Handbook of Best Practices on Tax Expenditure Measurements*, released in 2011 after two years of joint work by tax officials from selected member countries. It explores definitional issues, analyses various provisions, and proposes conventions that countries could adopt with respect to tax expenditures. More broadly, CIAT maintains a comprehensive database of member countries' tax systems, tax codes and tax performance.
- Every year, IOTA develops a work programme consisting of around 12 workshops and other activities that address "core issues" of tax administration and compliance. Recent workshops include: "Application of Indirect Audit Methods in Relation to High Wealth Individuals" and "VAT Avoidance: Special Issues." Some are joint events with partners such as EC and OECD.
- Understanding the tax structure is critical for enhancing revenues. ATAF publishes the African Tax Outlook to provide reliable data and inform policy discussions. ATAF also offers training courses for tax officials[1] while hosting a tax research network for tax experts.
- CIAT maintains a "portfolio of initiatives" to inform the partners and donors about specific projects – including training and other capacity building projects – in which financial or in-kind resources are needed.

Box 3. ***(continued)***

Progressive and green tax systems *(e.g. inheritance tax, excise on fuel)*

- As seen in the earlier IOTA example, some workshops are targeted at improving tax compliance of high wealth individuals. This has also been a topic at CIAT technical conferences. However, there is relatively little policy-level discussions on how to render the tax system more progressive, with few exceptions such as the 2011 ITD global conference on tax and inequality and a session on wealth-related taxes at the 2015 IMF-Japan tax conference for Asian countries.
- Environmental taxes are not prominent in tax discussions of developing countries, although organizations like UNESCAP have been promoting their use. In the past, CIAT hosted meetings on environmental taxes, which brought together not only senior finance and tax officials but also environment ministry officials and representatives of business and industrial sectors.

Municipal finance *(intergovernmental transfers, tax decentralization, municipal bonds)*

- While organizations such as UN-HABITAT and World Bank have been promoting municipal finance through publications and other activities, the topic remains relatively underemphasized in meetings of finance ministries and tax agencies, where discussions have largely focused on central taxes. Few exceptions include the 2013 ITD global conference on tax and intergovernmental relations and 2016 DESA/UNCDF Africa regional consultations on municipal finance.

Tax competition *(e.g. tax holidays, investment-related schemes)*

- Tax coordination, tax harmonization and milder measures to avoid excessive tax competition can be found in monetary unions such as the European Union and the West African Economic and Monetary Union. Given the growing economic integration in the Asia-Pacific region, the need for some tax harmonization has been recognized for some time, and discussed more intensively in the ASEAN Forum on Taxation in recent years.[1] However, this is a challenging area where more open and voluntary discussions are needed.

Tax cooperation *(e.g. transfer pricing, cross-border evasion, exchange of information)*

- While ECOSOC – in particular the UN Committee of Experts on International Cooperation in Tax Matters – is potentially a more inclusive forum for international tax cooperation, discussions in the past have typically been led by the OECD, including recently on Base Erosion and Profit-Shifting (BESP) and Automatic Exchange of Information (AEOI). While almost all regional tax forums are now holding workshops on how to implement the new norms, there should have been better engagement of developing countries at the norm-setting stage. Assessments on the impact of such norms are also scarce.[1] ECOSOC has held a special session, but regional tax forums can play a greater role in ensuring that new norms are appropriate and beneficial for its members.

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Annex

Annex 1. Summary of discussions at the High-Level Meeting on Asia-Pacific Cooperation in Tax Matters, Bangkok, 30 November 2015

The following experts participated in the meeting:

- Anwar Shah, Director of the Centre for Public Economics at Chengdu, China and former director, World Bank Institute's Governance Program
- Vito Tanzi, former Director of the Fiscal Affairs Department at the IMF
- Richard Bird, Professor Emeritus of Economics, Rotman School of Management, University of Toronto
- Nolan Sharkey, Winthrop Professor of Law, University of Western Australia
- Kim Jacinto-Hernares, Commissioner of the Bureau of Internal Revenue of the Philippines
- Mahesh Purohit, President of the Foundation for Public Economics and Policy Research, New Delhi, India
- Shuanglin Lin, Professor, National School of Development and Director of China Center for Public Finance, Peking University
- Somchai Jitsuchon, Research Director at the Thailand Development Research Institute
- Byung Mok Jeon, Director, Research Group for Taxation, Korea Institute of Public Finance
- Athiphat Mutitacharoen, Professor, Faculty of Economics, Chulalongkorn University.

Mr. Anwar Shah first presented the draft proposal for a new regional tax forum and the experts provided their comments. The meeting reached a consensus on the necessity and urgency of strengthening public finance and taxation in Asia and the Pacific in response to the region's development challenges and the demand of the 2030 Agenda. Dr. Vito Tanzi also highlighted the fact that tax issues are increasingly not purely a national issue as a result of closer economic linkages among countries. Four strong justifications for the creation of a new regional tax forum emerged through the deliberations:

1. The need for a tax reform and cooperation agenda led by developing countries

Commissioner Jacinto-Hernares highlighted that all the major tax cooperation platforms are currently driven by developed countries through organizations like OECD, IMF and G20. Developing countries, especially the smaller countries, generally have been very passive in global negotiations on the reform agenda and the development of new international tax standards, even though these may have profound implications on their tax practices and performance. Therefore, a new forum which can support developing countries to form their own strategies and articulate their own concerns could be highly desirable.

Prof. Nolan Sharkey supported this suggestion, pointing out that many of the tax reforms and standards proposed by developed countries so far would lead to significantly increased complexity in tax administration and compliance, which would give the developed countries a competitive edge and may not be desirable for developing countries. It is thus important to enhance cooperation among developing countries to understand better the implications of such tax reforms and standards and coordinate their positions.

2. Fast urbanization in Asia and the Pacific and municipal taxation

Dr. Anwar Shah, Dr. Tanzi, and Prof. Lin emphasized the additional need for public spending and revenues to address the consequences of fast urbanization across the region. They pointed out that revenue growth of local and municipal governments is not keeping up with their spending needs, and in a number of countries, including China, this has led to soaring local government debt. Thus, Dr. Anwar Shah and Prof. Lin proposed that one of the focuses of the new forum should be promoting local government revenue adequacy and autonomy.

3. Harmful tax competition and regional coordination

Dr. Anwar Shah highlighted this issue as a proposed key focus of the forum. Dr. Tanzi and Prof. Richard Bird also highlighted this issue as a key potential area for regional cooperation, while keeping in mind that some countries, such as Singapore and Viet Nam, have been successful in using tax incentives to promote their development.

4. Tax cooperation for sustainable development

The experts reached a consensus that tax cooperation for sustainable development should be a key focus. In that respect, Dr. Anwar Shah suggested to incorporate SDG principles into the design of tax structure to discourage public "bads".

5. Other issues

In addition to these four areas, there was thorough discussion on whether increasing tax-to-GDP ratio should be an objective of the new forum. Although all the experts agreed about the importance of strengthening tax revenues for the implementation of the SDGs, they expressed noticed that raising tax-to-GDP ratios is not a priority for all countries in the region. For example, in China the main concern has been structural tax cuts to stimulate private investment and innovation rather than enhancing the already large share of the government in the economy – over 38% of GDP including non-tax revenues according to Prof. Lin.

Commissioner Jacinto-Henares, highlighted the importance of countries being able to use extra tax revenues effectively. If a government's spending capacity cannot keep up with the additional revenues, they are likely to be wasted on inefficient spending and lateral transfer payment (transfer payment within the same income class). In this regard, Dr. Tanzi highlighted the examples of Brazil and Argentina, which successfully raised their tax-to-GDP ratios from15%-20% to around 35 but failed to use the extra revenues to strengthen their economies. Dr. Tanzi and Prof. Bird also pointed out that in developing countries with low income levels, taxation should mainly target the small group of the rich, as in many cases broadening tax bases to low income groups may be neither economically desirable, by generating little revenue with high enforcement and compliance costs, nor progressive.

In summary, as pointed out by Dr. Tanzi, the experts at the meeting clearly supported strengthening tax revenues in countries with low tax performance, while recognizing that this may not a priority to all ESCAP member States.

The meeting only devoted limited time to discuss a possible structure and modalities of the new forum. Dr. Tanzi emphasized that the new forum must be able to mobilize a minimum of resources for its operations, perhaps through member fees, to generate tangible results, as a package that is empty inside would not be helpful for the countries. Commissioner Jacinto-Hernares commended ESCAP's initiative as a good start and expressed her expectation of further clarification of the expected achievements and activities of the new forum. The experts unanimously agreed to suggest "Asia-Pacific Tax Forum for Sustainable Development (AP-TFSD)" as the name of the new forum.

Annex 2. Overview of existing global and regional tax fora

Table A.2.1. A Birds' eye view of global tax fora

Forum	Mission	Objectives	Modus Operandi	Impact
International Tax Dialogue (ITD)	To encourage and facilitate discussion of tax matters	Promote effective international dialogues and networking, identify and share good practices, and identify synergies and avoid duplication of efforts	Bi-annual global and regional tax conferences	Positive on information sharing and networking but no commitments for concerted actions
OECD Forum on Tax Administration (FTA)	To promote a constructive engagement of tax agencies with taxpayers	Improve taxpayers' services and compliance by improving tax administration and reducing compliance costs, and improve the standards of tax administration globally by establishing standards and best practices	Global forum for heads of revenue bodies on various aspects of tax administration, research on standards and best practices, and work on emerging issues such as e-services and digital delivery	Positive on information sharing as well as production of reference materials for revenue bodies containing comparative information on compliance, use of information technologies and reducing administrative burden of tax compliance
OECD Global Forum on GST/VAT (FVAT)	Worldwide dialogue on VAT	Share policy analysis and experiences and strengthening international cooperation on VAT issues, and develop guidelines for international standards to minimize double taxation and un-intended non-taxation	Global forum on VAT	Positive on dissemination of comparative information

Forum	Mission	Objectives	Modus Operandi	Impact
OECD Global Forum on Transparency and Exchange of Information on Tax Purposes (FTEIT)	Developing and implementation of standards on tax transparency	Enhance tax transparency and worldwide implementation of international standards	Global forum and various working groups to monitor implementation of agreed standards on automatic exchange of information and exchange of information upon request	Positive impact on cross-country exchange of information.
OECD Base Erosion and Profit Shifting (BEPS) Note: This is a research project with a dissemination strategy through a forum	To limit tax avoidance through strategic base erosion and profit shifting to tax havens and lower tax jurisdictions	Develop tools needed by countries to ensure that profits are taxed where economic activities generating profits are performed and where value is created while at the same time give business greater certainty by reducing disputes over application of international tax rules and standardizing compliance requirements	OECD joint study with G20 countries and inputs from developing countries. Dissemination of study results to G20 and through experts' and officials' workshops	Complements previous OECD work on transfer pricing. The BEPS project report was positively received by the G20 Finance Ministers' meeting in 2013 in Moscow. Subsequently, an action plan to implement the recommendations was developed. Possibly positive impact in future but major implementation challenges remain.

Table A.2.2. A Bird's eye view of regional tax fora

Forum	Mission	Objectives	Modus Operandi	Impact
Inter-American Center of Tax Administration (CIAT)	To promote the evolution, social acceptance and institutionalized strengthening of tax administrations, encouraging international cooperation and the exchange of experiences and best practices	Develop specialized technical assistance programs based on countries' particular needs and interests; and encourage studies and research, and their dissemination	Technical assistance, publications, training, surveys, online library, seminars and workshops, internships, and cooperation agreements	Positive impact on improving tax administration in Latin American countries
Intra-European Organization of Tax Administrators (IOTA)	To provide a forum for discussion of practical tax administration issues, to promote co-operation between tax administrations in the European region, and to support their development according to their individual needs	Promote and develop strengthened co-operation between IOTA members, support the implementation of IOTA members' development programs; identify best practices and encourage their adoption; promote the identity of IOTA as a professional regional organization of tax administrations in co-operation with other international and regional organizations; provide consulting services to IOTA members	Technical activities and programs, including case study workshops, training, and support services; publications and website; and administrative programs	Positive role in technical assistance and dissemination of better practices

Forum	Mission	Objectives	Modus Operandi	Impact
African Tax Administration Forum (ATAF)	To encourage and support new partnerships among all African countries in developing the capacity of African tax administrations to achieve their revenue objectives	Promote economic development, good governance and accountability; domestic resource mobilization; a culture of professionalism and mutual support; mutual cooperation to increase the level of voluntary tax compliance; combating tax evasion and avoidance; implementation of African tax strategies; capacity development aimed at strengthening tax administrations	General Assembly and Executive Council meetings on tax matters; capacity building, technical assistance and training programs; working papers on issues of topical importance; website with learning resources	Positive role in training and technical assistance
Study Group on Asian Tax Administration and Research (SGATAR)	To provide a platform to enhance the performance of tax administration in the Asia-Pacific region by promoting collaboration and communication among member tax administrations	Enhance capacity building for members through the sharing of best practices and strengthening training programs, promote bilateral and/or multilateral cooperation in taxpayer compliance and other special projects, undertake research and keep abreast of international and regional developments in tax law and administration, relay members' views to international fora	Annual meetings, special task forces, occasional publications (none during the past decade)	Knowledge sharing through annual meetings
Pacific Islands Tax Administration Association (PITAA)	To facilitate knowledge sharing and cooperation on tax policy and administration issues	To be a forum where the tax administration and policy issues most relevant to Pacific Island countries can be discussed and where	Annual meetings, occasional publications (so far handbooks on	Knowledge sharing through annual conferences

Forum	Mission	Objectives	Modus Operandi	Impact
		experiences can be shared; promote closer cooperation and coordination of information sharing in tax administration and policy formulation in pacific countries; help promote international standards and best tax administration practices, suitable to the characteristics of the Pacific Island countries; encourage taxation institutions to design and adopt strategies to modernize and enhance their effectiveness and efficiency; and enhance administrative skills and encourage the development of high professional standards by facilitating training and the dissemination of resource materials	audit selection and large taxpayers)	
ASEAN Forum on Taxation (AFT)	To serve as a platform to strengthen cooperation in addressing tax-related impediments to integration including withholding tax and double taxation issues	To enhance regional dialogues on taxation, strengthen cooperation in tax matters, and establish and update bilateral tax treaties in the region; to improve exchanges of information for tax purposes, and to enhance members' cooperation on capacity-building on taxation matters; to discuss other areas under taxation, including the feasibility study of the Global Taxpayer Identification Number (TIN) scoping proposal, Base Erosion and Profit	Annual conferences, occasional publications, online library, repository of bilateral treaties	Knowledge sharing and collation of bilateral treaties

Forum	Mission	Objectives	Modus Operandi	Impact
		Shifting (BEPS) issues, and to explore possible ways on tax harmonization		
The South Asian Association for Regional Cooperation (SAARC) Limited Mutual Agreement on Avoidance of Double Taxation and Mutual Administration Assistance in Tax Matters (SAARC-LMA)	To promote regional cooperation on tax matters	To avoid double taxation of income; information sharing; and training	Training seminars	Some enhancement of regional tax cooperation
Commonwealth Association of Tax Administrators (CATA)	Promoting excellence in tax administration	To develop effective tax administrations that promote sustainable development and good governance	Provide assistance to member countries through conferences, training programs, publications and knowledge sharing	Useful training courses and publications offering practical guidance on various aspects of tax administration

Table A.2.3. Institutional features of global and regional tax fora: Financing, secretariat and tax expertise

Forum	Financing		Secretariat		Tax Expertise	
	Fees	**Donors**	**Permanent**	**Rotating**	**In-house research and Advisory**	**Experts' advisory Group**
International Tax Dialogue (ITD)	No	Yes	Yes	No	Yes	Yes
OECD Forum on Tax Administration (FTA)	No	Yes	Yes	No	Yes	Yes
OECD Global Forum on GST/VAT (FVAT)	No	Yes	Yes	No	Yes	Yes
OECD Global Forum on Transparency (FTEIT)	Yes	Yes	Yes	No	Yes	Yes
Inter-American Center of Tax Administration (CIAT)	Yes	Yes	Yes	No	Yes	No
Intra-European Organization of Tax Administrators (IOTA)	Yes	No	Yes	No	Yes	No
African Tax Administration Forum (ATAF)	Yes	Yes	Yes	No	No	No
Study Group on Asian Tax Administration and Research (SGATAR)	No	Yes	No	Yes	No	No
Pacific Islands Tax Administration Association (PITAA)	No	Yes	Yes	No	No	No
ASEAN Forum on Taxation (AFT)	No	Yes	Yes	No	Yes	No
SAARC-LMA	Yes	No	Yes	No	No	No
Commonwealth Association of Tax Administrators (CATA)	No	Yes	Yes	No	No	No

Table A.2.4. Institutional features of global and regional tax fora: tailoring to individual country circumstances and monitoring and evaluation frameworks

Forum	Assistance to individual members			Monitoring and evaluation framework
	Technical assistance	Capacity development	Research & publications	
International Tax Dialogue (ITD)	No	No	No	No
OECD Forum on Tax Administration (FTA)	No	No	No	No
OECD Global Forum on GST/VAT (FVAT)	No	No	No	No
OECD Global Forum on Transparency (FTEIT)	No	No	No	No
Inter-American Center of Tax Administration (CIAT)	Yes	Yes	No	No
Intra-European Organization of Tax Administrators (IOTA)	Yes	Yes	Yes	No
African Tax Administration Forum (ATAF)	No	No	No	No
Study Group on Asian Tax Administration and Research (SGATAR)	No	No	No	No
Pacific Islands Tax Administration Association (PITAA)	No	No	No	No
ASEAN Forum on Taxation (AFT)	No	No	No	No
SAARC-LMA	No	No	No	No
Commonwealth Association of Tax Administrators (CATA)	No	No	No	No

Annex 3. Example of a possible organizational structure and institutional edifice of the Asia-Pacific Tax Forum for Sustainable Development

I. Organizational Structure

Membership eligibility and process: Open to all countries in the region (full members), development assistance partner countries (full members) and governmental and no-governmental organizations interested in tax matters (associate members).

Financing: Initially, the forum will be financed by endowment grants from donors. Later the Executive Council will decide on introducing membership fees with due consultation with member countries.

Membership annual fee structure: A graduated fee structure by the size of the economy (Current GDP in US$) is proposed as follows:

Greater than I trillion US dollars: Annual fee of US $150,000
US$500 million to US$ 1 trillion: US$100,000
US$250 billion to US$500 billion: US$ 50,000
US$126 billion to US$250 billion: US $25,000
US$50 billion to US$125 billion: US $15,000
US$25 billion to US$50 billion: US $10,000
Less than US $25 billion: US $5,000
Associate membership fee: US$5000

II. Institutional Edifice

Executive Council: The Executive Council will have the ultimate decision making authority on all matters. The Executive Council may seek broader participation on selected issues through a virtual referendum of members. The Executive Council will comprise seven rotating members who will elect a chair among themselves. Members will be principal representatives of member countries and will rotate every two years using alphabetic order of country names.

Permanent Secretariat**:** The Executive Council will appoint a fulltime staff with a five-year term (renewable) as Executive Secretary. The Executive Secretary will appoint an Executive Assistant to carry out administrative work of the forum (network). Additional staff dealing with coordination, learning, research and website activities may be hired by the secretariat depending upon resource availability. The ESCAP will host the secretariat.

Technical Advisory Committee: The Executive Council will also appoint a technical advisory committee of 7-12 members comprising International/Regional tax experts advising on subject matters, research, training and technical assistance. Various members will be appointed to serve from one to four years' duration on the committee. Maximum tenure of any member will be capped at 4 years.

Tax Policy Coordination Committee: This Committee will consist of ranking tax policy officials and would be entrusted with the responsibility to develop formal and informal mechanisms of tax policy coordination to overcome wasteful tax competition. Its members will be appointed by the Executive Council to serve a four years' term.

Tax Administration Coordination Committee: This Committee will consist of ranking tax administration officials and would be entrusted with the responsibility to develop formal and informal mechanisms of tax administration coordination to overcome wasteful tax competition, improve tax compliance and reduce tax evasion. Its members will be appointed by the Executive Council to serve a four years' term.

Finance and Audit Committee: A three-member Finance and Audit Committee will oversee the finances of the forum. It will have rotating but staggered membership with 6, 4 and 2 years' tenure for various members. The members will elect a chair from among themselves.

Modalities of operation: The forum's work will be carried out through steering committees, working groups each entrusted with specific tasks of within the mandate of the Forum.

Relationship with regional and global tax fora: The proposed forum will draw upon the work of the global and regional tax fora that is relevant for financing SDGs.

III. Work Program

Tax policy coordination Committee and the Technical Advisory Committee will provide inputs to the Executive Secretary on work program proposals. These will be whetted by the Finance and Audit Committee and subsequently submitted to the Executive Council for approval of the budget and the work program.

IV. Performance Monitoring and Evaluation Framework

The Executive Secretary will prepare a log frame on the Forum's work program, deliverables / outputs and expected outcomes. This log frame will serve as the basis of monitoring and evaluation of the Forum's activities.

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ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programmes and issues. It supports Government of countries in the region in consolidation regional positions and advocates regional approaches to meeting the region's unique socio-economic challenges in a globalizing world. The ESCAP office is located in Bangkok, Thailand.

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