

Session 1

Regional Tax Cooperation in Asia and the Pacific

1 Session objective

Governments in Asia and Pacific require more public revenue in order to provide more and better educational and public-health services, better security and justice, improved infrastructure and other public goods. The need for these public goods generally increases with economic growth and greater urbanization. The Governments of economies of the region that have low tax-to-GDP ratios, face difficulties in meeting these needs. Furthermore, taxes are currently not used to reduce public bads (negative externalities) nor to increase adequately socioeconomic equality. In this context, governments need to rationalize granting subsidies to ensure greater fiscal resources for social spending, such as on a universal education and health care or to protect the environment. For that purpose, member States are discussing a proposal to set up an Asia-Pacific tax forum for sustainable development. The objective of this session is to discuss how such a forum could best help countries in the region improve the fairness, transparency, efficiency and effectiveness of their tax systems, including through learning from each other and collaboration, which, in turn, would help enable them to set up establish mechanisms for knowledge and technology transfer to support the implementation of the 2030 Agenda for Sustainable Development.

2 Background

Significant potential for increasing tax revenues in the Asia and the Pacific exists. Tax revenue collection among the developing countries of the region is low, not only when compared with developed regions or countries, such as the European Union or the United States of America, but also compared with other developing regions. In 2012, the average tax-to-GDP ratio in Asia and the Pacific was only 14.8 per cent of GDP for central Government revenues, compared with 17.1 per cent of GDP in Latin America and the Caribbean and 16.3 per cent in sub-Saharan Africa. In the same year, the average tax revenue of the general Government was 16.9 per cent of the GDP for the region's developing economies, compared with 24.2 per cent for its developed economies.

The number of registered taxpayers as a percentage of the population in the developing countries of the region is low. Lack of registered taxpayers is particularly pronounced in South Asia, where less than 3 per cent of the population pays taxes in India, Bangladesh and Pakistan. The number of registered taxpayers in the Philippines nearly doubled between 2007 and 2014, from 13.47 million to 24.87

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million, however, this only represents 25 per cent of the population. Similarly in Indonesia, even though the number of registered taxpayers nearly tripled between 2008 and 2013, from 10.68 million in 2008 to 28 million in 2013, it represents only 11 per cent of the population. In Malaysia, the number of registered taxpayer in 2012 was 6.96 million, representing 23 per cent of the population.

The region's rapid urbanization has also resulted in the need to strengthen municipal financing. In general, subnational governments are increasingly expected to deliver important and costly public services and have some discretion in deciding how and to what extent they will do so.

Tax revenues can be low for a number of reasons. While low capacities of tax administrations play an important role, a major concern in the Asia-Pacific region is low tax bases. In many countries, large parts of the economy, such as the agriculture sector, are exempt from taxation. In addition, widespread tax avoidance and tax evasion are eroding tax revenues. It is, therefore, not surprising that the Asia-Pacific region accounted for more than 60 per cent of all illicit financial outflows globally, including tax evasion, from the developing world between 2001 and 2010.

There is a significant potential to boost tax collection in the Asia-Pacific region. Several countries in the region could increase their tax revenues by 5 per cent of GDP or more. ESCAP has estimated that tapping the tax potential of 17 Asia-Pacific economies would increase tax revenues by more than \$440 billion.

3 Policy issues for discussion

To increase their tax revenue collection, developing countries need to improve the effectiveness of their tax administrations, rationalize tax rates, scale down tax expenditures and introduce mechanisms for curbing tax evasion. The proposed Asia Pacific tax forum on sustainable development could serve as a platform for tax administrators, officials and experts to share best practices in tax policies, tax administration and tax reforms, and must be supported by regional cooperative mechanisms, through innovative financing, knowledge and technology, and capacity building, including through "financial assistance".

To promote tax policies and practices that support inclusive growth and sustainable development, countries in the region need to develop progressive tax systems and apply environmental taxes, such as those levied on fuel. Additionally, other ongoing tax reforms, such as base-broadening and unification of the value-added taxes, can be further used to support entrepreneurship and employment generation.

To discuss and coordinate positions in new international tax standards and practices, an open and transparent regional forum would be important for helping developing countries, including least developed countries, to better engage in matters of international tax cooperation. The region tends to not be active enough in international tax discussions, such as those pertaining to Base Erosion and Profit Shifting (BEPS), which require global consensus to be effective. In particular, small developing countries in the region have generally been very passive in global negotiations on the tax reform agenda and the development of new international tax standards, even though the outcomes from those discussions may have profound implications on their tax practices.

To ensure adequate and sustainable municipal financing to support urbanization, a serious rethinking of the existing systems and policies related to expenditure assignment and management, municipal government revenue generation and intergovernmental transfers is needed. There is substantial scope for sharing experiences and best practices with respect to intergovernmental transfers, tax decentralization and issuance of municipal bonds. The new forum could serve as a key capacity-building and peer-learning platform for policymakers in these areas, with support from a network of renowned external experts.

To address harmful tax competition, there is scope for countries to enter into voluntary discussions to avoid harmful tax competition and maintain the integrity of the tax base. Corporate income taxes are more important for developing countries than developed countries; however, the effectiveness of tax incentives is unclear, as empirical studies suggest that these incentives cannot serve as a substitute for a good business environment. While certain incentives to attract investment to priority sectors or locations may be necessary, offering investment incentives can also be costly and counterproductive if the fundamentals of the potential investment fail to meet the requirements of serious investors.

Possible Questions

- How can the proposed Asia-Pacific tax forum for sustainable development support countries in the region most effectively for implementing the 2030 Agenda for Sustainable Development?
- What policy reforms are needed to mobilize additional public resources and promote the integration of the economic, social and environmental pillars of sustainable development?
- What actions should countries undertake, especially those that have single digit tax-to-GDP ratios, to enhance their collection of revenues?
- Has your country recently instituted reforms aimed at directly supporting sustainable development?
- With the growing spending needs of municipal governments to support the region's rapid urbanization, what do you think would be the best policy tools to strengthen their fiscal positions to provide essential urban infrastructure and public services?
- What is your view on the five selected areas of focus of the Asia-Pacific tax forum?
- What additional areas should the forum cover?

HIGH-LEVEL SPEAKERS

The Chair will introduce the panelists, explain the structure and objectives of the session and moderate the discussions. The speakers in the panel discussions will be kindly requested to limit their interventions to seven minutes

Wayne Swan
MP and former Deputy
Prime Minister and Treasurer
Australia



Gagik Khachatryan
Minister of Finance
Armenia

Samir Sharifov
Minister of Finance
Azerbaijan



**Abdusalom Karim
Qurboniyon**
Minister of Finance
Tajikistan

Lyonpo Namgay Dorji
Minister of Finance
Bhutan



M.A. Mannan
State Minister of Finance and
State Minister of Planning
Bangladesh

Vito Tanzi
Former State Secretary for
Economy and Finance
Italy



Kim Jacinto-Henares
Commissioner
Bureau of Internal Revenue
Philippines

Enhancing Tax Cooperation

LOW TAX REVENUE

Asia and the Pacific



Sub-Saharan Africa



Latin America and the Caribbean



OECD



% of GDP



ARE PEOPLE PAYING TAXES?

Registered taxpayers for individual income, % of total population



WHO IS GAINING FROM TAX INCENTIVES CONVERGENCE?

	CAMBODIA	INDONESIA	LAO PDR	MALAYSIA	MYANMAR	PHILIPPINES	SINGAPORE	THAILAND	VIET NAM
tax holiday/exemption	●	●	●	●	●	●	●	●	●
max. tax holiday years	9	20	10	10	5	6	negotiable	11	4
reduced tax rate	●	●	●	●	●	●	●	●	●
investment allowance/ tax credit	●	●	●	●	●	●	●	●	●
R&D incentives	●	●	●	●	●	●	●	●	●
super deductions	●	●	●	●	●	●	●	●	●
Special Economic Zone (SEZ)	●	●	●	●	●	●	●	●	●
discretionary	●	●	●	●	●	●	●	●	●

Source: World Bank (2015). East Asia Pacific Economic Update, October 2015: Staying the Course. Washington DC: World Bank.



MOVING TOWARDS ASIA-PACIFIC TAX FORUM

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