Tax Administrations
and
International Cooperation

United Nations – New York
November 11, 2002

William McCloskey, Assistant Commissioner,
Policy and Legislation Branch
Canada Customs and Revenue Agency

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Preamble

I wish to thank Your Excellency, Ambassador Marco Antonio Suazo for giving us this opportunity to address the Second Committee of the United Nations General Assembly.

Mes remerciements aux membres du Comité pour avoir pris le temps de réfléchir sur un sujet d’importance fondamentale en ce qui a trait aux administrations fiscales et à la coopération internationale.

I look forward to an open discussion on the points we raise today.
Objectives of the Presentation

1. Impact of Globalization

2. Challenges to Tax Administrations

3. The Necessity of International Cooperation

4. The Way Ahead
1. Impact of Globalization

Today we are all well aware that globalization is affecting us all in profound ways that we would not have dreamed as possible only 20 to 30 years ago.

The internet and other technologies have not only made instantaneous global communication possible, they are affecting the way business is conducted:

    An architect in South Africa can deliver plans over the Internet to a firm in New York for a building to be constructed in Thailand with a parent company in Germany doing the accounting function.

Companies are becoming increasingly international in their operations, including cross-border mergers and acquisitions, leading to huge volumes of trade, commercial transactions and transfers of capital.

    A global economy succeeds when governments can intensify their cooperation and provide international frameworks for the effective management of global issues. Taxation is no exception.
Taxation arrangements - both domestic and international – need to be adapted to this new environment.

2. Challenges to Tax Administrations

All of this presents significant challenges to tax administrations around the world: tax administration is the key to an effective tax system which raises the revenue that governments need – particularly in developing countries – to finance the social and physical infrastructure required for self sustaining development. Today many developing countries lack an effective tax administration and this is certainly a major constraint on their development.

In addition, there are special challenges resulting from increased globalization:

- Electronic commerce can make the identification of taxpayers, individual and corporations, more difficult if sometimes not possible;
• Electronic commerce also raises questions about the territoriality and materiality of transactions (e.g. where did the transaction take place and which country has taxing rights).

• International corporations attempt to characterize transactions as occurring in one jurisdiction or another in order to obtain the most preferential tax treatment.

• The growth of tax havens around the world, combined with electronic means to communicate and transfer capital, make it increasingly easy for individual and companies to place money beyond the reach of tax authorities.

It is important to emphasize that these challenges exist for all countries, developing as well as developed. Indeed, in many respects, tax havens, for example, present a proportionally greater challenge to developing countries because of their generally thinner taxpayer base, and because it is the educated elites of their societies that are best able to take advantage of the opportunities tax havens present.

To meet these challenges requires increasingly sophisticated technical expertise and training on the part of tax administrators,
well-paid and corrupt-free officials and a political commitment to a well-funded tax administration.

3. International Cooperation

These challenges also underscore the need for greater international co-operation because such co-operation allows countries to remain national in nature but to confront the challenges stemming from globalization.

As was noted in the Monterrey consensus, in this environment we need to strengthen international cooperation on tax matters in order to reflect such things as:

- New ways of doing business, such as complex organizational structures, creative financing, leasing;
- The increase in cross borders mergers and acquisitions;
- The mobility of capital and global ownership (as opposed to traditional “national” identification);
- The increasing complexity of legislation, which creates uncertainty and delays in rulings and court decisions etc.; and
• Investigations of the underground economy, sophisticated money laundering schemes, other fraud and tax evasion cases, the fight against terrorism.

All of these things require coordinated and sustained cooperation. Generally there tend to be three components to international cooperation among countries.

A. International aspects to administration of domestic tax laws;
B. Technical assistance and sharing of best practices; and
C. Strategic international work.

A. International Aspects to the Administration of Domestic Tax Laws

Firstly, in day-to-day administration of domestic tax law, tax administrations frequently encounter situations where international co-operation is required.

International cooperation between tax administrations takes place primarily by means of exchange information among themselves. Today there is a well-established framework for such exchanges – the 1600 tax treaties that exist and that balance the needs of tax
administrations for information against the need to protect the privacy of taxpayers.

In today’s global environment, governments can only effectively apply their tax laws if they cooperate and get assistance from other governments.
**B. Technical Assistance and Sharing of Best Practices**

The shear pace of technological change, the increasing sophistication of private sector trade and tax expertise, more innovative transactions and the mobility of capital, contribute to the challenges facing tax administrations around the world in adapting their tax administrations and in acquiring and retaining professional staff capable of dealing with the global economy.

This leads to the second area of international tax cooperation: technical assistance and the sharing of best practices.

Fortunately there are a number of regional international tax administration organizations dedicated to self-help through sharing best practices and dissemination of information among their members.

The assistance they provide can range from sharing experiences and techniques for dealing with the global economy to purely domestic operational issues – everything from staff training in audit and collection procedures, to management issues (such as the use of performance measures), to coping with the new technologies, (such as the use of the internet) to ethics and integrity issues.
The principal regional international tax organizations are:

- Inter-American Centre of Tax Administrations (CIAT);
- The Commonwealth Association of Tax Administrators (CATA);
- The Caribbean Organization of Tax Administrators (COTA);
- Le Centre de rencontre des dirigeants des administrations fiscales (CRÉDAF);
- The African Association of Tax Administrations (AATA);
- Intra-European Organization of Tax Administration (IOTA);
- Study Group on Asian Tax Administration and Research (SGATAR); and the
- Pacific Association of Tax Administrators (PATA);

They range from ones that are relatively well funded with significant secretariat support and in-house expertise (e.g. CIAT), to small one-person operations (e.g. COTA, AATA). Others, like SGATAR, have no permanent secretariat.

The IMF, OECD and the World Bank also play a significant role in assisting countries to develop their tax administration. In addition, as you are aware, tax administrations from developed countries frequently get involved in delivering both bilateral and multilateral technical assistance activities in less developed countries.
I will provide you with an example from my own country, not only because I am familiar with it but, more importantly, because I think it is typical of what is being done by many counties. The Canada Customs and Revenue Agency (CCRA) has major technical assistance project in India, funded by CIDA, to modernize the Indian tax and customs administrations. Another CCRA/CIDA project is Benin; we recently finished a major CIDA project in Cuba; and the Canadian International Tax Executive Program (CITEP). CITEP is a course of approximately three weeks offered to senior executives of developing countries, using the expertise of senior executives of the CCRA.

In addition, in the past year we had approximately 150 technical experts involved in short or long-term assistance projects in over 60 counties. Again, this activity on Canada’s part is illustrative of what many countries are doing in the tax area in terms of technical cooperation.

Technical cooperation is delivered through a range of activities including capacity-building reforms, short-term consultations, training and learning events, study tours and, where appropriate, providing long-term advisors.
Assisting developing countries to implement modern professional tax administrations not only contributes to greater political stability and democratic institutions in the countries in question, it benefits the whole international community through more predictable, fair and equitable tax regimes around the world.

Democratic infrastructures in fact, can only be supported by a fair and transparent tax administration, which translates to good governance.

**C. Strategic International Work**

The third area of cooperation I mentioned is strategic international work. It involves working in both multilateral and bilateral fora to arrive at predictable and orderly rules and procedures for international cooperation. The work here frequently involves working in conjunction with tax policy authorities of the counties in question.

At the multilateral level, international organisations have developed a number of instruments: the UN, for example, has developed a model tax convention, which is extensively used by developing
countries. CIAT as well has developed an exchange of information model for its member countries.

At the bilateral level, various agreements are negotiated on exchange of information, reciprocal agreements to prevent double taxation, the administration of social security benefits, the interchange of human resources, the conduct of joint training projects, and specific agreements to exchange information for the purpose of combating fraud and tax evasion.

In this venue I wish to acknowledge the efforts under way between this Committee and CIAT to enter into a memorandum of understanding for the purposes of exchange of information.

4. The way ahead

While there is much to be encouraged about regarding international tax cooperation, there still remains the potential for considerable further cooperative arrangements.

Today we have, at last count, four international organisations, eight regional organisations, four regional development banks and numerous bilateral programmes in the tax area.
This multiplicity of actors reflects the diverse needs of different regions and the way in which different groups have specialized in different areas. The regional tax organisations, for example, by and large focus on tax administration as opposed to tax policy issues. By the same measure, most of the regional tax organizations are small, poorly funded and are unable, by themselves, to meet all the needs of their members. In addition, there has been a lack of coordination in the provision of technical assistance funded by international organizations – it has not been unusual to find tax assistance being provided by different agencies in the same country at the same time without any overall plan or coordination.

In this environment, our watchword should be not to strive for some monolithic global organisation, but rather to look for global cooperation with regional delivery. This is certainly the conclusion reached by the World Bank, CIAT, the IMF, OECD and other regional tax organisations and this is why they have recently launched two very encouraging and hopeful initiatives to improve coordination among themselves: the creation of the Committee of International Tax Organizations (CIOTA) and the International Tax Dialogue (ITD).
CIOTA:

CIOTA is a partnership of eight regional organizations: CIAT, CREDAF, IOTA, CATA, OECD, COTA, AATA, and SGATAR. Its purpose is to develop a closer working relationship among the organizations, share experiences and to periodically sponsor joint conferences for their members. Its major success, and its starting point, was the collaboration of its five original members with the Canada Customs and Revenue Agency in hosting a major conference in *E-Commerce and taxation in Montreal*, in June of last year.

The conference was attended by over 100 member countries of CIOTA, including some 60 Tax Commissioners and represented the first time so many countries had met to discuss a common challenge. CIOTA is currently discussing future collaboration projects.
The International Tax Dialogue (ITD):

The ITD proposal is currently under discussion among OECD, IMF, World Bank, the UN and CIOTA member organizations. The area of interest is primarily tax policy, with some involvement in tax administration issues, information sharing on technical cooperation, a comprehensive interactive website to enable governments to engage in an on-going discussion and, where appropriate, to organize conferences on tax policy issues which are of interest to developing countries.

The sponsoring organisations see this as the response to the call in Monterrey for closer cooperation on tax issues. They have approached the UN to join them and I note that in the UN Secretary General’s paper issued on the 18th of August it seems to favour developing a working relationship with the UN and the ITD.
United Nations:

The United Nations has traditionally provided a forum where international tax issues can be discussed - its ad hoc group on tax matters. It has shown limited interest in the work of tax administrations, which is surprising given that for developing countries improving tax administration is the key to obtaining a better tax system.

As President of CIAT, and as a delegate member to various other organizations, I can emphatically state that the international tax community would strongly and heartily welcome an increased interest and activity by the United Nations in the tax administration area.

The advice of the UN Secretary General to develop a relationship with the ITD seems to be an appropriate starting point. This would strengthen the UN presence in the tax field, ensure that the voice of developing countries is clearly heard in this dialogue and indirectly reinforce the work of the existing UN group on tax matters.

CIOTA would also welcome the UN ‘s participation and the smaller regional organizations are crying out for assistance, as are their
members. Let me remind this committee that both organisations – CIOTA and the ITD are in their infancy and that by getting involved with them at this juncture, the UN can play a critical role in helping to shape the direction they take.

Mr. Ambassador and distinguished members of this committee, it has been a pleasure to address you today. My colleagues and I look forward to a continued dialogue with you.

Thank you/Merci.