

## Financing for Development Conference The Addis Tax Initiative – Declaration

The proposed Addis Ababa Accord sets out the importance of domestic revenue for financing development, calls for substantial additional development cooperation in this area as well as specifically highlights the importance of tackling tax evasion and avoidance:

**“Domestic resource mobilization and effective use is the crux of our common pursuit of sustainable development and achieving the SDGs.”**

**“Globally, we commit to support countries that need assistance, including through substantially increasing ODA and technical assistance for tax and fiscal management capacity, particularly to LDCs.”**

**“We [...] agree to cooperate to combat tax evasion as well as tax avoidance.”**

Stepping up Domestic Resource Mobilization (DRM) is core to ensuring solid financing of the Post-2015 Development Agenda. Domestic public resources are a more stable and sustainable source of income, they also strengthen a legitimate relationship between citizens and the state and foster good governance. The focus on mobilizing domestic public revenue has been a leading action for the Financing for Development agenda since Monterrey and is fully in line with the Mexico Communiqué of the Global Partnership for Effective Development Cooperation (GPEDC). The 2014 High Level meeting that stated that ‘no country should be dependent on others’ resources for its own development’. In this context GPEDC called upon partners to step up and support existing development co-operation to boost tax collection, cut illicit financial flows and strengthen policies that support inclusive development. Capacity building for improved public revenue is expected to be one of the targets under the post-2015 sustainable development goals (SDGs)<sup>1</sup>.

As countries make realistic plans, at the national level, for setting and achieving targets for their SDGs, many developing countries will be seeking technical assistance to help boost their tax collection through broadening and protecting the domestic tax base, improving domestic tax compliance, and improving tools and procedures to stem both cross-border and domestic tax evasion and tax avoidance. On the international tax agenda, significant progress has been made through the G20, OECD and Global Forum<sup>2</sup> workstreams. Developing countries now want to reap maximum benefit of the outcome of these workstreams. For developing countries this requires substantial new efforts on their part to improve legislation, data-management capabilities, and operations, for which they request technical support.

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<sup>1</sup> The UN Open Working Group proposed SDG Target 17.1 states ‘Strengthen domestic resource mobilization, including through international support to developing countries to improve domestic capacity for tax and other revenue collection’

<sup>2</sup> Global Forum on Tax Transparency and Exchange of Information for Tax Purposes

**This Initiative is a Partnership in capacity building in the field of domestic revenue mobilization/taxation, in which each country takes its responsibilities, cooperates and supports each other.**

Collectively, the countries subscribing to the Addis Tax Initiative declare their commitment to implement the Addis Ababa Accord in the leading action of raising domestic public revenue, to improve fairness, transparency, efficiency and effectiveness of their tax systems, and commit to step up their efforts as specified below.

### **Commitment 1: Stepping up Technical Cooperation in Tax/Domestic Revenue Mobilization**

**As participating providers of development cooperation, we collectively commit to double our support for technical cooperation in the area of taxation/domestic revenue mobilization by 2020.**

Most providers will double their support, while others, of which some have already large programmes, will increase their support substantially.

Countries participating in the Initiative will each share information on their current and stepped-up support with the OECD Development Assistance Committee as well as the International Tax Compact, so that the promised increase can be monitored. Actual delivery naturally also depends on the number of requests received for assistance and the extent that partner countries engage in reforms.

This commitment is made in anticipation that the needs for technical assistance and capacity building in tax administration and tax policy in the coming years will outstrip current funding availability. Access to technical expertise to address cross-border issues has emerged as a particular need. Therefore support will focus on broad based capacity building as well as the international tax agenda.

The recent report from the multilateral development banks and the IMF to the Development Committee on financing requirements for the post-2015 development agenda makes clear that further broad-based capacity building is needed. The report highlights the various challenges developing countries face in boosting public revenues<sup>3</sup>. These include: compliance problems in dealing with the hard-to-tax (not only small businesses but also, for instance, professionals); reduced tariff revenues due to trade liberalization, including regional integration; weak revenue administrations, low taxpayer morale and poor governance (corruption indicators are strongly associated with low revenue); and shallow use of financial institutions, potentially a valuable source of tax-relevant information. Within tax agencies, expanded assistance will be required for, among other activities, enhancing tax accounting and auditing skills and building the data systems needed to reduce the 'compliance gap.'

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<sup>3</sup> From Billions to Trillions: Transforming Development Finance (April 2015), p. 8

In addition to broad-based capacity building, participating donor countries stand ready to expand cooperation in the following areas:

**Enabling partner countries take advantage of the progress made on the international tax agenda, such as the OECD/G20 Base Erosion and Profit Shifting (BEPS) project and tax information exchange including automatic exchange of information (AEOI);**

**Integrating partner countries in the global tax debate.**

**Improved taxation and management of revenue from natural resources, including concessions and contract negotiations, and a range of matters relating to the international tax agenda.**

The active participation of developing countries in BEPS and the rising number joining the Global Forum is strongly welcomed and a roadmap for developing countries wishing to go further and implement (A)EOI has been prepared. International organizations are currently preparing toolkits to combat inappropriate transfer pricing, to assist implementation of additional key BEPS issues, and to examine other high priority areas such as: incentives policy, access to transfer pricing comparables and tax treaty negotiating capacity. Additional support on these issues is needed to maintain the momentum and progress already made by developing countries and to ensure that this high profile political agenda is fully supported after the completion of BEPS later this year and international agreements to exchange information.

Eligible countries for enhancing cooperation are partner countries that are ready for reforms, are emphasizing good financial governance, and are eager to step up their efforts to achieve their post-2015 development outcomes. Countries are encouraged to undertake a diagnostic assessment of their tax systems to help them and their development partners identify key areas where capacity building and reform measures will be most effective. The development of TADAT is helpful in this regard.

In all areas *South-South Cooperation* will be supported. By partnering with south-south cooperators we hope to substantially enlarge the pool of technical expertise available and to offer locally appropriate solutions to countries eager to engage in tax reforms and step up revenue mobilization. International organizations and regional tax organizations such as CIAT, ATAF, SGATAR and CREDAF can serve as important partners in this effort.

Participants that are OECD members commit to adhere to the OECD 'Principles for international engagement in supporting partner countries in revenue matters'. Coordination of different capacity-strengthening initiatives will remain the prime responsibility of partner countries. The International Tax Compact (ITC), the OECD and its Task Force on Tax and Development as well as the UN FfD office shall be used to ensure transparency on the activities undertaken, whereby the ITC will play a coordinating role to monitor and report on the increased support under this Initiative.

The private sector, especially private foundations, are invited to participate in the Initiative to further enhance assistance in the field of domestic resource mobilization.

## **Commitment 2: Enhancing Domestic Revenue Mobilization so as to Spur Development**

**As participating partner countries, we hereby restate our commitment to step up domestic resource mobilization in order to increase the means of implementation for attaining the Sustainable Development Goals and inclusive development.**

As described in the Financing for Development Accord, stepping up domestic resource mobilization requires strong domestic governance and institutions. We recognize that political will is needed to drive forward modernizing of tax systems. We also understand sustainable development depends not only on tax revenues. Its success requires a holistic approach, encompassing mobilization and management of public budgets and private resources and development of an inclusive domestic financial sector, all of which require high-level political support. We accept these challenges and the responsibility to use resources effectively for required public services that will enable us to achieve the ambitious national targets that we intend to set for 2030. We, partner countries, are eager to make use of the opportunity for increased cooperation.

In order to demonstrate our shared commitment to domestic revenue mobilization, all partners in the Addis Tax Initiative agree to key principles for mobilizing domestic revenue, as outlined in the Annex of Principles.

## **Commitment 3: Ensuring Policy Coherence**

**Complementary to the commitments to step up funding and enhance domestic revenue mobilization, we all commit to pursue policy coherence for development.**

All participants will ensure that relevant domestic tax policies reflect the joint objective of supporting improvements in domestic resource mobilisation in partner countries and applying principles of transparency, efficiency, effectiveness and fairness.

Raising domestic resource mobilization not only depends on governments. We therefore also call on multinational companies to respect the spirit as well as the letter of tax laws, as specified in the OECD guidelines for multinational enterprises Chapter XI on Taxation. We call on the UN Global Compact to include similarly an 11th principle on tax.

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## Annex of Principles

**All partners in the Addis Tax Initiative agree to the following key principles:**

- 1** We affirm that each country has primary responsibility for its own economic and social development, and that the role of national policies, development strategies, and domestic resources is critical.
- 2** We acknowledge the importance of all sources of development finance, including Official Development Assistance (ODA), which remains critically important especially for the poorest developing countries that have limited capacity to raise resources, and for key sectors like education, health and other social sectors where need is greatest.
- 3** We recognise that domestic resources have been the most rapidly growing component of development financing this decade, and that greater mobilization of domestic resources is essential to achieving the goals of the Post-2015 Development Agenda.
- 4** We will apply a holistic approach to domestic revenue mobilization, encompassing both mobilization and management of domestic public resources, while respecting national policies and strategies, noting that success depends on both raising domestic revenues, and channeling those resources toward effective public services that enable countries to achieve the goals of the Post-2015 Development Agenda.
- 5** Since rapid growth and structural economic transformation is critical for enhancing domestic revenues in developing countries, partners in this initiative will support these countries' endeavour to diversify their economies.
- 6** We embrace policies and practices that foster fair, efficient and transparent tax systems, and effectively allocate the equitable distribution of tax burdens and benefits. Taxpayer morale and confidence being essential to effective domestic resource mobilization, promoting effective and equitable delivery of services and fair, consistent, and impartial treatment of taxpayers in the application of the law is paramount.
- 7** We agree to modernise tax systems and to provide the high-level political support and demonstrated commitment to strong domestic governance and institutions necessary to unlock substantial new domestic resources for development.
- 8** We agree to enhance cooperation to combat tax evasion, fight corruption, tackle illicit finance, and promote good financial governance, transparency and accountability.
- 9** We will measure progress on domestic revenue mobilization, and develop and track country-specific indicators and targets for revenue collection and other aspects of tax system performance.
- 10** We will also encourage broad-based dialogue that includes the private sector, civil society, and other stakeholders to build coalitions for reform and ensure better ownership, implementation and accountability.