

## **Seminar on domestic tax transparency - Global Initiative for Fiscal Transparency network Discussion about Making Tax Work: A Framework for Enhancing Tax Transparency (Baker-Murphy)**

**March 10, 2021**

### **Note for the World Bank's Innovations and Tax Compliance Program**

In 2019, the World Bank's Global Tax Program requested GIFT's assistance in enhancing understanding of the information that civil society organizations require to work independently on tax policies and to engage in informed dialogues with governments on tax reform at the national level. As part of this project, GIFT hosted a seminar to critically discuss the draft compendium titled **Making Tax Work: A Framework for Enhancing Tax Transparency** (MTW, [here](#)). Commissioned by GIFT and authored by Professors Richard Murphy and Andrew Baker (University of Sheffield), it sets an analytical framework for assessing domestic tax transparency in countries around the world.

The authors detail a range of issues surrounding tax reporting and information standards, and propose a systematic appraisal of tax systems to enable and enhance revenue transparency. They define tax transparency as "the process that supplies the quantitative and qualitative data that a society needs to ensure that its tax system is working for the benefit of its tax authority, government, legislators, those who elected them, those who pay taxes and all other stakeholders of its tax system".

Its framework for enhancing tax transparency will assist the GIFT network in calling for a comprehensive discussion and in producing draft global principles on domestic tax transparency. The objective being to guide governments in their efforts to disclose information on the revenue side of the fiscal equation, thereby facilitating civil society's strong participation in informed public debates on tax reform.

The final version of the document, expected in May 2021, will incorporate the main feedback provided by seminar participants, and will include the first version of the tax transparency principles in its conclusion. The GIFT network will then discuss the framework and principles at its General Stewards Meeting (Summer 2021). This is to be followed by a broader discussion in the tax transparency community, including in the form of an online open consultation on the principles. The goal is to have a more finalized version of the domestic tax transparency principles by fall 2021, hopefully for discussion at the Annual Meetings of the World Bank and the IMF (GIFT lead stewards), such that they can be implemented at the country level by the end of 2021.

MTW was well received by participants in the seminar discussion, which included experts from the World Bank, IMF, IBP, and representatives from the Economic Tax Analysis Chief Directorate of the National Treasury in South Africa and specialized civil society organizations (the minutes of the seminar are in the annex and a video of the seminar can be accessed [here](#)).

Participants agreed that the compendium provides a good basis for conversations about the way forward on tax transparency at the domestic level, as it defines concrete pathways to start working on the topic. MTW sets a solid base for guiding government in providing more accessible and better-quality tax data. It is also timely, given that many countries will have to consider reforming taxes and tax systems to cover pandemic response costs, within weakened economies. Within such contexts, it will particularly important that people (taxpayers) have transparent information to understand what change is proposed and why it is necessary.

Additionally, MTW fits well into the broader context of the World Bank's Innovations and Tax Compliance program, which makes explicit the role of trust building in the relationship between authorities and citizens, in order to improve tax compliance. MTW is a primary resource material for examining tax transparency and its importance. Respondents also noted the link provided by the compendium between tax transparency and building fairer tax systems.

For the government revenue representatives from South Africa, MTW addresses important elements that form part of debates related to tax collection performance and efficiency; limits and dilemmas on access to tax related information; new concepts such as tax gaps and spillovers that need to be considered in tax related reforms; as well as accountability throughout tax systems. For the civil society experts, it provides a good basis for understanding why tax is needed, the logic behind tax policy decisions and the role and responsibilities of government. The document also assists governments in basing decisions on research and analysis on the potential implications of some tax policies.

Respondents also provided specific feedback, the draft MTW could address in its final version:

- The first version of the tax transparency principles should be included, to be later integrated into the existing GIFT High-Level Principles on Fiscal Transparency, Participation and Accountability.
- The organization of the document could be improved, explicitly addressing how levels of compliance can be progressively achieved.
- The political aspects of the discussion should be more explicit. Currently they somewhat embedded in the technical elements of the discussion.
- The audience and associated trust aspects should be clarified.
- Consideration should be given to adding a new chapter on citizen engagement, as well as mechanisms and methods on public participation, including in relation to whistle blower policies.
- Confidentiality issues should be further addressed.
- Emphasis should be placed on the importance of interacting systems in the tax world, for example accounting enforcement, among others.
- The corporate element should also be addressed. Business opportunisms should be refined.
- There should be more transparency around the methods and categories discussed and recommended for tax transparency, especially on the aspirational elements.

The final version of the document will address this feedback and allow the GIFT network to continue the discussion of the MTW framework and tax transparency principles at its General Stewards Meeting (Summer 2021). This will be followed by a broader discussion with the tax transparency community, and hopefully be part of discussions at the Annual Meetings of the World Bank and the IMF, so that the principles can be implemented by the end of 2021.

The following annex provides the minutes of the seminar, held on March 10, 2021.

## ANNEX

### **MINUTES FROM THE GIFT SEMINAR ON DOMESTIC TAX TRANSPARENCY AND THE DISCUSSION OF MAKING TAX WORK: A FRAMEWORK FOR ENHANCING TAX TRANSPARENCY, BY PROFS. RICHARD MURPHY & ANDREW BAKER**

#### **Welcome remarks and background**

Juan Pablo Guerrero, Network Director of the Global Initiative for Fiscal Transparency (GIFT), welcomed everyone to the Seminar to discuss Making Tax Work: A Framework for Enhancing Tax Transparency (MTW). He explained the background and purpose of the compendium. It provides an analytic framework for assessing tax systems and access to tax information. It is hoped that it will assist the GIFT network in calling for a comprehensive discussion on the matter and in producing draft global principles on domestic tax transparency.

As background, he stated that a survey carried out last year by the International Budget Partnership's (IBP) Tax Equity Initiative, showed that access to relevant tax information is a common challenge for civil society organizations (CSOs). There is secrecy around tax information, issues related to the quality of information, and a lack of information on tax incidence. These are frequent barriers impeding CSOs from partaking in informed debates about tax policies. The COVID-19 adversity makes these obstacles all the more unsurmountable.

Currently there are several international norms and standards addressing the comparative analysis of tax administration and regimes, including transparency aspects. For instance the International Monetary Fund's (IMF) Fiscal transparency code; one of the performance indicators of the Tax Administration Diagnostic Assessment Tool (TADAT) that is devoted to accountability and transparency; ISORA, the International Survey on Revenue Administration that has an index on public accountability, measuring the commitment to making information public; the Public Expenditure and Financial Accountability (PEFA) program devotes a number of indicators to the issue; and the IBP's Open Budget Survey (OBS) that has 25 questions on government revenue. There is no doubt that these tools provide a valuable and significant range for a comparative analysis about transparency on tax administration and policy. However, he explained that the challenge is that every aspect of taxation, ranging from policy development, legislation, administration to the ultimate impacts of tax implementation require transparency, and that is what the authors sought to address in MTW.

The effort has the support of the World Bank (WB). Since 2019, GIFT has been working with the WB's Global Tax Program to improve the understanding of the information that CSOs need to be able to work independently on tax policies and to engage in informed dialogues with governments. Juan Pablo expressed his gratitude to the WB Tax Program team and thanked them for their attendance at the seminar.

He also thanked the authors of MTW for their very useful document that fits perfectly with the type of knowledge-products that the GIFT network aims to share with members and partners. He stated that it was based on experience and expertise, and is innovative, ambitious, rigorous, resourceful, provocative, providing a strong reference for a discussion on domestic tax transparency principles.

Finally, acting as moderator, he took participants through the draft agenda and invited the authors to begin by providing the basis for the discussion.

#### **Presentation on MTW**

The authors took participants through a presentation on MTW (attached). The definition adopted by the authors is different to that of the Organization for Economic Co-operation and Development (OECD) that focuses on information exchanges between jurisdictions to reduce tax evasion. The logic behind the definition adopted by the authors was based on the question of what would be useful for CSO and non-governmental stakeholders to know about the tax system. As such, they define tax transparency as "the process that supplies the quantitative and qualitative data that a society needs to ensure that its tax system is working for the benefit of its tax authority, government, legislators, those who elected them, those who pay taxes and all other stakeholders of its tax system".

They see a growing demand to systematically evaluate tax systems' capacity to meet redistributive objectives, green growth and other policy priorities post-pandemic. The central purpose of MTW is to:

- Set out inter-related pathways for **putting national policy dialogue on the functioning and performance of tax systems on a firmer footing**;
- Identify types of information release to enable this and inform reform pathways; and
- Examine the **importance of qualitative data**, setting out clear descriptions and explanations of practices in tax systems, informed by WB assessments of corporate governance.

The tax transparency framework put forward is meant to identify the approaches and tools that can enhance a range of stakeholders' knowledge and understanding of the performance of the tax system as a whole. The framework highlights a number of data requirements that governments should comply with. It also provides an initial breakdown of the various transparency requirements, based on the efforts they require of governments, in terms of the level of data disaggregation and of the sophistication of the analysis required.

<u>Level</u>	<u>Data requirements</u>
<b>Basic</b>	<ul style="list-style-type: none"> <li>i. National income and composition</li> <li>ii. Past budgets broken down - income and expenditure</li> <li>iii. Responsibility for lines of income and expenditure</li> <li>iv. Clear distinction between capital and revenue in government accounting</li> <li>v. Timely adequate accounts for each government department</li> <li>vi. Accounts compare outcomes with budgets</li> <li>vii. Taxpayers able to access information to enable tax compliance</li> <li>viii. International tax agreements of a jurisdiction widely available</li> </ul>
<b>Intermediate</b>	<ul style="list-style-type: none"> <li>i. Clear explanations of tax strategies, including choice of reliefs</li> <li>ii. Information exchanged with other jurisdictions - available and accessible</li> </ul>
<b>Advanced</b>	<ul style="list-style-type: none"> <li>i. Tax gap is reported on annually</li> <li>ii. Revenue collected by each tax and breakdowns</li> <li>iii. Clear detailed data on performance of tax authority</li> </ul>
<b>Aspirational</b>	<ul style="list-style-type: none"> <li>i. Theoretical taxable income = total tax expenditures + anticipated tax gap data</li> <li>ii. Regular tax spill-over assessments</li> </ul>

MTW provides a useful initial reference for thinking about the revenue transparency requirements that can allow for informed public debate on the role of taxation in promoting development. However, it is still a draft in need of feedback and missing a conclusion that will be added to the final version, based on ten principles that will ultimately be integrated into the existing GIFT High-Level Principles on Fiscal Transparency, Participation and Accountability. To do this, it will focus on advanced and aspirational goals. The authors hope that MTW becomes the basis for a manual to guide a comprehensive and rigorous independent analysis of a tax system, that will be required by the post-COVID-19 world.

## Respondents

**A. Marlé Van Niekerk and Christopher Axelson: Economic Tax Analysis Chief Directorate, National Treasury, South Africa**

A. Marlé Van Niekerk: It is in government's interest to enhance tax system transparency, given that it enhances taxpayer compliance – when people know where money is coming from and how it is spent, they are more willing to pay their taxes. Tax transparency touches on three important aspects: transparency related to the tax policy development processes, tax secrecy and tax administration. Key questions relate to whether there should be an independent tax agency to monitor such transparency; the information needs of different stakeholders; what information is needed at the different stages of the fiscal policy cycle from tax policy design to implementation; as well as questions related to compliance costs.

Christopher Axelson: While South Africa's level of transparency is thought to be relatively high, some of the items listed in MTW remain aspirational. For example, gathering extensive information on tax gaps, may prove

challenging, potentially requiring the re-allocation of resources from other priority projects. Tax spillovers, is a relatively new concept, that hasn't yet been incorporated in current government analysis. It is something that can however be considered. The timing of the tabling of tax legislation, consultation and its approval, and the confidentiality of tax payers are other areas that also pose challenges.

#### B. Jason Lakin: IBP Senior Research Fellow

MTW is comprehensive and provides a foundation for good conversations regarding the way forward on tax transparency. The rationale/logic of the suggested framework could be made clearer, for instance: how information is categorized, why some information is regarded basic, while other is aspirational; as well as what explains the categories and the possible trajectory for countries that would like to improve. The politics of taxation – the role of the political economy, the will of leadership, their role etc. – plays an important role. The document would benefit from bringing out this discussion as a separate topic, as its currently embedded in technical considerations and unclear.

#### C. Anna Custers and Roel Dom: WB Global Tax Program

Anna Custers: This work can be placed in the broader context of the WB innovations and tax compliance program, where the WB make explicit the role of building trust in the relationship between authorities and citizens in order to improve tax compliance. In this context, MTW is extremely helpful as it will become a primary resource material for tax transparency, providing the rationale as to why it is important to look at. It provides very concrete pathways that can be used to start working on the process of building trust with taxpayers. Tax transparency, ultimately comes to the question of how to build fairer tax system. Regarding this, it should be explored how formal tax systems interact with informal tax systems, that disproportionality affect the poor. Qualitative information in this sector remains a challenge that should be explored further.

Roel Dom: MTW provides a great contribution, particularly when thinking about the compliance and trust perspectives of tax work. The WB will use it as a resource in its work. From a business taxation standpoint, it should be considered how corporate compliance could be enhanced. MTW addresses tax transparency from the perspective of budget transparency literature. The reader may however benefit if it were also addressed from a procedural transparency perspective, linking it with business tax compliance and business tax morale.

#### D. Regina Navuga: Southern and Eastern Africa Trade, Information and Negotiations Institute (SEATINI) Uganda

MTW is going to assist SEATINI in its work. Civil society requires high quality information to analyze and contribute to government decisions and actions. MTW assists in understanding the logic behind tax policy decisions. This not only assists CSOs, but governments too. For instance, Uganda does not have a beneficial ownership registry, and as pointed out in the study, this is an issue for governments too. Tax transparency should be looked at holistically, focusing on governments but also understanding that some stakeholders, especially in the private sector, have different needs and motivations. Different strategies are required to deal with this. Regarding tax compliance, the underlying factors leading to non-compliance should be examined. Another issue in some countries is that expenditure allocations are made before revenue sources have been identified for that expenditure, it should be examined how public participation regarding taxes can take place when this occurs. Other areas that would be beneficial to address include issues related to whistle blowing policies, taxpayer confidentiality, and CSO capacity building.

#### E. Alexander Klemm: Deputy Chief Tax Division: IMF Fiscal Affairs Department

Tax transparency is a really important topic for the IMF as seen in the Fiscal Transparency Code. A challenge posed by revenue data is that it is often difficult to obtain comparable data across countries. MTW is well timed given that many countries will have to consider reforming taxes and tax systems to cover COVID-19 response costs, within weakened economies. Research shows that taxes are more palatable if they are well understood, making transparency critical in this regard. It is beneficial that MTW shows degrees of transparency – basic, intermediate, advance and inspirational. It would benefit further from also distinguishing between objective data, and subjective data related to calculated figures that include some degree of judgement/estimation, such as that related to tax spillovers or gaps. This would assist people in considering the likely accuracy of calculation methods used and calculations provided.

### General discussion

The moderator invited other participants to provide their comments on MTW. Comments put forward include:

- It is important that transparency responds to the needs of different audiences.
- Indirect taxes are difficult to track for governments, making transparency in this area challenging.
- Making tax information accessible to wide audiences can be challenging for governments given its technical nature and different languages spoken in countries.
- Decentralized tax systems at different levels of government can pose transparency challenges.
- Tax systems must include clear policy objectives. Tax administrations should provide better information regarding their performance. Standards would assist in guiding best practice.
- International financial institutions have a key role to play in such reforms by undertaking initiatives and providing guidance to among others, governments and civil society.
- Tax transparency principles will provide a framework and guidance to governments working on enhancing tax transparency.

### Response by MTW authors

Authors' responses include:

- The corporate perspective/element, although critical, is currently overlooked. It will be made clearer.
- Regarding beneficial ownership, the importance of open data and transparency should be emphasized.
- Taxpayer confidentiality will be addressed further.
- The audience question is not explicit enough, it should be clarified. For example, parliamentarians need to understand the implications of the tax policies they adopt; and journalists and broader civil society need to understand taxes better. Audience and trust are key, how you grow trust in tax system is at the centre of the effort.
- Other domestic institutions such as supreme audit institutions also play a key role. Further discussion is needed in this regard.
- Regarding the tax transparency improvement trajectory, it is important that MTW caters for countries at different levels of transparency and provides guidance on how they can move from one level to the next.
- The role of the political economy should also be brought out.
- The role of business taxation needs to be refined.
- A new chapter needs to be added on citizen engagement, mechanisms and methods on public participation, including on whistle blower policies.
- Regarding aspirational categories of tax transparency and subjectivity in calculations, the authors have invented a methodology for tax spill overs, and have also worked on tax gaps. There are also on-going live methodologies on the matter. Discretion plays a role in this, that should be clarified in MTW.
- The emphasis on tax system transparency is key, a major driver behind MTW.
- Tax transparency principles are likely to fit in well in with the related work done by international financial institutions. International guidance should be comprehensively provided on tax transparency.

### Closing remarks

The moderator thanked everyone for the very fruitful seminar and stated that this was the start of one of many conversations on the topic. He then asked Chiara Bronchi and Paolo de Renzio to make closing remarks.

#### Chiara Bronchi: Manager: WB Macro-Fiscal Department

The WB accepts the call to promote tax transparency and to provide guidance, an integral part of the legitimacy of a budget system. Most of the countries the WB works with do not know how much tax revenue they are actually foregoing. This is however important to know in terms of macro-fiscal sustainability, among others, with some revenue sources going potentially untapped.

This seminar was impressive, dynamic, and a good way to present and discuss the issue. The effort that the WB is leading with Anna, Roel and GIFT, focuses on the trust relationship between citizens and governments, and ultimately on service delivery. All of the dimensions discussed are extremely important, and should be considered by participants going forward. Moving beyond MTW, it should be explored whether there are other ways in which participants could work together to further address issues, including the way forward for governments with low capacity levels.

Lastly, Chiara expressed gratitude to GIFT for having organized the seminar.

Paolo de Renzio: IBP Tax team: Senior Research Fellow

Several points were made on MTW. These should be considered in respect of three dichotomies that exist. The first one is between comprehensiveness and targeting, whether a framework is needed that covers the whole gamete of tax systems, or whether a product or series of products are needed that better show the content of this piece of work for different actors and different types of stakeholders. The second dichotomy relates to encouragement versus discouragement. It is easy to refer to a high-level set of principles and practice that go all the way to the aspiration, however these may put off those who are still struggling with the basics. It is key to consider how those people can be motivated. The third dichotomy is between the availability of information and the use of information, or in another words promoting access to information (transparency) or promoting accountability. In this regard, MTW doesn't address two principles, that related to consultations and citizen engagement; and that of independent verification and audit. In summation, many useful discussions are coming from this initiative, however something more targeted is needed, that is more encouraging and pays more attention to the accountability side of transparency.