

# Promoting more open and accountable tax systems:

The role of international principles and standards

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GLOBAL INITIATIVE FOR  
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### Key messages

- Despite the growing attention and importance of taxation in international development debates, there is no consensus about what revenue transparency means or entails among governments and other actors, nor full clarity on how to promote transparency, participation and accountability around domestic taxation.
- Members of the public and civil society organizations (CSOs) have traditionally been excluded from important decisions around taxation, which have often been dominated by powerful vested interests. Their contributions could help ensure that tax systems raise revenues more equitably and more effectively.
- Existing international norms and standards on revenue transparency and accountability are fragmented and limited in their scope. As such, they do not address a number of civil society needs and concerns regarding access to revenue information and opportunities to engage in decision making around tax policy and administration.
- Therefore, a new set of broad principles on promoting transparency, participation and accountability in domestic tax systems is needed. These should be designed through an inclusive multi-stakeholder process.
- A new set of agreed international principles would constitute a useful and necessary step in developing revised and more comprehensive norms and standards. This can benefit many different actors, including governments, CSOs and international actors, providing clear guidelines for practices and reforms at country level.

## Introduction

In recent years, interest in the role that taxation can play in the development trajectories that countries follow has increased manyfold. This is due to a number of factors. Domestic resource mobilization—or DRM for short—is seen as a key component of financing the Sustainable Development Goals, with governments committing to increase revenue collection to achieve their development objectives. Debates about growing inequality have brought attention to the role of taxation in redistributing income, not least in the context of responses to the COVID pandemic, as poverty levels are rising significantly in emerging economies<sup>1</sup>. CSOs at both international and country level have denounced the lack of fairness that characterizes tax systems across the world, for example allowing rich individuals and corporations to hide their wealth in offshore tax havens, depriving governments of much needed revenues and contributing to the widening gap between rich and poor<sup>2</sup>.

These recent shifts call for a broader debate on the role that tax policy and tax administration can play in promoting development, a debate that is more open, more inclusive and better informed. To allow for that debate to happen, there's a need to better define the kinds of revenue data and information that governments need to disclose, the opportunities for individuals and CSOs to engage in tax policy reform, and the mechanisms needed to ensure adequate accountability in domestic tax systems.

Existing norms and standards around revenue transparency and accountability are fragmented and limited in scope, providing limited guidance to key actors. Moreover, they have not addressed the question of which opportunities should exist for members of the public and CSOs to influence decisions about tax policy and administration. A new set of agreed international principles could guide the development of improved and expanded norms and standards, and provide all relevant actors—including governments, citizens and CSOs, and international institutions—with a clearer sense of what is expected of them, what they can demand and how they can support the necessary reforms.

The purpose of this brief is to take stock of current debates and evidence on revenue transparency and accountability from a civil society perspective, and to discuss the need for a strengthened set of international principles and standards around the publication of revenue-related information by governments and other requirements to promote more accountable tax systems.<sup>3</sup> Such a step would not by itself bring about immediate improvements in country-level practices around revenue transparency and accountability, but it would clarify the roles and responsibilities of governments and other actors, and

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<sup>1</sup> The World Bank [has estimated](#) that the COVID-19 pandemic could push an additional 150 million people into extreme poverty in 2021.

<sup>2</sup> See, for example, the [State of Tax Justice Report 2020](#).

<sup>3</sup> The focus of this brief will be on domestic taxation, to complement the important “tax transparency” work that is happening at international level, led by organizations such as the OECD and the Tax Justice Network, aimed at promoting better international coordination of tax systems and tax information to address the kinds of secrecy that allows for tax evasion by rich individuals and multinational corporations (see for example [here](#)).

could catalyze further action at country level to ensure that domestic tax systems play a more positive role in promoting development. For example, it could help governments and other stakeholders in generating better informed and more inclusive debates around the tax reforms that countries need.

In the generation of international principles and standards, as well as in the promotion of tax reform debates at domestic level, the role of CSOs is absolutely crucial. As shown by emerging evidence across many countries<sup>4</sup>, civil society engagement and advocacy is strategic for governments to lead informed and participatory debates that increase the chances for more equitable tax systems.

## Existing norms and standards on revenue transparency and accountability

In general terms, existing norms and standards around revenue transparency and accountability belong to three different groups: those concerned with broader *fiscal transparency*, those related to *revenue administration*, and those looking at more *specific aspects* of domestic tax systems. We look at the main ones for each group below.

### *Fiscal transparency*

International norms and standards around fiscal transparency are quite comprehensive and well developed, but they give limited attention to issues related to disclosure of information and accountability for domestic revenues. Existing revenue transparency requirements are quite basic, and can be considered inadequate to support an open, comprehensive debate on the role that taxation can play in promoting development, and on the effectiveness of related government efforts. Most of the attention has been devoted to the use of public resources, rather than their sources, due to its more direct and evident impact on the wellbeing of individuals and societies. Taxation is often the less visible half of the fiscal equation—also due to the confidentiality of certain kinds of information about taxpayers, both individuals and businesses—but it plays a fundamental role in generating resources for public services, regulating economic activity and distributing income. In this sense, it deserves as much attention as spending when it comes to ensuring adequate standards for promoting transparency, participation and accountability.

The [High-Level Principles on Fiscal Transparency, Participation and Accountability](#) promoted by the Global Initiative for Fiscal Transparency ([GIFT](#)) provide a comprehensive overview of transparency requirements in fiscal matters (including revenues), from stating the right to information on fiscal policies, indicating the various types of fiscal information that governments should make available, to establishing the need for independent oversight and public participation in all fiscal matters. However, the principles do not address the issue of revenue transparency, directly and specifically.

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<sup>4</sup> See a recently published set of [IBP case studies](#) on CSO engagement with tax reforms.

The IMF's [Fiscal Transparency Code](#), one of the key references for all matters related to transparency in fiscal policy, devotes limited attention to the issue of revenue transparency.<sup>5</sup> It simply suggests that governments should publish comprehensive information on both tax and non-tax revenues as part of regular fiscal reporting and of fiscal forecasts—including both past information and future projections—and recommends the publication of information on tax expenditures.

The International Budget Partnership's [Open Budget Survey](#) has relied on the IMF's Code—alongside other relevant international norms and standards—to define and measure levels of budget transparency across the world for more than a decade, including revenue transparency. OBS results show that countries do reasonably well, on average, on satisfying some of the basic requirements of revenue transparency, even though some clear gaps remain around medium-term projections, explaining revenue policies and tax expenditures. Performance varies greatly across countries and regions. However, aspects of revenue transparency covered in the OBS questionnaire are insufficient to provide a complete picture of the extent to which public disclosure of domestic revenue information satisfies the needs of granularity and detail from different stakeholders, and allows for proper accountability around the management of domestic resources.

### *Revenue administration*

A number of assessment tools have emerged in recent years that look at various aspects of how revenue administration works across countries, including on issues of transparency and accountability.

The [Tax Administration Diagnostic Assessment Tool](#) (TADAT) includes “Accountability and Transparency” as one of 9 key performance areas for revenue administration, but it only looks at whether governments publish timely information on the financial and operational performance of the tax administration, and on its future directions and plans.

The [Public Expenditure and Financial Accountability](#) (PEFA) framework does emphasize transparency and accountability as a key aspect of various areas of public financial management. However, only one indicator addresses the transparency dimension of revenues: PI-19.1 assesses how well and how extensively efforts are made to provide taxpayers with information about their main obligations and rights, including redress procedures.

The IMF's [International Survey on Revenue Administration](#) (ISORA) covers a broader range of administrative and operational practices in revenue administration. The survey includes a set of questions on “public accountability”, which look at whether governments publish information on their strategies, plans and annual reports, on taxpayer rights,

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<sup>5</sup> The IMF also has a separate manual on resource revenue transparency, which goes into much more detail, but only for countries with significant natural resource revenues.

service delivery standards and satisfaction surveys, and on compliance risks and other performance measures such as tax gaps. Results show that lower income countries fare worse than higher income ones, and that governments with semi-autonomous revenue agencies do significantly better than those where revenue administration is managed from within the finance ministry. More interestingly, indicators related to either formal and routine aspects of revenue administration—i.e. having in place policies for taxpayers’ rights managing complaints, or producing and publishing plans and annual reports—score much better than indicators on actual performance, including those against service delivery standards, about taxpayer satisfaction, or addressing compliance risks. The worst performing indicator is about the publication of estimates of the tax gap (more on that below).

### *Specific aspects of domestic taxation*

Global tax transparency standards promoted by the [Organisation for Economic Co-operation and Development](#) (OECD) as part of its BEPS (Base Erosion and Profit Shifting) initiative narrowly relate to the promotion of exchange of tax information across countries, aimed at facilitating cooperation among revenue administrations in addressing tax avoidance and tax evasion. While this is very important for tax policy discussions and for accountability purposes, it is less directly relevant for issues of public disclosure of revenue information.

Finally, the [Extractive Industries Transparency Initiative](#) (EITI) promotes global standards for the open and accountable management of oil, gas and mineral resources, to ensure that natural resource extraction contributes to sustainable development. The standards include disclosure criteria for all kinds of payments received by governments related to the extraction and sale of natural resources, including production entitlements, taxes, royalties, dividends, bonuses, fees, etc.

### *Summing up*

The norms and standards mentioned above cover a broad range of requirements that governments are supposed to comply with in relation to the promotion of revenue transparency and accountability. They are however characterized by a fragmented approach—with different standards covering different and sometimes overlapping topics—by limited coverage of relevant aspects of domestic taxation, and by the pursuit of disparate objectives (e.g. ensuring informed debate around domestic taxation, promoting international tax cooperation, or providing taxpayers with sufficient information about their rights and responsibilities). Furthermore, none of them address systematically the question of the opportunities for the public to engage in decisions around tax policy and administration. These shortcomings could prevent existing norms and standards from jointly promoting the overall pursuit of improved revenue transparency and accountability. What seems to be missing is an overarching set of principles that provide a more general vision and approach, helping to fill existing gaps and providing a better guide for various

actors and stakeholders. At the same time, these existing standards fail to actually address the principal concerns of civil society, as the next section shows.

## Revenue transparency and accountability from a civil society perspective

To complement the overview of existing norms and standards provided in the previous section, it is important to come to a better understanding of the kinds of revenue information that are important for civic actors in order to allow for an informed debate and enhance government accountability. For this purpose, IBP and GIFT carried out an online survey and in-depth interviews with a number of civil society groups working on issues of domestic taxation across the world. The [study](#) finds that access to detailed, timely and relevant revenue information is a common challenge for CSOs, and that the constraints that they face can be summarized under the following main headings.

### *A culture of secrecy on the revenue side of the fiscal equation*

More than on the spending side of the budget, a culture of transparency around revenues has not taken root in many governments, with many types of revenue information still veiled in secrecy. Political and legal environments often don't favor the disclosure of revenue information, and CSOs are not sufficiently empowered to aggressively confront this issue. Furthermore, there are rarely opportunities for the public to be part of the discussions on tax policy and tax administration, as they take place behind closed doors with a very few non-governmental actors who are admitted by invitation only. Many politicians and bureaucrats fail to accept the need for entering into "fiscal contracts" with citizens that require adequate levels of revenue transparency, not realizing the potential development benefits that could arise from entering into such contracts. At the same time, public servants often feel constrained by legal provisions on tax secrecy which prohibit the publication of information related to revenue administration. Beyond that, the generation of anonymized tax information on revenues by economic sector, industry or region, or the provision of statistical data on tax paid by income or socio-economic groups, requires specific mandates and training, something that not all officials have. This typically requires a deliberate policy on the proactive publication of revenue information that responds to user demand, for which specific regulations might also be required. CSOs resent a culture that precludes any kind of interaction or feedback about tax policy and administration, in contrast with the increasing openness that they find on expenditure policies and budget execution by ministries of finance.

### *Significant problems with the quality and accessibility of revenue information*

CSOs indicated that in their experience, where information on the tax system is provided, its quality is generally inadequate. Information is normally made available at an aggregate level, without the granularity and detail required to be able to undertake the analyses needed to meaningfully advocate for particular reforms or to promote informed debates on particular aspects of taxation. Information is at times also only made available to select

groups, possibly after the payment of a fee, rather than being freely accessible to all users in open formats. The reliability of some information is also questionable, given that information from different time periods and governmental sources often lacks consistency, denoting the lack of data consistency and quality controls. Even where reliable, comprehensive information is provided, it is often very complex, largely out of the domain of CSOs that are not technical experts, and not adequately explained. CSOs expressed the need for data to be accompanied by detailed narrative explanations, and provided in formats that are easier to access and use.

### *Lack of information on tax incidence and tax impact on specific sectors or groups*

In simple terms, tax incidence refers to the impact of taxes on people's incomes, and can be expressed as the amount of taxes paid by each individual in proportion to his/her overall income. Different sectors/groups of people are impacted differently, depending on their level of income, the assets they own and their consumption habits, among other things, which determine their specific tax burden. This information is important to see how equitable and progressive a tax system is, and the contribution it makes to levels of inequality. In the responses to our survey, CSOs pointed to the general lack of disaggregated information made available on the incidence of taxes on different groups, including for instance, information on minority groups or by gender. This information is important for CSOs to be able to understand how taxation affects income distribution, and advocate for reforms that protect and favor vulnerable groups and others that often do not have a voice in fiscal policy debates.

### *Lack of information on revenue administration performance*

Governments often publish very limited information on very important aspects of the performance of revenue administration agencies, including different kinds of tax services, audit rates and estimations of tax evasion and tax avoidance, among others. Related to this, CSOs lament that tax authorities seldom report on different aspects of the "tax gap". The tax gap is the difference between the revenues that a government could collect in principle and the revenues it actually collects for each type of tax. Various factors can explain such gaps, including reduced tax bases due to exemptions of various kinds, tax evasion, tax avoidance, unpaid or delayed tax debts, etc. From a CSO perspective, these factors reveal important information on the efficiency and effectiveness of revenue administration. Tax gap analysis is important as it provides critical insights about the success of a government in delivering on its social, economic and fiscal priorities through the tax system. It also helps to determine how tax compliance could be improved, for example by simplifying the tax code or improving tax audits. To give a sense of its size, the US Internal Revenue Service estimated that the tax gap amounted to about 14 percent of the owed taxes in the United States from 2011 to 2013.<sup>6</sup>

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<sup>6</sup> See <https://www.irs.gov/pub/irs-pdf/p5364.pdf>.

CSOs indicated that often very scant information is made available in this regard by governments, with assessments often only being published by third parties, if conducted at all. A number of organizations indicated that information and analysis of gaps in corporate taxation is particularly scanty. In India, less than 2 percent of corporate tax returns are actually audited, with no information being made public and there being no prosecutions for misreporting. In many countries, the lack of such information on large multinational corporations can lead to the erosion of the tax base and the shifting of profits to foreign jurisdictions with low corporate tax rates.

### *Lack of relevant information on tax expenditures*

Just as it is important to understand why and what governments are taxing, it is important to have comprehensive information regarding what governments have decided not to tax and why, disclosing information on tax exemptions and tax incentives of various kinds. Tax expenditures—as these are commonly known—represent the amount of taxes that the government decide not to collect to promote various policy objectives, from stimulating investment to benefitting particular sectors or categories of taxpayers. Ideally, tax expenditure transparency should include information not just on their overall size, but a full explanation of each tax expenditure, including its rationale, beneficiaries and expected impact, and regular evaluations to justify its continuing provision. This is however very often not the case. As various CSOs have highlighted, when information is provided it is of a very general and aggregate nature, and is not regularly scrutinized by legislatures<sup>7</sup>. This leads to a large chunk of public resources being given away without adequate accountability.

Despite the various constraints listed above, a number of CSOs across many countries have been able to play a significant role in promoting public debate around revenue policy and administration, and in some cases have managed to successfully advocate for tax reforms.<sup>8</sup> With improved access to different kinds of revenue information, such as those highlighted above, their work could become even more effective and impactful. Similarly, other stakeholders could also participate more meaningfully in public debates around taxation.

### **Moving towards more transparent, participatory and accountable tax systems**

Ensuring that domestic taxation plays a more positive role in promoting sustainable development will require more than just making tax systems more open and accountable. Similarly, promoting new and better international principles and standards will not by itself be sufficient to guarantee that transparency, participation and accountability in tax

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<sup>7</sup> For an analysis of tax expenditure transparency in Latin America, see <https://www.internationalbudget.org/publications/tax-expenditure-transparency-in-latin-america/>.

<sup>8</sup> See <https://www.internationalbudget.org/publications/a-taxing-journey-how-civic-actors-influence-tax-policy/> for a set of case studies of successful civil society engagement in tax reforms.

systems will improve. There are many other factors at play, including the level of governments' political will to undertake the necessary reforms and overcome opposing interests; concerted international adherence and support for the new principles and standards; the need to enhance capacities and skills within relevant government bodies; and the existence of coalitions of civic actors with adequate technical and advocacy expertise pushing governments to become more transparent and accountable.

While not sufficient, what the formulation of a new set of global principles for transparency, participation and accountability in domestic tax systems can do is help create better conditions for more open approaches and practices to take root, providing clearer and more comprehensive standards and guidelines about what governments should do, how they can be supported, and what can be expected of them. Moreover, by ensuring that the process for defining the principles is based on an inclusive debate, it can help generate a consensus that facilitates follow-up action by various actors to put the principles into practice. For CSOs, this means being able to better structure and ground advocacy around tax policy and tax administration.

So, what should a new set of global principles for transparency, participation and accountability in domestic tax systems look like, and how should they be agreed upon?

Having looked at the shortcomings of existing norms and standards around revenue transparency and accountability, and at the gaps highlighted by existing data from available assessment tools and CSO surveys and interviews, the principles should set a more comprehensive set of norms and standards on:

- a) The provision of information on government revenue policy in a multi-year framework, including an explanation of main tax policy objectives and specific policy measures needed to reach them
- b) The provision of information on revenue collection, revenue administration and its performance
- c) The provision of information on the impact of different types of taxes on economic activity and on income distribution
- d) Clear guidance on the timeliness, formats, and accessibility of data and information on each of the above categories
- e) A clear definition of the roles and responsibilities of different actors in the domestic tax system
- f) Institutional arrangements to promote adequate oversight and accountability in domestic tax systems
- g) The definition of processes to ensure public participation in tax policy formulation and implementation

Some of the items in the list above, especially those that relate to the disclosure of information, have been the subject of more attention and debate (see Box 1 for a more detailed proposal put forward by tax experts). Other items will need to be better defined, fleshed out and debated.

### Box 1. Making Tax Work

One proposal for an overall framework that could guide the formulation of revenue transparency principles has been put forward by Richard Murphy and Andrew Baker in “[Making Tax Work: A Framework for Enhancing Tax Transparency](#)”, which was commissioned by GIFT as part of its collaboration on tax transparency and informed public dialogue in tax policies with the World Bank’s Global Tax Program. In this work, the authors provide a compendium detailing a range of issues surrounding tax reporting and information standards, and propose a systematic appraisal of tax systems to enable and enhance revenue transparency. Its objective is to guide governments in their efforts to disclose information on the revenue side of the fiscal equation, thereby facilitating informed public debates and policy dialogue around taxation and tax reforms. The authors define tax transparency as an ongoing process that supplies the quantitative and qualitative data that a society needs to assess whether its tax system is working for the benefit of all stakeholders, including its tax authority, government, legislature and citizens.

The tax transparency framework that they put forward highlights a number of data requirements that governments should comply with. These include the publication of:

- a) A **statement of tax objectives** for each year, including information on policy objectives, assumptions, and other relevant arrangements
- b) A **revenue budget** for each year, providing disaggregated data on revenues to be collected, on tax bases and tax rates, and on tax expenditures
- c) **Proposed legislative changes** for each year, including accompanying explanations and a period for comment by stakeholders
- d) Applicable **tax legislation** in readily accessible formats
- e) **Guidance and instructions** for taxpayers on how to comply with tax legislation
- f) **Annual accounts** of actual collected revenues, including disaggregated data on revenue collection, details on taxes paid by different groups of taxpayers, on tax expenditures, on the tax gap by source, and on the administrative cost of revenue collection
- g) A **summary version of the annual accounts**, using simplified language
- h) A **tax spillover analysis**, that appraises the risks inherent in each major tax
- i) A review of the **effectiveness of revenue administration** in handling appeals and dispute resolution

Murphy and Baker also provide 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. They distinguish more basic accounting, budget and legal disclosures from requirements like publishing information on tax strategies, on the performance of the revenue authority, and on tax gaps and tax spillovers, that are based on a gradually more advanced set of data and skills.

What might be even more important than defining the content of the principles is devising an inclusive process through which the principles will be designed, discussed and agreed upon.

IBP and GIFT intend to collaborate in the coming months to launch such a process, following the model of the development of the GIFT High-Level Principles on Fiscal

Transparency (2012) and the Public Participation Principles in Fiscal Policies (2015), which included broad online public consultation and several rounds of discussion in diverse fora with a variety of different stakeholders whose expertise, experience and perspective enriched their final versions.

It is important that the principles are formulated through an open process that brings in the voices of a range of relevant stakeholders, from governments to international organizations, and from CSOs to legislatures and others.

GIFT will take the lead in coming up with a first draft of the principles—to be formulated through a collaborative approach—which can be used as a starting point for discussion. As in previous cases, the draft principles will be: (a) made available for online public consultation for a period of time; (b) discussed at GIFT General Stewards Meetings; (c) debated in other fora with the broader tax transparency community; and (d) discussed at country level in two to three countries in order to incorporate the perspective of country-level officials and practitioners that could give a more contextual idea of the usefulness, timeliness and scope of the exercise. The final draft will be formally adopted by GIFT and then presented before international fora convened by the World Bank, the IMF and the United Nations.

Once approved, the principles could be turned into more detailed standards and guidelines, and built into existing or *ad hoc* assessment tools, which researchers and CSOs could use to assess the degree to which governments are complying with the new principles.

It is our hope that this effort will contribute to enhance global efforts to promote more open and accountable domestic tax systems, so that in turn taxation can play a more positive role in promoting sustainable development.