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on Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters
(2010/2101(INI))

Committee on Development

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(*) Associated Committee - Rule 50 of the Rules of Procedure

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(*) Associated Committee - Rule 50 of the Rules of Procedure

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on Tax and Development – Cooperating with Developing Countries on Promoting Good Governance in Tax Matters
(2010/2101(INI))

The European Parliament,

– having regard to its resolution of 10 February 2010 on Promoting Good Governance in Tax Matters[1],

– having regard to the Communication from the Commission on Tax and Development - Cooperating with Developing Countries on Promoting Good Governance in Tax Matters (COM(2010)0163),

– having regard to its resolution of 25 March 2010 on the effects of the global financial and economic crisis on developing countries and on development cooperation[2], and having regard to the Declaration of Monterrey (2002), the Conference on Financing for Development in Doha (2008), the Paris Declaration (2005) and the Accra Agenda for Action (2008) whereby capital flight and illicit financial flows were explicitly identified as a major obstacle to mobilisation of domestic revenue for development,

– having regard to its resolution of 15 June 2010 on progress towards the achievement of the Millennium Development Goals: mid-term review in preparation of the UN high-level meeting in September 2010[3],

– having regard to the G20 summit held in Seoul on 11-12 November 2010, and the initiative to strengthen international cooperation with developing countries to fight tax evasion and avoidance, launched by the German Ministry for Economic Cooperation and Development, referred to as the ‘International Tax Compact’ (ITC),

– having regard to the conclusions of the International Conference on Taxation in Pretoria on 29 August 2008,

– having regard to the conclusions of the London G20 Summit of 2-3 April 2009,

– having regard to the Leaders' Statement issued following the Pittsburgh G20 Summit of 24 and 25 September 2009 and its resolution of 8 October 2009 thereon[4],

– having regard to its resolution of 24 April 2009 on the London G20 Summit of 2 April 2009[5],

– having regard to its resolution of 14 November 2007 on the draft Commission regulation

[1] Texts adopted, P7_TA(2010)0020.
[2] Texts adopted, P7_TA(2010)0089.
[3] Texts adopted, P7_TA-PROV(2010)0210.
[4] Texts adopted, P7_TA(2009)0028.
[5] Texts adopted, P6_TA(2009)0330.

amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 8, concerning disclosure of operating segments[1],

– having regard to the Norwegian Government Commission Report 'Tax Havens and Development' of June 2009,

– having regard to Rule 48 of its Rules of Procedure,

– having regard to the report of the Committee on Development and the opinions of the Committee on Economic and Monetary Affairs and the Committee on International Trade (A7-0027/2011),

A. whereas the strengthening of the tax system is one of the principal challenges faced by developing countries to achieve MDGs,

B. whereas taxation can be a reliable and sustainable source of development finance if there is a progressive taxation regime, an effective and efficient tax administration to promote tax compliance, and transparent and accountable use of public revenue,

C. whereas developing countries face important challenges in raising tax revenues due to insufficient human and financial resources to collect taxes, weak administrative capacity, corruption, lack of legitimacy of the political system, an uneven distribution of revenues and poor tax governance,

D. whereas the major forms of illicit financial flows and capital flight especially include: transfer mispricing between countries to attract FDI, round-tripping, double-dipping, bulk cash movements, opaque and disadvantageous investment protocols and smuggling,

E. whereas off-shore centres and tax havens facilitate an annual illicit capital flight of US$1 trillion; whereas these illicit monetary outflows are roughly ten times the amount of aid money going into developing countries for poverty alleviation and economic development,

F. whereas tax havens that offer secrecy rules and fictional domiciles combined with 'zero tax' regimes in order to attract capital and revenues that should have been taxed in other countries generate harmful tax competition,

G. whereas tax competition has resulted in a shift of the tax burden to workers and low-income households and has forced damaging cutbacks in public services in poor countries,

H. whereas round-tripping, tax incentives and tax competition between developing countries often lead to detrimental results which are evident when countries are 'selling' their tax systems, and companies are 'buying' into them, in a marketplace where competition, analogous to that between companies, prevails,

I. whereas tax fraud in developing countries leads to an annual loss of tax revenue

[1] OJ C 282E, 6.11.2008, p.323.

corresponding to ten times the amount of injected development aid from developed countries,

J. whereas the possibility of enhancing domestic resource mobilisation is further affected by the global context of liberalisation of international markets, entailing the replacement of customs revenues with other domestic resources; whereas IMF research shows that while rich countries have managed to offset the decline of trade taxes as a principal source of income with other sources of revenue, notably VAT, the poorest countries have at best replaced about 30% of lost trade taxes[1],

K. whereas the 'mapping survey' led by the ITC demonstrates that further donor coordination is needed in the area of taxation and development,

L. whereas the existence of a large informal sector in the economy is holding back the mobilisation of domestic resources,

M. whereas many developing countries are missing out on the commodity boom by failing to receive a decent share of mineral royalties which are justified,

N. whereas many developing countries do not even attain a minimum tax level which would be necessary to fund public services and international commitments like poverty reduction,

O. whereas tax provides a source of income that is potentially more stable and sustainable than aid flows and fosters the ownership of the respective countries in a better way,

P. whereas reporting on a consolidated basis often makes it difficult to identify companies to be taxed and to determine the right tax level due to their complex corporate structures and the distribution of economic activity between them,

Q. whereas so-called vulture funds, often based in tax havens, increasingly buy up the debt of developing countries at a huge discount and afterwards sue for the original amount of debt (frequently with interest and penalty fees) and in doing so, restrict to a substantial degree the extent to which developing countries can act thanks to their additional tax revenues,

R. whereas there are no laws that cap the amount of profits that a vulture fund can collect through litigating against developing countries to collect default debt and whereas there are no regulatory structures that disclose who vulture funds are and also how much they paid for this debt that was previously considered worthless,

S. whereas in many developing countries there exist multiple corporate income tax rates based not only on income and dividends, but also on business sectors, meaning that the sectoral allocation of resources is distorted by differences in tax rates,

T. whereas tax compliance should be defined as seeking to pay at the right place, at the right time, where 'right' means that the economic substance of the transactions undertaken

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[1] For instance, see study by Baunsgaard & Keen (2005), quoted in the IMF report of 15 February 2005, entitled 'Dealing with the Revenue Consequences of Trade Reform', in which the IMF concludes that 'many low-income countries and some middle-income countries have had difficulty in replacing trade tax revenues'.

coincides with the place and form in which they are reported for taxation purposes,

I. The importance of taxation for meeting the MDGs

1. Agrees with the Commission that efficient and fair tax systems are crucial for poverty reduction, good governance and state-building;

2. Welcomes the Commission's initiative to strengthen the capacities of good tax governance for development and sees the need for a regulatory framework designed to support international tax cooperation, transparency, public and private sector development and economic growth;

3. Highlights that tax-to-GDP ratios in developing countries range between 10 and 20%, as opposed to between 25 and 40% in developed countries; regrets that too little support has been given so far by donors to tax-related assistance; in this context, welcomes the Commission's proposal to provide enhanced support for assisting developing countries in tax reforms and strengthening tax administrations regarding EDF for ACP States, the Development Cooperation Instrument and the ENP and Partnership Instrument, and support for national supervisory bodies, parliaments and non-state actors;

4. Notes that more emphasis should be placed on efforts to undertake capacity building within developing countries in order to help them make effective use of the exchange of information and effectively counter tax evasion with their own, internal, legislation;

Difficulties encountered by developing countries in raising tax revenues

5. Notes with concern that the tax system in many poor countries remains characterised by extremely narrow tax bases, tax exemptions for the elite, corporate tax holidays providing a strong incentive for tax avoidance, as taxed enterprises can enter into economic relationships with exempt ones to shift their profits, massive revenues from natural resources going unaccounted for, and large illicit capital flows related to massive tax evasion;

6. Stresses that tax revenue must not be regarded as an alternative to foreign aid, but rather as an integral part of public revenue facilitating these countries' development;

7. Points out that efficient, progressive and equitable taxation systems are crucial for development as they contribute to financing the provision of public goods and to state building and good governance, that the goal of poor countries must be to replace foreign aid dependency with tax self-sufficiency, and that tax evasion and avoidance are, however, hampering these goals in development;

8. Deplores the fact that tax havens weaken democratic governance, make economic crime more profitable, encourage rent-seeking and increase the inequitable distribution of tax revenues; urges the EU to make the fight against tax havens and corruption a top priority of the agenda in international finance and development institutions;

9. Points out that tax evasion represents a considerable financial loss for developing countries, and that measures to combat tax havens and tax evasion are one of the priorities

for the EU with a view to providing developing countries with effective help in gaining access to their tax revenues; recalls the need to take the appropriate measures in that respect at European and international level, in accordance with the commitments given, in particular, by the G20;

10. Recalls that, while the positive impact of EPAs will be felt only in the medium to long term, losses of revenue are an immediate consequence of reductions in customs tariffs;

11. Underlines that further attention should be paid to difficulties encountered by developing countries in raising domestic revenues in a globalised context, multiple exemptions being granted to large domestic and foreign companies in order to attract investments; calls on the EU to help developing countries in building up tax systems that allow them to benefit from the process of globalisation;

12. Stresses that the poorest countries are having difficulties in compensating for the decline in trade taxes resulting from the current global context of trade liberalisation, by replacing them with other types of domestic resources, since at best about 30% of lost trade taxes have been replaced;

13. Stresses that tax havens, by increasing competition for mobile capital, encroach upon the sovereignty of developing countries to tax income from capital as a means to widen the tax base, while they already have a narrower tax base than rich countries;

14. Recalls that asymmetry of information, which results from tax havens' secrecy rules, reduces the efficiency of international financial markets, since it has led to higher risk premiums and thereby increased borrowing costs for both rich and poor countries;

15. Recognises that the qualitative and quantitative improvement in developing countries' domestic revenue mobilisation will bear fruit over the long term; calls on the European Union to maintain its offer of assistance in all its forms for as long as the developing countries consider it necessary for the financing of their own development;

II. Supporting effective, efficient, fair and sustainable tax systems

16. Reiterates that good governance and the quality of institutions represent the most important driver for economic prosperity; accordingly, urges the Commission to assist the tax authorities, the judiciary and the anticorruption agencies in developing countries in their efforts to build up a progressive and sustainable tax system that will eventually bring a 'governance dividend' through increased legitimacy and accountability, and to effectively integrate the principles of good governance in tax matters into the programming, implementation and monitoring of country and regional strategy papers; urges Member States to implement their commitments regarding their aid for tax and to combat bribery committed by companies domiciled in their jurisdictions but which have operations in developing countries; recommends that the Commission include national parliaments of the developing countries in the budgetary process, thereby fostering a harmonious relationship and promoting greater transparency in this process;

17. Points out that good governance in tax matters cannot be exported or imposed from outside, and that it is up to each of the countries to decide its own tax policy; in that

context, calls on the Commission and the national governments not to hamper, and to cooperate with, any countries which opt, consistently and fairly, for an increase in taxation that affects foreign undertakings present on their territory, particularly those operating in the field of extraction of primary resources, which is an important source of wealth in developing countries;

18. Calls on the Commission to include a tax governance clause, including monitoring of its implementation, in relevant agreements between the EU and third countries;

19. Points out that the decline in customs resources brought about in particular by Economic Partnership Agreements with the European Union is having a negative impact on the financial resources immediately available to developing countries; in that context, and to compensate for those losses, calls on the Commission to encourage developing countries, as part of any assistance given to improve their national tax systems, to give priority to progressive direct taxes over indirect taxes, particularly those levied on consumption, which, by their nature, hit low-income population groups harder;

20. Calls for the systematic implementation, in the framework of Economic Partnership Agreements (EPAs), of measures to support tax reforms, in the form of both material assistance (IT systems) and organisational assistance (legal and tax training for tax authority staff), if requested by a developing country; emphasises the need to make a special effort with African countries, which still do not receive long-term assistance on taxation matters;

21. Reaffirms the need to enhance the degree of coherence between the European Union's development policy and its trade policy; recalls that, while the crisis may have exacerbated the volatility of commodity prices and caused a decrease in capital flows to developing countries, the European Union as a whole, including its Member States, remains the leading development aid donor, accounting for 56% of the worldwide total, worth €49 billion in 2009; stresses that, in this context, it ought to be a priority for developing countries to put in place an efficient tax system so as to reduce their dependence on foreign aid and other, unpredictable, external financial flows;

22. Calls for coherence between EU financial support and the provision of access to EU markets for particular countries and for their level of cooperation with regard to the principles of good governance in the area of taxation to be enforced;

23. Welcomes the regional initiative on tax cooperation to enable developing countries to discuss the role of taxation in state-building and capacity development and to share best practices on tax administration;

24. Recalls that the main challenge for poor countries is to broaden the tax base; points out that among other factors the decline of trade taxes has led to the introduction of consumption taxes (VAT or energy taxes); considers that even if VAT can enable the widening of the tax base in economies with large informal sectors, the non-discriminatory nature of VAT hits poor people the hardest; believes that EU development assistance should prioritise initiatives to improve the effectiveness and transparency of tax systems, e.g. by investigating ways in which developing countries can broaden their tax base/tax revenue stream through direct and indirect taxation;

25. Recalls that the objective of expanding trade with the developing countries must be to promote the sustainable economic growth and the development of these countries; notes that the abolition of customs duties will inevitably entail a loss of customs revenue and must therefore be subject to tighter supervision, be more gradual and go hand in hand with the implementation of tax reforms which harness alternative forms of revenue to make up the shortfall (VAT, property tax, income tax);

26. Notes with concern that billions of dollars per year left the African continent between 1991 and 2004; in particular, underlines that these outflows are estimated at 7.6% of the annual GDP of the region, which makes African countries net creditors of donor countries; considers that ODA and debt relief provided by developed countries will only be effective if concrete measures are taken equally by the G20, the OECD and the EU to ensure that the potential tax base of developing countries is not undermined through tax evasion; encourages in this context the UN and the OECD, in close cooperation with the African Tax Administration Forum, to pursue their work in this area;

27. Insists that the appropriate means of devising alternative sources of revenue collection should be supportive of and not discourage innovation, entrepreneurship and the creation of SMEs, strengthening ownership and local development;

28. Underlines that the administrative costs, especially for a multiple-rate VAT system, might be to too high for developing countries whose tax authorities are not equipped with the necessary financial and human resources, and should therefore be carefully scrutinised; believes that in such cases excise duties should be highly selective, narrowly targeting a few goods mainly on the grounds that their consumption entails negative externalities on society, demand for which is usually inelastic (tobacco, alcohol etc.); calls in case of limitation also for the identification and taxation of those companies which may account for increased tax revenue (for example those engaged in the extraction of raw materials);

29. Stresses that an important requirement to increase direct taxation should be bringing the informal sector into the formal economy and improving the business environment;

30. Underlines that, in the global context of tax competition, developing countries derive a larger part of their tax revenues from capital and have little possibility to collect alternative taxes; notes that the decline in tax revenues because of that competition should be addressed by broadening the tax base or by abstaining from that competition altogether if convenient and if other factors like good governance, legal security and avoidance of nationalisation are jeopardised in the competition process for FDI; points out that low-income countries need the capacity to effectively negotiate with multinational corporations in order to secure an equitable share of corporations' profits and recalls that they should have adequate policy space to impose capital controls as the right to collect and redistribute tax revenues is a key criterion for the sovereignty and legitimacy of states and therefore a prerequisite for good governance;

31. Points out that the French Government has commissioned research on the topic of political incentives for taxation, but more is needed; therefore asks the Commission to study whether different approaches to transferring aid, e.g. grants versus loans, could help to limit or offset the potentially negative effects of aid on revenue raising and whether budget support and related improvements in transparency and effectiveness of public

expenditure management contribute over the longer term to increased willingness of citizens to pay tax;

32. Notes that too little attention has been paid to how governments can use tax policies to reduce inequalities in income and well-being by minimising existing gender differences in tax liabilities;

33. Calls for concentration on the principles of neutrality, equality and simplicity with regard to tax systems in developing countries, which should be achieved by:

(a) a tax that does not take up a greater share of poor people`s income but a greater proportion of the taxpayer`s income or wealth as it increases;

(b) a tax that does not discriminate on the basis of gender, sexual orientation, type of household, citizenship or civil status;

(c) a clear, simple and transparent tax system which excludes different types of undesirable interpretation of tax laws with the aim of gaining massive tax reductions at the expense of social spending;

(d) identical treatment for tax purposes of true gains and true losses from any given source of income, meaning that the gains are taxable and the losses deductible;

(e) a level of taxation that is robustly linked to different stages of economic development;

(f) the unification of multiple corporate income tax rates by calculating income tax rates on the basis of business volume rather than business sectors;

34. Considers it necessary for the OECD to draw up new guidelines on transfer pricing, an essential way of preventing certain multinationals from transferring their profits to the countries with the most favourable tax regimes and ensuring that they pay their taxes in the countries – including developing countries – where they have actually generated their profits;

35. Considers that a system of low-rate taxation of low and medium incomes founded on a broader tax base and excluding all discretionary tax exemptions and preferences, including for the extractive industries, is indispensable; emphasises the need for public investment in projects with a positive local impact in economic, social and environmental terms, whilst not creating any opportunities for any form of fiscal dumping;

III. Working towards a transparent, cooperative and fair international tax environment

Trade mispricing

36. Stresses that trade mispricing is one of the most prominent drivers of illicit financial outflows; calls on the Commission to contribute to enhancing public expertise on such issues in developing countries, and to work upon concrete proposals to ensure that the G20, the OECD, the UN and the WTO consider a broader set of indicators and methods

for tackling trade mispricing, among which are the US ‘comparable profit methods’ that have shown promise in determining the incorrect pricing of transactions;

37. Calls for action against illegitimate transfer price manipulation (TPM) and for a review of global tax rules which go beyond the comparable profits method, in case there are other more promising alternatives which address the problem of mispricing more effectively; stresses that the EU, the G20, the EU and the WTO in general should concentrate their efforts on approaches that rely on the so-called arm’s length principle (ALP), stating that tax-relevant transactions must be subject to the same conditions as those which would be made between independent enterprises;

38. Urges the EU to defend within the G20 and OECD the principle of the automatic exchange of information on tax matters along the lines of the EU Savings Tax Directive, as a way to curb illicit financial flows in secrecy jurisdictions;

39. Calls for the introduction of a tax on financial transactions, the revenue from which would improve the functioning of the market by reducing speculation and help to finance global public goods such as development and the fight against climate change, and reduce public deficits; considers that such a tax ought to be as broadly based as possible but, failing that, that the financial transaction tax should be introduced as a first step at the EU level; calls on the Commission to swiftly produce a feasibility study taking into account the global level playing field and, if appropriate, to come forward with concrete legislative proposals;

40. Proposes the inclusion of a specific provision related to good tax governance in the review of the Cotonou Agreement;

41. Calls on the EU Member States, under their bilateral assistance programmes, to take similar measures;

Extractive industries

42. Urges the development of initiatives to promote greater transparency in natural resource rents, inter alia through the OECD Anti-Bribery Convention and the Extractive Industries Transparency Initiative; welcomes the adoption of the Congo Conflict Minerals and Transparency Amendments to the Financial Regulatory Reform Bill and asks the Commission to propose a legislative initiative along the same lines without diminishing the responsibility of governments in the developing world, and without placing an undue bureaucratic burden on companies, as that has already been criticised by stakeholders in the developing world and could prove counterproductive;

43. Stresses that exploitation of natural resources should be pursued in order to help a country meet its broader social and economic goals, which, for governments in developing countries, means outlining a vision, if so desired together with international stakeholders and expertise, of how the resource sector fits into the country’s economic future; considers that for some countries the best use of resource endowments may be to leave them in the ground for future use while for others, it may be to extract rapidly, as an intermediary source of domestic revenue, in order to generate revenues to sustain the investment necessary for growth and to meet urgent human needs;

44. Points out that developing countries should be equal partners in the discussion and adoption of new initiatives in the sector of resource extraction; stresses that new arrangements in this field should take the form of generalised international standards in order to avoid the creation of another patchwork of regulations which would be counterproductive from the point of view of governments, tax administration and international companies;

45. Stresses that the proposals of the Commission and non-governmental transparency initiatives for the sector of extractive industries, e.g. the Natural Resource Charter, the Equator Principles and the Guidelines for Investors and Companies by 'Critical Resource', are in effect pro-business; they produce legal security and sustainable long-term partnerships and act as safeguards against renationalisation, reopening of negotiations or expulsion; notes that there are problems to be addressed as well, for instance the fact that businesses may have to disclose commercially sensitive information which puts them at a competitive disadvantage, or that some agreements with governments are based on information being kept secret;

46. Notes that resource rents should always be seen as an intermediary means to increase domestic revenue; points out that success in taxation of resources often brings advances in direct taxes, such as corporate income taxes, and non-tax revenues, such as royalty fees;

47. Points out that a large number of rentier states, which benefit from abundant resource rents, particularly those from oil and minerals, have little incentive to be accountable, responsive or efficient; reiterates that strong institutional and democratic control mechanisms are crucial for combating economic crime; in particular, calls on the Commission to step up its development assistance on the formulation of contracts between multinational companies and developing countries on resource exploitation issues;

48. Calls on the Commission and the Council to engage more with the Extractive Industries Transparency Initiative, through provision of finance and participation in its governing body;

49. Recalls that the quality of financial reporting is crucial to combat tax evasion effectively; considers that country-by-country reporting is of the utmost importance for extractive industries, but recalls that it would equally be beneficial for investors in all sectors, thereby contributing to good governance globally; therefore asks the Commission to promote the inclusion of a requirement within the International Financial Reporting Standard of the IASB that multinational corporations report their income and tax paid on a country-by-country basis; recalls that this request is consistent with the need to improve the corporate social responsibility of multinational enterprises; calls on the Commission to integrate country-by-country reporting in its reform of accounting directives;

50. Calls for the introduction of country-by-country financial reporting obligations for cross-border companies, including pre- and post-tax profits, with the aim of enhancing transparency and access to relevant data for tax administrations; takes the view that, in order to ensure that all sectors and all companies are uniformly covered, the EU should introduce the principle as part of the upcoming revisions of the transparency directive and the EU accounting directives, while at the international level the Commission should exert pressure on the IASB swiftly to develop the corresponding comprehensive standard; calls

once again on the Commission to report back to Parliament on the outcome of its public consultation and on its discussions with the IASB within the next six months;

51. Underlines the importance of country-by-country reporting and requests that negotiations in this field be intensified:

    (a) governments and international groupings (including the G20 and United Nations) should support a country-by-country financial reporting standard, and formally request the International Accounting Standards Board to adopt it;

    (b) the OECD should continue its feasibility study of country-by-country reporting, and report back to both the G20 and the UN during 2011;

    (c) the International Accounting Standards Board should adopt a new standard that includes country-by-country reporting;

    (d) civil society and the media should in future make use of the information disclosed under country-by-country reporting to hold governments and multinational companies to account;

Improving donor coordination

52. Takes note of the finding of the ITC 'Mapping Survey' that further donor coordination in the area of taxation and development is needed; encourages the Commission to take initiatives along these lines and to step up its support for multilateral and regional initiatives, such as the African Tax Administration Forum and the Inter-American Centre of Tax Administrations;

Improving the international architecture to combat tax havens

53. Stresses that conventional ODA will fail to eradicate global poverty if no ambitious measures are taken within the G20, the OECD and the EU to clamp down on tax havens and harmful tax structures;

54. Notes that, since the G20 Summit of 2 April 2009, offshore financial centres have committed to OECD standards on transparency and exchange of information; notes however that the harmful structures of tax havens still prevail; calls once more for action beyond the OECD framework to combat tax havens in view of their various shortcomings; in this respect, reiterates its concerns about the fact that the OECD international standards require exchange of information on request but that there is no automatic exchange of information along the lines of the Savings Tax Directive; likewise criticises the fact that the OECD allows governments to escape its blacklist merely by promising to adhere to the information exchange principles, without ensuring that these principles are effectively put into practice; considers also that the requirement to conclude agreements with 12 other countries in order to be removed from the backlist is arbitrary as it does not refer to any qualitative indicators for an objective assessment of compliance with good governance practices;

55. Highlights that as much as EUR 800 billion is lost each year from developing countries to

tax havens and illicit financial flows; notes that greater transparency in the financial process could be a decisive step towards poverty alleviation and significant wealth creation;

56. Considers that automatic information exchange should take place in all circumstances; welcomes in this respect the Commission's proposal on administrative cooperation in the field of taxation in order to extend cooperation between the Member States to cover taxes of any kind, abolish banking secrecy and establish the automatic exchange of information as a general rule;

57. Welcomes the fact that some Member States are signatories of the Council of Europe-OECD Convention on Mutual Administrative Assistance in Tax Matters, and urges the 17 Member States that have not done so to sign the Convention;

58. Calls on the EU to step up its action and to take concrete measures, such as sanctions, against tax evasion and illicit capital flight; calls on the Council to examine the possibility of a multilateral mechanism for automatic tax information exchange in close collaboration with the UN Committee of Experts on International Cooperation in Tax Matters;

59. Calls on the Commission to adopt more stringent criteria for the identification of tax havens and to work towards an internationally binding multilateral automatic tax-information exchange agreement, including for trusts and foundations, envisaging countermeasures in the event of non-compliance; calls on the Commission to support developing countries in their fight against illicit outflows and capital flight, as these are identified as a major obstacle to mobilisation of domestic revenue for development; draws the Commission's attention in particular to the European Parliament resolution of 24 April 2009 on the proposal for a Council directive amending Directive 2003/48/EC on taxation of savings income in the form of interest payments[1] and to the recommended measures for combating tax havens;

60. Expresses its concern about the unfortunate effect of tax treaties on the distribution of tax revenues; notes that the method of assigning the right to tax based on the domicile principle rather than the source country helps to make tax havens a more favourable location; deems that tax treaties should be reviewed for fairness, which implies the possibility of granting the primary right to tax in the source country where real activities are pursued;

61. Deplores the fact that the G20 has not yet proposed a clear timetable and concrete sanction mechanism to make effective the fight against tax havens; calls for the adoption of an international convention with the purpose of eliminating harmful tax structures that would include sanctions both for non-cooperative jurisdictions and for financial institutions that operate with tax havens; urges the EU to adopt measures similar to the US Stop Tax Haven Abuse Act and to consider the possibility of withdrawing banking licences from financial institutions that operate with tax havens;

62. Considers that the EU should also ensure consistency in the implementation at EU and international level of standards in the areas of prudential supervision, taxation and money

[1] Texts adopted, P6_TA(2009)0325.

laundering;

63. Calls for international disclosure of the structures of vulture funds to identify them and ban their activities;

64. Calls for the creation, in the EPA framework, of an independent monitoring mechanism to assess the net tax impact of abolishing customs duties and, at the same time, the progress being made in the area of tax reform country by country; calls for a clause to be introduced providing for a mandatory overall review of all EPAs within three to five years and for the provisions of each agreement to be amended to make them more conducive to poverty eradication, sustainable development and regional integration; calls, further, for a mandatory review of individual countries' progress in implementing tax reforms or efficient tax collection in line with the latest versions of the OECD Model Tax Convention on Income and on Capital;

65. Stresses that tax administrations in developing countries need to cooperate if they are not part of the respective Ministries of Finance, especially over tax and budgetary policy, in ways that do not stimulate rivalry and jealousy but foster good relationships and good governance in tax matters;

66. Calls for the establishment or (if they are already in place) institutional improvement of so called (semi-)autonomous revenue authorities (ARA), through adequate systems of checks and balances, to prevent abuse of tax authorities by self-serving political decisions and ensure that they are not used as a private source of income or as an instrument to intimidate political opponents;

67. Underlines in this context that the high status and managerial autonomy of ARAs should be offset by pluralistic governance arrangements which make sure:

    (a) that an ARA has a guaranteed budget that cannot be changed by the government;

    (b) that its status, responsibilities and powers are enshrined in law and can be protected by the police and the courts;

    (c) that appointments to the supervisory board (to be established) are made by a variety of public agents (different ministries, business and lawyers' associations);

    (d) that appointments to the supervisory board are for a long term and of fixed duration;

    (e) and that managerial and operational staff are answerable only to the supervisory board;

68. Considers that the development of an efficient tax system in developing countries must become the backbone of their public finances; considers that the new EU investment policy in developing countries should contribute to establishing an environment more favourable to foreign and domestic private investment and to creating the conditions for more effective international assistance; recalls that the EU's investment policy must focus on SME development, including through the provision of micro-credit, and encourage innovation, public service efficiency, public-private partnerships and knowledge transfer

in order to promote growth;

69. Instructs its President to forward this resolution to the Council, the Commission and the governments and parliaments of the Member States.

EXPLANATORY STATEMENT

Background

In April 2009, the European Commission issued a Communication on ‘Good Governance in Tax Matters’, with the intention to launch a debate about concrete actions that could be taken to better promote the principles of good governance in the tax area (transparency, exchange of information and fair tax competition). Additionally the Commission issued a working paper ‘Tax and Development-Cooperating with Developing Countries on Promoting Good Governance in Tax Matters’.

The aim of the Commission document is to improve synergies between tax and development policies, to make them more effective, identifying difficulties encountered by developing countries in the mobilisation of revenue through taxation, including domestic and international factors, suggesting some ways in which the EU can do more and make better use of its existing funds and instruments.

Moreover, in February 2010, the European Parliament approved a resolution on the same topic.

1. Comments on the Commission document

Positive aspects:

The achievement of MDGs and tax governance
The Commission clearly recognizes the link between the achievement of MDGs & tax governance. Taxation is essential to provide the basis for an accountable and responsive democratic system.

Principle of ownership of development strategies
The EU is committed to the principle of ownership of development strategies, and acknowledges the prime responsibility of developing countries themselves to improve their revenue systems, according to their own economic and political circumstances and choices.

Engagement for the support of developing countries tax systems
The Commission aims to engage the EU instruments in providing enhanced support in designing developing countries' tax systems and implementing the principles of good governance in the tax area, i.e. by paying more attention to effectively integrating the principles of good governance in tax matters into the programming, implementation and monitoring of country and regional strategy papers.

Country-by-country financial reporting standard
The Commission supports country-by-country financial reporting standard for multinationals

as a tool to detect international tax avoidance and evasion practice. It is also important to underline the fact that a Communication on Corporate Social Responsibility will consider how to develop a system for mandatory disclosure of governance information in the annual accounting;

International dialogue and cooperation in tax matter
The Commission aims to step up the process of international dialogue and cooperation in tax matters, notably by enhancing the participation of developing countries in relevant international *fora*.

Tax Information Exchange Agreements (TIEA)
The Commission insists on the need to conclude and implement Tax Information Exchange Agreements (TIEA), including through multilateral mechanism, by referring to the model of the EU Savings Taxation Directive, based on the automatic exchange of information.

Negative aspects:

Customs revenue
This document does not address the negative impact on low-income countries of trade liberalisation in terms of customs revenue. While reasserting the need to shift the resource base from external common tariffs towards other types of taxation, it advocates the deepening of regional integration, through further trade liberalisation. In this way, the Commission completely denies the difficulties raised by the erosion of customs revenues especially for poor countries, that according to IMF studies, have at best replaced 30% of lost trade taxes. There is also an absence of proposals to expand the tax base, with the view to ensure a fair and progressive tax system.

Current flaws of the OECD
The Commission aims to encourage and support developing countries to adopt and implement international standards in the tax area, without making critics or observations about their current flaws in the context of the OECD. In this regard, it should be recalled that OECD Code of Conduct allows governments to escape its blacklist merely by promising to adhere to the information exchange principles, turning it down into a mere ‘Declaration of Principles’, rather than being effectively implemented.

Adoption and Implementation of the OECD transfer pricing guidelines
While supporting the adoption and implementation of the OECD transfer pricing guidelines in developing countries, the Commission mentions the need to investigate the application of the arm's-length principle, not proposing other methodology.

Erosion of Tax revenues
Unfortunately, there is no reference to the erosion of tax revenues arising from tax competition between countries in a globalised economy.

Some necessary steps

A. Combating tax havens

1. **Combating tax havens** is a key priority for achieving the MDGs. Indeed, tax havens contribute to weakening the quality of institutions and the political system in developing countries. They make economic crime more profitable, encourage rent-seeking and increase the inequitable distribution of tax revenues.

i) The secrecy practised in tax havens creates information asymmetry between investors, and consequently reduces the efficiency of international financial markets. This situation leads to higher risk premiums and thereby increases borrowing costs for both rich and poor countries.

ii) Tax treaties help to make tax havens a more favourable location. A large network of bilateral tax treaties seeks to overcome the potential problem of double taxation resulting from the principle that under international tax law, both the country where an owner is domiciled or registered (domiciliary principle) and the country where the income is earned (source state principle) have the right to tax capital gains. In case of tax havens, where legal entities merely register in a jurisdiction for tax facilities, the implementation of the domiciliary principle engenders an unequal division of tax revenues, since very little of the economic activity actually takes place in the tax haven. In such circumstances, principles of fairness suggest that the right to tax should lie with the source country.

iii) While many tax treaties between OECD members and developing countries have taken account of the effect of the domiciliary principle on the distribution of taxes by giving the source country the right to impose a withholding tax up to a specified amount (this system ensures therefore that the source country also receives a share of the tax revenues), tax treaties established between tax havens and other developing countries make no provision for such a withholding tax.

iv) Tax treaties between tax havens and developing countries often contribute to a significant reduction in the tax base of the latter, while weak public finances are one of the principal challenges in a number of developing countries. Furthermore, tax treaties will not affect the harmful structures that exist in tax havens (such as the use of secrecy rules and fictional domiciles). Therefore, it is important to ensure that tax treaties will not constrain further action against tax havens and should be revised accordingly.

B. Trade mispricing

Incorrect pricing of intra-group transactions with the aim of transferring profits from a high-tax to low-tax jurisdictions, is one of the most prominent drivers of illicit financial outflows. It constitutes a major problem for both rich and poor countries: it leads to extensive competitive distortions between national and multinational companies, and can cause a substantial loss of tax revenues. Although OECD guidelines on transfer pricing by multinational enterprises exist, there is space to improve them.

C. Weaknesses of the international architecture to combat tax havens

While a number of international organisations work on issues related to the harmful effects of tax havens (OECD, IMF, FATF, FSF, UN), none of these organisations have a mandate directed specifically at tax havens. International collaboration in this area is aimed primarily at money laundering and at establishing tax treaties that include the right to obtain information from other states on specific tax matters. Moreover, the international framework

suffers from several fundamental weaknesses:

- developing countries are excluded from a number of initiatives (as in the case of the OECD and FATF);
- none of the initiatives are suited to overcoming the principal problems related to illicit financial flows, among which the lack of automatic exchange of information on ownership and insight into transfer pricing within companies;
- full participation in the various fora and initiatives often call for a level of expertise and capacity which many developing countries do not possess.

D. The 'natural resource curse'

A wide range of countries that can be dubbed 'rentier' states (they benefit from abundant natural resource rents, particularly those from oil and minerals) which do not need to tax their citizens tend to:

- be independent of citizen-taxpayers, and therefore unresponsive to them;
- have few incentives to promote broad economic development;
- use oil revenues to buy off opposition, and to fund repressive internal security;
- have few incentives to establish effective bureaucracies to raise and manage taxes.

Initiatives have been taken to promote greater transparency in regard to the spending of natural resource rents, including innovative ventures such as the Extractive Industries Transparency Initiative (EITI). Such initiatives need to be supported, while transnational corporate companies need to disclose profits and taxes paid on a 'country-by-country' basis so as to make it possible to compare what they pay in every developing country where they operate. Country-by-country reporting goes hand-in-hand with the support of multinational companies for corporate social responsibility.

E. Globalisation and fiscal problems
Globalisation exacerbates fiscal problems, as internationally mobile capital becomes more difficult to tax. This problem relates particularly to taxation of capital gains by companies registered in tax havens. Developing countries should have the necessary policy space to impose capital controls and other measures to deflect speculation and ensure financial stability.

Widening the tax base
Widening the base is a key priority to enable poor countries to achieve the MDGs[1]. Over the last twenty years, tax reforms worldwide have seen a shift away from reliance on trade taxes, and the introduction of broad-based consumption taxes (VAT). One problem to address is the relative decline of trade taxes (as a result of tariff liberalisation) and the introduction of consumption taxes such as VAT or energy taxes. Although indirect taxation is a practical way forward to widen the tax base in economies with large informal sector, VAT is not an ideal

[1] Where personal income tax generates around 7% of GDP in developed countries - and is paid by about 45% of the population, the corresponding number for developing countries is only 2% of GDP - paid by less than 5% of the population.

instrument since it consists of a regressive system of taxation. Moreover, VAT has the disadvantage of being harder to collect than the trade taxes it has replaced. Tax reform should be geared to developing direct taxation, while ensuring that multinational enterprises pay a fair share of taxes.

‘Ownership’ of taxation strategy

Taxation is not just a technical issue which can be transferred from one context to another without taking account of local authorities. Donor's approach must be sensitive to each country's specific socio-economic environment.

Better coordination between donors

Donors can do more to support revenue-raising efforts in partner countries in ways that are likely to improve governance. A study led by the IMF in 2005 shows that of the USD 7.1 billion spent in 2005 on bilateral aid for government administration, economic policy and public sector financial management, only 1.7% went on tax related assistance. The figures for 2004, 2003 and 2002 were 2.7%, 2.2% and 3.5% respectively[1]. In addition, there is a need to better reflect the impact of different aid modalities on domestic accountability and tax.

[1] Sources: ‘Governance, Taxation and Accountability: issues and practices’, OECD 2008.

22.11.2010

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

for the Committee on Development

on Tax and development - cooperating with developing countries on promoting good governance in tax matters
(2010/2102(INI))

Rapporteur(*): Sirpa Pietikäinen

(*) Associated committee - Rule 50 of the Rules of Procedure

SUGGESTIONS

The Committee on Economic and Monetary Affairs calls on the Committee on Development, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Welcomes the Commission's initiative to strengthen the capacities of good tax governance for development and sees the need for a regulatory framework designed to support international tax cooperation, transparency, public and private sector development and economic growth;

2. Points out that good governance in tax matters cannot be exported or imposed from outside, and that it is up to each of the countries to decide its own tax policy; in that context, calls on the Commission and the national governments not to hamper, and to cooperate with, any countries which opt, consistently and fairly, for an increase in taxation that affects foreign undertakings present on their territory, particularly those operating in the fields of extraction of primary resources, which are an important source of wealth in developing countries;

3. Points out that the decline in customs resources brought about in particular by Economic Partnership Agreements with the European Union is having a negative impact on the financial resources immediately available to developing countries. In that context, and to compensate for those losses, calls on the Commission to encourage developing countries, as part of any assistance given to improve their national tax systems, to give priority to

progressive direct taxes over indirect taxes, particularly those levied on consumption, which, by nature, hit low-income population groups harder;

4. Points out that efficient, progressive and equitable taxation systems are crucial for development as they contribute to financing the provision of public goods and to state building and good governance, that the goal of poor countries must be to replace foreign aid dependency with tax self-sufficiency, and that tax evasion and avoidance are, however, hampering these goals in development;

5. Calls on the Commission to adopt more stringent criteria for the identification of tax havens and to work towards an internationally binding multilateral automatic tax-information exchange agreement, including for trusts and foundations, envisaging countermeasures in the event of non-compliance; calls on the Commission to support developing countries in their fight against illicit outflows and capital flights, as these are identified as a major obstacle to mobilisation of domestic revenue for development; draws the Commission's attention in particular to report P6 - TA(2009)0325 and to the recommended measures for combating tax havens;

6. Calls for the introduction of a tax on financial transactions, the revenue from which would improve the functioning of the market by reducing speculation and help to finance global public goods such as development and the fight against climate change, and reduce public deficits; considers that such a tax ought to be as broadly based as possible but, failing that, that the financial transaction tax should be introduced as a first step at the EU level; calls on the Commission to swiftly produce a feasibility study taking into account the global level playing field and, if appropriate, to come forward with concrete legislative proposals;

7. Welcomes the regional initiative on tax cooperation to enable developing countries to discuss the role of taxation in state-building and capacity development and to share best practices on tax administration;

8. Recognises that the qualitative and quantitative improvement in developing countries' domestic revenue mobilisation will bear fruit over the long term. Calls on the European Union to maintain its offer of assistance in all its forms for as long as the developing countries consider it necessary for the financing of their own development;

9. Calls for coherence between EU financial support and the provision of access to EU markets for particular countries and for their level of cooperation with the principles of good governance in the area of taxation to be enforced;

10. Proposes the inclusion of a specific provision related to good tax governance in the review of the Cotonou Agreement;

11. Calls on the EU Member States, under their bilateral assistance programmes, to take similar measures;

12. Calls for the introduction of country-by-country financial reporting obligations for cross-border companies, including pre- and post-tax profits, with the aim of enhancing transparency and access to relevant data by tax administrations. Takes the view that, in

order to ensure that all sectors and all companies are uniformly covered, the EU should introduce the principle as part of the upcoming revisions of the transparency directive and the EU accounting directives, while at the international level the Commission should exert pressure on the IASB swiftly to develop the corresponding comprehensive standard. Calls once again on the Commission to report back to Parliament on the outcome of its public consultation and on its discussions with the IASB within the next six months.

RÉSULTAT DU VOTE FINAL EN COMMISSION

Date de l'adoption	9.11.2010
Résultat du vote final	+: 35 –: 5 0: 5
Membres présents au moment du vote final	Burkhard Balz, Godfrey Bloom, Sharon Bowles, Pascal Canfin, Nikolaos Chountis, George Sabin Cutaş, Leonardo Domenici, Derk Jan Eppink, Markus Ferber, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Sven Giegold, Sylvie Goulard, Gunnar Hökmark, Othmar Karas, Jürgen Klute, Rodi Kratsa-Tsagaropoulou, Philippe Lamberts, Werner Langen, Astrid Lulling, Hans-Peter Martin, Arlene McCarthy, Sławomir Witold Nitras, Ivari Padar, Anni Podimata, Antolín Sánchez Presedo, Olle Schmidt, Edward Scicluna, Peter Skinner, Theodor Dumitru Stolojan, Ivo Strejček, Kay Swinburne, Marianne Thyssen, Ramon Tremosa i Balcells, Corien Wortmann-Kool
Suppléant(s) présent(s) au moment du vote final	Thijs Berman, Herbert Dorfmann, Sari Essayah, Robert Goebbels, Sophia in 't Veld, Syed Kamall, Arturs Krišjānis Kariņš, Sirpa Pietikäinen, Bernhard Rapkay, Pablo Zalba Bidegain
Suppléant(s) (art. 187, par. 2) présent(s) au moment du vote final	Knut Fleckenstein

3.12.2010

OPINION OF THE COMMITTEE ON INTERNATIONAL TRADE

for the Committee on Development

on tax and development: cooperating with developing countries on promoting good governance in tax matters
(2010/2102(INI))

Rapporteur: Marielle De Sarnez

SUGGESTIONS

The Committee on International Trade calls on the Committee on Development, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Recalls that the objective of expanding trade with the developing countries must be to promote the sustainable economic growth and the development of these countries; notes that the abolition of customs duties will inevitably entail a loss of customs revenue and must therefore be subject to tighter supervision, be more gradual and go hand in hand with the implementation of tax reforms which harness alternative forms of revenue to make up the shortfall (VAT, property tax, income tax);

2. Calls for the systematic implementation, in the framework of Economic Partnership Agreements (EPAs), of measures to support tax reforms, in the form of both material assistance (IT systems) and organisational assistance (legal and tax training for tax authority staff), if requested by a developing country; emphasises the need to make a special effort with African countries, which still do not receive long-term assistance on taxation matters;

3. Reaffirms the need to enhance the degree of coherence between the European Union's development policy and its trade policy; recalls that while the crisis may have exacerbated the volatility of commodity prices and caused a decrease in capital flows to developing countries, the European Union as a whole, including its Member States, remains the leading development aid donor, accounting for 56% of the worldwide total, worth €49 billion in 2009; stresses that, in this context, it ought to be a priority for developing countries to put in place an efficient tax system so as to reduce their dependence on foreign aid and other, unpredictable external financial flows;

4. Stresses that tax revenue must not be regarded as an alternative to foreign aid, but rather as an integral part of public revenue facilitating these countries' development;

5. Points out that tax evasion represents a considerable financial loss for developing countries, and that measures to combat tax havens and tax evasion are one of the priorities for the EU with a view to providing developing countries with effective help in gaining access to their tax revenues; recalls the need to take the appropriate measures in that respect at European and international level, in accordance with the commitments given, in particular, by the G20;

6. Considers it necessary for the OECD to draw up new guidelines on transfer pricing, an essential way of preventing certain multinationals from transferring their profits to the countries with the most favourable tax regimes and ensuring that they pay their taxes in the countries – including developing countries – where they have actually generated their profits;

7. Considers that a system of low-rate taxation of low and medium incomes founded on a broader tax base and excluding all discretionary tax exemptions and preferences, including for the extractive industries, is indispensable; emphasises the need for public investment in projects with a positive local impact in economic, social and environmental terms, whilst not creating any opportunities for any form of fiscal dumping;

8. Considers that the development of an efficient tax system in developing countries must become the backbone of their public finances; considers that the new EU investment policy in developing countries should contribute to establishing an environment more favourable to foreign and domestic private investment and to creating the conditions for more effective international assistance; recalls that the EU's investment policy must focus on SME development, including through the provision of micro-credit, and encourage innovation, public service efficiency, public-private partnerships and knowledge transfer in order to promote growth;

9. Recalls that, while the positive impact of EPAs will be felt only in the medium to long term, losses of revenue are an immediate consequence of reductions in customs tariffs;

10. Calls for the creation, in the EPA framework, of an independent monitoring mechanism to assess the net tax impact of abolishing customs duties and, at the same time, the progress being made in the area of tax reform country by country; calls for a clause to be introduced providing for a mandatory overall review of all EPAs within three to five years and for the provisions of each agreement to be amended to make them more conducive to poverty eradication, sustainable development and regional integration; calls, further, for a mandatory review of individual countries' progress in implementing tax reforms or efficient tax collection in line with the latest versions of the OECD Model Tax Convention on Income and on Capital.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	1.12.2010
Result of final vote	+: 22 –: 4 0: 0
Members present for the final vote	William (The Earl of) Dartmouth, Laima Liucija Andrikienė, David Campbell Bannerman, Harlem Désir, Christofer Fjellner, Joe Higgins, Yannick Jadot, Metin Kazak, Bernd Lange, David Martin, Vital Moreira, Godelieve Quisthoudt-Rowohl, Tokia Saïfi, Helmut Scholz, Peter Šťastný, Robert Sturdy, Keith Taylor, Paweł Zalewski
Substitute(s) present for the final vote	George Sabin Cutaş, Małgorzata Handzlik, Salvatore Iacolino, Syed Kamall, Maria Eleni Koppa, Jörg Leichtfried, Carl Schlyter, Michael Theurer, Jarosław Leszek Wałęsa
Substitute(s) under Rule 187(2) present for the final vote	Pablo Arias Echeverría, Markus Pieper, Giommaria Uggias

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	26.1.2011
Result of final vote	+: 26 –: 0 0: 1
Members present for the final vote	Thijs Berman, Michael Cashman, Ricardo Cortés Lastra, Corina Crețu, Véronique De Keyser, Nirj Deva, Leonidas Donskis, Charles Goerens, Catherine Grèze, András Gyürk, Eva Joly, Filip Kaczmarek, Franziska Keller, Miguel Angel Martínez Martínez, Gay Mitchell, Norbert Neuser, Bill Newton Dunn, Maurice Ponga, Birgit Schnieber-Jastram, Michèle Striffler, Alf Svensson, Eleni Theocharous, Ivo Vajgl, Iva Zanicchi, Gabriele Zimmer
Substitute(s) present for the final vote	Martin Kastler, Wolf Klinz, Csaba Őry, Patrizia Toia