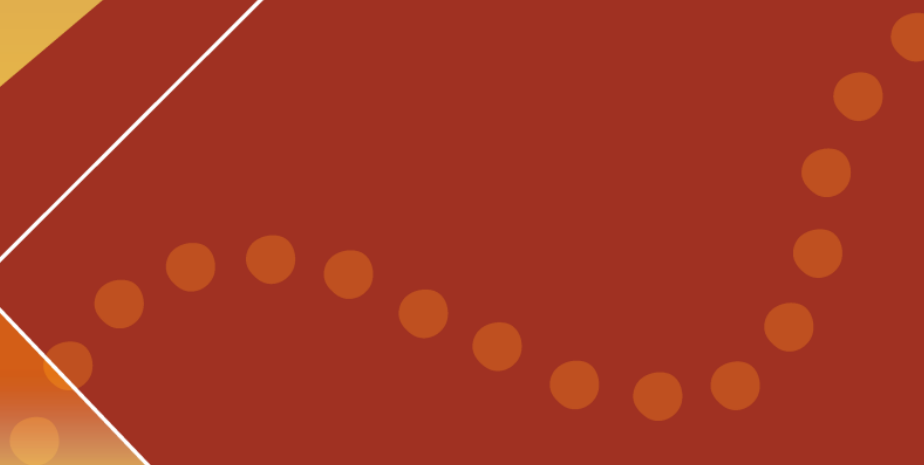


G20 DEVELOPMENT WORKING GROUP DOMESTIC RESOURCE MOBILISATION

G20 RESPONSE TO 2014 REPORTS ON BASE EROSION
AND PROFIT SHIFTING AND AUTOMATIC EXCHANGE OF
TAX INFORMATION FOR DEVELOPING ECONOMIES



G20 response to 2014 reports on base erosion and profit shifting and automatic exchange of tax information for developing economies

INTRODUCTION: THE G20 INTERNATIONAL TAX AGENDA

The Group of Twenty (G20) is strongly committed to international cooperation to strengthen the integrity of national tax systems. G20 Finance Ministers have emphasised that profits should be taxed where economic activities deriving the profits are performed and where value is created. This supports G20 objectives by strengthening the resilience of the global economy against future crises and shocks. Effective domestic and international tax systems are also critical for ensuring developing economies have sustainable sources of government revenue, and can help to support good governance.

Achieving this requires a coordinated and coherent response in which all countries can engage. That is why the G20 has shaped its tax agenda around three main elements:

1. **Base erosion and profit shifting (BEPS)**—addressing international tax avoidance and reforming the international tax system, by working through its finance track with the Organisation for Economic Co-operation and Development (OECD) in 2014 and 2015 to deliver a 15-point BEPS Action Plan.
2. **Automatic exchange of tax information (AEOI)**—promoting international tax transparency, by working through its finance track with the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) to develop a Common Reporting Standard (CRS) for automatically exchanging taxpayer information between jurisdictions.
3. **Tax and development**—supporting effective domestic resource mobilisation (DRM) within developing economies by working through its Development Working Group (DWG) to ensure developing economies can fully and effectively participate in, and benefit from, the G20 international tax agenda. This includes working with the finance track on the implementation of BEPS and AEOI reforms in developing economies.

By improving the collection, reporting and sharing of information about the income, assets and profits of multinational enterprises and other taxpayers (through both the BEPS Action Plan and the CRS), and ensuring developing economies can also take part in these efforts, the G20 tax agenda is contributing to broader G20 efforts to promote transparency. Transparency supports accountability, reduces risk and helps to combat corruption—essential to creating the enabling environments needed to boost growth and strengthen resilience. These are critical challenges for countries at all stages of development and reinforce the need to continue to integrate development issues into the broader G20 agenda.

The purpose of this paper is to outline how the G20 is delivering on the third element of its tax agenda, through its response to an OECD report on BEPS in low income and other low capacity countries, and a Global Forum roadmap on AEOI for developing economies.

TAX AND DEVELOPMENT

DRM encompasses a large range of issues related to raising revenue from domestic sources in developing economies, including building and maintaining a sustainable tax base (through both domestic and international reforms), formalising the informal sector, and combatting corruption. During Australia's 2014 G20 presidency, the DWG has centred its DRM agenda on the international tax reforms being pursued through the G20 finance track, where the DWG can add most value to the growing body of global DRM

efforts outside the G20. These include forums such as the Global Partnership for Effective Development Cooperation, United Nations (UN) Committee of Experts on International Cooperation in Tax Matters and OECD Task Force on Tax and Development, in addition to the ongoing work on the International Monetary Fund (IMF), World Bank Group (WBG), and other international and regional organisations.

Addressing tax avoidance and evasion are global challenges that require global solutions, since all countries—including developing economies—have a shared interest in strengthening the integrity of the international tax system. However, developing economies often have limited resources and capacity to combat tax avoidance and evasion, and reap the full benefits of international tax reforms.

In accordance with its 2014 DRM work plan, the DWG agreed in December 2013 to terms of reference to:

- ▶ invite the OECD Tax and Development secretariat to prepare a report on the impact of BEPS on low income countries (LICs) and other low capacity countries; and
- ▶ invite the secretariat of the Global Forum, which is hosted by the OECD, to develop a roadmap on steps developing economies can take to participate in AEOI.

The BEPS in LICs report and AEOI roadmap each make specific recommendations to the DWG. The G20's response to each of these recommendations is contained in [Annex 1](#). The G20 commits to three actions to ensure developing economies can more fully participate in, and benefit from, the international tax agenda. These actions, and specific commitments to take them forward as part of a multi-year agenda, are set out below.

In delivering this work in 2014 and determining how best to take the DRM agenda forward, the G20, OECD and Global Forum have consulted widely with stakeholders, including, most importantly, developing economies (summarised at [Annex 2](#)).

Base erosion and profit shifting

Through the G20/OECD BEPS Action Plan, the G20 is tackling the challenges associated with new business models and inconsistencies in international tax rules, to ensure profits are taxed where economic activities deriving the profits are performed and value is created. This is a global issue that can also harm developing economies, including LICs, whose tax revenues are often more reliant on corporate tax, particularly from multinational enterprises, reflecting their smaller domestic tax bases.

However, addressing BEPS may be one of a number of tax priorities for developing economies, and they may have limited capacity to implement global BEPS solutions. Moreover, developing economies face BEPS challenges that may be different in nature and scale to those facing G20 members.

In December 2013, to better understand these challenges, the DWG called upon the OECD to lead the preparation of a report on the impact of BEPS in LICs and other low capacity countries. The G20 **welcomes** the BEPS in LICs report and **recognises** that developing economies:

- ▶ need regular and proactive engagement in the G20/OECD BEPS processes, particularly for those that may be harder to reach due to geography, capacity, size or other reasons;
- ▶ are likely to require tailored approaches to implement the outcomes of the BEPS Action Plan, without undermining the integrity of the international tax system; and
- ▶ face additional, related issues related that impact upon their ability to effectively implement, and benefit from, the outcomes of the BEPS Action Plan.



Automatic exchange of information

Strengthening the system of tax information exchange between jurisdictions will help countries to identify offshore assets and investments that should be subject to tax. In February 2014, G20 Finance Ministers endorsed the CRS for the automatic exchange of tax information between jurisdictions, and called on all financial centres to match G20 commitments in this regard.

The strength and integrity of this system lies in the ability of all jurisdictions to participate in, and benefit from, the new standard. AEOI could potentially lead to increased tax revenues for developing economies, by detecting tax evasion and offshore wealth, and strengthening compliance with domestic tax rules. Implementing the CRS also has flow-on benefits as it provides opportunities to improve the collection and use of information about domestic taxpayers.

Many developing economies are keen to take part in AEOI, but this must often be balanced with other tax priorities, and some developing economies may not have capacity to comply with the CRS in the same timeframe as developed economies. This is why, in September 2013, G20 leaders called upon the DWG to work with the Global Forum and other international organisations to develop a roadmap on how developing economies can overcome obstacles to AEOI.

The G20 **welcomes** the AEOI roadmap and its proposed pilot, and **recognises** that:

- ▶ AEOI may be a longer term objective for some developing economies (that are not financial centres), which may need an incremental approach to ensure progression to full implementation of the standard in a timely manner, without compromising confidentiality and data safeguards;
- ▶ developing economies and G20 members need more information about the full resource implications of the CRS for developing economies (that are not financial centres) and how much capacity building support may be required; and
- ▶ increased awareness of the benefits of AEOI (assisted by the roadmap) will help build political support for AEOI in developing economies.

Cross-cutting issues

The G20 **recognises** that developing economies have varying levels of capacity to deal with the challenges associated with implementing international tax reforms. Two themes consistently emerged from consultations on BEPS and AEOI with developing economies, civil society, international organisations and others, in order to ensure developing economies can reap the full benefits of the G20's international tax agenda:

- ▶ the need to underpin the efforts outlined above with further actions to strengthen the fundamental building blocks of tax policy and administration in developing economies; and
- ▶ the particular importance of regional and inter-regional cooperation on international tax matters.

These themes are reflected in the BEPS in LICs report and AEOI roadmap, and are also consistent with the findings of the IMF, OECD, UN and WBG 2011 joint report to the DWG, *Supporting the Development of more effective tax systems*, and the IMF 2014 policy paper on *Spillovers in international corporate taxation*.

Building effective tax systems

In 2013, DWG members committed to “reinforce our support to developing country revenue authorities.” Given the available data about current forms of development cooperation in tax is limited, particularly as it relates to bilateral efforts, the DWG undertook to enhance its efforts in 2014 to share information about where and how G20 members are working with developing economies to strengthen tax systems. The

resulting analysis of members' tax-related development cooperation efforts (at [Annex 3](#)) illustrates the important role G20 members play in assisting developing economies to strengthen revenue capacity. The G20 also **welcomes** efforts within the OECD Development Assistance Committee to strengthen the way in which it measures tax-related official development assistance.

As G20 members continue to work with developing economies to build effective tax systems, it will be important that development cooperation in BEPS and AEOI does not develop in an uncoordinated way. The G20 also **recognises** that supporting the development of the building blocks of tax capacity is complex and resource-intensive. The G20 also **recognises** that developing economies are not homogenous, and building capacity for BEPS and AEOI reforms must be grounded in developing economies' broader tax priorities. In order to provide a basis for a consistent and coherent approach to these issues, the DWG **endorsed** a *Guiding framework for responding to capacity issues arising out of the G20 tax agenda*, at [Annex 4](#).

Assessing how to strengthen tax systems must be done on a case-by-case basis. The G20 **recognises** the importance of developing a global tool for objectively assessing the strengths and weaknesses of tax administration systems, as noted in the 2010 G20 Seoul Multi-Year Action Plan on Development. To this end, the G20 **welcomes** the continued development of the IMF-led Tax Administration Diagnostic Assessment Tool (TADAT), with the expectation that the IMF will provide an update to the DWG in 2015 after the pilot phase is complete, including suggestions for ways the G20 can support TADAT's future application.

The G20 **welcomes** the extensive and effective initiatives that many international and regional organisations are also undertaking to help developing economies build effective tax systems, which provide a sound basis for coordinated and well-targeted capacity development efforts.

Strengthening regional and inter-regional cooperation on international tax matters

The G20 **recognises** the importance of regional (including inter-regional) tax administration forums in creating a bridge between the international tax agenda and developing economies, particularly those that may, for various reasons, find it difficult to engage fully in the G20 agenda. Regional tax administration forums play a critical role in advocating developing economies' interests, providing feedback on the implementation of reforms, sharing information and guidance on the international tax agenda, facilitating capacity building, and fostering South-South and triangular knowledge exchange and assistance. They can also be useful mechanisms through which to disseminate guidance for developing economies on the G20 tax agenda (e.g. the AEOI roadmap).

The G20 **notes** that the strength, mandate and capacity of regional tax administration forums vary. The G20 particularly **recognises** the strong participation in the international tax agenda of regional and inter-regional forums representing Africa, Latin America and Caribbean, and Francophone countries, and **notes** that other regional bodies may need further support to reach the same level of engagement. The G20 **welcomes** efforts by G20 members and guests in the Asian region (Australia, China, Japan, Republic of Korea and Singapore) to lead the development of potential reforms that could be put to the Study Group on Asian Tax Administration and Research for consideration to strengthen its role in regional tax cooperation and the international tax agenda, and notes other similar efforts, including Germany's support for regional tax cooperation among members of the Association of South East Asian Nations.

NEW ACTIONS: A MULTI-YEAR DOMESTIC RESOURCE MOBILISATION AGENDA

DRM is a long term agenda that requires sustained efforts across a range of intersecting areas. In 2014, the DWG focused its DRM efforts on strengthening the integration of development considerations into the broader G20 tax agenda, and solidifying the analysis and evidence-base for an ongoing DRM agenda. Based

on the recommendations of the BEPS in LICs report and AEOI roadmap, and the cross-cutting issues described above, the G20 **commits** to three new actions, outlined below, to provide the foundations for a new phase of targeted DRM actions for the G20, beginning in 2015. These actions will, in turn, contribute to building the capacity of tax systems in developing economies. The DWG will monitor progress against the three actions as part of its ongoing accountability process. The BEPS in LICs report and AEOI roadmap identify other areas that the G20 may also consider taking forward under future presidencies, as part of the multi-year DRM agenda.

NEW ACTION 1: ADDRESS BEPS IN LICs

Take concrete, practical steps to ensure developing economies can participate in, and benefit from, the G20/OECD BEPS agenda and related international tax issues, particularly by:

- a) **calling on** the OECD, IMF, UN and World Bank Group, where appropriate and where they are in a position to do so, to work together and with regional tax administration forums to assess how practical toolkits can be produced to assist developing economies in implementing BEPS action items, as appropriate depending on the outcome of each BEPS action item. These toolkits should be coordinated and developed over the course of 2015 and 2016, depending on when the relevant action items are completed, and should prioritise actions items that will have the greatest impact for developing economies. Once these toolkits are finalised, we **encourage** international and regional organisations, G20 members and other development partners to integrate the toolkits in practice into their BEPS-related development cooperation efforts.
- b) **requesting** the IMF, OECD, UN and World Bank Group to work jointly to present a report to the DWG in 2015 on options for low income countries on the efficient and effective use of tax incentives for investment.
- c) **agreeing** to undertake an initial exploration with the OECD and World Bank Group of ways to support ongoing efforts to improve the availability of quality transfer pricing comparability data for developing economies.

NEW ACTION 2: IDENTIFY OBSTACLES TO INFORMATION EXCHANGE

Take concrete, practical steps to ensure developing economies can participate in, and benefit from, AEOI, through **requesting** that the Global Forum work with the DWG, international and regional organisations (particularly the World Bank Group), and other development partners, to implement the proposed AEOI roadmap pilot and present to the DWG in 2015 and beyond on the progress of the pilot (as set out in Annex One of the roadmap). The pilot will identify efficient and effective methods to implement the standard, which will in turn inform other capacity building projects on AEOI. G20 members will consider supporting the pilot by:

- participating as information exchange partners;
- participating in a consultative capacity by providing technical advice to the pilot country, Global Forum secretariat and World Bank Group as needed;
- providing financial support to the pilot; and/or
- contributing to related capacity building efforts that would assist the pilot country to more effectively use the information received through AEOI.

NEW ACTION 3: STRENGTHEN CAPACITY

Support capacity development efforts with a focus on the fundamental building blocks of tax policy and administration, to ensure developing economies can reap the full benefits of international tax reforms and mobilise domestic resources for development. In particular, G20 members will, on a voluntary basis:

- a) make available, tax policy and administration experts, ideally current, practicing experts, balanced with resource needs for bilateral assistance programs, to participate in initiatives led by international and regional organisations that strengthen developing economies' capacity to participate in, and benefit from, the G20 tax agenda. This may include, for example, becoming accredited TADAT assessors, participating in the OECD Tax Inspectors Without Borders initiative, providing in-kind support to regional tax administration forums, participating in an advisory capacity as part of the AEOI roadmap pilot, or broader knowledge sharing;
- b) take practical steps to implement the *Guiding framework for responding to capacity issues arising out of the G20 tax agenda* (at [Annex 4](#)) into their tax-related development cooperation programs; and/or
- c) take practical steps to support regional (including inter-regional) tax administration forums in fulfilling their role as a bridge between the international tax agenda and developing economies that also facilitates capacity building and South-South cooperation. These steps may include, for example: providing financial or in-kind support to these organisations' secretariats; working directly with these organisations to implement TADAT and the AEOI roadmap among their members; or considering as a group whether there is a collective role for the DWG in strengthening these organisations.

Annex 1: Response to recommendations on base erosion and profit shifting and automatic exchange of tax information for developing economies

This Annex outlines the Group of Twenty's (G20) response to the specific recommendations of:

- ▶ the Organisation for Economic Cooperation and Development (OECD) report on the impact of base erosion and profit shifting (BEPS) in low income countries (LICs) and other low capacity countries; and
- ▶ the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) roadmap on automatic exchange of tax information (AEOI) for developing economies.

The G20 **welcomes** the BEPS in LICs report and AEOI roadmap, and their recommendations, and **thanks** the OECD and Global Forum secretariats for their work in preparing the reports. The G20 also expresses its appreciation to the International Monetary Fund (IMF), World Bank Group (WBG), United Nations (UN) and other international and regional organisations for their comments during the preparation of the reports.

RESPONSE TO RECOMMENDATIONS ON BASE EROSION AND PROFIT SHIFTING IN LOW INCOME AND OTHER LOW CAPACITY COUNTRIES

BEPS in LICs report recommendations	G20 response	Comment
<i>Continuing dialogue with developing countries to ensure developing country issues are taken into account</i>		
1. The DWG calls on the OECD/G20 BEPS Project to ensure that the outcomes of the project take into account the specific challenges faced by developing countries, in particular in the highest priority Actions for developing countries (Actions 4, 6, 7, 10, 11, and 13).	Agree	The G20 recognises the importance of ensuring the outcomes of the BEPS Action Plan are relevant to all countries. We ask the OECD to continue to draw on engagement with developing economies to ensure that the outcomes of the BEPS Action Plan take into account their specific challenges, in particular for the action items that will have the greatest impact for developing economies, while respecting their sovereignty.
2. The DWG calls on the OECD to put in place a new structured dialogue process, with clear avenues for developing countries to work together and directly input into the OECD/G20 BEPS Project.	Agree	The G20 strongly supports this recommendation, and recognises that developing economies need regular, proactive engagement in the G20/OECD BEPS process, particularly for those that may be harder to reach due to geography, capacity, size or other reasons. In June 2014, G20 Finance Deputies welcomed opportunities to strengthen the engagement of low income and other developing countries in the G20 tax

		agenda. We ask the OECD to build upon existing engagement arrangements as early as possible, and to ensure the proposed approach draws on the expertise and representative nature of regional tax administration forums.
3. The DWG calls on all stakeholders – G20 countries, international and regional organisations, civil society and donors – to raise awareness of the significance of BEPS issues at political levels in developing countries by holding high-level political dialogue on BEPS issues with developing country Ministers of Ministries of Finance and other relevant Ministries.	Agree	G20 members will continue to engage bilaterally, regionally and multilaterally with developing economies to seek views on BEPS challenges, share knowledge and expertise on addressing those challenges, and promote global BEPS reforms. This is in addition to the ongoing work of the IMF, OECD, UN, WBG and other international and regional organisations.
4. G20 countries should analyse the spillover effects of revisions made to their own tax systems on those of developing countries.	Noted	The G20 recognises the principle of tax sovereignty. We note that the G20/OECD BEPS Action Plan item 11 (the outcomes for which are due in September 2015) commits to “developing an economic analysis of the scale and impact of BEPS (including spillover effects across countries) and actions to address it.” The OECD and other international organisations, including the IMF, should continue to analyse the spillover effects of revisions to international tax rules that are widely adopted by G20 members on the tax systems of developing economies.
<i>Development of toolkits to assist developing countries implement BEPS solutions</i>		
5. The DWG calls on the OECD/G20 BEPS Project to ensure that Actions 4 and 10 take into account developing country issues.	Agree	As above in relation to recommendation 1.
6. The DWG calls on the OECD, IMF, UN, WBG and regional organisations, where appropriate and they are in a position to do so, to assess how practical toolkits can be produced to assist developing countries address base eroding payments between MNE affiliates.	Agree	The G20 recognises that developing economies are likely to require specific approaches to implement the outcomes of the BEPS Action Plan without undermining the integrity of the international tax system. Action 1
7. The DWG calls on the OECD/G20 BEPS Project to ensure that BEPS Actions concerning the rules to counter artificial profit shifting through supply chain restructuring, for example the definition of a Permanent Establishment (Action 7), risk	Agree	As above in relation to recommendation 1. We note that the BEPS Action Plan states: “While actions to address BEPS will restore both source and residence taxation in a

allocation and intangibles (Action 8 and 9), take into account developing country capacity limitations and information gaps.		number of cases where cross-border income would otherwise go untaxed or would be taxed at very low rates, these actions are not directly aimed at changing the existing international standards on the allocation of taxing rights on cross-border income.”
8. The DWG calls on the OECD, IMF, UN, WBG and regional organisations, where appropriate and they are in a position to do so, to assess how practical toolkits can be produced to assist developing countries implement rules to counter artificial profit shifting through supply chain restructuring.	Agree	As above in relation to recommendation 6.
9. The DWG calls on the OECD/G20 BEPS Project to ensure that Action 11 takes into account developing country issues.	Agree	As above in relation to recommendation 1.
10. The DWG calls on international and regional organisations, where appropriate and in a position to do so, to assess how tools and materials can be developed to assist developing countries assess the risks they face from BEPS.	Agree	As above in relation to recommendation 6.
11. The DWG calls on the OECD, IMF, UN, WBG and regional organisations, where appropriate and they are in a position to do so, to assess how practical toolkits can be produced to support the successful implementation by developing countries of a) assessment of BEPS risks, and b) effective transfer pricing documentation requirements.	Agree	As above in relation to recommendation 6.
<i>Challenges deriving from the abuse of treaties</i>		
12. The DWG calls on the OECD/G20 BEPS Project to ensure that Actions 6 and 7 take into account developing country issues.	Agree	As above in relation to recommendation 1.
13. The DWG calls on the OECD, IMF, UN, WBG and regional organisations, where appropriate and they are in a position to do so, to assess how to strengthen capacity development on treaty negotiation.	Agree in principle	The DWG will consider this recommendation as part of its multi-year domestic resource mobilisation (DRM) agenda.
<i>Use of the Multilateral Instrument</i>		
14. The DWG calls on G20 countries to engage in dialogue with developing countries on the design and potential benefits of the Multilateral Instrument.	Agree in principle	The G20 agrees with the BEPS in LICs report’s finding that the Multilateral Instrument “has the potential to be an important tool for developing countries to assist them counter BEPS issues and to provide more certainty to foreign

		investors.” We note this recommendation will be taken forward as part of the consultations with developing economies, being led through the OECD, for the delivery of BEPS Action Plan item 15.
<i>Addressing tax loss on indirect transfer of assets</i>		
15. The DWG calls on the OECD, in consultation with the IMF, to report on whether further analysis on this issue is needed to identify policy options to tackle abusive cases, with particular reference to developing countries.	Agree	The DWG will consider this recommendation as part of its multi-year DRM agenda.
<i>Addressing lack of transfer pricing comparability data</i>		
16. The DWG welcomes further work by the OECD and WBG to assess how practical toolkits can be produced to a) assist developing countries address difficulties in accessing comparables data and b) use approaches to apply internationally accepted principles in the absence of comparables (for example, safe harbour provisions).	Agree	The G20 recognises that developing economies may need additional measures to access the financial (“comparability”) data needed to enforce international standards on transfer pricing to assist in addressing BEPS. Action 1
17. The DWG calls on the OECD to commence a study on the feasibility of addressing the information gap on prices of some natural minerals sold in an intermediate form, e.g. mineral concentrate.	Agree	The DWG will undertake an initial exploration with the OECD and WBG of ways to support ongoing efforts to improve the availability of quality transfer pricing comparability data for developing economies
<i>Addressing wasteful tax incentives</i>		
18. The DWG welcomes a report in 2015 on good practice in transparency and governance on tax incentives in low income countries from the IMF, OECD, UN and the WBG to better guide the developing countries in: <ul style="list-style-type: none"> • balancing investment and public revenue priorities. • estimating the cost of tax incentives, including revenue leakages due to unintended tax planning opportunities. 	Agree	The G20 notes the report’s finding that “there are other base erosion issues not covered in the OECD/G20 BEPS Action Plan, which developing countries report are of immediate concern.” In particular, we recognise that developing economies have raised concerns about needing support for the effective governance, management and administration of tax incentives. In May 2014, the DWG agreed it would be helpful for international organisations to develop guidance on best practices in relation to the effective use of tax incentives for investment in low income countries. Action 1

<i>Capacity development</i>		
19. The DWG promotes and endorses capacity development programmes from international organisations on BEPS issues.	Agree in principle	These recommendations are not only relevant to addressing BEPS in developing economies, but also to broader efforts to strengthen tax systems. As such, the G20's response to these recommendations is incorporated into its consideration of ways to support developing economies in building effective tax systems, respecting their sovereignty, and to strengthen regional cooperation. Action 3 We also urge the OECD to build on its efforts to engage with regional tax administration forums, as an important channel through which to increase understanding of international tax reforms and ensure that developing economies' views are taken into account in both the design and implementation of those reforms.
20. The DWG promotes and endorses the OECD/WBG/business partnership to build industry knowledge in developing country tax administrations.	Agree in principle	
21. The DWG promotes and endorses the 'Tax Inspectors Without Borders' initiative as a tool to build developing country capacity to implement BEPS solutions.	Agree in principle	
22. The DWG promotes and endorses the proposed initiatives of regional organisations, and regional programmes, to assist developing countries on BEPS issues.	Agree in principle	



G20 RESPONSE TO PROPOSED STEPS IN ROADMAP ON AUTOMATIC EXCHANGE OF INFORMATION FOR DEVELOPING ECONOMIES

AEOI roadmap proposed steps	G20 response	Comment
<i>For developing countries</i>		
Become a Global Forum member	Agree	<p>The G20 recognises that AEOI may be a longer term objective for some developing economies, which may need an incremental approach to implementing the CRS. We encourage the implementation in practice of the AEOI roadmap's proposed steps for developing economies, the Global Forum, the WBG and G20 members, for effective and ultimately full implementation of the CRS, and to build developing economies' capacity to participate in AEOI.</p> <p>G20 members will also continue to strengthen tax capacity in developing economies, as outlined above and in Annex 3, to help achieve the building blocks identified in the AEOI roadmap.</p> <p>Action 3</p>
Volunteer for pilot project	Agree	
Developing building blocks	Agree	
Information exchanges and peer review	Agree	
<i>For the Global Forum and WBG</i>		
Awareness building	Agree	<p>The G20 endorses the proposed pilot of the roadmap, as set out in Annex One of the roadmap.</p> <p>We also underscore the importance of regional tax administration forums in building awareness of AEOI reforms, disseminating tools and resource materials, and providing feedback from developing economies on the implementation of AEOI. We urge the Global Forum to build on its efforts to engage with regional tax administration forums, as an important channel through which to increase understanding of international tax reforms, ensure that developing economies' views are taken into account in both the design and implementation of those reforms, and facilitate capacity building and South-South cooperation.</p>
Develop tools and resource materials	Agree	
Pilot project(s)	Agree	
<i>For G20 members and other developed countries</i>		
Support Global Forum membership	Agree	<p>The G20 recognises the importance, and benefits, of membership of the Global Forum to the successful implementation of the CRS. Consistent with the 2013 St Petersburg Development Outlook, we urge all jurisdictions to join the Global Forum if they have not already done so.</p>
Raise awareness in region	Agree	<p>G20 members recognise their role in supporting developing economies in their region and beyond to participate in, and benefit from, AEOI reforms. As outlined above and in Annex 3, members will continue to engage within their regions and beyond to strengthen tax capacity.</p> <p>Action 3</p>

Partner to provide aggregate data	Agree in principle	<p>The G20 recognises that in order to build political support for AEOI among developing economies by demonstrating the potential benefits of AEOI, it may be helpful for G20 members to consider providing aggregate statistics on the number and value of developing economies' financial accounts held in G20 jurisdictions.</p> <p>We welcome members' individual consideration, where legally possible, of spontaneously sharing with developing economies aggregate statistics on the total number and combined value of financial accounts held by their residents in G20 members' jurisdictions, to the extent possible under financial institutions' existing reporting obligations.</p>
Partner to provide knowledge/funding	Agree in principle	<p>The G20 recognises the need to support developing economies to implement the CRS, in order to strengthen the integrity of the international tax system.</p> <p>As part of their existing efforts to strengthen tax capacity in developing economies, as outlined in Annex 3, and consistent with the framework in Annex 4, G20 members will individually consider where it may be possible to strengthen in-kind and financial support for developing economies seeking to participate in AEOI.</p>
Support pilot project(s)	Agree	<p>The G20 recognises that developing economies and development partners need more information about the full resource implications of the CRS for developing economies (that are not financial centres), and how much capacity building support may be required. We endorse the proposed roadmap pilot, to commence in 2014 as set out in Annex One of the roadmap.</p> <p>Action 2</p>



Annex 2: G20 domestic resource mobilisation agenda: engagement with developing economies and other stakeholders

This Annex outlines how developing economies, international and regional organisations, civil society, business and other stakeholders have engaged in the Group of Twenty (G20) Development Working Group's (DWG) domestic resource mobilisation agenda in 2014. These consultation and engagement mechanisms have also fed directly into the G20 finance track's work on the implementation of the Base Erosion and Profit Shifting (BEPS) Action Plan and Common Reporting Standard for the automatic exchange of information (AEOI) for tax purposes.

The Organisation for Economic Co-operation and Development (OECD) and the secretariat of the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) have undertaken extensive consultations with developing economies, civil society and business. In particular, they worked closely with regional tax administration forums to co-host **four in-depth regional consultations with developing economies** on BEPS and AEOI in February and March 2014 for the Asia Pacific, Latin America and Caribbean, African and Francophone regions. Officials from over 80 developing economies participated in these consultations, alongside representatives from civil society and business.

The OECD and Global Forum have also drawn on their memberships, and international tax forums whose secretariats are hosted within the OECD, to further engage with developing economies, civil society and business on issues related to the G20 BEPS and AEOI agendas. For example:

- ▶ meetings of **Global Forums on Transfer Pricing** (March 2014), and **Value-Added Tax** (April 2014);
- ▶ plenary session of the international **Task Force on Tax and Development** in March 2014, attended by more than 110 jurisdictions and a number of representatives from civil society and the business community;
- ▶ participation in an **AEOI Group within the Global Forum** focused on the G20 tax agenda; and
- ▶ a **survey for all Global Forum members about the opportunities and challenges of AEOI**.

Other key international organisations (such as the World Bank Group, International Monetary Fund and UN Committee of Experts on International Cooperation in Tax Matters) and regional tax administration forums have worked very closely with the OECD and Global Forum on the BEPS and AEOI agendas. Developing economies have therefore been able to engage on the G20 tax and DRM agendas through **ongoing dialogue with these international and regional organisations**.

With the G20 presidency in 2014, Australia supported these engagement processes by hosting, with the support of the Japanese Ministry of Finance, the **G20 International Tax Symposium** in Tokyo in May 2014. The Symposium attracted over 200 delegates from government, international organisations, civil society and business from across the globe, and included dedicated sessions on the opportunities and challenges of the G20 tax agenda for developing economies. The Australian presidency also continues to work closely with the G20 engagement groups on these issues.

G20 members individually underpin these formal engagement opportunities with developing economies through **ongoing bilateral consultation**. For example, Australia and New Zealand (as a G20 guest in 2014) have jointly consulted with Pacific island countries on the G20 tax agenda, including through the Pacific Islands Tax Administrators Association. South Africa, as the DWG's lead DRM co-chair, plays an important role in conveying the views of African developing economies.



Annex 3: Analysis of G20 members' tax-related development cooperation efforts

This Annex provides an analysis of the tax-related development cooperation efforts reported by G20 members and related international organisations (IOs) as part of the Group of Twenty (G20) Development Working Group's (DWG) domestic resource mobilisation (DRM) agenda in 2014. This work contributes to the DWG's efforts to support more effective tax systems in developing economies to ensure that they can participate in, and benefit from, the G20 international tax agenda.

At the DWG's informal meeting in Washington on 14 April 2014, members were asked to provide a summary of their tax-related development cooperation, as well as a case study specifically related to the G20 tax agenda¹. As at 7 August 2014, 13 G20 members and one permanent G20 guest had completed high-level summary tables of their tax-related development cooperation undertaken since 1 January 2010.² The information on tax-related development cooperation undertaken by IOs was drawn from the 2010 and 2012 mapping surveys undertaken by the International Tax Compact (ITC).³

The analysis provides a useful overview of existing G20 member and IO contributions to building effective tax systems in developing economies. It focuses on the geographic distribution of activity by G20 members and IOs by region, partner country and the partner countries' economic status. However, due to limitations in the data, G20 member activity in a partner country does not take into account the number or scale of activities they are undertaking. Nor is the analysis a complete picture of all the work being done in this area, either by G20 members or IOs.

The results of the analysis show that G20 members' tax-related development cooperation aligns with the increasing recognition within the development community of the importance of DRM to sustainable development outcomes.

DISTRIBUTION OF TAX-RELATED DEVELOPMENT COOPERATION

By region

G20 members have been most active in Africa, reporting activity in 45 out of 55 African countries, many of them low income countries (LICs). Partner countries in Africa made up nearly 40 per cent of the total countries in which G20 members reported activity. This was followed by Latin American and the Caribbean at 24 per cent and then Asia at 16 per cent. G20 members have also been undertaking tax-related development cooperation efforts in the Pacific, the Middle East and Europe, although with fewer members active in these regions.

¹ In the summary template sent to members, development cooperation was categorised as official development assistance (ODA), South-South, triangular or other. Not all members provided their data in the template, so this information is not available in all cases.

² For the remainder of this document 'G20 members' refers to those 13 members and one guest that submitted overviews of their tax-related development cooperation at the time of writing.

³ Kohren, D., Kundt, T. and Schuppert, C. (2010) *Mapping Survey: taxation and development*, Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ, drawing on 2010 data; and Tortella, V. and Eckardt, U. (2012) *Study on mapping international support to taxation*, Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ, drawing on 2009 and 2010 data. Both are available at www.taxcompact.net/studies-documents.html.

In contrast, the 2012 ITC survey found that international organisations were collectively undertaking more activities in Asia than in Africa or Latin America and the Caribbean, although the geographic distribution differed between IOs.⁴ Over half of IOs' activities in Asia were in the form of seminars or workshops, while their activities in Africa were more likely to be long term capacity building projects.

G20 members' tax-related development cooperation tended to be undertaken largely in their own or neighbouring regions. Where there were exceptions, there were often historical relationships and/or strong current links to the partner country, such as through trade. For instance, in Asia, the most active G20 members have been Australia, China, Japan, and the Republic of Korea. However, the United Kingdom has had activities in India, Pakistan, and Vietnam. Similarly, Spain reported activities across Latin America and the Caribbean. Both France and the United Kingdom have been active in Africa, but the distribution of these activities overlapped very little and largely fell along Francophone and Commonwealth lines.

In addition to development cooperation with specific partner countries, G20 members also supported the following regional tax and economic organisations:

- ▶ Africa: African Tax Administration Forum, African Organisation of English-speaking Supreme Audit Institutions, East African Community, Economic Community of West African States, West African Economic and Monetary Union.
- ▶ South America, Central America and the Caribbean: Inter-American Center for Tax Administration, Economic Commission for Latin America and the Caribbean.
- ▶ Other regional: Commonwealth Association of Tax Administrators, Centre de Rencontres et d'Etudes de Dirigeants des Administrations Fiscales.

Partner country

G20 members reported tax-related development partnerships with 118 developing economies. Reporting indicated that some partner countries had a particularly high concentration of G20 members undertaking bilateral, regional or multilateral tax-related development cooperation—the “Top 7” of which are listed in Table 1 below.

Table 1: “Top 7” partner countries, by reported G20 member activity

Country	Region	Number of G20 members active since 2010	Number of G20 members with tax advisers in country since 2010	Economic status
Tanzania	Africa	7	2	LIC
Ghana	Africa	6	2	Lower-middle income country (MIC)
Vietnam	Asia	6	2	Lower MIC
Kenya	Africa	5	2	LIC
Uganda	Africa	5	1	LIC
Ethiopia	Africa	5	2	LIC
Cambodia	Asia	5	3	LIC

⁴ The survey drew on 2010 activity-level data collected by the International Tax Dialogue Technical Assistance database on the activities of the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF), the World Bank Group (WBG) and the Inter-American Center of Tax Administrations.

Although many of the developing economies in which G20 members reported activity had only one G20 member active between 2010 and 2014, Table 1 highlights that there were seven countries in which five or more G20 members were active. A further 61 developing economies had between two and four G20 members active in tax-related development cooperation. The information reported by G20 members suggests that it is now likely that partner countries will have two or more G20 members undertaking bilateral tax-related development cooperation. In these instances, diagnostic tools, such as the IMF-led Tax Administration Diagnostic Assessment Tool, could be used by partner countries to target development cooperation and coordinate tax-related development activities.

Economic status

G20 members are undertaking tax-related development cooperation in just over 80 per cent of all LICs, just over 90 per cent of all lower MICs and approximately two thirds of upper MICs (see Chart 1).

The 2010 ITC mapping survey showed that IOs' work is evenly distributed across country groupings, although it classified countries as developing countries, emerging markets economies, industrial countries and transition countries, making it difficult to compare IOs directly to G20 members in this respect.

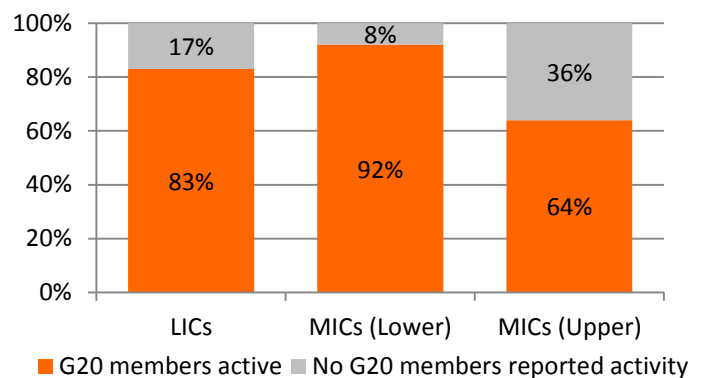
Type of development cooperation

The vast majority of tax-related development cooperation reported by G20 members has been in the form of ODA-funded bilateral, regional or multilateral initiatives or activities, which made up nearly 80 per cent of reported tax-related development activities. Triangular and South-South cooperation were the next most common forms of development cooperation activity, each making up approximately 10 per cent of activities reported by G20 members.⁵ For example, Japan's triangular cooperation with Malaysia, and China's South-South cooperation with the Democratic Republic of Congo, highlight the benefits of these types of cooperation.

Aid modalities were more varied. Technical cooperation, training and advisers were the most common activities undertaken by G20 members by a large margin. Germany and Australia reported using a mix of these modalities in their programs in Ghana and Timor-Leste respectively. G20 members also reported undertaking knowledge sharing activities, contributing to multi-donor trust funds, funding scholarships and budget support activities, although these were less common. Members have also partnered with a range of international organisations, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes, IMF, OECD, United Nations Development Programme and WBG.

In the 2012 ITC mapping study, the IOs reported that they delivered tax-related development cooperation through a range of different mechanisms, including: technical assistance, seminars and workshops, resident projects, missions, conferences, and consultant projects. The 2012 ITC mapping study authors noted that IOs "tend to have preferences or specialisations in their business models of intervention." For example, the

Chart 1: G20 members have been active in the majority of LICs and MICs since 2010



⁵Triangular cooperation involves two or more developing economies in collaboration with a third party, typically a developed country government or organisation.

majority of the development cooperation reported by the WBG was in the form of resident projects, the IMF provided extensive missions support (including from its regional centres and long and short term placements of experts), and the OECD reported a preference for seminars and workshops.

Relevance to the G20 international tax agenda

The 2010 ITC mapping survey found that the majority of tax-related development cooperation by bilateral donors was focused on domestic, rather than international, taxation.⁶ G20 members' assistance appears to follow a similar pattern, although this analysis found that G20 members were undertaking a number of activities with components related to base erosion and profit shifting (BEPS) or exchange of tax information (EOI). Asia had the highest number of partner countries in which G20 members reported undertaking BEPS- and EOI-related development activities. Following Asia, BEPS-related development activities were most prevalent in Africa, Europe, the Middle East, and the Pacific, while EOI-related development activities were most prevalent in Latin America and the Caribbean. On a country level, only Kenya and Mauritania had three or more G20 members undertaking EOI-related development activities. Seven countries had three or more G20 members undertaking BEPS-related development activities: Cambodia, Ethiopia, Ghana, Kenya, Rwanda, Uganda and Vietnam.

On support for partner countries' domestic tax systems, G20 members reported support for tax modernisation programs, training for auditing capacity, and technical assistance for both auditing and the implementation of tax-related legislation. These activities were often undertaken in partnership with IOs, such as Korea's support for the Korean-African Tax Administration Forum conference on tax administration. While not directly related to implementing BEPS reforms or EOI standards, these activities support the building blocks of developing economies' tax systems, which will strengthen their ability to participate in, and benefit from, the G20 international tax agenda.

In contrast, the 2010 ITC mapping survey found that IOs were more likely to undertake activities with partner countries relating to international taxation. G20 members or other bilateral partners often support and/or work with international organisations on these activities. For example, both Russia and the United Kingdom worked with IOs to provide BEPS- and EOI-related support to partner countries.

CONCLUSIONS

This analysis of G20 members' and IOs' tax-related development cooperation efforts highlights a number of patterns relevant to the G20 DRM agenda.

G20 members are largely targeting their efforts at low and lower-middle income countries, with a broad geographic distribution. G20 members focus their support on domestic taxation activities, which support the building blocks of tax administration, and in turn help developing economies to reap the full benefits of the international tax agenda. IOs demonstrate a preference for work on international taxation with partner countries, although they also undertake activities related to domestic taxation.

This complementarity is a good fit for the G20's multi-year DRM agenda, which proposes a range of actions for G20 members and IOs to support developing countries to build more effective tax systems domestically in order to participate in, and benefit from, the G20 international tax agenda.

⁶ The 2010 ITC mapping survey defines domestic taxation as "issues arising in the national context such as tax fraud, taxation of the informal sector and tax payer compliance," and international taxation as addressing "topics related to the taxation of transnational economic activities and covers taxation of multinationals, double taxation and profit shifting attempts."



Annex 4: G20 Development Working Group guiding framework for responding to capacity issues arising from G20 tax agenda

Efforts to strengthen developing countries' capacity in tackling base erosion and profit shifting (BEPS) and implementing the new standard for automatic exchange of tax information (AEOI) should...

1. ... be sequenced with support for other tax priorities, where necessary starting with the building blocks for effective tax systems.

Support for developing countries to address BEPS and participate in AEOI should be integrated into broader tax-related capacity building efforts in developing countries. This will involve sequencing BEPS and AEOI capacity building with other tax priorities (as identified by the partner country), and where necessary starting with the building blocks for an effective tax system.

2. ...target areas of priority identified by partner governments, considered on a case-by-case basis.

Ensuring development cooperation related to BEPS and AEOI responds to the priorities identified by partner countries will help to target efforts and strengthen local leadership. Bilateral, regional and multilateral efforts aimed at strengthening developing countries' capacity to address BEPS and participate in AEOI should take an evidence-based approach, considering the particular circumstances of the partner country, for example by working with the partner country to use agreed international tax diagnostic tools.

3. ...be coordinated within and between providers of development cooperation.

G20 members should take a whole of government approach to capacity building that promotes policy coherence for development. This may include improving the linkages between tax and expenditure in development cooperation. G20 members should also work collaboratively with each other, regional and international organisations, and other development cooperation partners, and endeavour to strengthen coordination and avoid duplication of effort.

4. ...include consideration of developing countries' capacity to reap the benefits of reforms.

To ensure developing countries can reap the full benefits of participation in the G20 tax agenda, development cooperation in tax should consider how developing countries will enforce BEPS rules and use tax data (e.g. audit capacity), in addition to considering compliance with international standards and norms.

5. ...promote developing countries' participation in the international tax architecture.

Efforts taken to assist developing countries in addressing BEPS and participating in AEOI should be consistent with the steps needed for them to participate in international tax forums and agreements, including the Global Forum on Transparency and Exchange of Information for Tax Purposes, Multilateral Convention on Mutual Administrative Assistance in Tax Matters, and regional tax administration forums.

