

# BUILDING CAPACITY IN INTERNATIONAL TAX MATTERS: A PARTNERSHIP APPROACH



**WORLD BANK GROUP**

Richard Stern  
Lead Tax Specialist  
Global Tax Team  
World Bank Group  
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# THE IMF AND WORLD BANK HAVE BEEN SUPPORTING REFORM ON DRM AND BASE EROSION FOR A LONG TIME

## Domestic Sources

Harmful tax competition (the race to the bottom) including:

- Mis-targeted tax incentives
- Other tax exemptions

Mis-specified tax policy

Administrative challenges

Capacity constraints

## International sources

Transfer mispricing

Profit shifting through aggressive tax planning

Lack of international tax policy instruments

Administrative challenges

Capacity constraints

...under our joint partnership we are intensifying our support and developing better ways of meeting your needs

# THE JOINT BANK-FUND INITIATIVE HAS A 2-PRONGED APPROACH

- 1. Development of a tax policy assessment framework (TPAF)** to provide basic diagnostic information to countries' tax policy including modules on international tax issues and sector specific (extractives in particular)
- 2. Conducting a series of topical and regional consultations** to intensify our dialogue with countries to better understand current priorities, gaps, and needs for support with a view of augmenting and improving our support operationally

# ALL OF THIS AS PART OF OUR G20 COMMITMENT, TOGETHER WITH THE OECD, UN AND OTHERS



To underpin our work to support the DRM agenda,

**Development of toolkits/guidance notes** on specific topics which countries have asked for reference. For example:

- Comparables for transfer pricing
  - Transfer pricing documentation
  - Risk assessment tools and techniques
  - ... and more to come
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- These toolkits are meant to present issues, examples, and menus of good practice with a view to updating them as we all learn more from implementation.

# TOPICAL AND REGIONAL CONSULTATIONS : A SERIES OF DISCUSSIONS TO LEARN MORE ABOUT SPECIFIC TOPICS

**Purpose:** to enhance existing dialogue with focus on either a specific topic or a range of topics in domestic resource mobilization

**Expected Outputs:** prioritization of what areas are most pressing, where are the gaps in existing frameworks, procedures, capacity

**Expected Outcomes:** Focusing our support on these priority areas, producing new approaches, and enhancing our operational support

**Expected impact:** timely implementation of tax reform that enhances revenue mobilization, addresses base erosion, and broadens tax transparency



**Every good  
conversation  
starts with  
good listening.**

## FIRST CONSULTATION: 7 COUNTRIES GATHER TO DRILL DOWN ON TRANSFER PRICING ISSUES THEY ARE FACING: HOW THEY ARE STRUCTURED

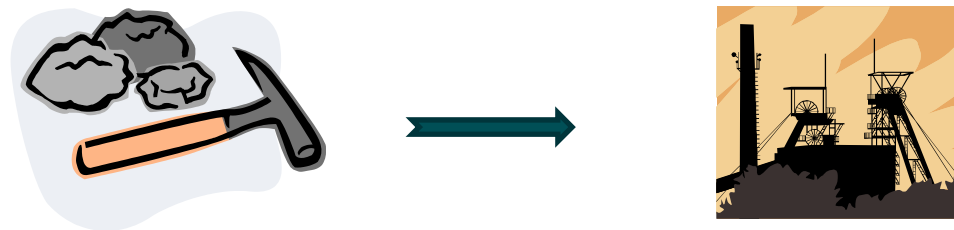
- **Participants:** Country representatives/leads on transfer pricing, outside experts (academics, tax administrators, IMF, World Bank, OECD, CIAT staff (both senior staff and technicians))
- **Format:** Informal, round table format with opening background (example to follow)
- **List of facilitating questions** to focus discussion
- **2 or 3 countries lead off** discussion
- **General discussion** by countries and outside experts
- **Wrap up** by chair

## EXAMPLE FROM THE FIRST CONSULTATION-- TRANSFER MIS-PRICING: WHERE CAN IT HAPPEN?

**International:** between related party subsidiaries across borders (e.g. financing subsidiary and extraction subsidiary, payment for IP, services)



**Domestic transfer pricing** where 2 subsidiaries of the same parent company interact but face different tax regimes. (Mining sales to smelters)



EACH ROUND WAS INITIATED BY SERIES OF QUESTIONS,  
FOR EXAMPLE:

- **In general, how big of a risk to base erosion do you think your country faces?**
- **How do you rank base erosion from TP in particular?**
- **Do you feel prepared to handle TP cases**
- **Do you think you have the legislative framework in place to undertake a TP assessment**
- **Do you have guidance for auditors**
- **How would you rate the capacity for auditors to undertake TP assessments**



## HOW DID IT GO? AFTER 2 DAYS OF DISCUSSIONS, COUNTRIES TOLD US THEIR PRIORITIES AND GAPS, IN PARTICULAR:

- **Implementing a transfer pricing regime is essential for all countries at the consult: most countries had some framework but lacked some pieces, and all needed a better understanding of good practice (countries welcomed the forthcoming handbook on TP)**
- **Developing risk assessment tools is a top priority and a gap in most countries.**
- **Administrative issues—organization both for audit, enforcement, and dispute resolution**
- **Documentation a big problem and countries welcomed the idea of a toolkit**
- **Simplification: how could simplification (safe harbors, for example be used) and the message was clear: go simple at first**
- **Capacity building is key in all areas including: understanding basics, sector specificity, understanding risk, and even language ability**

# WHAT'S NEXT? WHAT DO WE DO WITH THE TAKEAWAYS



We take what we've learned and use it to:

- Guide us to the relevant topics to be covered by toolkits/guidance notes with good practice examples
- Guide us to ensure we cover these areas in our operational design, such as transfer pricing support, other international tax issues

**But one major message in the consultations we had was to continue providing basic and general support in both tax policy and administration, that these are the foundations of all tax reform.**