



Regional ITC workshop Taxation in ASEAN

Identifying experiences and lessons learned in six countries
3–5 July 2013, Bangkok

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On behalf of

BMZ



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for Economic Cooperation
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Imprint

The International Tax Compact (ITC) is an international development policy initiative to fight against tax evasion and inappropriate tax practices in developing countries. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched the initiative and commissioned GIZ and KfW to support the implementation.

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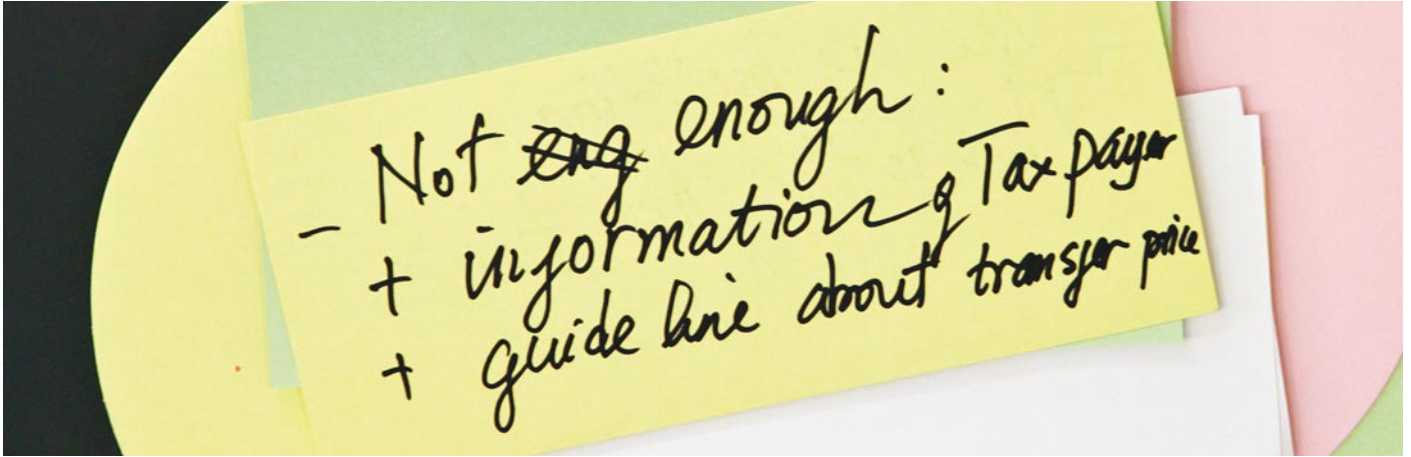
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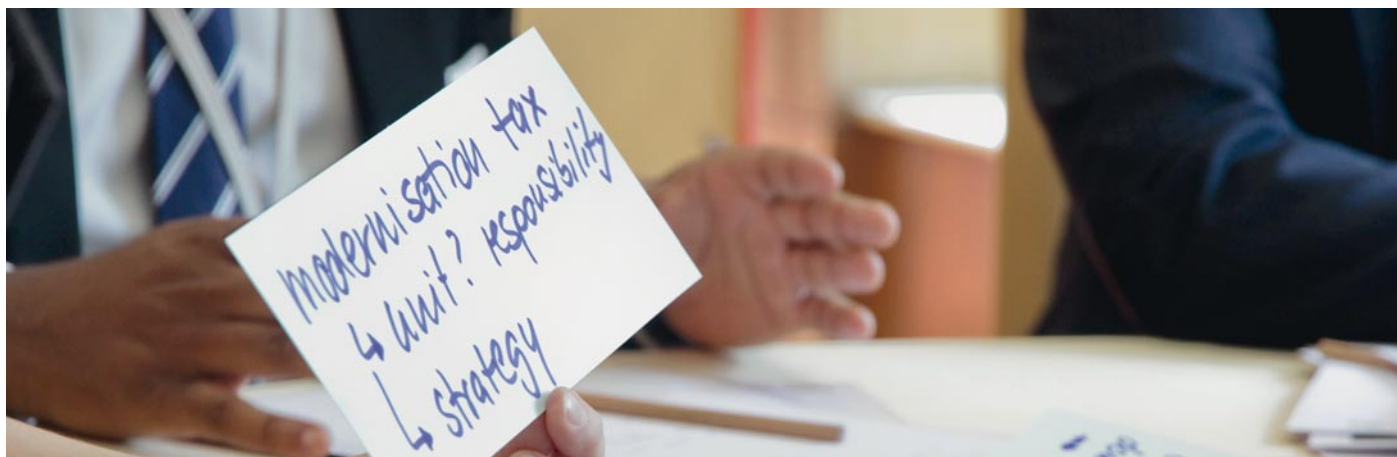
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Abbreviations and acronyms

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Agreement
APA	Advanced Pricing Agreement
ASEAN	Association of Southeast Asian Nations
ATAF	African Tax Administration Forum
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung
CIAT	Inter-American Center of Tax Administration
CIT	Corporate income tax
CMLV	Cambodia, Myanmar, Lao People's Democratic Republic (PDR), Viet Nam
DTA	Double Taxation Agreement
Eoi	Exchange of Information
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
ICT	Information and Communication Technology
IMF	International Monetary Fund
ITC	International Tax Compact
MoF	Ministry of Finance
OECD	Organisation for Economic Co-operation and Development
SAI	Supreme Audit Institution
SGATAR	Study Group on Asia Tax Administration and Research
SME	Small and medium enterprises
TIN	Taxpayer's identification number
TP	Transfer Pricing
UN	United Nations
VAT	Value Added Tax



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A photograph of a workshop session. In the foreground, a man in a dark suit and glasses is seen from the side, looking at a board. He is holding a blue marker and a yellow sticky note. The board is covered with several yellow sticky notes, some of which are pinned. One note clearly says "Enrichment", another says "Victor NL", and a third says "Roland Germany". In the background, another person's hand is visible, pointing at a screen or board. The overall scene suggests a collaborative discussion or meeting.

**A. Workshop aim:
to discuss the analysis of
progress and challenges
in taxation in selected
ASEAN countries**

The International Tax Compact (ITC) is an initiative to strengthen international cooperation with developing and transition countries, with the objective of enhancing domestic resource mobilisation. Since 2009, ITC has worked as an informal and action-oriented platform for dialogue and the exchange of experiences, promoting effective, fair and efficient tax systems and combating tax evasion and inappropriate tax practices on a global scale.

The ITC Core Group Meeting in February 2012 emphasised in its concluding communiqué the willingness of ITC partners to further strengthen their support for regional tax and development organisations in Latin America, Africa and Asia. Accordingly, ITC initiated in 2012 broad-ranging studies on taxation in six ASEAN countries: Cambodia, Indonesia, Lao PDR, the Philippines, Thailand and Viet Nam. The studies' objective was to gain a deeper insight into and understanding of the major factors contributing to progress and creating challenges in taxation in ASEAN countries. The resulting findings would then be used to identify areas for ITC pilot activities in the region and, possibly, to enable the countries concerned to identify areas in which regional and international dialogue could help in developing effective solutions and providing information. In this way, international assistance could then be effectively organised.

Although taxation policy and implementation is as heterogeneous across the six selected countries as the countries themselves, the six country studies were able to clearly identify, among other things, some core challenges for the tax administrations, which by their very nature lend themselves to regional cooperation:

- Conflicts between the goals of economic policy and tax policy (tax incentives).
- Non-compliance, tax avoidance, money laundering and corruption issues in an increasingly integrated and interconnected environment.
- International high-end skills needs (transfer pricing, double taxation agreements, exchange of information) vs. the basic demands of core tax administration functions (auditing capabilities, the broadening of the tax base with regard to indirect taxes like VAT, etc.).
- ASEAN integration vs. the lack of bi- and multilateral agreements and operative exchange fora.

Consequently, the goal of this regional workshop has been to discuss the country studies, verify the conclusions, and create a regional perspective.

The regional workshop was held in Bangkok on 3–5 July and served as a summarising step of the overall ITC study process. The event followed an open format to ensure that delegates were able to share their experiences and lessons learned from reform approaches (see Annex 1).

Five countries – Cambodia, Indonesia, Lao PDR, the Philippines, Thailand and Viet Nam – sent delegates from their revenue authorities (see Annex 2). In addition, the workshop received a broad range of inputs (see Chapter D) from:

- Prof. Milwida Guevara, former Vice-minister of Finance in the Philippines and, today, Professor at Ateneo de Manila University, who spoke about the **impacts of the ASEAN Economic Community (AEC) on taxation**;
- Prof. Victor van Kommer, Director of the International Bureau of Fiscal Documentation (IBFD) in Amsterdam, who discussed the **tax administration challenges** related to the AEC process;
- Mr Jaya Samon, Senior Advisor in Tax Extensification and Intensification at the Directorate General of Taxes, Ministry of Finance of Indonesia, who shared some of **Indonesia’s experiences of tax administration reform**;
- Prof. Michael Kobetsky, who presented on issues related to **international taxation for tax administrations**;
- Mr Thulani Shongwe, Specialist on Multilateral Cooperation at the **African Tax Administration Forum (ATAF)**, who explained ATAF’s history and state of development;
- Mr Francisco J. Beiner, Director of Institutional Management and Operations at the Inter-American Center of Tax Administrations (CIAT), who shared the **CIAT Regional Cooperation Networks’** way of working; and,
- Dr David Nguyen-Thanh, Head of the GIZ Unit on Public Finance and Administration Reform, who set out the ways **cooperation can be improved among ASEAN tax administrations**.

The regional seminar would not have been possible without its hosts, the Revenue Department of Thailand, and having the Department’s Director-General, Dr Satit Rungkasiri, give the introductory presentation was a great honour. The Revenue Department and GIZ country office’s highly professional management of the event ensured optimal working conditions for the group and Ms Kalayane Chuncherd’s very focused and efficient moderation throughout the event provided a framework in which the cohort could discuss all the topics openly and flexibly. Overall, the regional seminar was conducted in a spirit of openness and informality, characterised by a high level of interaction and discussion and by the mutually beneficial exchange of experiences.

Following, you will find summaries of the main topics discussed (Chapter B), details of the planned follow-up for the event (Chapter C), and brief summaries of the presentations (Chapter D), which are also available on the ITC website: www.taxcompact.net.

If you have any further requirements, please contact the ITC Secretariat at: secretariat@taxcompact.net.



**B. Workshop outcomes:
the main
issues raised**



It was noted in many plenary and group-work discussions how relevant the various presentations and the findings of the ITC country studies are to the tax administrations of the countries represented at the event. Following, we highlight the themes and hypotheses that were most hotly debated, grouped according to the programme's three topics: (a) tax administration, (b) international taxation issues, and (c) regional cooperation.

(a) Tax administration

Low tax ratios

Questions initially arose regarding the validity of the tax ratio data in the ITC reports (all based on IMF data from 2010) and whether they refer to the same tax set – for example, whether local taxes were included or not, or whether the tax systems were comparable given that some countries only recently began introducing VAT. Despite this, the whole group concurred that the tax potential of all the countries in question was insufficiently met and that it was necessary to broaden all their tax bases. The discussion on reasons for low tax ratios covered the full spectrum of reform possibilities in tax policy and administration: simplifying tax policy and improving taxpayer registration, taxpayer services in general, raising tax collection efficiency, improving audit capabilities, and the better use of all support systems.

Dealing with the shadow economy

The informal or shadow economy is an issue that all the countries must address. There is no clear definition of 'shadow economy' and the data available on most countries to this regard is not accurate. The structure and character of the shadow or informal economy requires definition so that a common understanding is shared among ASEAN countries. For example, the impact of the informal economy's magnitude was discussed – i.e., the higher the informal economy's share of GDP, the lesser the real share of revenue contribution from large taxpayers. Questions



were also raised as to whether small and medium enterprises (SMEs) also belong to the informal economy, given that sometimes they are not officially registered – a fact often due to the complexity and excessive time required to register businesses. This indicates that the extent of the shadow economy depends on other factors: external factors, such as business registration procedures; or factors internal to the tax administration, such as tax payment compliance costs.

It is also important to take care with the distributive aspects of attempts to tax the informal sector. For example, the subsistence economy offers little opportunity for generating tax revenue and, indeed, should not be taxed at all given it involves the poorest groups in society.

Improve taxpayer relations

The relationship with the taxpayer was identified as key to improving tax collection. Tax payment services should be improved and made more user-friendly – in Thailand, for example, taxpayers can access services on their mobile phones. Compliance – the process of declaring and paying taxes – should be as simple as possible. An example might be the connecting up of business and tax registration procedures, which particularly helps small and medium enterprises.

It is also possible to incentivise voluntary compliance, such as through reducing the tax bills of good compliers, holding tax amnesties or establishing sunset policies. In 2008, Indonesia successfully deployed the sunset policy concept, letting non-compliant businesses off any additional interest charges in cases where outstanding taxes were fully declared and paid. This policy resulted in the Indonesian tax authority exceeding the government's 2008 revenue target.

Install effective appeals systems

Many countries' appeals systems are not fit for purpose and, in workshop discussions, processes were criticised as too drawn out, ineffective, non-transparent and,



in many cases, failing to deliver satisfactory outcomes. This remains a topic of the utmost importance for the regular enforcement of tax laws and for creating a trust-based relationship with the taxpayer. The impact of ineffective appeals systems on the tax gap should not be underestimated.

Improve auditing

Strengthening the audit function, and the many issues this involves, was widely discussed. In essence, this requires the general enforcement of the tax scheme and the prosecution of those failing to comply with it. The way tax authorities are currently organised means this key aspect is insufficiently prioritised. Four main suggestions to improve this situation were put forward:

- Increase the number of auditors – many tax administrations have insufficient staff attached to the audit function.
- Increase the number of staff with professional audit skills – staff working as auditors often do not have the required qualifications.
- Improve the audit process, the selection of cases and the regularity of audits.
- Develop risk-based and IT-based approaches.

Auditing should be organised in accordance with taxpayer segmentation and, in general, the lion's share of auditing capacity should be focused on large enterprises.

The auditing of SME may not be efficient as it can be costly and may not generate enough resources to cover the costs involved. In such cases, simplifying the tax regime for SMEs may be helpful, as this reduces the amount of capacity required for auditing. Indonesia, for example, has introduced a so-called regular regime and an estimated regime for SMEs. The estimated regime is applied to sectors where the administrative cost of tax collection would exceed the revenues generated. They



have since modified this regime to extend the simplified system to more taxpayers. Many administrations now have large-taxpayer departments in place. Thailand, in a move to further segment its large taxpayers, has set up a new unit dealing specifically with multinational companies (MNCs). The unit's staff are specially trained to deal with MNC taxation and transfer pricing regimes.

Information and communication technologies (ICT)

All the administrations work to some extent with information technology but they also all have scope to increase and improve on its use.

One entry point for discussion was the question of whether the use of ICT would help in reducing staff numbers and, in turn, reduce the cost of taxation to government. Indeed, to a certain extent and in certain areas, improving ICT brings with it the need for less staffing. That said, new ICT systems also require differently qualified staff who may need higher remuneration. It shouldn't be forgotten that the main aim of introducing and improving a tax administration's information system is not to cut costs but to raise quality. Modern tax administration standards cannot be attained without ICT.

As the points of departure for reform differ depending on the country, it is first important to develop a careful ICT strategy, which includes an analysis of the impact of ICT on staff needs, structure, capacities and training needs, and of the resources required. A useful example cited was the establishment of a modernisation unit responsible for strategically planning ICT development according to the administration's needs and for monitoring the process.

The Revenue Department of Thailand was held up as an example of good practice, given the department had won an award for best practice in civil service ICT. Also, Malaysia, Kenya, and Uganda were cited as good examples for their development of mobile phone-based services.



Indonesia has introduced a scheme called ‘know your taxpayer’ in which tax officers are tasked with monitoring and supervising a specific number of cases (around 1,500) that they are already familiar with. The related individual taxpayer data are then recorded in a computerised database. Workshop participants agreed that the management and registration of businesses is very important. When data are well recorded, the management of the tax collection system is more efficient.

Connectivity and the collection and exchange of data also are major issues to deal with when developing ITC systems. One option put forward was to store data electronically and then share this data among stakeholders – i.e., customs and import administrations, line ministries, and third parties like banks and international cooperation agencies. Cambodia offers an interesting example of this kind of intra-governmental cooperation. An information system links up the tax authority and immigration office to prevent non-compliers from leaving the country.

Controlling corruption

Combating corruption is a cross-cutting issue and discussions on anti-corruption arose in a host of contexts – for example, the use of ICT systems to minimise contact between tax officers and taxpayers; or the problems that arise when tax payment guidance services offered to SMEs provide room for arbitrary behaviour on the part of the tax officer.

There was unanimous agreement among delegates regarding the importance of creating a culture of integrity. It was also commonly understood that appropriate remuneration systems were a necessary factor in fighting corruption but that they would not resolve the problem in and of itself. It was highlighted that there is no one-size-fits-all solution. Integrity strategies need to be developed in light of a full understanding of the risks and mechanisms causing corruption in the respective administration. With these strategies in place, the internal control mechanisms can be installed.



Human resource development

Human resource development and management was another cross-cutting issue that related to many of the topics under discussion, given that speaking about capacity constraints almost always also leads to questions about improving human resources.

Steering of reform processes

A further cross-cutting theme was the effective and efficient steering of reform processes. Indonesia put forward the establishment of a modernisation unit as an important measure to guide and evaluate reform processes. However, any reform in tax administration needs to be grounded in adequate strategic planning and a clear allocation of responsibilities.

(b) International taxation issues

Although some administrations are already working with multinational enterprises and have a network of double taxation agreements (DTAs), delegates felt that **transfer pricing** is a challenge for all their administrations.

The regulatory framework is often limited as, even where the relevant legislation is in place, the guidelines for transfer pricing that include the use of advanced pricing agreements are largely missing. Some administrations are working on building transfer pricing units, but this is problematised by the lack of specialists in this field and the risk (and experience) of brain drain among internally trained specialists. There are already limited auditing capacities and if trainees also go on to leave the administration it becomes difficult to improve auditing capacities. Sharing best practice on transfer pricing among the region's countries would be very helpful, as would contributions from development partners. Another idea for sharing experiences was to jointly build a taxpayers' database with a broader regional presence.

Challenges in the **exchange of information** were also discussed, in particular in cases where the Ministry of Finance has already agreed to exchange information with other countries and has yet to adapt internal regulations to this end. Some administrations also described cases where they have provided information as part of an exchange agreement, but have not received any information from their partner in return. This is, therefore, a key item to introduce on the ASEAN tax agenda.

(c) Regional cooperation

All the participants agreed that, in general, more regional cooperation under ASEAN would be helpful, but the lack of clarity about how and where to increase cooperation was also raised.

More tax harmonisation among ASEAN countries was deemed to be a good thing; however, the extent to which this should be implemented was not so clear-cut and posed the following questions: Do tax structures have to be aligned? Do tax rates have to be harmonised? What would be the impact of aligning/harmonising or not on individual countries? Should exemptions on agricultural and unprocessed products be abolished or not? What about refunding tourist VAT (which Cambodia is currently considering)? The overriding question is, however, how to avoid 'the race to the bottom' through tax incentive competition.

All participants agreed that the arrival of the ASEAN Economic Community (AEC) and ASEAN Free Trade Area (AFTA) increases the need for internal communication and coordination between Tax Administrations, Ministries of Finance, Ministries of Economy and Trade, Customs and others, but that such coordination was not yet in place. Second, given that AEC will be implemented from 2015 onwards, a question also arises about the resulting pressure on tax administrations to reform. How can they prepare both internally and in their relations with external stakeholders? It was concluded that a regional perspective, achieved through increasingly harmonised systems, could prevent harmful tax competition and increase tax compliance. It is important to consider that the AEC could serve as the umbrella for regional cooperation under which both tax administration restructuring and international taxation issues could fall. To conclude, although many topics need to be treated in detail, there is a general consensus that issues relating to cross-border trade should be tackled jointly and networking should be improved.



**C. Beyond the workshop:
the next steps**



In the context of the topical discussions held at the end of the workshop, the cohort explored options for further and more intensive regional cooperation and discussed priorities for short-and long-term cooperation.

The need for regional cooperation

All delegates affirmed the need to intensify joint working at the regional level within ASEAN. The examples of ATAF and CIAT show how beneficial a specified and service-oriented network can be for tax administrations and how useful a similar mechanism of cooperation within ASEAN would be. A step-by-step approach was deemed adequate, starting in the short term with a simple network that can be expanded over the time.

In the long term, further regional cooperation would need strong political support, as all tax administrations come under their respective Ministries of Finance and are not competent to decide on cooperation issues themselves. An option to take this forward could be a high-level political agreement among Ministers of Finance, established in coordination with the ASEAN Secretariat.

These possibilities should be explored further over the next months, both in individual countries and regionally. The next meeting should also invite more ASEAN countries in order to broaden the approach.

Topics for regional cooperation

Regarding tax administration

As outlined above, the impending arrival of AEC and the resulting need to increase levels of cooperation in tax matters could serve as a driver for regional coordination.





The aegis of the AEC provides a forum to discuss not just international issues like transfer pricing but also, more importantly, issues relating to the sharing of experiences for mutual learning among tax administrations. Four topics were most emphasised:

- Tackling and reducing the **shadow economy** is important to almost all countries.
- Improving the **audit** capacities and skills of staff is important to most countries, where the focus seems to be on improving technical skills and the supporting systems.
- **Information and communication systems** were mainly discussed in the context of their use in auditing, collecting information on taxpayers, and providing cross-cutting information. It is also necessary to improve how data is managed in general.
- **Human resources management** in tax administrations needs to be improved by enhancing capacities and providing training.

The need to develop performance indicators for monitoring was mentioned in relation to managing reform processes, and, lastly, English language training was also mooted as useful for facilitating regional cooperation.

Regarding international taxation

Dealing with international taxation issues was also discussed as a milestone in developing a modern tax reality for most countries. It was agreed it would be fruitful to cooperate regionally on implementing:



- basic- and advanced-level training in transfer pricing issues;
- specialised support on formulating and negotiating advanced pricing agreements (APA), as these offer both obstacles and solutions for administrations;
- staff secondments among administrations to share experiences and provide on-the-job training.
- possibly, a joint audit programme of a multinational firm present in several of the participating countries (for example, a hotel chain), including analysing transfer pricing and conceptualising APAs.

The development of double taxation agreements was discussed with specific reference to the AEC process, as was the need to increase how much countries know about each other's procedures, processes and structures.

Next steps

Priorities in the **short term (less than nine months)** were identified as the shadow economy and transfer pricing, involving:

Shadow economy

- sharing best practice on taxation for the shadow economy;
 - organising visits or a study tour to another tax authority that successfully handles their shadow/informal economy (interesting countries could be selected based on the results of the Study Group on Asian Tax Administration and Research conference in October 2013, which is looking at the informal economy and where each member state will present and make available a country report covering their issues to this regard);
 - drawing upon the expertise that already exists within countries to support the process – e.g., the Thai Ministry of Finance's fiscal department;
-



Transfer pricing

- expert inputs on transfer pricing – Covering both the basic level and advanced levels;
- developing a case study on a sector of shared interest among parties involved.

Note that any short-term measures devised for transfer pricing must be very practical in nature.

When it comes to **long-term cooperation (more than nine months)**, the ITC country studies are a good starting point, providing a basic-level assessment. These can then be complemented by the discussions and findings of the present workshop.

The workshop was not intended as a decision-making forum but, rather, as an occasion to identify needs for and interests in further regional cooperation. Given a clear need exists, a roadmap and concept for a regional network needs to be further discussed and jointly developed. During the seminar, the cohort planned and produced a vision for a regional network that can be presented to the delegating organisations and can form the basis for planning long-term cooperation.

Any such cooperation should involve the ASEAN Secretariat and should aim to enlist the political support of the respective Ministries of Finance. Tax administrations could seek to develop modes of cooperation similar to that of the Supreme Audit Institutions (SAI) body ASEANSAI or the ASEAN Inter-Parliamentary Assembly (AIPA). Any process adopted should be streamlined, using a simple coordination mechanism that works easily and avoids lengthy procedures.

D. Speaker contributions: brief presentation summaries



Ute Eckardt

Summary of results of the ITC country studies

During 2012, the International Tax Compact (ITC) planned and implemented six country studies in Cambodia, Indonesia, Lao PDR, the Philippines, Thailand and Viet Nam. A draft version of the summary report has been drawn up and is currently awaiting final revisions, including the recommendations arising from this Bangkok workshop and any further comments provided by participating countries. The report should be complete by September 2013.

The objective of this process has been to gain a deeper insight into and understanding of the major factors contributing to progress and creating challenges for taxation in ASEAN countries. The resulting findings would then be used to identify areas for ITC pilot activities in the region and to enhance interchange and sharing of South-South experiences in strengthening tax systems.

The summary breaks down the findings in four areas: (a) matters related to tax policy, (b) tax administration assessments, (c) regional cooperation issues, and (d) aid-related issues. Although the differences between participating countries are recognised, when we step back and look, similarities and shared issues become apparent.

(a) Matters related to tax policy

The study found that the legal framework is mostly consistent with the requirements of a modern tax system, with taxes sufficient to cover budgets. One of the areas where systemic and legal provisions need to be improved is in tax transparency. It was also found that appeals systems are not (fully) functional and external financial control of tax administrations is limited.

Tax to GDP ratios are low in comparison with other parts of the world and considering the economic strength of the countries in question. Large shadow economies and widespread tax incentive schemes to promote exports and others areas also contribute to the tax gap. The overriding issue identified in the country studies is

the difficulty in converting tax law into tax reality, which is due to capacity constraints in individual administrations and also to high levels of corruption.

(b) Tax administration issues

Tax administrations are set up in a similar fashion, with most being organised according to functions and operating as a directorate under the ministry of finance (MoF). All the administrations maintain a large-taxpayer unit. The similarities end when it comes to staffing, which differs greatly between administrations.

Regarding the main business processes in tax administrations:

- **Taxpayer registration** is a challenge in almost all countries, with complicated registration processes and poor interconnectivity with other government data (especially business registration). Some administrations also do not have unified TINs. All in all, 'registration requires the pro-active participation of the taxpayer'.
- Most countries rely on **self-assessment** systems, but the inspection and audit of declarations is only rarely based on risk management systems.
- **Auditing** is largely ineffective, primarily because of personnel constraints caused by the high levels of capacity absorbed by VAT refunding.
- All administrations use **ICT systems**, but to very different degrees. Developments in ICT started in the 1980s but, even today, most countries' systems are not fully computerised. Audit modules exist, but they are not active in certain countries and third-party data is rarely used.

Human resource capacities are reported to be scarce in most countries, although the staffing situation varies considerably from one country to the next. Recruitment is usually integrated into general MoF recruitment processes. Education and training are organised in a variety of ways: on-the-job training, in-house/external training, and tax academies. Almost all the studies show that human capacity development is a major requirement.

(c) Regional cooperation

Reference to tax matters in the ASEAN Charter is limited to the creation of a double taxation treaty network that focuses in particular on eliminating differences in withholding taxes and on delivering technical assistance on tax structure enhancement to Cambodia, Myanmar, Lao PDR and Viet Nam (CMLV). Some countries are strongly interconnected by tax treaties, some countries have very little or none and the treaties that do exist are, in the main, more than 15 years old. Several fora are in place to discuss tax issues among ASEAN countries, such as the Study Group on Asia Tax Administration and Research (SGATAR) and other fora related to international cooperation. However, the most focused initiative is the ASEAN Forum on Taxation, founded in 2011, which fosters the comprehensive exchange of information and joint dialogue on tax matters.

(d) Aid-related issues

Aid and its coordination are most relevant for Cambodia and Lao PDR. In other ASEAN countries, aid is not as central an issue as it is in other parts of the world. However, all countries (except Thailand) receive support on tax – usually led by the World Bank and International Monetary Fund. In most countries, there is a formal framework for donor coordination, with working groups on public finance management and regular joint reviews on reform advances. Despite this, coordination is deemed to be rather ineffective.

Aid is seen as sufficient, even though absorption capacity constraints are present. The latter could, however, be increased if steering and aid management were improved.

Summary of recommendations

- The main challenge in developing tax systems is the translation of existing tax laws and policy into efficient tax systems by a modern, efficient, loyal and high-performing tax administration. This will require strong political will and high-level political support.
- In some areas, technical/administrative development is crucial, particularly with regard to closing gaps between 'voluntary' tax registration and self-assessments on the one hand, and fragmented inspection and audit on the other.
- Human capacity development is a key issue in many countries and, in some countries, growing the workforce is deemed to be of the utmost importance.
- Collaboration on tax matters should be intensified during the transition into AEC. This should involve the harmonisation of not only customs, but also VAT and excise duties. In addition, existing double taxation agreements need to be amplified and modernised, and the required communication channels established.
- Donor contributions need to avoid fragmented approaches and overburdening tax administrations.



Milwida Guevara

AEC impacts on taxation

The ASEAN Economic Community is very important for the region: the free flow of goods and services, and the free movement of people can support broad-based growth and encourage a brother's keeper mentality among the very different member countries.

The integration process started 1992 with the establishment of the ASEAN Free Trade Agreement (AFTA). The full elimination of tariffs on ASEAN-origin goods is planned for the ASEAN 6 group (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) by 2015, and for the CMLV countries (Cambodia, Myanmar, Lao PDR and Viet Nam) by 2018. As it stands, the average intra-tariff rate for ASEAN 6 countries has been cut from 3.64% to 0.05% with some flexibility for sensitive lists. A work programme to simplify, harmonise and standardise customs and trade processes has been developed in order to eliminate non-trade barriers.

In the short term, changes to tariff policies within ASEAN may have a smaller effect than expected as ASEAN countries trade comparatively little with one another. Only about 25% of total trade in the region is between ASEAN countries. Tariffs on goods that originate outside ASEAN vary considerably, and tariffs are significant revenue raisers for some countries in the ASEAN region, generating up to 20% of government revenues. Also, tariffs on politically sensitive products like coffee, rice and sugar and certain intra-ASEAN tariffs are not scheduled to be removed until 2018.

Regarding taxation, there will be no single taxation regime for ASEAN member countries and taxation will remain local. Two tax issues are being reformed: (a) the withholding tax structure will be enhanced to promote the broadening of the investor base, and (b) the network of bilateral agreements to prevent double taxation among all member countries (although this was due to be completed by 2010). Both these reforms are work in progress.

Tax issues will, however, become increasingly significant as economies become more closely integrated, especially VAT and excise taxation. Taxes should interfere as little as possible with the efficient allocation of economic resources and the AEC needs to develop an efficient and impartial system of dispute resolution.

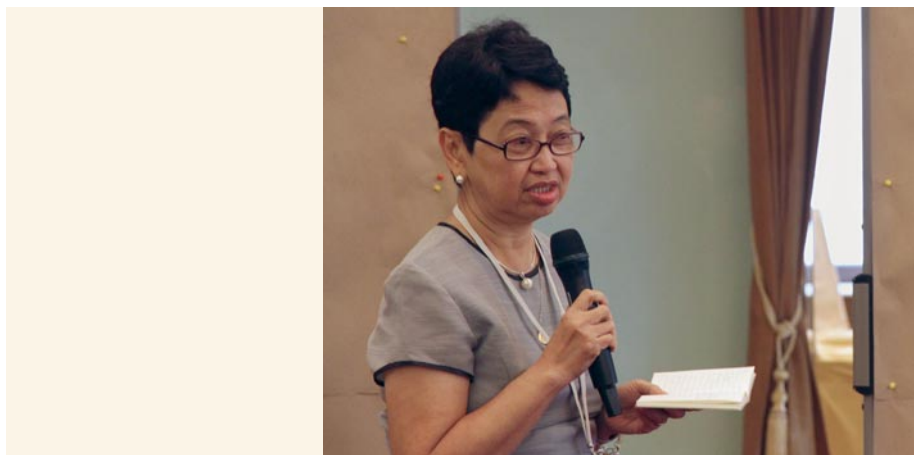
For income taxation, the major issues are: avoiding double taxation and double non-taxation; harmonising withholding tax rates; and preventing increased competition among countries in terms of tax incentivisation.

There is a need for greater VAT efficiency, given that VAT revenues can replace revenues from tariffs. Some ASEAN countries – like Malaysia, Brunei and Myanmar – still do not have VAT in place.

Excise taxation needs to be coordinated because of the differences in tax bases, tax rates and administrative procedures. Without harmonisation, taxes will introduce distortions in resource allocation and provide incentives for smuggling and tax evasion.

All in all, tax administration is a highly important factor for achieving a harmonised AEC, as the successful harmonisation of taxes depends on the tax realities that administrations deliver. This is a challenging process for ASEAN that will surely be dealt with using the traditional ASEAN approach of:

- evolving at a pace comfortable for all parties and relying largely on patient consensus building to arrive at informal understandings;
- preferring informality and loose arrangements;
- politeness and non-confrontation and of quiet, private and elitist diplomacy, with disputes settled by peaceful means.



Victor van Kommer

Challenges in tax administration

The work of the tax administration should be grounded in balancing the cost and quality of government services with the tax revenue paid by the taxpayer, as taxpayers' willingness to pay essentially depends on the quality of public goods delivered by the government. To create a positive tax morale, some basic rules of good governance need to be established: the rule of law, participation, emancipation and, for larger states, decentralisation. The tax administration contributes to tax morale by treating taxpayers cooperatively and with integrity, and by meting out any necessary punishments with a sense of proportion.

Taxation also needs to be based on a trust in society: the trust in solidarity – that we all pay the same taxes; the trust in institutions – that the authorities collect and spend taxes responsibly; and the trust in time – that the relationship between our tax payment and the payment of past debts or future investments is explicit. These layers of trust can be harmed by, among other things, tax base erosion and profit shifting, tax havens and special economic zones, and also by the differential treatment of multinational enterprises (MNEs) and SMEs. Tax incentives might, for example, turn the tax system into a 'Swiss cheese', or trade zones might create an internal transfer pricing problem.

When seeking to improve tax revenues, it is essential to concentrate on the large taxpayers, as they provide 60–80% of tax revenues and yet constitute only 1–2% of the total number of taxpayers. To this end, it is important to look not only at corporate income tax (CIT), but also in particular at VAT, excise duty, withheld wages, etc. For example, Royal Dutch Shell plc. pays only 5% of its taxes through CIT. Tax holidays do not have to refer to all taxes; they might only be applied to CIT, but this is difficult to administer and audit and may not be the biggest part of the firms revenue potential.

Where a tax administration is readying itself for reform, several factors should be considered:

- Strategic planning that is based on analysis and that considers alternatives should always come first. This then leads into operational planning.
- The adequate design of ICT systems is also essential. ICT should be based on the aforementioned strategic plans but need not be tailored to corporate procedures – sometimes, for reasons of efficiency, procedures will have to be adapted to ICT innovations.
- The autonomy of the tax administration can be enhanced by, among other things: selective recruitment, challenging remuneration, and permanent education, for example, through a tax academy.
- Tax administration should seek to achieve a suitable division of labour along the following lines:
 - o top and middle management of no more than 10%;
 - o support and facilities (depending how mature the organisation is) of 10–20%;
 - o an operational core of 70-80% broken down as follows:

· auditing	35–40%
· assessing/registration	15–20%
· collection	5–10%
· taxpayer service	5–10%
· investigation	5%

External consultants should be recruited in accordance with the needs and requirements of the reform process as laid down in the strategic plans and respecting the administration's absorptive capacity.



Samon Jaya

Indonesia's tax administration reform – a country example

Indonesia has introduced an ITC-based model to analyse taxpayers and their potential in order to specify and reduce the Indonesian tax gap.

There are some 22,565,000 taxpayers in Indonesia: 2% are treasuries, 9% are corporate, and 89% – the vast majority – are individuals. In terms of staffing, only 14% of personnel are auditors (which equates to 4,267 staff members), heads of tax collection and tax supervision units make up 4%, and 22% are in charge of accounting.

In order to maximise tax revenue, Indonesia has introduced an ICT-based model that adheres to the motto 'Know your taxpayer'. For each taxpayer, a detailed profile is drawn up. Taxpayer profiles are then processed in a benchmarking system and made available online. The ICT system also considers information from the last census and from tax gap analyses, and provides cross-referencing functions covering, for example, housing data, income, VAT, employee payments, and so on. There is even a Google map that displays all the compiled information geographically. The system was developed and launched in 2009 but has yet to be widely adopted, so its impact to date falls short of its potential.



Michael Kobetsky

Issues related to international taxation in tax administration

Three major topics are commonly discussed with regard to international taxation: tax treaties, transfer pricing, and exchange of information.

Tax treaties: If ASEAN member countries wish to enhance international trade through regional integration, they need to tackle the issue of double taxation, which impedes international investment and trade. To avoid double taxation – and also to prevent tax avoidance, eliminate tax discrimination and regulate the exchange of information – a tax treaty network is needed. Tax treaties are, in principle, bilateral agreements that inevitably conflict with domestic laws, given they allocate taxing rights and require the source country to surrender some of their taxing rights. Furthermore, the benefits of tax treaties are unequal, as bigger countries usually gain more due to their larger-scale of economic activity.

Tax treaties are usually based on a model treaty that is adapted to reflect domestic or regional laws, priorities and/or tax policy. Two model treaties are currently used internationally: the UN model and the OECD model. The two are quite similar except for the fact that the UN version places fewer limitations on source-country taxing rights, which works in favour of developing countries. For example, under the OECD model the residence country has an exclusive right to tax royalties, but under the UN model the source country and residence country share the taxing rights over royalty income.

Developing an ASEAN model based on the other models is recommended. This would foster the development of tax treaties between ASEAN countries and would reduce the time and cost of negotiating tax treaties. Also, withholding-tax rates could be set in an ASEAN tax treaty model. An ASEAN model might include a 'most favoured nations' clause, which permits the designated 'most favoured nations' to renegotiate a tax treaty if another country is given a treaty concession. 'Non-discrimination' is a treaty provision that prevents discrimination against taxpayers on the basis of nationality.

Transfer pricing (TP): Given TP is about pricing intra-firm trade, it is a normal function of managing multinational enterprises (MNEs). The problem is, however, that it provides MNEs with the opportunity to move profits around the different tax systems it operates in for the purposes of tax optimisation and avoidance. TP is based on the arm's length principle, which implies that two parts of the same MNE should deal with each another as if they were different firms. As such, intra-firm trade should be priced as if it were external trade. In many cases, however, it is difficult to find a comparables.

TP regulation is usually included in tax treaties, but it should also be embedded in domestic legislation. Both the OECD and UN provide guidance on TP; the key difference being that the UN guidance covers what is required to develop TP capacities in developing countries' tax administrations.

Exchange of information (Eol): Eol is a key measure to counter tax avoidance. It is important in the context of ASEAN because increasing trade may result in increased cross-border tax avoidance. Eol allows tax administrations to cross-check information and prevent the loss of revenue in cross-border transactions.

Eol is regulated in tax treaties and, where adopted, obliges countries to provide information that is relevant to the requesting country's tax administration and tax treaties. This information may be requested, spontaneous (such as that arising from company audit processes) or automatic (bank information). Information requests cannot be declined, even where information is held by a bank, but any exchanged information must remain confidential.

In short, international taxation is needed if and when international trade increases, but it requires careful legislative design and skilful management by the tax administration.



Thulani Shongwe

The African Tax Administration Forum (ATAF)

Founded in 2009, ATAF is a fairly young organisation that supports African countries in tackling their tax-related challenges, including: low overall revenue yields and low voluntary compliance, narrow tax bases with growing informal sectors, non-transparent and poorly calculated tax holidays, and limited capacities for taxing international transactions.

ATAF seeks to provide a platform to improve the performance of tax administration in Africa. Better tax administration will enhance economic growth, increase the state's accountability to its citizens and more effectively mobilise domestic resources – the result being improved living standards for the people of Africa.

ATAF is a pan-African organisation that currently has 36 members. It works to develop capable organisations though, for example, raising efficiency and reducing corruption. The impact is difficult to measure, but members are steering the process of developing ATAF further. ATAF brings together revenue authorities from across the African continent, making it the first organisation of its kind and well placed to promote Africa-centred knowledge sharing, peer learning and best practice. ATAF cooperates with Africa's two other principal tax administration initiatives, the Commonwealth Association of Tax Administrators (CATA) and the Centre de Rencontres et d'Études des Dirigeants des Administrations Fiscales (CREDAF). Both these bodies work in separate camps defined by language, whereas ATAF seeks to work with the whole of Africa and, therefore, operates in French, English and Portuguese.

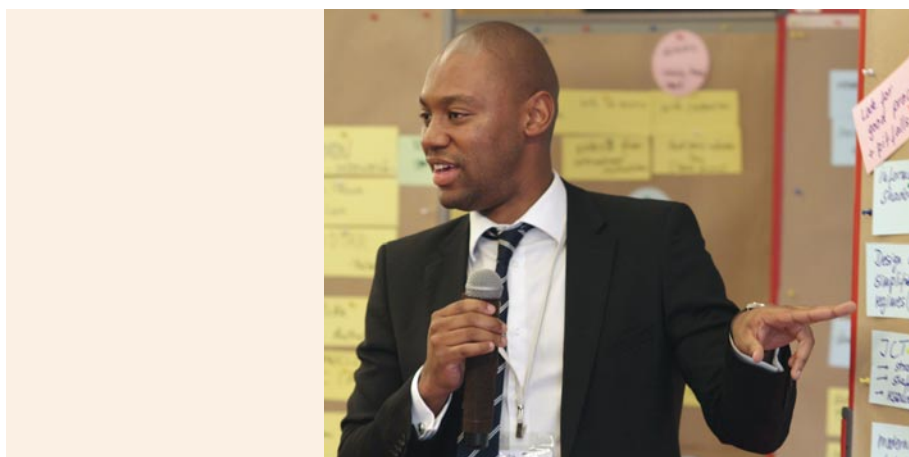
ATAF's work is based on a comprehensive sub-regional analysis that enables it to shape services, training and dialogue measures to the specific needs of the very different sub-regional groups. Training events, for example, are carefully targeted and require candidates to apply in advance.

At the international level, ATAF seeks to influence the international agenda and bring in the African perspective. In order to better deal with international taxation issues, in 2011 ATAF set up a working group to look at exchange of information and tax treaties. This working group has developed a first-of-its-kind treaty, the African Agreement on Mutual Assistance in Tax Matters. It covers exchange of information, the secondment of personnel and officials, and the joint implementation of audits.

Other key areas of concern for ATAF are:

- taxing the informal sector;
- SME taxation;
- Illicit Flows and Tax Avoidance;
- Natural Resources and Extractive Industries;
- Transfer Pricing;
- the treaty network in Africa.

ATAF believes in promoting good governance and developing revenue authorities in order to increase the receipts of domestic resource mobilisation. The result is an enhanced relationship between citizen and state and a more accountable government that relies less on aid and is wholly transparent to its people.



Francisco J. Beiner

CIAT regional cooperation networks

The Inter-American Center of Tax Administrations (CIAT) promotes an environment of mutual cooperation and provides a forum for the exchange of experiences among its member countries and associate member countries, assisting them to improve their tax administrations according to the needs they themselves identify. Among its many activities, CIAT provides its members and associates with specialised technical assistance for the modernisation and strengthening of tax administrations. Founded in 1967, CIAT currently has 38 member and associate member countries from four continents: 31 countries of the Americas, five European countries, one African country and one Asian country. However, the main focus remains on the Americas.

CIAT promotes mutual assistance and cooperation among member countries by:

- developing specialised technical assistance programmes based on the particular needs and interests expressed by member countries and delivered through technical cooperation activities;
- encouraging studies and research projects on tax systems and administrations, and promoting the timely dissemination of relevant information and the exchange of ideas and experiences through general assemblies, technical conferences, seminars, publications and other appropriate means;
- entering into headquarters agreements as per international law.

In this way, CIAT provides a framework for addressing regional cooperation and mutual cooperation, and a forum for exchange between member countries. CIAT delivers all this through maintaining ample networks for regional cooperation:

The correspondents' network is a forum where high-level technical officials from tax administrations can liaise with the Executive Secretariat, the General Directorate and area directors and provide information on the needs, provision and use of technical assistance (TA) measures.

The CIAT network for tax studies and research works with the heads of tax study areas to provide technical support and disseminate information on TA issues.

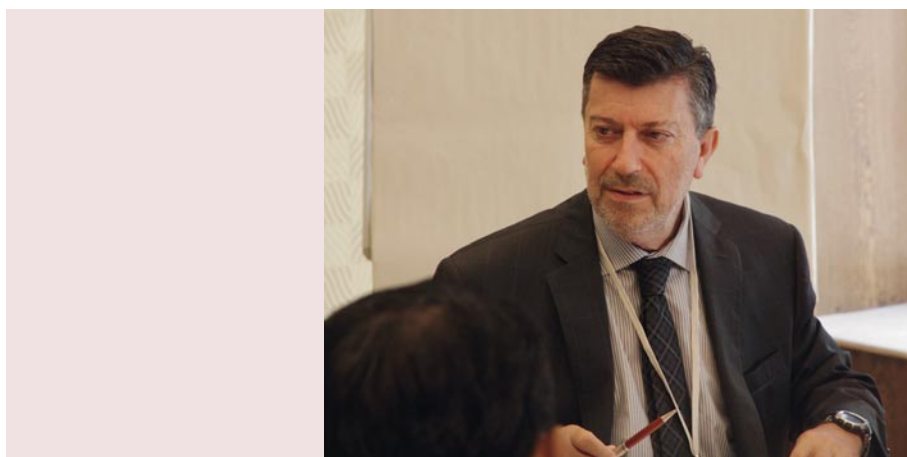
TA's legal areas network brings together the heads of legal areas to organise, disseminate and follow-up on TA.

The network of competent contacts for tax information exchange purposes brings together officials from international taxation areas with the primary aim of sharing technical information.

The international taxation network comprises middle- or high-level officials and treaty negotiators working in transfer pricing, large business auditing, information exchange and other areas. These people provide technical liaison to the CIAT Executive Secretariat with regard to regional studies and short-term technical assistance, and they also speak at seminars and workshops and provide relevant information.

The tax intelligence network is currently being consolidated. It provides technical liaison to the CIAT Executive Secretariat on the manual on tax intelligence, as well as regional short-term technical assistance.

The international tax community – considered in its broad sense to include private universities, institutes and study centres, non-governmental organisations and government cooperation agencies working in the field of tax policy and administration – plays an increasingly important role in dealing with the issues resulting from the economic crisis that began in 2008 and which has affected tax-based public revenues. By taking advantage of the synergies present among international cooperation's strategic networks or alliances, organisations can coordinate and join up efforts to deliver focused cooperation.



David Nguyen-Thanh

Towards improved cooperation among ASEAN tax administrations

GIZ's purpose is to promote international cooperation for sustainable development and international education work. As a 100% federally owned, public-benefit enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development. GIZ operates in more than 130 countries worldwide and employs more than 17,000 staff members across the globe – some 70% of whom are employed locally as national personnel.

The International Tax Compact was launched by the German Ministry for Economic Cooperation and Development (BMZ) in 2008 as an open international platform for the dissemination of good practice and the sharing of experiences. BMZ commissioned GIZ to build the network and provide a secretariat, which has been located in Bonn since 2009. ITC's focus is on promoting international dialogue on tax matters and providing short-term support to partner countries, whereas GIZ provides long-term capacity development. Currently, GIZ is working with 18 partner countries on developing their tax-related capacities.

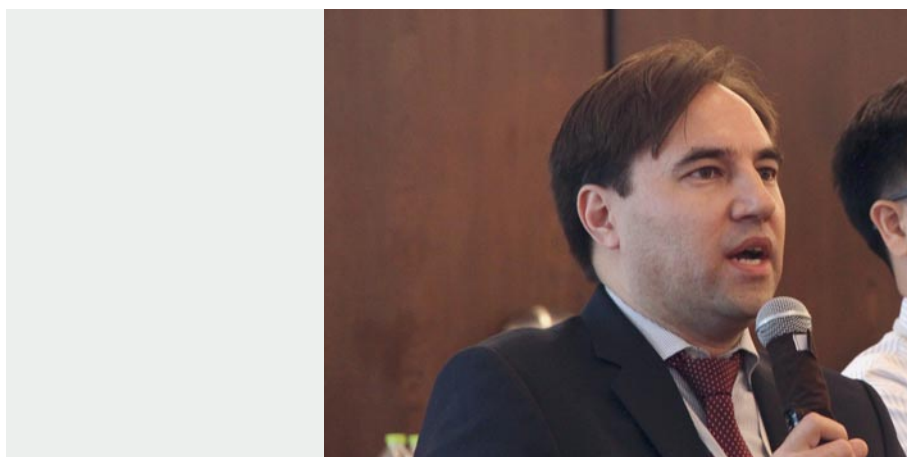
GIZ has 40 years of experience in capacity building for taxation and one of its first experiences in this domain was actually in Indonesia. For several decades now, GIZ has also been involved in strengthening regional networks like, for example, CIAT (from 1977 to 1997) and ATAF (since 2009); and earlier this year (2013) it began supporting the creation of an organisation of ASEAN Supreme Audit Institutions. GIZ's support for strengthening regional networks might include:

- support on the creation of a secretariat (vision and mission, management systems, HR issues);
- advisory services to member countries;
- regional learning (South-South cooperation);
- training (including training needs assessments, curricula development, international good practices);
- regional working groups for the development of standards/models.

Any options considered to support ASEAN must, more than anything, be needs based and demand driven, with networks adapting international good practice to their regional contexts (tailored solutions). Should the German Government or another donor decide to provide funding, GIZ would be able to support ASEAN member states, the ASEAN Secretariat or any other body identified as the suitable platform for exchange and networking. GIZ would strive to nurture a long-term partnership and would concentrate on developing capacities through training, organisational development, institutional development, and networking. In the short term, ITC would be the right conduit for measures to address immediate needs.

Discussions at the Bangkok workshop in July 2013 on how to support further development in tax matters within ASEAN indicate that the main issues to be addressed in any cooperation would be: (a) taxation challenges related to the ASEAN Economic Community (AEC), (b) tax administration challenges in regional cooperation, and (c) international taxation issues.

The workshop will primarily be followed up with a joint effort to communicate workshop findings and finalise study reports. If the preferred approach is to continue developing a regional network, then the next step will be drafting the concept. Please note that these are preliminary ideas for brainstorming. It is, of course, essential to seek guidance from the senior management of tax administrations and Ministries of Finance in the ASEAN region, as well as from other international partners. GIZ is looking forward to continuing the dialogue with all participants to this regard.



Time's up
please



Annex 1: Workshop programme

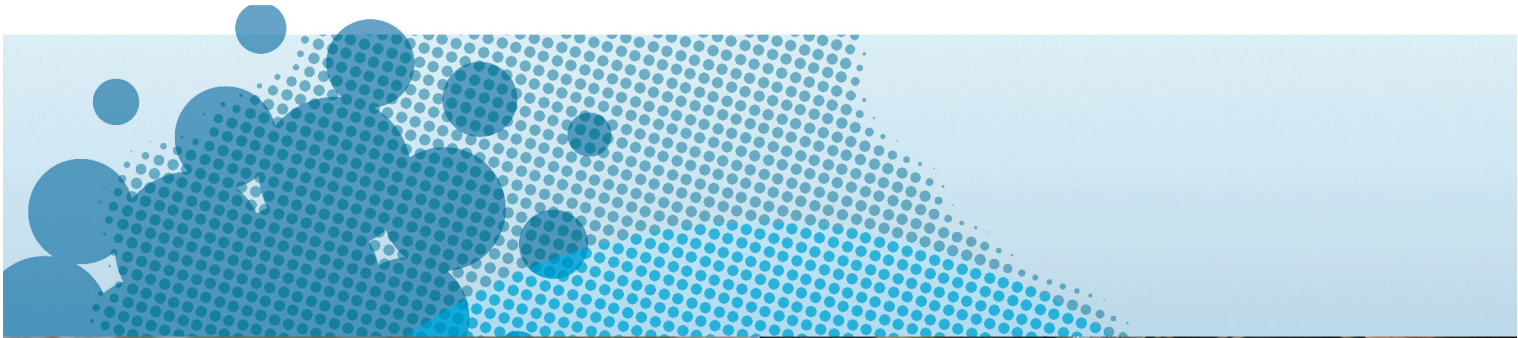
Time	Activities
■ Wednesday, 3 July 2013	
09.00–09.20	Welcome speeches
09.20–10.30	Introduction to the workshop and participants
10.30–11.00	Group picture and coffee break
11.00–12.00	Presentation of findings from the ITC studies
12.00–13.30	Lunch break
13.30–15.00	Discussion in working groups
15.00–15.30	Coffee break
15.30–16.45	Presentation of working groups' findings
16.45–17.00	Wrap up of the first day
19.00	Welcome reception by ITC
■ Thursday, 4 July 2013	
09.00–09.10	Introduction to the second day
09.10–11.10	Panel presentations: <ul style="list-style-type: none"> • AEC impacts and effects on taxation • Challenges for tax administrations • Country experience from Indonesia • Demands on tax administrations relating to international taxation
11.10–12.30	Reflection in country groups
12.30–13.30	Lunch break
13.30–15.00	Discussion of country groups' findings at three stations
15.00–15.30	Coffee break
15.30–16.45	Presentations of the three stations findings
16.45–17.00	Wrap up of the second day
18.30	Dinner reception by Thai Revenue Department
■ Friday, 5 July 2013	
09.00–09.10	Introduction to the third day
09.10–10.10	Existing regional cooperation in tax matters
10.10–10.30	Towards improved cooperation among Asian tax administrations: input
10.30–11.00	Coffee break
11.00–12.00	Discussion in plenary: 'Potential areas for regional cooperation and next steps'
12.00–12.30	Wrap up of the workshop
	Closure of the workshop
12.30–14.00	Farewell lunch

Annex 2: List of participants

Title	Name	Last Name	Position	Organization	Country
H.E.	Puthipol	Vann	Deputy Director General	General Department of Taxation, Ministry of Finance, Cambodia	Cambodia
Mr	Veasna	Chem	Director, Department of Taxpayer Service and Tax Arrears	General Department of Taxation, Ministry of Finance, Cambodia	Cambodia
Mr	Chhaysereyboth	Thor	Chief of Audit Bureau	General Department of Taxation, Ministry of Finance, Cambodia	Cambodia
Mr	Samon	Jaya	Senior Advisor in Tax Extensification and Intensification	Directorate General of Taxes, Ministry of Finance, Indonesia	Indonesia
Mr	Goro	Ekanto	Deputy Director for Withholding Tax Policy	Directorate General of Taxes, Ministry of Finance, Indonesia	Indonesia
Mr	Bounnam	Chounlaboudy	Deputy Director General	Tax Department, Ministry of Finance, Laos	Laos
Mr	Saytong	Ouiphilavong	Director, Planning Division	Tax Department, Ministry of Finance, Laos	Laos
Mr	Phoumala	Manivong	Deputy Director, Tax Policy and Legislation Division	Tax Department, Ministry of Finance, Laos	Laos
Ms	Wanee	Thasanamontien	Principal Advisor on Strategic Tax Adminis- tration (Energy Industry)	Revenue Department of Thailand	Thailand
Ms	Hasakarn	Pingkarawat	Tax Economist, Professional Level	Revenue Department of Thailand	Thailand
Ms	Dadanee	Vuthipadadorn	Tax Economist, Professional Level	Revenue Department of Thailand	Thailand
Mr	Danand	Jaovisidha	Tax Economist, Professional Level	Revenue Department of Thailand	Thailand
Ms	Jidtar	Neesanun	Audit Officer, Professional Level	Revenue Department of Thailand	Thailand
Ms	Duangtip	Chantarasak	Policy and Planning Analyst	Revenue Department of Thailand	Thailand
Ms	Suratchvadee	Atipatayawong	Audit Officer, Professional Level	Revenue Department of Thailand	Thailand

List of participants

Title	Name	Last Name	Position	Organization	Country
Ms	Natira	Tanvitayanon	Senior Tax Economist	Revenue Department of Thailand	Thailand
Ms	Jiraporn	Rangkasiri	Tax Economist	Revenue Department of Thailand	Thailand
Mr	Tuan-Hiep	Dang	Deputy Director, International Taxation Department	General Department of Taxation, Ministry of Finance Viet Nam	Viet Nam
Ms	Thi Thanh Huong	Tran	Deputy Manager, Income Tax Division and Policy Department	General Department of Taxation, Ministry of Finance Viet Nam	Viet Nam
Ms	Thi Thu Huong	Ngo	Official, Tax Audit Department	General Department of Taxation, Ministry of Finance Viet Nam	Viet Nam
Prof.	Michael	Kobetsky	Professor	Melbourne Law School, University of Melbourne	Australia
Dr	Ute	Eckardt	Senior Economist and ITC Expert		Germany
Dr	David	Nguyen-Thanh	Head of Unit, Public Finance and Administration Reform	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	Germany
Mr	Roland	von Frankenhorst	Head of Sector Project, International Tax Compact	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	Germany
Dr	Barbara	Dutzler	Senior Advisor	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	Germany
Prof.	Viktor	van Kommer	Director, Tax Services and Executive Board Member	International Bureau of Fiscal Documentation (IBFD)	Netherlands
Mr	Francisco	Beiner	Director, Institutional Management and Operations	Inter-American Center of Tax Administrations (CIAT)	Panama
Dr	Milwida	Guevara	Professor	Ateneo School of Government, Ateneo de Manila University	The Philippines
Mr	Thulani	Shongwe	Specialist, Multilateral Cooperation	African Tax Administration Forum (ATAF)	South Africa
Ms	Kalayanee	Chuncherd	Moderator		Thailand



international tax compact

initiative to strengthen international cooperation with developing countries to fight tax evasion and tax avoidance