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*Panel Discussion:*

The Impact of  
Globalization on Tax  
Administration



2010 IRS Research Conference

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# *The Impact of Globalization on Tax Administration*

Partho Shome

*Chief Economist, Knowledge, Analysis,  
and Intelligence, Her Majesty's Revenue  
and Customs, United Kingdom*



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**Dr. Partho Shome**

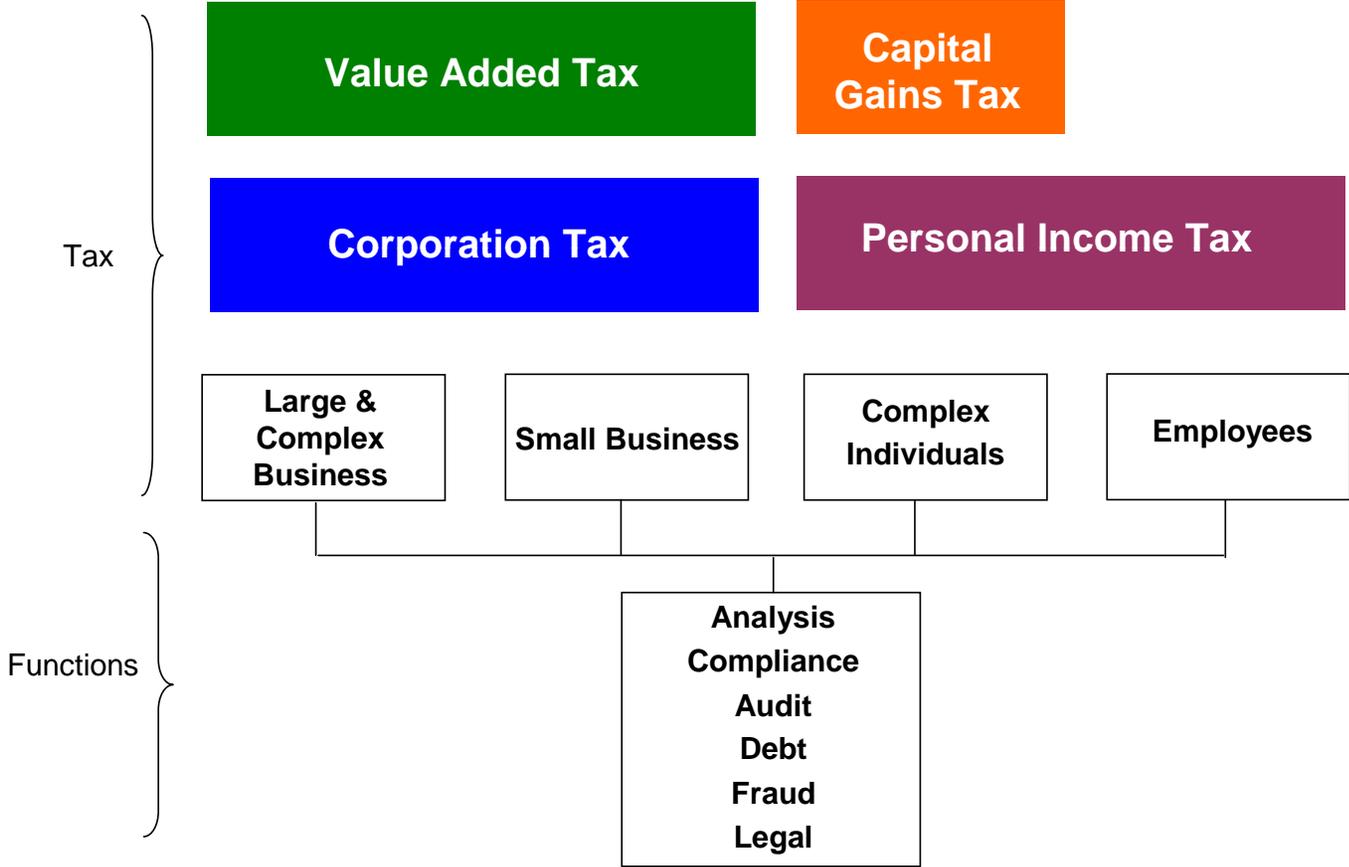
Chief Economist

HM Revenue & Customs, UK

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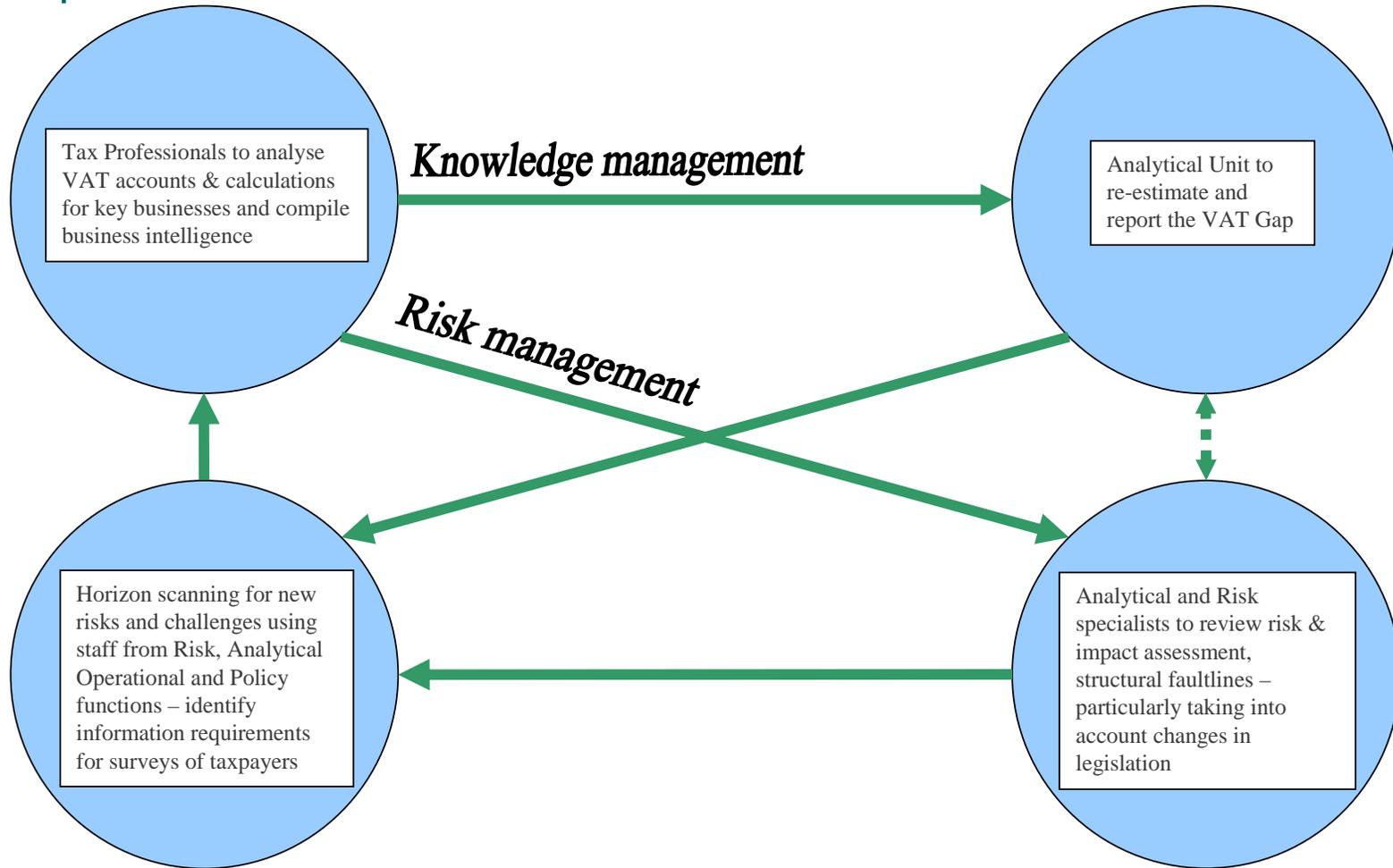
# What “lessons learned” are there for tax administrations?

Example: Tax Administration Structure



# What role do data, analysis & knowledge play?

Example: The UK VAT



# What role do multilateral organisations play?

Examples include CATA, CIAT or the OECD's Tax Administration Forum.

- Increased role in sharing data, information and best practice.
- The result has been a convergence in tax administration practices in developing and developed countries.
- Globalisation is helping to support this as countries share the same problems and country specific differences are reduced.

Political support for this process demonstrated by, for example, focus of G20 leaders meeting in April 2009 on “tax havens” complying with OECD best practice.

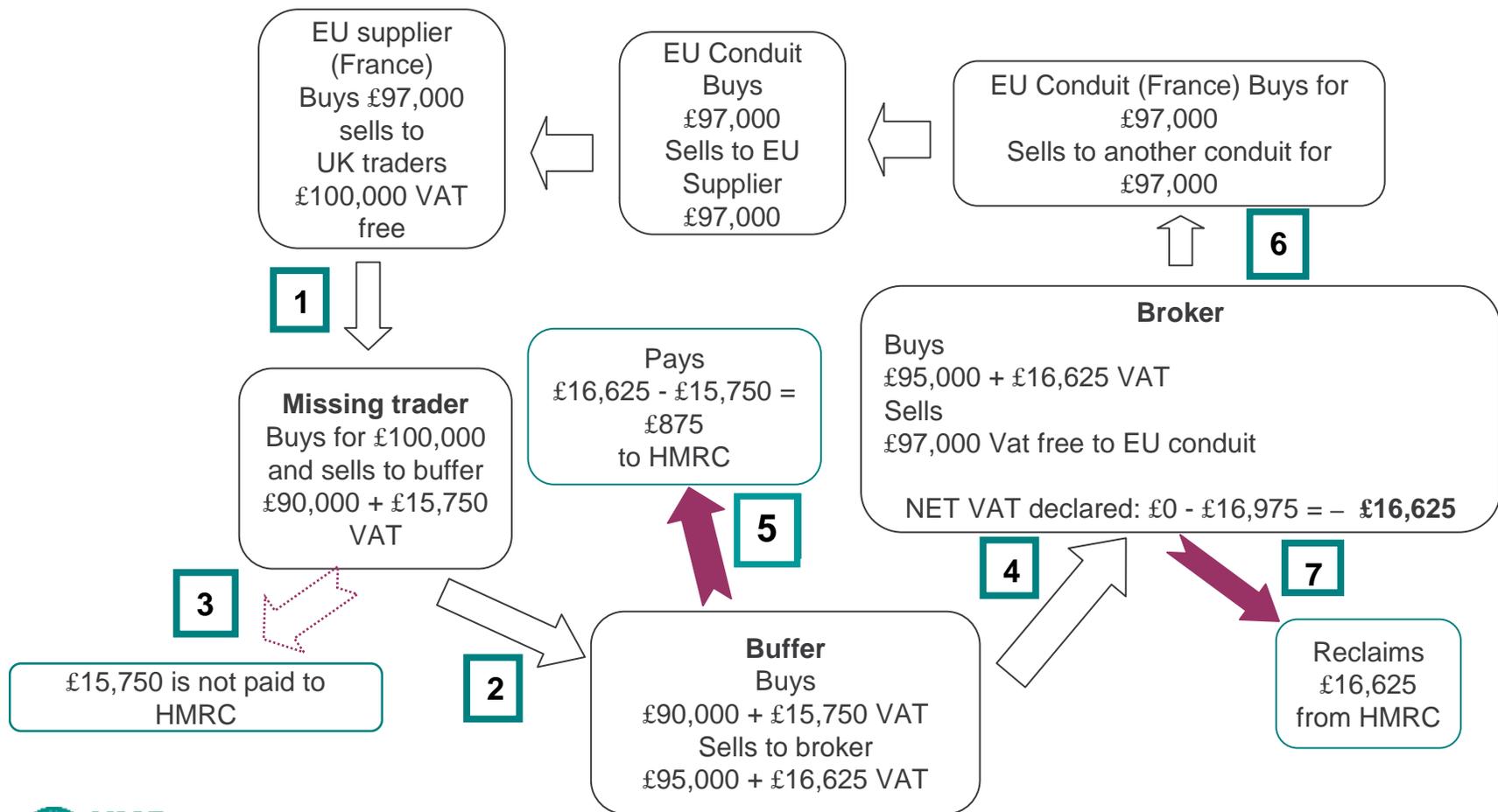
# What role do bilateral efforts play?

## The UK's Tax Administration Network

- Launched following the KAI International Conference in September 2009.
- Secure online forum established on the Economic & Social Research Council website.
- Network members from Australia, Canada, Germany, Ireland, New Zealand, Spain, United Kingdom and United States.
- Used for posting questions and sharing information between tax administrations.

# What problems are created for tax administrations through globalised markets?

## Example: Carousel fraud in the EU



# What problems are created for tax administrations through globalised markets?

## Example: “Controlled Foreign Company” rules

- Intended to prevent companies shifting mobile profits out of the country into low tax regimes.
- The CFC regime is currently an entity based regime with a number of exemptions, for example:
  - **Excluded Countries** – a list of “high tax” jurisdictions are excluded as it is assumed there would be no tax avoidance motive;
  - **Trading Activities** – subsidiaries are allowed up to 50% passive income before they are included in the regime;
  - **Motive Test** – this follows European Legislation and is relatively subjective, creating a degree of uncertainty for both stakeholder and the tax administration.
- Consultation on how to simplify the regime for taxpayers and tax administration continues but identifying objective tests that reflect a company’s motivations proves challenging.

# What ways are there for managing these problems?

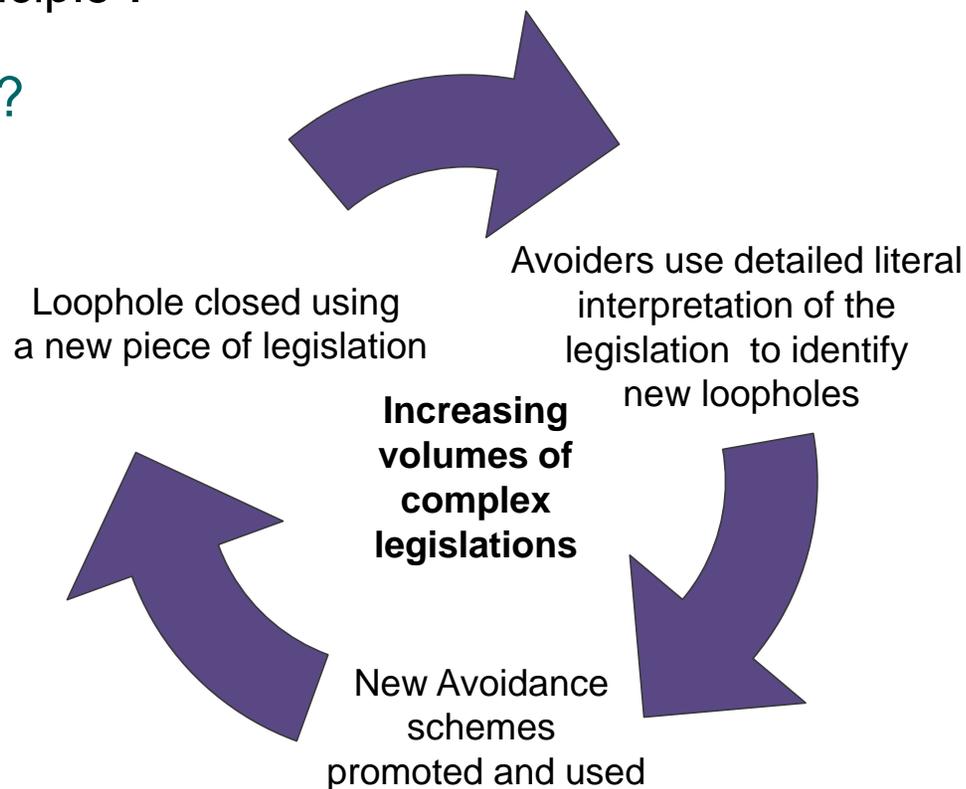
## Creating international standards for assessing international flows

- For example, the OECD’s “Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations” provides standardised methodologies for assessing the “arms length principle”.

## Principle Based Legislation (PBL)?

Traditional approach to anti-avoidance uses detailed, prescriptive legislation to close specific loopholes

PBL embodies a principle of taxation and is accompanied by a statement of how legislation intends to operate by reference to that principle rather than “letter of the law” detail.



# What ways are there for managing these problems?

Information powers and 3<sup>rd</sup> Party data to tackle offshore tax evasion

## **Example:** Offshore Disclosure Facility

- During 2006 and 2007 HMRC exercised its legal powers to obtain information on offshore account holders from the five largest high street banks.
- Between April and November 2007 UK individuals holding such accounts were given the facility, through the ODF, to notify and then disclose any unpaid tax and duties that they owed.
- A considerable amount was raised from disclosures.

## **Example:** Liechtenstein Disclosure Facility

- The UK recently launched another similar scheme called the Liechtenstein Disclosure Facility following an agreement between the UK and Liechtenstein regarding disclosure of information from financial intermediaries.
- This is expected to raise somewhat more in unpaid taxes.

# What role can International Benchmarking play?

International benchmarking can provide a set of consistent measures of performance for tax administrations in different countries.

The increased use of IT in our processes provides more opportunity to collect comparable information on aspects of the business.

Unlike the private sector, tax administrations can actually share this information and cooperate, this helps to:

- Identify opportunities to improve processes and ultimately frontline delivery
- Support the assessment and differentiation of different business strategies adopted in different tax administrations
- Provide useful performance measures

# The UK's experience of International Benchmarking

The UK participated in a benchmarking pilot study with the Australian and South African tax administrations.

Comparable measures were developed covering:

- **Registration:** Cost of VAT registration process
- **Processing:** Cost & time of Self Assessment returns processing
- **Compliance:** Time to resolve complex issues with large businesses, the cost of VAT risk management and the cost of CIT/IT audits
- **Customer Support:** Cost & quality of call centres

Plans to extend the study to more countries and include more measures are currently being developed.

# Conclusions

- There are opportunities presented to the global tax administration community in a more globalised world through the identification and sharing of “lessons learned”
- Multilateral forums such as CATA, CIAT, the OECD's Tax Administration Forum or the UK's budding Tax Administration Network can play an important role in this.
- However, significant problems are created for tax administrations by the increased flows of factors of production across country borders, international standards for information sharing can help support this.
- International benchmarking can play an increasing role by providing tax administrations with the information they need to assess their own performance.