www.oecd.org
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES
BETTER POLICIES FOR BETTER LIVES DES POLITIQUES MEILLEURES POUR UNE VIE MEILLEURE

JEFFREY OWENS

DIRECTOR, CENTRE FOR TAX POLICY AND ADMINISTRATION, OECD

PRESIDENT'S LUNCHEON

65TH CONGRESS OF THE INTERNATIONAL FISCAL ASSOCIATION

PARIS, 14 SEPTEMBER 2011

First let me thank Manuel and IFA for inviting me to make this presentation. OECD and IFA have a relationship that goes back a long way. I myself have now been attending IFA meetings for more than 30 years. I have enjoyed the intellectual debate and I have also enjoyed the social side of IFA. These meetings have also reinforced my conviction that tax people are some of the least boring people (we already knew that they were some of the most creative people) that you can meet.

I want to take twelve minutes to talk about three sets of issues. One is the relationship between IFA and the OECD. A second is the changing relationship between tax authorities and taxpayers and then I will turn to some of the challenges tax administrations will all face over the next decade.

So, let's start with the IFA/OECD relationship. Almost from the inception of IFA and of OECD's work on tax – this goes way back to the 1950s – there was always a close relationship between the two organizations. And that is not surprising, given the way that our agendas are overlapping. The IFA/OECD Seminar – a relatively new innovation – is one of the highlights of the annual congress and it is certainly one of the best attended of the events.

What has OECD gained from this relationship? It has given us a wider range of countries and a diverse audience. You have also helped us to identify new issues that are emerging, concerns of the business community, that you believe the OECD should be addressing. A very good example of that was arbitration.

And you have provided a very direct input into our work by means of the research that backs up the plenary sessions that you have at the annual conferences.

What has IFA gained from this relationship? Increased relevance, from knowing that you are working on topics that are important to policy makers. Secondly, an ability to influence the OECD's agenda and this can be seen in a number of areas, (e.g., the debate on PE's). Thirdly, I strongly believe that we have helped IFA to reinforce and strengthen the participation of governments, not just in your debates but also in your management and the determination of your programmes. I can remember, not so many years back, that there was a danger that IFA was turning into a forum that was primarily for the private sector and when there was a danger that you would be perceived – or misperceived – as a lobbying organization. So I am very pleased that we now have a situation where both OECD countries, and recently many more non-OECD countries, are actively participating in IFA. This can only help develop a better global understanding of the type of international tax rules that we need in today's global environment.

I am sure that this relationship will strengthen over the years ahead. I would like to see more synergies between the research agenda that is developed by IFA, both at the national level and at the level of central IFA, and the OECD's agenda. We can strengthen the links between the OECD Secretariat and the national branches of IFA (whenever I go to a country, one of my priorities is always to meet up with the national IFA branch to get a feel for what are the issues on the agenda of the local business community).

Let me now turn to the second topic which is the changing relationship between tax administrations and tax payers. I know that this is something that is very close to the heart of many of the other people in this room. It is important to understand the changing environment within which tax administrations have to operate. We tend to use the word 'globalisation' too frequently but it does represent a reality – the combination of removing controls on inward and outward investment, the liberalization of financial markets, the communication revolution, the development of regional blocs, the integration of the BRICs and other emerging economies into the global economy, the development of truly global multinational enterprises, the development of global advisory firms, and I'm not talking here just about the Big Four but also about law firms that are increasingly operating on a global basis. And so what we have seen is that today we do operate in a truly global economy.

These developments give a new dimension to the role of tax administrations. One thing that I would add here as an aside is that government and citizens are concerned that the costs and the benefits of globalization are fairly shared. And that is quite difficult in a global environment because those that seem to be benefitting most from globalization – bankers, CEOs – and those that seem to be paying the greatest price for globalization – the people at the low-middle end of the income scale – seem to have different perceptions. We need to reinforce the message that everyone, no matter where you are in society, in the long term, has benefitted – whether as consumers or producers - and will continue to benefit from the increased integration of national markets. It does, however, make life much more difficult for tax administrations. An environment where at the click of a mouse it is possible to transfer billions of dollars across frontiers. An environment where companies have much more choice as to where they locate their activities, particularly their IT activities, and an environment where increasingly it is services and not bricks and mortar activity, where wealth is generated.

So how are tax administrations responding to this changing environment? At the international level, they recognized that just as companies and the advisory professions have gone global, they must also go global. But this does not mean that we are going to see the creation of some sort of World Tax Organisation. What it does mean is that we'll see – and are seeing – closer cooperation between different tax authorities. Look at some of the recent international initiatives to reinforce that cooperation. We have JITSIG, we have IOTA here in Europe, we have the African Tax Administration Forum and of course we have the OECD's Forum on Tax Administration. People have forgotten how new a creature the Forum is, which now brings together Commissioners from 43 countries; the OECD countries, the BRICs, the G20 countries and other emerging economies. It's a very powerful body and when it speaks with one voice, it can certainly influence what happens in the private sector. Or put another way, it influences in a favourable way the environment in which tax administrations have to operate. And you can see that from the impact that the Seoul Communiqué had on attitudes towards non-compliance.

What is the Forum's role? Primarily, it's a forum which helps develop a common voice for tax administrations. When tax administrations talk with one voice, they have much more influence than when they speak individually. Its second function is to benchmark the performance of tax administrations – let's see what works and what does not work. How can we reduce compliance costs? How can we provide a more effective service to taxpayers? And the third related function is to identify best practices. We now have almost thirty reports that set out what Commissioners see as the best practices in tax administration. Not just in the OECD area but outside of the OECD area.

Another way in which tax administrations have been improving cooperation at the international level is in their attitude towards aggressive tax planning. The OECD now has a group looking at how to counter such planning in real time. A third way, and some ways the most important, is that tax authorities have been successful in influencing the views of other parts of government on how non-compliance should be dealt with. I was particularly pleased that in the revision of the OECD Guidelines for Multinational Enterprises this year, that not only did the tax chapter double in size but the relevance of the Recommendations improved.

We now have a commitment on the part of multinationals, not just OECD multinationals, to respect both the letter and the spirit of the law and to make the link between good tax compliance and good corporate governance.

A third area in which we have seen increased cooperation is a commitment on the part of many, but not all, tax authorities to minimize the potential for conflict. The spread of APAs is perhaps one of the most effective ways of doing that and to maximize the possibility of resolving tax conflicts when they arise. This is why I am pleased that we were able to get a consensus on introducing an arbitration provision into the OECD Model and we see an increasing number of countries using that provision.

So this is how tax authorities have responded internationally. What have they done at the domestic level? We have seen a proliferation of anti-abuse legislation. We have seen the creation of large business units. We have seen countries putting more resources into the transfer pricing area. More emphasis on risk management – don't try to shoot everything that moves but rather direct your resources to high risk sectors. We have also seen a renewed effort to get the right balance between good service and good enforcement. A recognition that with good service and good enforcement – that's how you get good compliance. We are beginning to see a change in the dynamics in the relationship between tax authorities, taxpayers and tax advisors. We are moving away from a relationship that is characterized by a lack of openness, a lack of trust to one that is transparent, constructive, where taxpayers have the confidence to go into the tax authorities and say quite openly "our business model is changing, we need to do this because we want to maintain competitiveness. It's not tax driven but there will be tax implications and we want you to understand our business model before we begin to discuss the tax implications." I think that is a very constructive development and I would like to see more governments moving in the direction of what we call 'the enhanced relationship'. It's not the best terminology in the world but what underlies the concept is something that is worth fighting for, something that is worth encouraging governments and business to move towards.

The other trend at the domestic level is that we see an increasing number Commissioners are talking to CEOs or CFOs, that they are taking tax into the boardroom, that they are more forceful in making the linkage between good tax compliance and good corporate governance. It's not an obvious linkage but I'm convinced there is one. Getting the boards to see what are the financial and what are the reputational risks associated with any planning technique is a good use of any Commissioner's time. Which is why an increasing number of commissioners are in fact making that commitment. I am pleased that IFA has taken up the enhanced relationship issue and we now look forward to working with you.

Let me now turn to the third and last part of my speech and that is the challenges ahead. Having spent thirty years trying to deal with tax issues involving 100 plus countries, it surprises me how much remains to be done. So, what would I see as being some of the big challenges coming up?

- First reconciling the need for tax administrations to have better access to information with the need to protect the confidentiality of that information. This is a debate that has only just begun.

- Secondly, how do we avoid the risks that are associated by countries entering into bilateral deals which pre-empt the actions of other countries and get countries to see that it is in their long term interests to seek multilateral rather than unilateral solutions particularly in the area of offshore non-compliance, which is essentially a global problem not just a national problem.

- Third, we must engage (I think this is a challenge for many countries around the world) business more closely both in policy formulation and in implementation. In other words, governments have to see business as a partner. Not always easy – it is more time consuming, there are differences of views, we don't always agree but at the end what you get is better legislation and legislation that stands a stronger chance of actually working. This is linked to what I said earlier about the need to see good tax compliance as part of any company's governance policy. This is not a question of taking morality into the boardroom but just making CEOs aware of what are the risks and the benefits associated with any aggressive tax planning.

- The fourth challenge is how do we engage the BRICs and economies in transition? How do we develop a closer partnership these countries and the OECD, so that their voice can be heard in the international tax debate? This may make take time but in many ways these countries are rapidly moving towards a situation where they have more in common with OECD countries than they do with truly developing countries.

And finally, tax administrations must be more prepared than they have been in the past to benchmark their performance. The name of the game today is governments want their tax administrations to do more with less. If tax administrations are going to respond to that in a coherent fashion, then they need to be able to benchmark their performance against that of other comparable tax administrations.

So there is no shortage of challenges that will face the international tax community over the next two decades (and I haven't mentioned the need to use tax policy to promote social cohesion; climate change; to stimulate investment, etc.) I am sure that the OECD will be able to continue to count on the strong support of IFA, both at the central level and at the national level in meeting these challenges.

Once again, thank you very much Manuel for providing me with this opportunity and I look forward to continuing, even after my retirement, the relationships that I have built up over the last thirty years with many of you in this room.

Thank you.