Mobilizing Domestic Resources for Development & International cooperation

GHANA's Perspective

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Challenges for Domestic Tax Policy Making

- Introduction
- Addis Ababa Action Agenda(AAAA) recognized the crucial role of domestic resource mobilization in attaining sustainable development goals (SDGs)
- Many developing countries especially in Africa rely on Overseas development aid (ODA)
- ODAs not stable source of revenue
- After global financial crisis a few years back ODAs virtually dried up
- The challenge for domestic tax policy is how to bridge the gap

Resolving challenges

- In domestic resource mobilization for:-
- Infrastructural development and balancing annual budgets
- Resolving the challenges in Ghana

1. Contracting commercial loans from the international financial markets

✓Ghana's current debt stock has reached worrying levels

✓Figures released by the government reveal that Ghana's debt is over 74% of GDP

✓Consequences for rising debt has been dire

Resolving challenges…/cont

- ✓ The currency depreciated by 9.6% in 2016 and ranked as the second worst performing currency on African continent

2. Encouraging foreign direct investments (fdis) was a major domestic tax policy

- o Aimed at addressing issue of mobilizing domestic resources
- o Improving infrastructure development
- o Increasing employment opportunities
- o Characterized by generous tax incentives
- o Stability agreement

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- Over the past 8 years major infrastructural projects have incorporated substantial tax holidays in the contracts
- Resulting in lower than expected tax revenues from multinational companies
- Sectors include:
- energy and power generation and
- Extractive industries: the major mining companies in Ghana have stability agreements insulating them from new taxation measures

Consequences of the current tax policies

❖ Increase in tax revenue over the past 8 years in real times have been marginal

❖ Targets set for infrastructure development have not been met or have been missed completely

❖ Inability to tackle effectively illicit financial flows due mainly to trade misinvoicing

Tackling the challenges of domestic resource mobilization through international tax cooperation

- Key issues faced by developing countries

I. New initiatives in international tax not adequately calibrated to the needs of developing countries

II. Whether the new rules proposed in the G20/OECD BEPS Action plan appropriate for developing countries

III. For the developed countries and initiators of the BEPS action plan a great solution to tackle tax evasion and avoidance

IV. Beps not directly aimed at changing the existing international standards on the allocation of taxing rights on cross border income

Key issues in international tax cooperation

- For developing countries the balance between source and residence taxation very crucial
- International tax rules with its preferences for residence based taxation not in interest of developing countries
- Most developing countries have source based taxation
- Other beps issues for example tax incentives and technical services fees not addressed in the Action plans
- the issue of preserving withholding taxes as a blunt but important and administrable anti- BEPS measure not addressed

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- Developing countries not part of the norm setting in international taxation
- Limited capacity to engage meaningfully in setting the new international tax rules and agenda

Role of G24 and International financial institutions (IFIs)

- Continue collaboration between the IFIs and the regional tax bodies

e.g. OECD, UN, ATAF CIAT etc

- Creating the environment to enable developing countries have a say in the setting of new international tax rules and implementation
- Strengthening regional tax bodies like ATAF to be more proactive
- Revisiting the question of a global tax body as discussed in Addis
- G24 spearheading the upgrading of the UN Tax Committee into an inter governmental body on Tax

Work of UN Tax Committee

- Group of 25 experts appointed in their individual capacity
- It's work to ensure that developing countries have a voice in setting rules in international taxation
- Developing capacity of developing countries tax administrations and administrators
- Publishing materials to further enhance capacity in developing countries, e.g.-

➢ tax treaty manual for negotiations between developing and developed countries,

➢ Transfer pricing guidelines

➢ Capacity building workshops for developing countries administrations

Conclusions: Is there room for a new tax organization

- Can be argued that the international tax arena is saturated with quasi global tax institutions e.g.;-
  - Global Forum on Tax transparency
  - BEPS Inclusive framework
  - Therefore developing countries should work within those organizations

❖ Issue : these bodies are not norm setting, only implementation

❖ An intergovernmental tax body where every jurisdiction is truly " equal at the table" is needed

❖ Developing countries will have a voice in shaping the dialogue on new rules of international tax cooperation

- G24 should start engaging and reexamining the unfinished Addis agenda.

THANK YOU