

# ITIC Eighth Annual Eurasia Fiscal Experts' Seminar

28-30 May 2012

Sheraton Brussels Hotel / World Customs Organization  
Brussels

## Background and Objectives

### Introduction

ITIC, a not-for-profit research and educational foundation promoting fiscal reform in transition economies, is holding its Eighth Annual Eurasia Fiscal Experts' Seminar in Brussels 28-30 May 2012, hosted by the World Customs Organisation---which is celebrating this year its 60<sup>th</sup> anniversary---and in association with the European Commission and the European Parliament. Their support and contributions for the Seminar are greatly appreciated. This partnership with WCO and the European integration institutions is particularly appropriate in 2012, as the countries of the Eurasia Region move towards closer economic integration with themselves and the wider world, highlighted by the operation of the Customs Union, the evolution of the Single Economic Space and the approach of WTO accession for additional Regional countries.

It is also apposite to recall, in the context of the fiscal issues surrounding integration, that ITIC initiated this annual Eurasia Seminar in 2005 in response to continuing requests for information on cross-border tax and investment issues received from Russia, Kazakhstan, Azerbaijan, and other regional countries. The Seminar--structured around a detailed *tri-partite* dialogue between Government officials and Legislators, academic experts and investors---has provided opportunity for candid and open consultation among Government delegations and with affected investors on questions of policy and administration involved with international taxation (including transfer pricing and tax treaties), cross-border VAT issues, and excise taxation as well as other issues.

The annual Seminars---Baku (2011), Moscow (2010), Astana (2009), Paris (2008), Singapore (2007), Dubai (2006 & 2005)---attracted high-level participation by Government officials and Legislators from Eurasia Region countries, as well as by international fiscal experts and ITIC Sponsors who, with significant investments, are major taxpayers in the Region. Baku in 2011, the twentieth anniversary of independence for the countries of the Region, provided opportunity for a "stock-take" on the annual Seminar and its deliberations, captured in the **Baku Agenda** set out below.

## **Baku Agenda**

EFES 7 has proved an effective forum for Regional Governments and private investors to discuss frankly their fiscal concerns and priorities. The sustained, high-level support provided by the Azerbaijan Ministry of Finance and the Ministry of Taxes has been critical for ensuring that effectiveness.

1. A consensus seems to be emerging about the importance of the design and implementation of optimal tax systems in Regional countries in order to meet government objectives and also to avoid creating conditions conducive to illicit trade and fraud. In that connection, interest was expressed in an early follow-up expert seminar, the modalities for which are to be further considered.
2. Tax policy continues to be utilised as a means of trying to realise many other public policy objectives. While understandable, this approach often has unintended negative consequences for business hence for private investment attraction and retention, suggesting scope exists for more incisive, prior analysis of reform proposals. Of course and unfortunately, some measures in tax policy and administration are dictated by continuing financial instability.
3. Notwithstanding an improving trend in taxpayer/ tax collector communication, tax policy continued to demonstrate some unpredictability, with negative consequences for fiscal stability and the overall investment climate. Procedural irregularity also impacted business operations. Interest was therefore expressed in further initiatives to promote transparency and enhance governance, taking into account in this regard the potential utility for other jurisdictions of Azerbaijan's 'One-Stop-Shop' business registration program.
4. Noting that honest disagreement between taxpayer and tax collector cannot always be avoided, priority attention should be directed to improving comprehensively disputes resolution procedures including, as appropriate to the unique circumstances of each jurisdiction, the establishment of a specialist, independent tax institution within the Judiciary.
5. The EFES has now demonstrated over time that it can be an efficient format for addressing the broadly similar challenges faced by Regional Governments and private investors. It should be reconvened in 2012, at a time and place to be determined.

## **Brussels Agenda**

The outcome of the post-Baku determination now is our meeting in Brussels, one of the more important centres of the global ferment currently surrounding debate on future directions in tax policy. In this regard, we are particularly fortunate to be able to address, at the outset.

## **The Global Picture**

With overarching presentations by Dr Jeffrey Owens, formerly Director of the OECD's Centre of Tax Policy and Administration, and by Mr Michel Aujean, formerly Director of Tax Policy and Analysis at the European Commission. Maastricht Professor Sijbren Cnossen, supported variously by William Morris, Global Director of Tax for GE and Sahib Alekperov, Deputy Minister of Taxes for Azerbaijan, would co-chair these two Sessions.

Subsequently the Agenda would be handled as follows:

- I **Regional States' Tax Policies and Administration** – Participating States' representatives would lead these important discussions. Tax policy reform continues to command high priority across the Region, evidenced in new tax codes in some instances and continuing substantial changes to existing legislation elsewhere. Tax changes have however been trying to serve a range of public policy objectives, not all of which have been business-friendly. Tax policy issues of major interest have related to the tax treatment of economic diversification, natural resources particularly energy carriers, economic integration and cross-border investment and trade. Indirect taxation policy continues to demonstrate a diversity of approaches across the Region, reflecting the unique circumstances of each jurisdiction.

Tax administration also increased in importance as a priority concern. Thus, for Eurasia Region Tax Service there are ever-stronger pressures upon them as they face a reduction of resources and implementation of increasingly-complex tax laws, the threat to the revenue of lower tax compliance and taxpayer expectations of improved services. Their responses have included greater reliance on risk management, even greater concentration on large taxpayers, broadening the tax base through self-declaration/self-assessment/universal filing systems, more attention to the administrative burden on taxpayers, introduction of more sophisticated IT solutions, greater institutional efficiency and training. International cooperation has intensified, including with key IGOs such as IMF, OECD and IOTA as well as with major trading partners.

Areas of concern – shared by taxpayers – include transfer pricing, VAT design and operation, international taxation and disputes resolution procedures. Issues of indirect taxation throughout the tripartite (Belarus, Kazakhstan, Russian Federation) Customs Union continue to command attention. Combating international tax evasion has stimulated bilateral and multilateral cooperation including through the proliferation of TIEAs. Strong anti-evasion programs can however raise concerns for legitimate business where such programs involve an often-idiosyncratic approach to transfer pricing and inconsistent handling of international taxation issues including treaties' application.

The Session will be co-chaired by ITIC personnel---TBC.

As remarked above, the question of

- II **Key Tax Issues for Successful Closer Economic Integration** is dominating the debate in many Regional countries. We are therefore fortunate that our deliberations are led by two acknowledged authorities, Kazakhstani taxation expert Timur Suleimenov, now with a Ministerial role at EAEC and Maastricht Professor Sijbren Cnossen, formerly with the IMF and The Netherlands Ministry of Finance. It is planned that Dr Owens and Mr Aujean would co-chair this Session.

Key features of the Customs Union include no customs clearance and border controls; no customs duties on mutual trade between CU member states; uniform customs legislation, regulations and duty rates; and a special confirmation procedure for zero-rate VAT. However, while customs legislation is now uniform, other domestic law is not. For example, there are different VAT rates (Russia 18%, Kazakhstan 12%, Belarus 20%) and different excise duty rates. Russia's (impending) accession to WTO will impact the legislation of the Customs Union. For example, Russia's commitments to WTO involve decrease of the average level of customs duties from 10% to 7.8%. The highly complex tax and customs regulation associated with this closer economic integration presents a serious challenge to Business and to fiscal administrations. While treaty-level agreement has been reached on the principles of levying Indirect Taxes, there is a myriad of critical implementation detail relating for example to VAT, Customs and Transfer Pricing.

Hence the substantive debate of the Seminar would conclude with the Session

- III **Economic Integration - Issues of VATs, Excise and Transfer Pricing** – to be led by Rolf Diemer, the serving European Commission official with key responsibilities in some of these areas, supported by WCO officials. The interested co-chairs are Timur Suleimenov from the EAEC and Lily Begiashvili, the latter being very much involved in Georgia's reform wave.

Debate continues on the design and administration of consumption taxes. This debate is fuelled by the fact that governments continue to experience significant revenue losses from fraudulent VAT practices while compliant taxpayers face inexplicable delays in VAT refunds as well as other administrative complexity e.g. relating to valuation for customs and tax purposes. The growing problem of illicit trade of excisable goods, combined with budget revenue pressures, is forcing Governments to examine excise taxation levels and introduce better technologies to improve collections. Regional policies and practices will be reviewed and analysed, particularly as to their effectiveness and fairness, by industry experts and government officials from a number of jurisdictions.

- IV **Action** – Essential to the Seminar is an honest appraisal by participants of its value and conduct, its design and delivery. From this process ITIC is able to extract important conclusions and recommendations for guiding future programs. We therefore urge all participants to take an active part in the closing Session.