Tax in Developing Countries: Increasing Resources for Development: Government update on implementation of the recommendations

1. Since the publication of the International Development Committee report “Increasing Resources for Development” in August 2012 and the subsequent Government response, there has been substantial progress on many of the aspects of the tax and development agenda highlighted by the Committee. In particular, the G8, under the UK’s presidency, and now the G20, has made significant advances on tax information exchange, Base Erosion and Profit Shifting (BEPS) and transparency of beneficial ownership of companies. Alongside this, the Department for International Development (DFID) has announced significant new tax-related programmes and the UK has also announced that it will implement the Extractive Industries Transparency Initiative (EITI).

Tax information exchange

2. As part of the UK’s G8 Presidency the Government focused on tax transparency and sought to promote the development of automatic information exchange. All G8 countries strongly agreed to establish a new global standard in automatic exchange. The OECD subsequently presented the new standard to the Meeting of Finance Ministers and Central Bank Governors in February 2014, where it was strongly endorsed. In April 2013, the UK, together with France, Germany Spain and Italy announced that they would automatically exchange information with each other, piloting the new global standard. This commitment to adopt early has now been matched by 43 jurisdictions, including the UK’s Crown Dependencies and Overseas Territories.

3. Following the commitments made in the lead up to the G8 summit and the receipt of their formal requests to join the Convention on Mutual Administrative Assistance in Tax Matters, the UK has asked the OECD to extend its signature to the Convention to all of the Overseas Territories with a financial services industry: Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and the Turks and Caicos Islands. The OECD recognised this important step at the Global Forum meeting on 21 November. The UK has also requested an extension of its signature to Jersey and the Isle of Man. This will ensure the large number of countries signed up to the Convention can quickly benefit from greater levels of information exchange with the Overseas Territories by being able to make requests from them and vice versa for information relevant to tackling tax avoidance and evasion.

4. At the St Petersburg summit in September 2012, G20 Leaders asked the Development Working Group to work with the OECD and the Global Forum to develop a roadmap for developing countries to overcome obstacles to participating in automatic exchange of information. The Global Forum has set up a sub-group on the Automatic Exchange of Information, which the UK is actively involved in. It is expected that the roadmap will be presented to the Brisbane G20 summit in November 2014.

Corporate Tax Base Erosion and Profit Shifting

5. In 2012, G20 Finance Ministers called on the OECD to look at how to address tax base erosion and profit shifting (BEPS) by multinational companies. The OECD presented its

1 Paragraph 9: https://www.g20.org/sites/default/files/g20_resources/library/Communique%20Meeting%20of%20G20%20Finance%20Ministers%20and%20Central%20Bank%20Governors%20Sydney%2022-23%20February%202014_0.pdf

2 Paragraph 52: www.g20.org/sites/default/files/g20_resources/library/Saint_Petersburg_Declaration_ENG.pdf
initial report in Moscow in February 2013 and subsequently developed the BEPS Action Plan, which was approved by G20 Finance Ministers in Moscow in July 2013.

6. The Action Plan contains 15 specific actions to tackle BEPS at a global level, to the benefit of developing and developed countries. It includes a Task Force to analyse the tax challenges of the digital economy, and a review of the transfer pricing rules that determine profit attribution to companies within multinationals to ensure these are better able to attribute value to intangible assets, capital and risk, and restrict opportunities for profit shifting. It also delivers on the G8’s call, during the UK’s Presidency, for the OECD to develop a common template for country-by-country reporting to tax authorities by major multinational enterprises, taking account of concerns regarding non-cooperative jurisdictions. The template will provide comprehensive and relevant information on the financial position of multinational enterprises to help tax authorities effectively identify and assess tax risks. The work on the reporting template is being taken forward with a deadline of September 2014. Other actions will be completed between September 2014 and December 2015.

7. As is noted in the BEPS Action Plan, “developing countries also face issues related to BEPS, though the issues may manifest differently given the specificities of their legal and administrative frameworks.” With this in mind, the G20 DWG and the OECD will identify BEPS issues relevant to developing countries and consider actions to address them. This process will include regional consultations with tax authorities in Africa, Asia and Latin America, which will provide specific opportunities for developing countries to feed their views and experiences of BEPS into the report as it is developed. It is expected that the Report will be presented to the Brisbane G20 summit in November 2014.

Beneficial Ownership

8. The Government has been leading from the front in its advocacy of greater company transparency, with the 2013 UK G8 Presidency placing transparency of ownership and control of companies (beneficial ownership) at the heart of its agenda. All G8 members have published Action Plans setting out the concrete steps they will take to tackle misuse of companies and legal arrangements, as have the Crown Dependencies and the British Overseas Territories with a financial centre.

9. The UK Action Plan committed not only to place a requirement on companies to obtain and hold such information, but also to establish a central registry of company beneficial ownership. Following a consultation led by the Department for Business, Innovation & Skills (BIS), the Prime Minister announced on 31 October that the UK central registry of company beneficial ownership will be made publicly accessible. A full response to the BIS consultation is expected in the first half of 2014.

10. Providing public access to this central registry will help businesses to identify who really owns the companies they trade with, give developing countries easy access to this data, and improve scrutiny and thus the accuracy of the beneficial ownership information. The Government is continuing to work with its international partners, through the G8, G20 and EU, to encourage them to show similar ambition on this issue.

New DFID programmes

11. At the Lough Erne summit, G8 members committed to share tax expertise, and help build capacity in developing countries by engaging in long term partnership programmes. Leaders also expressed their support for the OECD’s Tax Inspectors Without Borders project and to make practical steps to support the initiative.

12. In addition to existing country programmes on taxation, DFID is providing funding to HMRC in order to establish a new Developing Countries Capacity Building Unit. The Unit will deploy HMRC staff to developing countries to provide technical expertise in support of DFID efforts to increase the capacity of tax policy and administration in partner countries. The unit builds on the successful programme that HMRC delivered with the Ethiopian Revenues and Customs Authority, providing technical and managerial assistance to support their tax and customs modernisation programme. The Unit will consist of a permanent central administration team, HMRC staff seconded to partner countries and HMRC staff deployed on short term missions to partner countries. The aim is to run sustained multi-year partnerships with partner tax authorities. The first four programmes will be in Ethiopia, Pakistan, Tanzania and a regional programme in Southern Africa.

13. In November 2013, the Secretary of State for International Development announced funding for a series of projects delivered through international partners that will increase the effectiveness of tax authorities and help them to reduce tax evasion and tax avoidance. We are providing £3 million of funding to the OECD and International Finance Corporation (IFC) to provide expert technical assistance to developing countries on transfer pricing and BEPS. The project will help partner tax authorities for example to amend their legislation and put in place the systems and processes needed for transfer pricing assessments of multinational companies. Funding has also been provided to the OECD to carry out reviews of partner countries’ tax incentives for investment (£0.2 million). In many cases developing countries’ corporate tax bases are undermined by the granting of excessive and poorly managed tax incentives to companies.

14. Secondly, DFID is supporting the provision of technical assistance on tax information exchange by the Global Forum Secretariat and IFC (£2.6 million) to developing countries that have joined or are seeking to join the Global Forum. This will assist with, for example, putting in place the necessary legislation, tax treaty networks and information handling processes before they embark on the Forum’s rigorous peer review process. This builds on a successful DFID-funded pilot project whereby the Global Forum Secretariat provided assistance to Kenya and Ghana. Both countries passed phase one of their Global Forum peer reviews in November 2013 and in June 2012 Ghana successfully joined the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. Kenya has also expressed its wish to join the convention and is also now a member of the Global Forum steering committee.

15. In addition, funding has been provided to establish the secretariat for Tax Inspectors Without Borders (£0.2 million). TIWB aims to put expert tax auditors into the field to work alongside developing country peers on complex audit cases. Separately and funded through iFUSE (Investment Facility for Utilising UK Specialist Expertise), HMRC has recently carried out a TIWB mission to Rwanda.

EITI implementation

16. In May 2013 the Prime Minister announced, together with France that the UK would be signing up to the Extractive Industry Transparency Initiative (EITI), which provides a standard for companies to publish what they pay for oil, gas and mining. Governments disclose what they receive from these companies and the figures are reconciled by an independent administrator and published.

17. Business Minister Jo Swinson has been appointed EITI Champion and officially launched the UK’s EITI process at an event in July 2013. The Multi Stakeholder Group (MSG), consisting of government, civil society and industry representatives, has oversight of the EITI implementation process. It first met in October 2013 and has subsequently met every two months since. In the UK’s Open Government Partnership National Action Plan, the Government stated it was aiming for EITI ‘candidate’ status in 2014, with a view to publishing its first EITI report in 2015.
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<td><strong>Recommendation 1:</strong> If developing countries are to improve their collection of tax revenues, it is imperative that elites within those countries pay the correct amounts in personal income taxation, and—critically—are seen to do so. (Paragraph 8)</td>
<td><strong>Agree.</strong> The taxation of elites is important in relation to governance as well as revenue. Personal income taxation commonly accounts for less than 10 percent of all tax revenue in low-income countries – compared to an average of more than 25 percent in OECD countries. Historically, entrenched power structures have been an obstacle to taxing elites although administrative weaknesses and errors in tax design have also contributed. DFID support for improvements in governance more generally and, in particular in improving accountability, should help to facilitate more internal pressure to address such issues. Taxpayer education and increasing public awareness may also have a role to play. Improving the way in which tax receipts are used, by strengthening public financial management, may help to increase willingness to pay. Where there is a willingness to tax elites, and the problem is in carrying this out, the Government’s work at the international level on improving exchange of information is very important with regards to taxation of individuals, as well as companies, where foreign assets and transactions are involved.</td>
<td>As noted in the Government response, improvements in international tax information exchange are important for tackling cross-border tax evasion by elites and high net worth individuals. Details of progress on information exchange, both exchange on request and automatic exchange, as well as DFID support for technical assistance in partner countries, is set out above.</td>
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<td><strong>Recommendation 2:</strong> DFID should seek to support the national revenue authorities of developing countries as they attempt to improve the collection of personal income taxes, VAT and local property taxes. DFID should also encourage and support programmes that engage civil society and trade organisations, academics, journalists and parliamentarians in the tax</td>
<td><strong>Agree.</strong> As indicated in its evidence paper submitted to the Committee, DFID already supports the revenue authorities in a number of developing countries, whose remit includes personal income tax and VAT, to help them improve collection of taxes. DFID intends to continue to provide such support. DFID has had much less involvement in support for collection of local taxation, including property tax, and accepts that there is a case for the international community to do more work in this area. DFID country offices are encouraging partner governments to establish systems and processes to engage with the public, civil</td>
<td>DFID is continuing to provide support to the national revenue authorities of developing countries, both through its in-country programmes and through HMRC’s recently established Developing Country Capacity Building Unit. The scoping of the first round of projects has yet to be completed but it is expect that they will cover a range of areas of taxation and customs. Other new DFID tax programmes are outlined in paragraphs 11-15 above.</td>
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policymaking process. (Paragraph 13) society organisations and parliamentarians on a range of issues. As regards engaging such organisations in the tax policymaking process, one of the objectives of the International Centre for Tax and Development (ICTD), which DFID is funding, is to help stimulate dialogue within developing countries around tax issues. The ICTD works with a range of academics and civil society groups.

DFID also supports the International Budget Partnership (IBP), which promotes transparency and participation in the budget process in many countries, including through its bi-annual Open Budget Survey which ranks governments on the transparency of their budget data. Civil society organisations can use the rankings to encourage governments to make more information about budgetary planning available to the public. This is an important tool for citizens to be able to hold governments to account for their spending of tax revenues. Although the focus of the IBP has been primarily on the expenditure side of the budget, some IBP partners have worked on tax issues.

In addition, a number of current DFID programmes include support to local civil society on tax and fiscal issues, for example in Sierra Leone, Nigeria and Kenya. It is appropriate that consideration be given to these issues in tax programmes as well as programmes focusing more broadly on civil society support. DFID engagement with the ICTD and other international initiatives such as the IBP, and through work at the country level, should in time increase public participation in tax policymaking.

The Government response noted the role that the International Budget Partnership played in promoting transparency and participation in the budget process. IBP’s biennial Open Budget Survey was released for the fourth time in early 2013 covering 100 countries. The Survey is the only independent, regular comparative survey of budget transparency and covers both expenditure and revenue transparency. This data will serve as a useful baseline for monitoring changes in tax transparency over the next four years. The Survey is a training tool as well as a research tool, ensuring that the 100 respondent civil society organisations receive intensive training and technical assistance on tax transparency and related issues. IBP has also provided grants and technical assistance to a wide range of partners including those working on tax and revenue issues in Brazil, Nigeria, South Africa, and Zambia.

**Recommendation 3:** We urge DFID to stress—in its dealings with the national revenue authorities of developing countries—the importance of making corporate accounts available to the public. In Zambia, to test the allegations that the process is not working at

**Agree.** The UK Companies Act requires limited companies to publish statutory accounts information so that third parties can assess the financial health of the company. The Government would encourage jurisdictions that do not have such a requirement to consider its introduction. The Government believes the wider benefits of this in commercial decision-making justify the costs to companies and to government of fulfilling this obligation.

The work by the OECD Task Force on Tax and Development on the benefits of public statutory accounts for increasing transparency and in particular providing information on transfer pricing transactions has now been completed. The final report can be found at [www.oecd.org/ctp/tax-global/2.%20Final_report_to_Sub_Group.pdf](http://www.oecd.org/ctp/tax-global/2.%20Final_report_to_Sub_Group.pdf). The report will aid discussion with developing
present, DFID should request access to the accounts of some of Zambia’s main corporations, using channels available to the ordinary Zambian citizen. In its response to this report, the Government should notify us of the outcome of these requests. (Paragraph 25)

Work to look at the benefits of public statutory accounts at the OECD Task Force on Tax and Development (to which DFID contributes funding) has highlighted some of the advantages of making accounts available from the point of view of increasing transparency and in particular providing information on transfer pricing transactions. The report has been welcomed by the Task Force and will soon be made available as a resource for jurisdictions considering the benefits of the public registration of the statutory accounts of unlisted companies. It should be noted that the accounting information is also valuable to investors and creditors although this dimension was not the subject of the Task Force report.

The Government nevertheless recognises that a requirement for the public registration of statutory accounts may be made for a wide variety of reasons most of which are not related to tax issues and therefore it for each individual country, whether a developed or developing country, to make its own decision on whether to introduce such a requirement. The report prepared for the OECD Task Force will provide a useful tool for countries when considering whether to introduce a public filing requirement.

As requested, DFID has tested the system for making corporate accounts available to the public in Zambia. Under Zambian law, public companies (PLCs) are obliged to file annual accounts with the Patents and Companies Registration Agency (PACRA). Members of the public are entitled to request copies of these accounts from PACRA. Using channels available to ordinary Zambian citizens, staff of DFID’s office in Zambia requested copies of the accounts of 10 of the country’s main corporations from PACRA. The fee for this service was the equivalent of £3.50 for each company. Requests for the accounts of five companies were submitted on 20 September and for a further five on 24 September. By 17 October, accounts had only been provided for one of these companies.

countries on whether public registration of statutory accounts might offer benefits. For example, Kenya is currently revising its Companies Act and this includes a public registration requirement.

The G8 also noted at Lough Erne that “The ability of tax administrations to compare relevant price information across jurisdictions is essential for the effective operation of transfer pricing rules, and a lack of data on comparable transactions is a significant issue for effective tax collection, particularly in developing countries. We ask the OECD to find ways to address the concerns expressed by developing countries on the quality and availability of the information on comparable transactions that is needed to administer transfer pricing effectively.” An initial report by the OECD is due in the Spring.

In order to make further information available to tax authorities on multinational companies’ activities, the G8 also called on the OECD to “develop a common template for country-by-country reporting to tax authorities by major multinational enterprises” – see paragraph 6 above.

There has been little further progress in making corporate accounts available to the wider Zambian community. Corporate accounts can still be accessed from local institutions (eg from PACRA for a fee), international stock exchanges if firms are listed, and from company websites. For example, all third quarter 2013 financial reports can be accessed for the mining companies First Quantum Minerals, Barrick Gold and Vedanta.
The reasons for this are not clear although, on the basis of initial investigations with PACRA, concerning the first five companies, it appeared that accounts for four of these companies had not been filed with PACRA. This experience appears to substantiate the allegations referred to by the Committee that the system is not working properly at present. DFID’s office in Zambia will share the results of this exercise with the Government of Zambia.

For private companies, there is no requirement to file accounts with PACRA. The main mining companies operating in Zambia are private companies. A staff member of DFID’s Zambia office was able to successfully access summary financial information for one of the major mining companies operating in Zambia, Konkola Copper Mines (owned by Vedanta Resources PLC listed on the London Stock Exchange), through the UK Companies House web-based information service. However, this process required use of a credit card with a UK address, so would not be readily available to most Zambian citizens.

DFID understands that, under the Securities Act, Cap 354 of the Laws of Zambia, all financial intermediaries conducting securities business in Zambia must be licensed by the Securities and Exchange Commission; that the licensing process includes submission of financial statements; and that these financial statements are available to members of the public. Whilst this mainly applies to financial institutions, some private companies are also registered as issuers of debt and equity instruments. However submission of accounts is only required at the time of licensing or renewal, not annually.

The availability of accounts from the Securities and Exchange Commission was not tested.

**Recommendation 4:** The Government should encourage the

**Partially agree.** As noted above, the Companies Act requires limited companies to publish statutory accounts information and

See update to recommendation 3 and paragraphs 2-4 above.
OECD and other standard-setting fora to require the filing of public statutory accounts in all jurisdictions. The Treasury should also press Crown Dependencies to meet these standards. (Paragraph 26)

| Paragraph 26 | the Government would encourage jurisdictions that do not have such a requirement to consider its introduction. The Government does not believe, however, that the adoption of a requirement for public statutory accounts by the OECD is a realistic prospect at the present time given the diversity of requirements existing across OECD members (and indeed while the OECD can develop standards it cannot set “requirements” as such). This is unlikely therefore to be the most fruitful approach to making progress on this important issue in the context of developing countries.

An important first step is, however, for jurisdictions to ensure that reliable accounting records are kept for all relevant entities and arrangements and that these are available to competent authorities, such as revenue authorities. These are both requirements of the international standard reviewed by the Global Forum on Transparency and Exchange of Information for Tax Purposes. The Government would like to see as many jurisdictions as possible join the Global Forum. Once the requirement for accounting records is in place, it may be a relatively straightforward step to make accounting information publicly available.

Another important aspect of the process is how accounts are disclosed to the public. The method of disclosure at present varies from country to country and therefore ease of access is different from country to country. This issue has been raised in the discussions at the OECD Tax and Development Task Force and it has been agreed that the OECD Secretariat would explore the possibilities of working with industry on a partnership project to improve internet access by the public and by tax administrations to financial data that is already publicly available.

As regards the Crown Dependencies’ requirements for statutory accounts and their meeting of international standards, the Crown Dependencies have provided an information note that is annexed to this response. The UK Government will continue to
| Recommendation 5: DFID should support the governments of developing countries as they seek to incentivise hitherto unregistered enterprises to join the formal, taxpaying economy. (Paragraph 32) | Agree. An overwhelming characteristic of most low-income countries is the very large number of informal enterprises. Over 20 DFID country offices have programmes to improve the regulatory environment by cutting red tape, increasing the predictability of regulations and reducing the cost of compliance to encourage firms to formalize and access new business opportunities. This includes not just improvements to tax administration but also business registration and licensing, contract enforcement, enhancing property rights, access to finance including secured transactions, debt resolution and streamlining customs procedures. In many cases DFID works closely with the World Bank Group to deliver these improvements.

DFID has partnered with the Centre for Economic Policy Research (CEPR) to launch in December 2011 a £15 million research programme – Private Enterprise Development in Low Income Countries (PEDL) – which has a focused research area on “The dynamics of SMEs: Informality and entrepreneurship” to help us understand better what drives firms decisions to stay informal. There is a debate about whether informality enables business owners to escape excessive regulation or reflects unfair competition as some businesses escape efforts of the state to regulate the economy in a reasonable manner.

This debate has direct relevance to poverty, as a large share of low-income households earn their living from informal employment. It is also relevant to the growth of the broader economy: informality may represent an entry point for nascent entrepreneurs, but if high-ability entrepreneurs are unable to grow because of barriers to formalisation, then small firms will be unable to exert competitive pressure on larger incumbents. The PEDL programme is awarding research grants to proposals that |
| DFID continues to fund the ICTD and CEPR’s Private Enterprise Development in Low Income Countries (PEDL) programme, both of whom continue to undertake research in this area. For example, PEDL carries out research on firms and markets, including studies of the informal economy. They are currently conducting an experiment in Malawi to measure the impact of formalization for Micro, Small and Medium Enterprises (MSMEs). This work will be directly relevant for policy, as the Malawian Government is in the process of streamlining its registration process to increase the registration rate amongst MSMEs and they will use the results of the study to promote registration, if a positive impact is detected, or identify corresponding bottlenecks that affect enterprise performance, if no impact is detected. |
explore these and other hypotheses about the role of informal enterprise in low income countries.

The International Centre for Tax and Development (ICTD), which DFID jointly funds with the Norwegian development ministry, has a 5 year research programme with a research theme on informal taxation. The Government hopes that the findings from the ICTD and PEDL research initiatives will inform the development of a new generation of donor programmes that can better address the dynamics and incentives underpinning firm informality.

DFID also supports the International Growth Centre (IGC) which utilises the best of British expertise to provide independent, high-quality growth policy advice based on cutting-edge research to 11 DFID partner countries. The IGC has a specific research theme on firm capabilities that deals specifically with issues such as the impact of and barriers to formalisation. Specifically the IGC has undertaken enterprise mapping, in Ethiopia and Ghana, to examine the origination and capabilities of leading industrial companies, focusing on large and mid-size firms, in order to help build and expand these capabilities for increased growth. Specific recommendations included structural reform of the Ethiopian Investment Agency (EIA) to become more pro-active with licensed firms that are not yet operational and to encourage formal registration.

**Recommendation 7:** To help developing country revenue authorities to tackle transfer pricing abuse, DFID should stress—in its dealings with these revenue authorities—the importance of requiring ‘related party transactions’ (i.e. transactions taking place within the same corporation) to be declared on annual tax returns. (Paragraph 48)

**Partially agree** (pending further work on this issue). The question of how a specific schedule to a tax return detailing significant transfer pricing transactions can help tax authorities with risk assessment is currently under discussion in the OECD Task Force on Tax and Development. The formulation of a model schedule is an option being considered as part of this work. Where tax authorities believe they are currently unable to properly assess transfer pricing risk, the Government envisages that this would be an approach worthy of consideration.

Paragraph 5 and the update to recommendation 3 sets out the work on the development of a common template for country-by-country reporting to tax authorities by major multinational enterprises, and with it “... a requirement that MNEs provide all relevant governments with needed information on their global allocation of the income, economic activity and taxes paid among countries according to a common template.” This work is being taken forward as part of the G20-OECD Base Erosion and Profit
### Recommendation 8: In order to understand the perspective of multinational businesses on transfer pricing issues, HMRC should meet the CBI to discuss the issue. HMRC should also seek the views of trade Agree. The Government accepts this recommendation, which it understands to relate more specifically to understanding multinationals’ and others’ perspectives on building transfer pricing capacity in developing countries.

HMRC already has a good understanding of the more general HMRC and HMT officials have met with representatives from business and civil society to discuss the transfer pricing issues under consideration as part of the G20-OECD Base Erosion and Profit Shifting project, including two joint HMT-HMRC stakeholder events held in May.
unions and civil society organisations. HMRC should report back to the Committee before the end of 2012 to advise us of the outcome of these discussions. (Paragraph 49)

In addition to working with particular businesses, HMRC meets regularly with specialist practitioners and representative bodies such as the CBI, the Business Tax Forum and the Law Society.

HMRC also works with UK business through the EU Joint Transfer Pricing Forum, which is composed of representatives from both business and tax administrations.

HMRC will meet with the CBI and civil society organisations later this year to explore how to bolster the transfer pricing capacity building in developing countries.

Recommendation 11: Given that the UK was involved in founding the Extractive Industries Transparency Initiative (EITI), we feel that it should now become an EITI candidate itself. Additionally, the UK should encourage EITI to broaden its scope: EITI should require participating corporations and governments to publish the contracts which exist between them, and should also require the publication of percentage figures in addition to absolute figures. (Paragraph 62)

Partially agree. As noted by the then Parliamentary Under-Secretary of State for International Development, Stephen O’Brien, in his evidence to the Committee the UK has not implemented the EITI in the past as it was not considered resource-rich by the IMF. Yet the UK is an active supporter of the EITI by providing financial and political support to encourage countries to join and then implement the Initiative. DFID provides support to the Secretariat, the EITI multi-donor trust fund which provides technical assistance to implementing countries and represents the UK on the EITI Board. DFID bilateral programmes also support EITI candidacy and/or implementation, for example in the Democratic Republic of Congo, Nigeria, Afghanistan and Burma.

The Government welcomes the Strategy Review of the EITI which is underway to develop a broader standard for consideration by the EITI Board, with a view to possible introduction in 2014. This aims to recognise countries which are prepared to go beyond revenue transparency and look at how to provide additional information along the resource chain so that citizens can see if their governments are getting a good deal from their extractives wealth. The UK is an active participant in the Strategy Review, which is a multi-stakeholder process.
considering a wide range of proposals which could be included in a revised standard. These proposals include disclosure of contracts, more disaggregated reporting of data and background on the sector, among other proposals.

**Recommendation 12:** Irrespective of whether EU-level agreement is reached, the Government should enact legislation requiring each UK-based multinational corporation to report its financial information on a country-by-country basis. Such information should include the names of all companies belonging to it and trading in each country, its financial performance in each country, its tax liability in each country, the cost and net book value of its fixed assets in each country, and details of its gross and net assets in each country. Additionally, the UK should continue to support the progress of similar legislation at EU level. (Paragraph 66)

| Partially agree. The Government supports mandatory reporting requirements at the EU level, via changes to the Accounting Directive, to improve transparency in the extractives and forestry sectors by requiring companies to disclose tax and other payments made to governments. This will help to promote accountability for the use of these revenues and tackle corruption in resource-rich developing countries. The Government would also encourage other jurisdictions to introduce similar legislation.

The Government does not believe, however, that the case has been made in terms of cost and benefits of extending the current proposals for EU mandatory requirements, via the Accounting Directive, to report payments to governments beyond the extractives sector and loggers of primary forests, as has been suggested by the European Parliament.

The more extensive model of country by country reporting outlined in Recommendation 12 (and described in the Committee’s report as the EURODAD model) is not aimed primarily at promoting accountability over revenue paid to governments. Rather, it is regarded by its supporters as providing the information necessary to allow third parties to assess whether multinationals pay correct amounts of tax in their countries of operation or whether abusive profit-shifting has occurred. This model has been discussed in the OECD Task Force on Tax and Development without any consensus being reached on its merits. The Government believes the case has not been made for the effectiveness of this model in achieving its objectives while minimising the costs to business. Moreover, it is not something that developing country tax authorities appear to be advocating.

EU members of the G8 (France, Germany, Italy and the UK) have agreed to quickly implement mandatory reporting requirements through the Accounting Directive for the extractives and forestry sectors. The European Commission will review and report on the implementation of the Accounting Directive.

As agreed in the Non-Financial Reporting Directive, the European Commission will also consider, taking into account international developments, the possibility of introducing an obligation requiring large undertakings and public-interest entities to produce on an annual basis, a country-by-country report for each Member State and third country in which they operate, containing information on, as a minimum, profits made, taxes paid on profits and public subsidies received.

The Government introduced legislation, which came into force in 2014, implementing the country-by-country reporting requirements of the EU Capital Requirements Directive (CRD) IV for the banking sector. Improved transparency over the banking sector is important given the systemic significance to the wider economy.

During the UK’s G8 Presidency, the OECD was called on to “develop a common template for country-by-country reporting to tax authorities by major multinational enterprises, taking account of concerns regarding non-cooperative jurisdictions.”
Nevertheless, the Government agrees that many developing countries will need to improve their ability to assess transfer pricing risk and detect abusive profit shifting and other options, such as the transfer pricing transaction schedule described in Recommendation 7, could offer more proportionate and effective ways of achieving this.

This will improve the flow of information between multinational enterprises and tax authorities in the countries in which the multinationals operate to enhance transparency and improve risk assessment.”

HMT and HMRC officials are actively engaged as this work is taken forward as Action 13 of the G20-OECD Base Erosion and Profit Shifting project. It will provide comprehensive and relevant information on the financial position of multinational enterprises to help all tax administrations effectively to identify and assess tax risks.

### Recommendation 13: We re-iterate our earlier recommendation, made in our Report on CDC last year, that the tax payments made by CDC’s fund managers and investee companies should be published annually on a country-by-country basis. If certain fund managers or investee companies are unwilling to agree to this, CDC should use alternative companies which are willing to be more co-operative. (Paragraph 71)

**Partially agree.** One of the Government’s main priorities for development is to foster successful private investment and enterprise in the poorest countries. CDC is an important actor in this; and to play its role it needs to act in a commercially viable way.

The Government must be careful to maintain a balance between its commitment to openness and transparency on the one hand, and the need to understand and respect commercial confidentiality and contractual obligations on the other. Information on tax payments by the companies in which CDC and the investment funds managed by CDC’s fund managers invest is not generally publicly available on a per company basis - and is typically subject to confidentiality provisions in contractual documentation. For these reasons, CDC is publishing on its website aggregated annual data on a country-by-country basis of tax payments by investee companies.

CDC is committed to obtaining further improvements in tax transparency and disclosure, but this will take time. Until then, the Government should be careful not to restrict unduly CDC’s ability to mobilise investment and get capital to work in the

CDC continues to work to improve the transparency of its investments. CDC publishes information about its direct investments and will publish a database of all its fund investments, which will be made available on their website in the first half of 2014. The database will include information about the sector, geography, fund, fund manager, number of employees and country information.

CDC has been actively engaged with the International Aid Transparency Initiative (IATI). It has hosted two working group meetings of Development Finance Institutions (EBRD, EIB, IFC, IFAD, PIDG) and the IATI Secretariat to discuss how to adapt the IATI implementation process to accommodate institutions whose operations are primarily in the private sector. The Working Group is aiming to present its recommendation to the IATI Steering Committee in March 2014.
poorest parts of Africa and South Asia by imposing disclosure requirements on CDC for businesses, fund managers and the other entities that CDC engages with that other investors do not require. To do so would constrain CDC’s ability to invest in and alongside these entities and would likely result in CDC overall doing less investment in poorer countries and frontier markets rather than more.

CDC will consider ways, which may include further disclosure, to ensure the continued fair and full payment of taxes by its investee companies to the countries in which they are based. CDC will consult on this matter with the wider Development Finance Institution community.

Under its new investment policy, CDC avoids making new investments through jurisdictions that do not meet international standards on exchange of tax information (as determined by the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes).

| Recommendation 14: We recommend that DFID scale up its technical assistance work with the national revenue authorities of developing countries. (Paragraph 75) | Agree. The Government agrees with the Committee’s recommendation that there is a good case for scaling up DFID’s technical assistance work with revenue authorities in developing countries. Detailed proposals are being developed for how this might be achieved. An option under consideration is funding for HMRC to increase the level of technical assistance it provides to developing countries. Discussions are ongoing between DFID and HMRC with a view to preparing a business case. If this approach and business case are approved the likely aim would be to put arrangements in place during the course of the 2013/14 financial year. Ministers will write to the Committee with details when any arrangements have been agreed.

More support will be provided to DFID country offices on tax matters and, for example, to assist with the scoping of tax projects and to ensure that the research work being undertaken through the, DFID funded, International Centre for Tax and Development helps to inform practice. This may result, over time, in an increase in tax work at the country level. However, decisions on individual country programmes will continue to be made on the basis of the local country context. | Details of the latest DFID tax technical assistance projects are given in paragraphs 11-15. |
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<th>Recommendation 15: We recommend that HMRC be provided with additional funding, to allow it to scale up its own technical assistance work with developing country revenue authorities. (Paragraph 80)</th>
<th><strong>Agree.</strong> As noted in the response to question 14 above, options are being developed on scaling up technical assistance work and one that is currently under active consideration is DFID funding for HMRC to increase the level of technical assistance it provides to developing countries. If this option is taken forward it is likely that arrangements could be put in place during the course of the 2013/14 financial year.</th>
<th>DFID and HMRC have established a dedicated developing country tax capacity building unit – see paragraph 12.</th>
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| Recommendation 16: The UK Government should improve its reporting on its technical assistance on tax and development, reporting cross-departmentally and at a project level on work in this area. (Paragraph 81) | **Partially agree.** DFID will continue vigorous implementation of its Aid Transparency Guarantee policy and DFID’s Open Data Strategy (http://www.data.gov.uk/library/dfidopen-data-strategy). For example, since 2011, all project documents (Business Case, Annual and Project Completion Reviews, Log frames) are published online. This will includes all DFID projects which involve, in whole or in part, capacity building and technical assistance on tax.

As part of this process, The Government is committed to continue to improve the quality and accessibility of what is published, responding to the needs of people using this data. DFID will consider whether there are changes that can be made to its finance and performance reporting system and information platform (http://projects.dfid.gov.uk) to make it easier for users of data on tax, or indeed other subjects, to find what they are looking for. The priority will remain on achieving the Government’s broader aid transparency objectives rather than providing issue-specific reporting on tax or other topics. DFID will however discuss with the OECD DAC Secretariat whether it might be appropriate to establish a specific classification code for tax-related interventions, which, if implemented across all donors, has the potential to help improve donor coordination as well as the monitoring and evaluation of tax-related projects. | Since the Government response, the DFID Development Tracker site has been launched http://devtracker.dfid.gov.uk/, giving access to comprehensive information on DFID programmes. DFID is also in discussion with OECD members on whether there would be value in having a separate DAC purpose code for supporting tax policy and administration, which is currently part of the much broader code for public financial management. If agreed by the DAC, this would greatly improve the availability of information on DAC members’ activities in this area. |