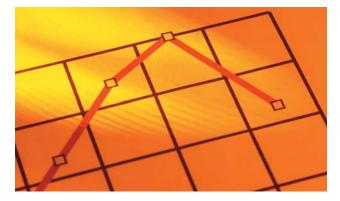


Promoting regional cooperation in tax reforms GTZ experience with the Inter-American Center of Tax Administrations (CIAT)

Rapidly growing economic integration on the American continent posed a threat to nation states: the fear was that tax bases would erode. Political will thus increased to enhance the effectiveness of taxation procedures, to foster cooperation and to harmonise tax procedures and in 1967 Northern, Middle and South American general tax directors founded CIAT (Inter-American Center of Tax Administrations), a regional professional association which was mandated as a regional information and service centre for tax related questions.

While during the first Assembly the Center featured 20 member countries from the Americas, it was only in the last decade that CIAT has attracted growing interest from other regions: currently CIAT includes 38 member countries and associate members from four continents, 29 of which are from the Americas, 6 from Europe, two from Africa and one from Asia. The Czech Republic, South Africa, Kenya and India are associate members.



While regional cooperation among tax administrations is currently a burning issue, this paper aims at summarising the lessons learned by the GTZ in its cooperation with CIAT.

This cooperation had three pillars: institution building within CIAT, providing expertise in assistance to tax reforms and fostering cooperation among tax officials in order to increase the efficiency of cross-border taxation.

(I) Institution building within CIAT

As the first donor country, Germany took up the idea of advising tax reforms in Latin-American countries by facilitating a regional professional association. Commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ), the GTZ supported CIAT in three vital areas from 1977 to 1997:

- · developing adequate management capacities at the CIAT general secretariat in Panama
- · the development of a comprehensive information and service support for the member states (e.g. the creation of model procedures as landmarks for reform processes, planning models and consultant databases)
- · the establishment of a system of direct advice and capacity development for Latin-American CIAT members planning and implementing tax reforms

Within the scope of the project, international standards were balanced against efforts for regional harmonisation and specific national needs and further evolved into practically orientated reform models.



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(II) Rethinking tax reforms: Improving good governance

In accordance with CIAT's self-conception, the German project was not merely restricted to model procedures aiming at an optimisation of tax administrations, but it also covered improvements in the entire taxation process, taking into consideration the legitimate interests of both citizens and government: international working groups were established at CIAT

- to develop models for rules and regulations for taxation procedures in Latin-American countries regulating the rights and duties of both citizens and government in a binding and transparent way;
- to develop software for tax administrations ("TaxSolutions") to unify and optimise accounting procedures in the tax administration and to support taxpayers with information and services (via online access);
- to provide for regional and international exchange of experiences in order to discuss legal, organisational and technological means as well as good practices of preventing tax fraud and fighting corruption in the taxation process.

(III) Improving regional cooperation: fighting tax evasion and tax avoidance

Capacity building measures included seminars and training for cross-border taxation. With regard to international tax matters,

special attention was given to the implementation of double-taxation agreements between CIAT members. On the national level efforts have focused on developing competences for tax audits and tax investigations in the member states. These are core elements in reforms of tax administrations designed to **combat tax evasion and tax avoidance**. As an initial step, a number of member states published a manual for auditing officials in tax administrations; building upon this foundation, special **training programs** were developed for **auditing officials** and **tax investigators**. Equipped with greater possibilities for control and improved auditing techniques, member states were able to tackle tax evasion and tax avoidance in a more purposeful way.

Lessons learned

<u>Developing excellence</u>: since its foundation CIAT has emerged as an international centre of excellence in taxation. This is reflected not least in CIAT's strong role in the exchange of information, the discussion of experience and the initiation of learning processes from best practices. Good cases in point are the handbooks on the organisation of tax administrations and on tax auditing, which were among the first of their kind.

<u>South-South learning processes</u>: a strong supranational forum represents a sound and complementary contribution to bilateral approaches in the field of development assistance. Providing expertise as a central think-tank and regional provider of advanced capacity building for member states not only offers economic advantages, but also inputs that match regional needs.

<u>Built-in ownership</u>: CIAT is governed by its Latin American member countries. The Steering Committee, which is responsible for decision making as well as for management, is governed by CIAT members. In this regard, the similarity of their legal and historical backgrounds allowed for standards to be established for different issues and applied in day-to-day operations. In addition, using these standards as a basis for training has produced excellent results. CIAT's budget is financed to a large extent by contributions of its members. This internal governance structure guarantees ownership of the partners.

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