



WELCOME STATEMENT
PROF. DOMENICO SINISCALCO
MINISTER OF ECONOMY
& FINANCE, ITALY

On behalf of the Italian Government it is with great pleasure that I welcome you all to the first International Tax Dialogue-Global Conference on Value Added Tax.

Firstly I would like to express my appreciation of the formation of the International Tax Dialogue. An international initiative that provides governments with the opportunity to share knowledge and experiences is indeed a very welcome development.

In recent years globalisation, deregulation and technical change have brought about important changes in the volume and structure of international trade in goods and services. In this context, policymakers and administrators dealing with VAT in developed and developing economies alike are faced with new challenges. Increased cooperation between revenue authorities and international and regional tax organisations is a key factor to ensure that the diversity of the VAT systems currently in force in many countries does not have a negative impact on the world competition among traders and on the extent of VAT fraud or evasion.

This forum provides leading VAT experts and public officials from all over the world with the first ever opportunity to share experiences and exchange views on effective ways to ease the burden that costly and complex VAT obligations place on businesses, to guarantee transparency and legal certainty for traders and national administrators through the proper application of current tax rules, and to address in a truly global setting the issue of international tax fraud and evasion.

I believe that all our countries will benefit from the pursuing of international dialogue on these issues and will be able to make significant advances in the continuing process of improving tax compliance, implementing best practices and adapting to changing economic conditions.

Domenico Siniscalco
Minister of Economy & Finance Italy

WELCOME STATEMENT
MR. DANNY M. LEIPZIGER
ON BEHALF OF THE
INTERNATIONAL TAX DIALOGUE



The International Tax Dialogue (ITD), an initiative of the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the World Bank (WB) is pleased to have the opportunity to work with Italy as the host government in organising this conference. We thank the Italian Ministry of Economy & Finance for creating this opportunity to bring such a broad range of countries together in Rome. Our thanks also go to the European Commission for their support in the conference organisation.

Although introduced only fifty years ago, value added taxes have become a major source of revenue in many countries. While the number of countries adopting a VAT was initially low, the rate of adoption has accelerated significantly, particularly over the last fifteen years. Currently about 130 countries have implemented a VAT.

Across these countries, there is considerable diversity in the structure and performance of the VATs currently in place. There is a wide range of exemptions and rate structures, creating considerable differences in tax bases around the world. Some of the more complex issues surrounding international trade, particularly in the trade in intangibles and in business restructuring, point towards a need for increased international cooperation. Increasing problems with fraud and other types of abuse further suggest that VATs are still very much work in progress. Fortunately, countries now have a considerable wealth of knowledge and experience derived from developing and maintaining the necessary legal and administrative frameworks. This conference therefore allows countries with a VAT, as well as those considering its introduction, an opportunity to share this knowledge and experience and consider how implementation, development and maintenance can be improved. We will also have the opportunity to discuss the key challenges we are all likely to face in the future.

The ITD hopes that the conference will help all participants gain new ideas and perspectives which will be of benefit to your country as well as providing you with an opportunity to create networks to draw on in the future.

A handwritten signature in black ink, appearing to read 'D. Leipziger', with a long, sweeping flourish extending to the right.

Danny M. Leipziger

Vice President, Poverty Reduction and Economic Management – World Bank

PROGRAMME

Monday, 14 March 2005

| | |
|-------|--|
| 18.30 | Pre-conference Reception (<i>Hotel Cicerone</i>) |
|-------|--|

Tuesday, 15 March 2005

| | | |
|-------------|---|---|
| 09.00–10.30 | Opening Welcome Ceremony (<i>Salone Delle Feste</i>) | |
| | <ul style="list-style-type: none"> • Welcome Address by Prof. Domenico Siniscalco, Minister of Economy & Finance – Italy • Welcome Address by ITD Representative – Mr. Danny M. Leipziger, Vice President, Poverty Reduction and Economic Management – World Bank <p>Emerging Challenges and Prospects – High Level Panel <i>Chair:</i> Mr. Donald J. Johnston (Secretary-General – OECD) <i>Panel:</i> Mr. Francisco Gil-Díaz (Minister of Finance – Mexico), Mr. Pravin Gordhan (Commissioner for Taxation, South African Revenue Service), Mr. Lászlo Kovács (Commissioner for Taxation – European Commission), Mrs. Teresa Ter-Minassian (Director, Fiscal Affairs Department – IMF)</p> | |
| 10.30–11.00 | Coffee Break | |
| 11.00–12.30 | Plenary Session I: Overview (<i>Salone Delle Feste</i>) | |
| | <ul style="list-style-type: none"> • Broad assessment of spread of, and experience with, VAT – Mr. Michael Keen (Head, Tax Policy Division Fiscal Affairs Department – IMF) • Recent policy and administration developments in VAT/GST – Mr. Jeffrey Owens (Director, OECD Centre for Tax Policy and Administration) • VAT implementation issues for developing countries and transition economies – Prof. Richard Bird (World Bank Consultant, Professor Emeritus of Economics at the University of Toronto and Adjunct Professor and Director of the International Tax Program) | |
| 12.30–14.00 | Lunch | |
| 14.00–15.00 | Parallel Discussion Session 1 | |
| | <p>Tax Policy (<i>Salone Delle Feste</i>)</p> <p>Treatment of Financial Services <i>Chair:</i> Mr. William McCarten (Senior Economist – World Bank Institute) <i>Presenter:</i> Ms. Marie Pallot (Portfolio Manager, Policy Advice Division, Inland Revenue Department – New Zealand)</p> | <p>Tax Administration (<i>Salone Veneziano</i>)</p> <p>Measuring and Reducing Administrative Costs and Tax Compliance Costs <i>Chair:</i> Mr. Neil Mann (Deputy Commissioner of Taxation, Goods and Services Tax, Taxation Office – Australia) <i>Presenter:</i> Prof. John Hasseldine (Co-Director, Nottingham University Tax Research Institute – United Kingdom)</p> |
| 15.00–15.30 | Coffee Break | |
| 15.30–16.30 | Parallel Discussion Session 2 | |
| | <p>Tax Policy (<i>Salone Delle Feste</i>)</p> <p>Special Topics, including:</p> <ul style="list-style-type: none"> • VAT in Island Economies • Equity Impact of the VAT • Trade Liberalisation <p><i>Chair:</i> Mr. Michael Keen (Head, Tax Policy Division, Fiscal Affairs Department – IMF) <i>Presenter:</i> Ms. Annette Weekes (Director Value Added Tax, Ministry of Finance – Barbados)</p> | <p>Tax Administration (<i>Salone Veneziano</i>)</p> <p>International Exchange of Information <i>Chair:</i> Mr. David Holmes (Head, Consumption Taxes Unit – OECD) <i>Presenter:</i> Mr. Donato Raponi (Head of Unit, Administrative Cooperation and Fight Against Fiscal Fraud – European Commission)</p> |
| 16.30–17.30 | Parallel Discussion Session 3 | |
| | <p>Tax Policy (<i>Salone Delle Feste</i>)</p> <p>Application of VAT to the Public Sector: <i>Chair:</i> Mr. Alexander Wiedow (Director, Indirect Taxation, DG Taxation and Customs Union – European Commission) <i>Presenter:</i> Mr. Satya Poddar (National Director, Tax Policy Services, Ernst & Young)</p> | <p>Tax Administration (<i>Salone Veneziano</i>)</p> <p>Implementing VAT – Problems and Experiences <i>Chair:</i> Prof. Richard Bird (World Bank Consultant, Professor Emeritus of Economics at the University of Toronto and Adjunct Professor and Director of the International Tax Program) <i>Presenter:</i> Mr. Juan Toro (Director General, Tax Service – Chile)</p> |

Wednesday, 16 March 2005

| | | |
|--------------------|--|---|
| 9.00–10.00 | Parallel Discussion Session 4 | |
| | Tax Policy (<i>Salone Delle Feste</i>) International Services and E-Commerce <i>Chair:</i> Mr. Arthur Kerrigan (Acting Head of VAT and Other Turnover Taxes, DG Taxation and Customs Union – European Commission) <i>Presenter:</i> Prof Steve Smith (Professor, Value Added Tax Policy: International Services and E-Commerce, Department of Economics, University College London – United Kingdom) | Tax Administration (<i>Salone Veneziano</i>) VAT Fraud and Control of Refunds and Credits <i>Chair:</i> Mr. Richard Highfield (Head, Tax Administration and Consumption Taxes Division – OECD) <i>Presenter:</i> Mr. Andy Leggett (Head of the VAT Strategy Team, Strategy Unit, HM Customs and Excise – United Kingdom) |
| 10.00–11.00 | Parallel Discussion Session 5 | |
| | Tax Policy (<i>Salone Delle Feste</i>) Application of VAT to International Aid <i>Chair:</i> Ms. Victoria Perry (Head, Revenue Administration 2 Division, FAD – IMF) <i>Presenter:</i> Prof. Gérard Chambas (Professor, VAT and Foreign Financed Assistance – France) | Tax Administration (<i>Salone Veneziano</i>) Risk Assessment and Audit Methods <i>Chair:</i> Mr. Bjarne Hope (Director General, Directorate of Taxes – Norway) <i>Presenter:</i> Mr. Jacek Rybarczyk (Senior Specialist, Ministry of Finance – Poland) |
| 11.00–11.30 | Coffee Break | |
| 11.30–12.30 | Plenary Session II – Small and Medium Sized Businesses (<i>Salone Delle Feste</i>) | |
| | Specific Needs and Problems of Small and Medium Sized Businesses <i>Chair:</i> Prof. Fabrizia Lapecorella (International Relations Office, Tax Policy Department Ministry of Economy and Finance – Italy) <i>Presenter:</i> Mr. Placidus J. Luoga (Deputy Commissioner General – Tanzania), Mr. David Holmes (Head, Consumption Taxes, Unit – OECD) | |
| 12.30–14.00 | Lunch | |
| 14.00–15.00 | Plenary Session III – Federations and Regional Trading Blocs (<i>Salone Delle Feste</i>) | |
| | Designing and Managing VAT in Federations and Regional Trading Blocs <i>Chair:</i> Mr. Rainer Nowak (Senior Chief, Operations, Department of Finance – Canada) <i>Presenter:</i> Mr. Stephen Bill (Tax Commissioner's Cabinet – European Commission), Mr. Alberto Barreix (Trade & Integration Economist, Integration and Regional Programs Department – Inter-American Development Bank) | |
| 15.00–15.30 | Coffee Break | |
| 15.30–17.00 | Plenary Session IV – The Way Forward (<i>Salone Delle Feste</i>) | |
| | Panel Discussion followed by Open Discussion – Future Challenges and the Way Ahead (including the role of the ITD) <i>Chair:</i> Mr. Paolo Ciocca (Head of the Tax Policy Department, Ministry of Economy and Finance – Italy) <i>Overall Summary:</i> Prof. Richard Bird (World Bank Consultant, Professor Emeritus of Economics at the University of Toronto and Adjunct Professor and Director of the International Tax Program) <i>Panel:</i> Mr. Neil Mann (Deputy Commissioner of Taxation, Goods and Services Tax, Taxation Office – Australia), Mr. Shi Yaobin (Director General of Tax Policy, International Department, Ministry of Finance – China), Mr. Jorge Cosulich Ayala (Executive Secretary, Inter-American Center of Tax Administrations), Mr. Cecil Morden (Director, Indirect Tax, National Treasury – South Africa), <i>Open Discussion</i> <i>Closing Remarks:</i> Mrs. Teresa Ter-Minassian (Director, Fiscal Affairs Department – IMF), Mr. Sanjay Pradhan (Director, Public Sector Group – World Bank) and Mr. Jeffrey Owens (Director, OECD Centre for Tax Policy and Administration) | |
| 17.00–17.15 | Close of Conference | |

Value added taxes (VAT) are playing an increasingly important role as revenue raisers for over 140 countries around the world. Since their inception in the 1950s, they have spread to become one of the principle means of taxing consumption. At a time when many developed countries are faced with increasing populations of retired people the importance of consumption taxes is likely to remain high for the foreseeable future.

Despite their ability to raise significant revenue from broad-based taxation of both goods and services, VATs are not without their own difficulties. This conference provides an opportunity for senior policy and administration officials to discuss and review some of the more difficult issues. This note outlines some of these issues and provides attendees with a brief introduction to each of the programme topics.

Although much of the conference will be run with parallel sessions of policy and administration topics, the organisers recognise that the distinction between policy and administration is not always clear and that there may be overlaps and interactions between the two.

14.00-15.00

TAX POLICY

- Parallel Discussion Session I

Treatment of Financial Services

Tuesday, 15 March

Financial services have long been problematic for VATs. It has been said that financial transactions are beyond the reach of these taxes because the intermediation charge, which should be taxed, cannot be separated from the real interest rate or rate of return, which do not lead to consumption and therefore should not be subject to tax. But then, should fee-based services be liable to tax? If so, is there a danger that suppliers would convert fees into other forms of charges, such as interest? A number of studies have been carried out over the years in an attempt to resolve these problems but the fundamental approach of applying exemption is largely maintained by governments.

Exemption means that suppliers of financial services are unable to recover that VAT that they incur in order to make their exempt supplies. Given that many financial services are supplied to fully taxable businesses there is an element of “hidden” or “embedded” VAT in the costs of these businesses, resulting in the effective rate of tax being higher than the actual rate. Thus the neutral approach of taxing only final consumption is lost.

The financial services sector has seen significant growth in terms of products in recent years. A 1998 OECD report distinguished 27 different financial services, compared to only six categories of financial services listed in the European Union’s Sixth VAT Directive agreed in 1977. This growth has led to an increasing number of court cases concerning the definition of financial services and whether or not they qualify for exemption.

The growth in outsourcing non-core activities is significant for the financial services sector. An activity undertaken in-house is not subject to VAT. However, once the service is contracted to another supplier then it is possible that VAT will be imposed on the service and, given the sector’s inability to recover input tax, this tax becomes a real cost, and possibly a disincentive to outsourcing.

Against this background it is clear that there are some significant issues for the sector. With the European Union currently undertaking a review of how exemption should apply to financial services and the recent introduction of a partial zero rate for financial services by New Zealand, there is clearly a lot of interest in developments by policy-makers around the world.

14.00- 15.00

TAX ADMINISTRATION

- Parallel Discussion

Session 1

Measuring
and Reducing
Administrative Costs
and Tax Compliance
Costs

As with all taxes, VATs present costs to both government and to the taxpayer. One of the advantages seen in VATs was that of relatively low costs. However, for both revenue administrations and taxpayers, cost can be a sensitive issue.

Administrations are increasingly under pressure from governments to produce more in terms of outputs, frequently with the same, or even reduced, resources. Therefore, heads of tax administrations are constantly seeking ways of deploying limited resources to best effect.

For business, VAT collection and compliance is an inevitable cost of doing business. The tax may be cited by business as having unreasonable costs, being seen as a major burden to business. However, many of the functions required to comply with tax may be little more than minor extensions to keeping accounts in an orderly fashion as required by good governance and financial management. Thus, the question is raised as to how these compliance costs may be fairly measured.

Elements of the legislative framework also have an important bearing on relative administrative and compliance costs. For example, the threshold for registration, the frequency of return filing and payment obligations, and the provision of simplified tax calculation methods for smaller businesses can have a significant bearing on VAT administration and compliance costs.

Recent developments in technology have provided both tax administrations and taxpayers with opportunities to reduce costs. How are these achieved? How can further savings be made? Is there a greater possibility for more coherent and consistent approaches by governments so that application of the taxes is less fragmented between countries?

15.30- 16.30

TAX POLICY

- Parallel Discussion

Session 2

Special Topics,
including Equity Impact
of the VAT and Trade
Liberalisation and
the VAT

This session is intended to air, and share experience on, some of the key issues that arise in designing a VAT, including:

- The VAT is commonly perceived as a regressive tax. Is this perception accurate? To what extent – and how - should the design of the VAT reflect equity considerations? What are the proper roles in this context of the rate structure, exemptions, zero-rating and the threshold? How does the availability/weakness of other taxes (such as the income tax) and targeted spending instruments affect optimal VAT design?
- Many countries have been, or may be, confronted with a loss of trade tax revenue as a consequence of continued trade liberalisation. What is the role of the VAT (and other taxes) in replacing these lost revenues, and what are the implications for its appropriate design (rate and base)?

15.30-16.30

TAX ADMINISTRATION

- Parallel Discussion

Session 2

International Exchange
of Information

The growth in globalisation through deregulation, especially in the services sector, technology and privatisation of previously state-owned utilities has led to major increases in international trade. As a result the interactions between countries operating VATs have become more significant. The growth of cross-border fraud, especially within the European Union, has led to demands by tax administrators for greater ability to exchange taxpayer specific information. The OECD's Model Convention, which forms the basis for some 2500 bilateral treaties for direct tax purposes, was recently amended to allow for the exchange of information on taxpayers for consumption tax purposes. But how keen are countries to exchange such information? What are the benefits? Are there political issues to be overcome? What are the resource implications for countries receiving requests for information? Should exchange be on an automatic basis or should it be limited to "on request"?

16.30-17.30

TAX POLICY

- Parallel Discussion

Session 3

Application of VAT to
the Public Sector

The public sector is a major purchaser and provider of goods and services in almost all countries, yet commonly remains less than fully incorporated into the VAT system.

- What are the key considerations – of both principle and practice – that determine how key public sector activities (including health and education) should be targeted for VAT purposes?
- What are the approaches that countries currently use, and which work best?

This section will consider these and related issues, including new ideas (and their feasibility) on how the public sector might coherently be taxed under the VAT.

16.30-17.30

TAX ADMINISTRATION

- Parallel Discussion

Session 3

Implementing
the VAT: Problems
and Experiences

The purpose of this session is to discuss experience and concerns on the application of the VAT that are not explicitly addressed in other sessions. These are expected to include:

- What are the lessons of experience on alternative organizational structures for administering the VAT (separate VAT unit, functional structure, taxpayer segment...)?
- How is cooperation and information-sharing between the administration of customs and the domestic VAT best facilitated?
- What problems are posed by voluntary registration, and how can they be minimized?
- How does an administration balance service and education requirements vis-à-vis enforcement needs?

09.00-10.00 

TAX POLICY

- Parallel Discussion

Session 4

International Services and Electronic Commerce

Wednesday, 16 March 2005

The development in recent years of electronic commerce has shone a spotlight onto the ways in which VATs apply to international trade. By and large electronic commerce has not presented any major challenges for policies on the trade in goods. Most countries apply a simple, neutral approach of zero-rating exported goods and charging VAT on imports. This works well and ensures neutrality. Administratively it is relatively easy to collect tax at importation as the goods will not be released to the importer until the tax has been secured. If there are problems caused by e-commerce, they are more likely to be concerned with administration. Customs services now have to spend more time dealing with small parcels of goods ordered by consumers from overseas suppliers.

For services and intangibles the picture is quite different. In general, countries' VAT systems aim to tax consumption where it takes place. For goods that is relatively easily achieved by using the place where the goods are at the time of the sale as a proxy for consumption. But the place of consumption for services is less easy to define. For more tangible services, particularly those that entail a physical performance such as photo-copying, hairdressing and restaurant services, it is relatively straightforward. However, for intangible services the position is more complex.

As an example, consider a company that is considering entering into an overseas market (Country M) where it currently has no physical presence. In order to determine the nature and potential market in Country M it may hire a consultant there to carry out market research. Where is the consultancy service to be taxed? Is it in the country in which the customer is located (where, it may be argued, the benefits of the service will be received) or is it in Country M (in which, arguably, the service has been performed)?

Countries have adopted two different approaches to the taxation of services, although both set out with the intention of taxing consumption. Some countries tax services on the basis of origin (where the supplier is established) but then make many exceptions to this by defining those services that are to be taxed on a destination principle (ie where the customer is established). Others provide that services are to be taxed where "consumed". Both approaches may be difficult to determine and will often require proxies such as "establishment", "performance", or very precise legal definitions of services. The symmetrical nature of VAT on international supplies means that if countries adopt opposing approaches there could be double non-taxation or double taxation. In the example above the country in which the customer is located might require the customer to account for tax under the reverse charge, whilst at the same time the tax authority in the supplier's country may consider that the performance took place in that country and hence the tax is due there. Thus the transaction is taxed twice. Alternatively, each country concerned could adopt the opposite thinking, resulting in double non-taxation.

In 1998, under the Ottawa Taxation Framework Conditions, the OECD countries agreed that the approach for taxing electronic commerce should be to ensure that tax accrued in the country of consumption. This is particularly relevant for intangibles such as downloadable music, but also for on-line services such as Internet access. However, in refining this principle into workable guidelines it became apparent that there were wider problems with taxing services and intangibles. Double taxation appeared to

be on the increase (and, presumably, double non-taxation was increasing, although governments hear less about this than they do double taxation). Issues such as the treatment of services supplied between branches of the same legal entity, refunds of tax incurred on services and cross-border leasing all emerged in this process. The OECD's Committee on Fiscal Affairs therefore undertook some research into the nature and extent of these problems.

In working on this with business representatives and representatives from non-OECD economies it became clear that there are no internationally agreed principles governing the taxation of services and intangibles. There is a general view that "exports" should be relieved of tax whilst "imports" should be subject to tax but defining imports and exports in these circumstances can be difficult. As a result, the OECD's Committee on Fiscal Affairs has established a work programme for 2004-2006 that will seek to bring greater clarity and certainty into the application of consumption taxes. The first step will be to agree a set of framework principles, before moving on to consider some detailed guidance to support those principles. Depending on progress, consideration may be given later to the need for any international model agreements that may help to support the better application of consumption taxes to the trade in services and intangibles.

09.00-10.00

TAX ADMINISTRATION

- Parallel Discussion

Session 4

VAT Fraud and Control of Refunds and Credits

VAT fraud has become widespread and common in recent years. Most attacks on the systems appear to stem from the perceived weakness within the tax of the input tax credit mechanism, and the subsequent opportunity to make large refund claims in attempt to steal large sums of money from governments. Most European Union countries have suffered from carousel frauds in recent years and many of the transition economies in eastern Europe have reported significant problems with excess claims for refunds, often through over-valuing of exports.

Such frauds are undoubtedly causing some governments to question the basic multi-stage fractionated basis of the tax. Suggestions have been made that business-to-business transactions should be able to operate without the addition of VAT. However, such moves would undermine the whole basis of the tax and move it more towards a single stage retail tax, something that carries its own substantial risks. Other countries have introduced requirements for businesses to pay the VAT incurred to a bank rather than to their supplier, as a means of trying to ensure that the tax will actually reach the government.

The United Kingdom, faced with major frauds and tax avoidance schemes leading to increased losses, recently adopted an open strategic approach to tackling all forms of VAT abuses. Initial results suggest that the strategy is producing significant reductions in the losses previously reported. The approach has also enabled the tax administration and its staff to adopt a better understanding of its aims and objectives.

10.00- 11.00 ▶

TAX POLICY

- Parallel Discussion Session 5

Application of VAT/GST
to International Aid

Many donors require that no VAT be levied on the purchases their assistance finances, and many recipients find that this presents them with significant control problems. This session will address the questions this raises, including:

- What schemes do countries use to control such exemptions (voucher schemes and others), and what particular problems do they pose for the VAT?
- How significant are the problems that donors and donees face in this area?
- Has the rationale for the policy of exemption become less compelling?

10.00- 11.00 ▶

TAX ADMINISTRATION

- Parallel Discussion Session 5

Risk Assessment
and Audit Methods

With the limited resources available to them tax administrations need to ensure that audit resources are deployed to best effect. This inevitably means developing a high quality risk assessment database in order to ensure that audits are targeted at productive areas. How should such a database be built? There also arises the question of dealing with large businesses; should they receive special treatment through audit of systems rather than transactions? What role does recent legislation, such as Sarbanes Oxley in the United States and its equivalents elsewhere, have to play in this? Is there any value in a random audit programme to run in parallel with targeted audits? Research recently published by the OECD shows that approaches to compliance are varied across countries and this session provides delegates with an opportunity to discuss successful practices.

11.30- 12.30 ▶

PLENARY SESSION II

- Small and Medium Sized Businesses

Specific Needs
and Problems of Small
and Medium Sized
Businesses

Application of a VAT system to the Small & Medium Enterprises (SME) sector creates a number of specific problems. Analysis has shown that compliance costs of a VAT system as a percentage of business turnover are considerably higher for small compared to larger businesses. For the tax administration the task of administering a large number of small traders creates a considerable challenge, while at the same time revenues collected from SMEs are only a small share of total VAT revenues. On the other hand small traders outside the VAT system might be disadvantaged as they cannot pass on VAT on inputs. Application of VAT to the SME sector thus is a controversial issue, which does not have a uniform or ideal solution.

Key issues in this area are:

- What is the appropriate threshold of the VAT system? Is a high threshold, which limits the application of the system to a small number of large businesses in practice preferable to an attempt to bring a large number of small businesses into the system? What can be the advantages of a low threshold?
- What experience has been made with systems to reduce evasion possibilities in the SME sector, in particular in countries with a large cash economy? Have, e.g., cash registers proven to be useful?
- Should SMEs below the VAT registration threshold be allowed to register voluntarily for VAT? If yes, what are the implications for the tax administration?

- What kind of simplified systems can be developed to reduce compliance costs of small businesses and create incentives for SMEs to move out of the underground economy? What are the pros and cons in practice of these systems?
- What are the administrative arrangements in the tax administration to implement a standard or simplified VAT system in the small business sector. In particular what are the appropriate administrative structures (e.g. experience with special small business tax offices), audit and control visit approaches and taxpayer service and information needs?

The session aims to highlight the challenges posed by the small business sector and share experience on the approaches chosen by countries to address these challenges.

14.00- 15.00

PLENARY SESSION III

- Federations and Regional Trading Blocs

Designing and Managing VAT in Federations and Regional Trading Blocs

The objective to tax domestic consumption requires the determination of the actual place of consumption of a good or service. Due to the relative ease of movement between the states or provinces of a federal country, this task can be particularly difficult in a federation. For this reason it has often been argued that VATs of the kind currently observed are not suitable for deployment by lower-level governments. However, not only is the introduction of a subnational VAT increasingly considered by major federal states, such as currently in India, but also member countries of regional trading blocks face similar allocation challenges.

At first glance the operation of an origin instead of a destination based VAT could solve the allocation problem. However, with taxing production instead of consumption and creating transfer pricing abuse possibilities, an origin-based VAT has its own particular risks and disadvantages.

For the operation of a destination based VAT in a regional trading block or at the subnational level in a federal state, the harmonisation of the VAT systems in the member countries of the trading block or subnational entities of the federation facilitates the implementation of the tax. The session will discuss to what extent such a harmonisation of tax base and tax rates are desirable. The session will also look at administrative arrangements and discuss options for VAT administration.

Conference Hotels

Hotel Cicerone
Via Cicerone, 55 c
00193 Rome
Tel: +39 06 3576
Fax: +39 06 3235385
Contact: Ms. Simona Stefanini
stefanini@ciceronehotel.com

Hotel Jolly Leonardo da Vinci
Via dei Gracchi, 324
00192 Rome
Tel: +39 06328481
Fax: +39063610138
Contact : rl_reservation@jollyhotels.it

Conference Venue

Villa Miani
Via Trionfale 151
00136 Rome
Tel: +39 0635498707
Fax: +39 0635341053
Contact: villa.miani@tiscalinet.it

Registration desk

A registration desk for delegates will be situated in the reception area of the Hotels Cicerone and Jolly Leonardo Da Vinci. Opening hours will be from 14:00 to 20:00 on Monday, 14 March.

Participants arriving after 20:00 on Monday 14th March can register at the information desk at Villa Miani.

At registration, delegates will be presented with a delegates pack and name badge which should be worn during the conference and reception.

Welcome reception

A welcome reception, hosted by the Italian Ministry of Economy & Finance, for all delegates will be held at the Hotel Cicerone on Monday, 14 March at 18:30. Delegates should make their own way to the reception.

Transport

Transport has been arranged for delegates from the Hotels Cicerone and Jolly Leonardo Da Vinci to the conference venue Villa Miani. Buses depart from hotels at 08:00 on both days and depart Villa Miani returning to the hotels at the close of the conference on both days.

Information desk

An information desk for delegates will be situated at the entrance area of the Villa Miani for the duration of the conference.

Interpretation

Simultaneous interpretation will be available during the conference in French, English, Italian and Spanish.

Lunch and Refreshments

Lunches will be served on the 1st floor and refreshments on the ground floor of the Villa Miani on both days.

Internet room

Telephone, fax and internet facilities will be available at Villa Miani.

The International Tax Dialogue (ITD) is an initiative of the staffs of the IMF, OECD and World Bank, in cooperation with the United Nations, to better discharge their institutions' mandates by facilitating increased cooperation on tax matters among governments, international tax organisations and others with an interest in tax matters. The ITD aims to facilitate dialogue to share good practices and pursue common objectives in improving the functioning of national tax systems.

The ITD is consistent with the Monterrey Financing for Development Conference call for more international dialogue on tax matters. Increasing dialogue and strengthening national tax systems will in turn assist the mobilisation of tax revenues for development. The ITD believes it is important to develop practical means of pursuing dialogue on this issue in a way that minimises the need for additional resources while maximising gains for all countries. The ITD's approach is to build on the strengths of existing organisations.

The main objectives of the ITD initiative are:

- The promotion of effective international dialogue between participating organisations and governments on both tax policy and tax administration;
- The identification and sharing of good practices;
- An improved focus for technical assistance on tax matters; and
- Avoid duplication of efforts in respect of existing activities on tax matters.

Since its formation in 2002, the ITD has focused on the following areas:

Online sharing of knowledge and experience

The ITD operates a free, multilingual, multinational internet site found at www.itdweb.org. The site provides an opportunity for tax administrations, ministries of finance, and international and regional organisations to share experiences and knowledge with peers on a global basis. Over 1800 documents from around the world are currently available online with new documents added daily. The site also includes news, a calendar of events, a research guide and an extensive range of links. All countries are invited to make use of this resource and to share their own information.

Technical assistance

To assist gaining a clearer focus on technical assistance, the ITD is developing a database of technical assistance activities underway or planned. The database, available through www.itdweb.org, provides searchable information on provider, location, topics, intended audience, type of activity and dates.

Periodic tax conferences

The ITD propose to arrange periodic global conferences of public officials and experts in tax policy and administration to discuss issues of common interest. The VAT Conference is the first such conference.

For more information on the ITD initiative, contact the ITD Project Manager: rebecca.BREACH@oecd.org.

