

MAKE TAX FAIR

FAIR TAX MONITOR Guidance for National Research Report



TAX JUSTICE
NETWORK
AFRICA



Guidance for National Research Report

This short document was developed as a guide to all staff & organizations involved in the development of the Fair Tax Monitor. This file will provide essential insight into the successful development of a FTM national project, as well as where to locate information and relevant background knowledge for it. This guide is essential to read prior to the research, as it provides a clear direction on how to start the research (Part I), and how to assess complex matters such as tax systems and fiscal policies (Part II).

Background

The Fair Tax Monitor (FTM) project was started in December 2014. The FTM project was developed by Oxfam Novib and Tax Justice Network–Africa in collaboration with partners and Oxfam Country Offices.

The Fair Tax Monitor’s overall goal is to strengthen the advocacy activities at the local and global levels. Through the development of local capacity on technical fiscal issues, the FTM provides an overview of national tax systems and identifies the main challenges they face. The tool provides reliable evidence for the advocacy and lobby work of our partners, which strengthens their position and increases their credibility as well as their influencing power. Furthermore, the FTM compares key elements of tax systems and thus complements the activities of Oxfam’s global Even it Up! campaign and TJN-A’s activities realized at the African level. The project’s focus is on tax policies and practices, and by deliberate choice it pays only reserved attention to issues related to public expenditure.

The present Guidance document, alongside the recently updated version of the Common Research Framework (CRF) document, will be utilized starting in 2019 for country research by a number of new countries, as well as partners from ActionAid. The original CRF was developed during the pilot phase in 2015/2016 and implemented in 4 pilot countries: Bangladesh, Pakistan, Uganda and Senegal. A first update to the CRF was made in 2018 and implemented in 9 countries: Senegal, Tunisia, Nigeria, Uganda, Occupied Palestinian Territories, Pakistan, Bangladesh, Vietnam and Cambodia. While the previous versions of the CRF were only utilized in Africa and Southeast Asia, the ambition of the new CRF methodology is to expand to Latin America and sharply increase the number of national reports produced in Africa (also through the partnership with Action Aid).

The latest revisions for the 2019 CRF are based on the inputs received during a series of skype meetings with the FTM Working Group members (Oxfam staff and partners) and during workshops held in The Hague. In addition, we received inputs from internal and external experts working on taxation and development.

The FTM Working Group has defined a fair tax system as follows: (1) progressive and serves as a mechanism to redistribute income in a gender responsive way; (2) allows to raise sufficient revenue to perform government functions and provide high-quality essential public services; (3) refrains from and eliminates tax exemptions and incentives to the elite (individuals and corporate); and (4) tackles causes of illicit capital flight and tax evasion & avoidance by multinational companies and the wealthy.

The common research framework can be used to gather qualitative and quantitative information in a standardized manner. The collected data will be categorized and evaluated and entered into the FTM online tool. A research report with more detailed information and analyses will be

available for each focus country at www.maketaxfair.net.

Approach

The FTM in its present version has six distinct thematic evaluation categories. These categories are meant to cover the main issues that tax systems in developing countries face today, and to reflect the idea of a fair tax system. The categories included in the FTM's methodology to evaluate the tax systems are:

- DISTRIBUTION OF THE TAX BURDEN AND PROGRESSIVITY
- REVENUE SUFFICIENCY AND TAX LEAKAGES
- TAX COMPETITION AND CORPORATE INCENTIVES
- EFFECTIVENESS OF THE TAX ADMINISTRATION
- GOVERNMENT SPENDING
- TRANSPARENCY AND ACCOUNTABILITY

In order to properly assess the categories above, the FTM is divided into two complementary files which examine the fairness of a national tax system through distinct approaches:

- (i) The **scoring questions** file, which is an Excel spreadsheet containing a number of questions that will reflect the level of fairness in a tax system through an overall score based on specific issues. The rationale and possible sources for locating those answers are also described in the Excel file. As the scoring questions will be resolved by all countries producing FTM studies, this file will provide the opportunity to compare the data between a number of countries. The scoring questions were formulated as binary (yes/no) questions and their structure is adjusted so that a scoring point is assigned to a positive answer and no scoring point to a negative answer. For qualitative questions, to indicate a country score as partially positive, we offer the possibility to give 0,5 points. In this way, it is possible to work with both qualitative and quantitative data and to combine them in constructing the final score for each category.

The scoring scale is defined from zero to ten; zero representing an unfair component of a tax system and ten representing a fair component of a tax system. The final scores are rounded up for practical purposes, but the exact scores are available in the methodology sheets for each country. The scale is also divided into five coloured intervals corresponding to scores (0 to 2), (3 to 4), (5 to 6), (7 to 8) and (9 to 10).

- (ii) The **country report** file, which is to be developed by the researcher based on the Common Research Framework (CRF) and the background information mentioned below in this file. The research framework defines in more detail which information is required to be analysed in the FTM national research reports. Using the CRF should lead to similar looking reports in the FTM focus countries with 7 main analytical chapters following the guiding questions from the CRF. First of all the report should give a brief description of the tax system. Secondly it should analyse the current tax system following the 6 clusters of topics listed above. The material focused on the analytical chapters should generate a document totaling approximately 50 pages. In addition, other basic elements should be present (e.g. content list, list of abbreviations, executive summary, reference list and others). The selected chapters were designed to

best capture the complex character of tax systems in order to evaluate fairness of a tax system under review. While a similar pattern is expected based on the CRF, the authors and organizations involved in the development of the FTM Country Report may have specific priorities and chapters/topics which are of more relevance to them based on the national context and advocacy priorities. The ultimate purpose of the FTM is to develop evidence-based research which will be of use in national advocacy, promoting co-ownership of the reports produced between the different actors involved. With that in mind, the FTM encourages flexibility so specific Country Reports may place additional focus on specific areas of interest. Additionally, the CRF can be used as a basis for the Term of Reference for the country level research.

PART I

Step-by-step: sequence of documents and activities for researchers

- 1- All persons involved in the FTM study (project leaders, coordinators, researchers and possible assistants) should before anything else read all the information in this file, as it will provide a general overview of the functions, structure and objectives of the FTM. It is particularly relevant to review the **background information** listed below, as it will provide contextual knowledge needed for a high quality research document.
- 2- The researcher must initiate the work by analyzing and filling the **scoring questions** (present in the Excel spreadsheet). The scoring questions will provide an initial perspective of your national tax system and indicate possible areas/topics that will require further attention and possible recommendations for future advocacy work.
- 3- The complete Excel spreadsheet with the scoring questions should be sent to the FTM team. If the researcher has encountered any issues or doubts about a scoring question, this should be communicated to the FTM team at that moment. The FTM team will review and provide feedback on the Excel spreadsheet, which should be further developed by the researcher until a final version is reached.
- 4- The researcher will then begin to write the **country report** utilizing the methodology present in the Common Research Framework (CRF) file. To ensure the production of a high quality research, it is important that the researcher takes into account the background information and scoring questions previously analyzed. In fact, the relevant information connected to the scoring questions should be displayed throughout the country report (if possible, the researcher should provide a list of references to the page numbers in the country report where the scoring questions information can be found).
- 5- A first draft of the country report should be sent to the FTM team. If the researcher has encountered any issues or doubts about any question in the Common Research Framework, this should be communicated to the FTM team at that moment. The FTM team will review and provide feedback on the country report, which should be further developed by the researcher until a final version is reached.
- 6- After a final version of both the scoring questions and country report files is reached, the FTM products will undergo a sign-off process from the global Oxfam Tax Justice team. This might result in further work by the researcher until a final version is agreed.
- 7- Launch plans for the report should be considered as well as future development of advocacy work based on the FTM findings.

PART II

This chapter incorporates a brief description and some background information on each of the thematic categories. This background information should provide the researcher with sufficient tools to gather the knowledge needed for answering each categories' questions and developing a high-quality FTM Country Report.

1) Brief description of the tax system

The objective of this 1st chapter is to provide a comprehensive overview of the structure of the tax system, the authorities responsible for collecting taxes and the overall approach to managing taxes. This section also determines the impact of the changes that have been made to the tax system in previous years and whether the country has been moving towards a gender-responsive fair tax system or instead following a regressive and socially unjust path.

2) Distribution of the tax burden and progressivity

In this chapter, the FTM aims to assess the progressivity of selected taxes and to determine what impact they have on income/wealth distribution and inequality. The taxes most closely analyzed include among Personal Income Tax, Corporate Income Tax, VAT/Sales Tax and Wealth Taxes. It is assumed that direct taxes are generally more progressive than indirect taxes, however, this section should also analyse whether there are exceptions to this assumption (e.g. luxury consumption taxes or low-thresholds on personal income taxation).

This chapter also looks closely at the structure of the tax system through a gender perspective. Further fundamental issues related to informal sector taxation, treatment of Small and Medium Enterprises and public perception are also analyzed. Alongside the information about how much is collected per each tax, this section allows researchers to draw conclusions about the fairness of each tax and to provide policy recommendations on overall progressiveness of the domestic tax system.

Background information:

- (i) Information around the official minimum wage of the country and if it is considered sufficient to provide a proper living standard.
- (ii) Information around wage gaps between men and women, including points such as the average income for women, motherhood impact and others.
- (iii) Methods of personal income tax collection (e.g. withholding at source for salaries as in PAYE or self-assessment for other forms of income).
- (iv) Information around the existence of an official list of essential & basic goods, including which goods are present in it and if there is a fiscal policy for the goods in the list. This analysis should include the fiscal approach to essential care products for women.
- (v) Existence of studies demonstrating the amount of total corporate income liable to taxation. This calculation would contribute to analyzing the effectiveness of CIT in your country.
- (vi) Traditional goods/services traditionally produced/traded by women in your country. In some countries it is possible to recognize specific economic sectors where women contribute to mostly, which assists on the analysis of gender biases.
- (vii) Basic concepts on transfer pricing (the arm's length standard and alternative models) and capital gains taxation.¹

¹ Transfer Pricing Asia – What is transfer pricing? A clear and simple definition

<https://transferpricingasia.com/what-is-tp/>

Transfer pricing methods and alternatives – Safe harbour regimes

- (viii) If your country has a Value-Added Tax (VAT) system, a basic knowledge on technical distinction between exemption and zero-rate for VAT.²
- (ix) The informal economy is broadly defined as any economic activity that is not subject to government regulation of taxation. According to the International Labour Organization, the informal economy comprises more than half of the global labour force and more than 90% of Micro, Small and Medium Enterprises (MSMEs) worldwide. Informality is an important characteristic of labour markets in the world with millions of economic units operating and hundreds of millions of workers pursuing their livelihoods in conditions of informality. The expression “*informal economy*” encompasses a huge diversity of situations and phenomena, manifesting itself in a variety of forms across and within economies. Formalization process and measures aiming to facilitate transitions to formality need to be tailored to specific circumstances that different countries and categories of economic units or workers face.³
- (x) General distribution patterns of wealth and property distribution in the country, taking into consideration historical inequality trends.

3) Revenue sufficiency and tax leakages

The objective of this section is to determine the total tax (and non-tax) revenue and to identify where most tax revenues get lost through Illicit Financial Flows (IFFs). Through such analysis, we seek to provide policy recommendations to increase revenues fairly and sustainably, whilst preventing tax leakages through IFFs - including tax evasion and avoidance. Increased revenues should be spent on inequality-reducing public services, particularly those that also address gender inequality, so that the most marginalised can be supported.⁴

Background information:

- (i) Illicit Financial Flows (IFF) concept: *The cross-border movement of funds that are illegally acquired, transferred or used. The sources of these cross-border transfers may be bribery, theft by government officials, the trafficking of drugs, arms and humans, smuggling, commercial tax evasion, trade mispricing or abusive transfer pricing.*⁵
- (ii) Tax/GDP ratio trends development over the last years (and comparison with neighboring jurisdictions and countries with similar economic indicators and overall development levels).
- (iii) Financing gap on gender equality and women’s rights commitments.⁶

<https://www.slideshare.net/ICTDTax/transfer-pricing-methods-and-alternatives-safe-harbour-regimes>

² Tax Policy Center – What is the difference between zero rating and exempting a good in the VAT?

<https://www.taxpolicycenter.org/briefing-book/what-difference-between-zero-rating-and-exempting-good-vat>

³ ILO stats on women and men in the informal economy

https://www.ilo.org/global/publications/books/WCMS_626831/lang--en/index.htm

⁴ Further initial information: [GADN briefing](#), [ActionAid](#), [PSI CSW statement](#)

⁵ For a good overview of Illicit Financial Flows, see: <https://www.taxjustice.net/2015/02/02/mbeki-panel-illicit-financial-flows-africa-leads-way/>. Further discussion of the definition of IFFs can be found here:

https://www.unodc.org/documents/data-and-analysis/statistics/IFF/Background_paper_B_Measurement_of_Illicit_Financial_Flows_UNCTAD_web.pdf

⁶ UN Women – Discussion Paper on Measuring Sustainable Development Goal Indicator 5c1

https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/14288/ICTD_RiB_30_Online.pdf

UN Women – Handbook on Costing Gender Equality

<http://gender-financing.unwomen.org/en/resources/h/a/n/handbook-on-costing-gender-equality>

- (iv) Basic knowledge on differences between centralized and decentralized models of State (Unitary and Federalist models).⁷
- (v) Established targets for tax/GDP ratio in accordance with government documents and international agreements on development goals.
- (vi) Sustainable Development Goals from the UN Development Programme.⁸
- (vii) 2015 Addis Ababa Action Agenda – 3rd International Conference on Finance Development.⁹
- (viii) Commission on the Status of Women 2019 - CSW63 Conclusions.¹⁰
- (ix) Explicit or implicit definitions of revenue 'sufficiency' (National Development Plans).
- (x) Corporate taxpayer trends, including perspectives on multinational companies and Micro Small and Medium Enterprises (MSME).
- (xi) Individual taxpayer trends, including disaggregated data by gender, age, income, region and other relevant groupings.
- (xii) Estimates of informal sector, including magnitude and composition of informal employment (share of informal employment/total employment, total and by gender, age, and other relevant factors).

4) Tax competition and corporate incentives

This chapter looks closer into tax competition between the analyzed country and its neighbours or countries in similar socio-economic scenarios. Countries often provide tax incentives to corporations, which can have a negative overall impact on the overall progressiveness of the tax system if not properly designed, implemented and supervised. Further analysis on the interaction of the country with international competitors will allow the researcher to evaluate if the government is safeguarding the progressiveness of the domestic tax system or making costly concessions to attract foreign direct investment.

Background information:

- (i) List of possible corporate tax incentives: Tax holidays, super deductions for investments, corporate tax credits on investments, large tax exemptions for domestic or foreign companies, rules that exempt profits from exports or transactions with non-residents (e.g. free trade zones, special economic zones or export processing zones), incentives for the shipping industry, development zones (if so, are these zones really located in disadvantaged areas?), incentives for financial industry (e.g. offshore banking, corporate treasury centers, lower rates for insurance activities, lower rates for investment funds or trusts, mobile banking incentives), incentives for multinational headquarters, incentives for international companies (e.g. International Business Company licences) and other similar policies.

⁷ Enotes – What is the difference between unitary and federal systems?

<https://www.enotes.com/homework-help/wat-iz-differnce-between-unitary-federal-systems-294718>

OECD Working Papers on Fiscal Federalism

https://www.oecd-ilibrary.org/taxation/oecd-working-papers-on-fiscal-federalism_22265848

⁸ United Nations Development Programme – Sustainable Development Goals

<https://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

⁹ Addis Ababa Action Agenda of the 3rd International Conference on Financing for Development

https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

¹⁰ United Nations – Commission on the Status of Women, 63rd Session Agreed Conclusions

<https://undocs.org/en/E/CN.6/2019/L.3>

- (ii) What type of economic activities does the country want to attract (i.e. logistics, manufacturing, shipping, IT)?
- (iii) Is your country natural resource rich? Have there been specific policies designed to attract foreign investment into this economic sector? How about fiscal policies?
- (iv) Is your country competing with neighbouring countries to attract investments with tax incentives or tax deals for specific companies? Have there been media stories on this? How does your country promote itself: through its ministries and public administration entities or through chambers of commerce? Is there any specific tax language in such promotion?
- (v) Basic distinction between double tax treaties based on the OECD model and the United Nations model.¹¹

5) Effectiveness of the tax administration

This section aims to assess the capacity of the tax administration, particularly its capacity to effectively implement progressive tax policies – and to help determine whether the revenue shortfalls are related to weak tax administration or poorly designed tax policies. It provides information on the capacity of tax administration in terms of human and financial resources and reviews the structure and governance of tax administration, including a gender perspective.

Background information:

- (i) How has the cost of tax collection developed over the recent past? How many taxpayers are registered, and how many file tax returns?
- (ii) Political background on history of decentralization or devolution. How are taxing rights/authority allocated between national/state/local governments?
- (iii) Have there been notorious cases of criminal offences related to tax evasion? Any high profile scandals involving large corporations or politically exposed individuals?
- (iv) What is the overall tax morale in the country? Are there any studies analyzing the perception of the tax system between individual citizens and corporations?
- (v) The analysis of tax policies from FTM chapter on Progressivity.
- (vi) TADAT (Tax Administration Diagnostic Assessment Tool).¹²
- (vii) Diversity and (gender) inclusion on the tax administration staff.¹³

¹¹ Leiden Law Blog – Source state taxation in model tax treaties

<https://leidenlawblog.nl/articles/source-state-taxation-in-model-tax-treaties>

Brian J. Arnold - An Introduction to tax treaties

https://www.un.org/esa/ffd/wp-content/uploads/2015/10/TT_Introduction_Eng.pdf

¹² <http://www.tadat.org/>

¹³ ICTD – Why African tax authorities should employ more women: evidence from Uganda

https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/14288/ICTD_RiB_30_Online.pdf

OECD – Diversity and inclusion

<http://gender-financing.unwomen.org/en/resources/h/a/n/handbook-on-costing-gender-equality>

ICTD – Tax and gender in developing countries: what are the issues?

https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/13066/ICTD_SumBrief%236_OnlineNew2.pdf?sequence=1&isAllowed=y

6) Government Spending

The objective of this part is to review how the government spends the revenues collected and whether the effects of fair tax collection are enhanced or diminished by the government spending. Education, healthcare, agriculture and social protection are the main topics under review as they represent basic public services. Pro-poor and gender analyses of these topics are provided to determine whether the spending is targeted to reduce poverty and decrease economic and gender inequality. Specific attention is given to government efforts with regard to gender responsive budgeting and actual expenditure.

Background information:

- (i) Concept of gender-responsive budgeting & gender-responsive spending.¹⁴
- (ii) Overall and disaggregated (by gender, age, income or other relevant grouping) knowledge about national situation on education, health, agriculture and social security. In case there are strong regional disparities in investment and quality service provision, this is also relevant.
- (iii) Subsidies and tax incentives mentioned in this chapter are direct subsidies.
- (iv) Information on government expenditure on care-related services and infrastructure in order to recognize, reduce and redistribute unpaid care work, including use of time use surveys.¹⁵
- (v) Incheon Declaration to ensure inclusive and equitable quality education.¹⁶
- (vi) Abuja Declaration to improvement of health sector.¹⁷
- (vii) Maputo Declaration on agriculture and food security.¹⁸
- (viii) Education expenditure questions in the CRF & scoring questions only make reference to primary and secondary education (not universities).
- (ix) Impact of public expenditure decisions on women and girls.¹⁹

¹⁴ IMF Working Paper – Gender budgeting: fiscal context and current outcomes

<https://www.imf.org/external/pubs/ft/wp/2016/wp16149.pdf>

Oxfam – A guide to gender-responsive budgeting

<https://policy-practice.oxfam.org.uk/publications/a-guide-to-gender-responsive-budgeting-620429>

Oxfam – A short guide to taxing for gender equality

<https://policy-practice.oxfam.org.uk/publications/a-short-guide-to-taxing-for-gender-equality-620629>

Gender Development Network: How social protection, public services and infrastructure impact women's rights

<https://static1.squarespace.com/static/536c4ee8e4b0b60bc6ca7c74/t/5c34c34cb8a04568549dc77d/1546961742579/How+social+protection%2C+public+services%2C+infrastructure+impact+women%27s+rights.pdf>

Action Aid – Gender-responsive public services

<https://actionaid.org/publications/2018/framework-2018-gender-responsive-public-services>

¹⁵ International Labour Organization – Care work and care jobs for the future of decent work

https://www.ilo.org/global/publications/books/WCMS_633135/lang--en/index.htm

Oxfam – A caring economy: what role for government?

<https://oxfamblogs.org/fp2p/a-caring-economy-what-role-for-government/>

UN Gender Statistics – Allocation of time and time-use

<https://unstats.un.org/unsd/gender/timeuse/>

¹⁶ UNESCO – Education 2030: Incheon declaration and framework for action

<https://unesdoc.unesco.org/ark:/48223/pf0000245656>

¹⁷ World Health Organization – The Abuja declaration 10 years on

https://www.who.int/healthsystems/publications/abuja_declaration/en/

¹⁸ New Partnership for Africa Development – AU 2003 Maputo Declaration on agriculture and food security

<https://www.nepad.org/caadp/publication/au-2003-maputo-declaration-agriculture-and-food-security>

¹⁹ Gender Development Network – How social protection, public services and infrastructure impact women's rights

7) Transparency and accountability

- Background information & guiding/context questions -

The main goal of this part is to assess the availability and accessibility of information about the country's tax system. As one of the main goals of the CRAFT project is to ensure accountable tax systems, it is crucial to review whether the government provides access to the information about them. Another aspect of accountability that is examined through this chapter is the production of impact assessment studies of fiscal policies, which demonstrate a strategic planning by public officials around taxation and public expenditure. Finally, engagement by citizens and broader civil society organizations in decision-making procedures around fiscal policies reflects a transparent and inclusive approach to government and public funds.

Background information:

- (i) How accessible are relevant information on transparency and accountability of the tax system? Is there a specific legislation enacted in the country that grants public access to data/information considered to be of *public interest*? If *access to data* legislation is in place, is it effectively accessible or does the public administration places hurdles and impediments to it?
- (ii) Basic knowledge on participatory budget mechanisms.²⁰
- (iii) Does the country conform to the IMF Fiscal Transparency Code?²¹
- (iv) Is the country known for corruption scandals involving public funds? Which impact does it have on tax morale, voluntary tax compliance and overall perception by the taxpayers of public financing through taxation?

<https://static1.squarespace.com/static/536c4ee8e4b0b60bc6ca7c74/t/5c34c34cb8a04568549dc77d/1546961742579/How+social+protection%2C+public+services%2C+infrastructure+impact+women%27s+rights.pdf>

²⁰ Citizen lab – 8 steps to effective participatory budget

<https://www.citizenlab.co/blog/civic-engagement/steps-to-effective-participatory-budgeting/>

Public sector governance and accountability series – Participatory budgeting

<http://siteresources.worldbank.org/PSGLP/Resources/ParticipatoryBudgeting.pdf>

²¹ IMF – Fiscal transparency code

<https://www.imf.org/external/np/fad/trans/>