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**Committee of Experts on International
Cooperation in Tax Matters
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Item 3(n) of the provisional agenda

Indirect Taxes

Co-Coordinators' Report

Summary

This note is presented to the Committee for discussion.

Since the establishment of the Subcommittee on Indirect Taxation at the Twenty-third Session and the approval of the workstreams in the following sessions, the subcommittee has been working on drafting papers on the following workstreams: (a) Overview of VAT/GST in developing countries; (b) VAT/GST treatment of Small enterprises; (c) VAT refunds; and in developing the outline of the workstream on (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data).

The Subcommittee's Co-Coordinators are hereby providing *for discussion* a short progress report on the work undertaken and are *seeking comments and guidance* from the Committee on their current and proposed work, and in particular, on the draft outline annexed to this report of possible guidance on use of new technologies to improve VAT/GST compliance.

Co- Coordinators' Report on Subcommittee on Indirect Taxation

Background information

1. At its Twenty-third Session, the Committee of Experts on International Cooperation in Tax Matters established a Subcommittee on Indirect Tax, with a mandate to identify priority issues where guidance from the Committee may most usefully assist, in particular, developing countries in differing situations, on taxation issues related to indirect taxation, with an initial focus on value added tax/goods and services tax (VAT/GST) issues. The aim is to develop practical series in VAT/GST, which represent an important tax base for countries, to contribute to strengthening domestic resource mobilization for developing countries and meeting the Sustainable development Goals as a totality.
2. At the Twenty-fourth Session, the Committee approved priority areas identified by the subcommittee participants where guidance may be most usefully assisted developing countries.
3. At its Twenty-fifth Session, the Committee approved the workplan suggested by the subcommittee that consisted of seven workstreams that include: (a) Overview of VAT/GST in developing countries; (b) VAT/GST treatment of Small enterprises; (c) VAT/GST refunds; (d) interaction between VAT/GST and other taxes; (e) VAT/GST and specific sectors (Tourism and Construction); and (f) VAT/GST and government entities, charities and donor-funded project. Also, the Committee provided inputs regarding the contents of the outlines of the first three workstreams.
4. Since the Twenty-fifth Session, the Subcommittee on Indirect Tax held several online meetings to advance its work. The drafting groups met with resource persons to further refine the scope of their outputs and ensure that they satisfy the needs stipulated in the mandate. Two virtual subcommittee meetings were held.
5. The first meeting was on 15 November 2022. The objective was to discuss how to take forward the suggestions and comments made by the UN Tax Committee during the Twenty-fifth Session, mainly relating to the issue of incorporating the work on e-commerce and the issue of VAT/GST and inflation and imports. After discussion, it was considered by the Subcommittee participants that:
 - a. the work on issues on VAT/GST and inflation as well as VAT/GST and imports will be conducted, where necessary, and incorporated in the VAT/GST overview workstream; and
 - b. the work on e-commerce will not be developed for the moment by the Subcommittee to avoid duplication of the ongoing work led by the OECD in close partnership with the World Bank and regional organizations and developing banks which has already translated in a series of detailed guidance on the VAT/GST treatment of digital trade (i.e. VAT Digital Toolkits) for Africa, Asia and the Pacific and Latin America and the Caribbean; and also due to the limited resources of the Subcommittee.
6. The Subcommittee would welcome any views by the Committee on these proposed approaches.

7. The second meeting was held virtually from 1 to 3 February 2023. The Subcommittee discussed the draft papers prepared by the working groups on: (i) the Overview of VAT/GST in developing countries; (ii) the VAT/GST treatment of small Enterprises; and (iii) VAT/GST Refunds. After debate, the subcommittee decided to present the outline of the workstream on the use of new technologies to improve VAT/GST compliance to the Committee for discussion at this Twenty-sixth Session and to update the Committee on the ongoing drafting of guidance to be presented for first consideration at the Twenty-seventh Session. In addition, a joint session was organized with the Small Group on Digitalization and Improvement of Tax Administration to discuss the draft outline of the workstream on the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data) to coordinate and consolidate related efforts of the Subcommittee and the Small Group.

Progress report

8. In line with the Subcommittee's mandate, the present Co-Coordinator's report informs the Committee of the progress of the work undertaken by the Subcommittee and seeks comments and guidance from the Committee on the Subcommittee's work.

Workstream on the overview of VAT/GST in Developing Countries.

9. Progress has been made to advance this workstream. The draft paper to be presented for first consideration at the next session will comprise six sections as approved by the Committee. These are 1) Introduction, 2) Understanding the VAT/GST and other consumption taxes, 3) Basic design elements of a VAT/GST, 4) Is the VAT/GST regressive, 5) Compliance and administration of VAT/GST, and 6) Conclusions.

Workstream on VAT/GST treatment of small enterprises.

10. Progress has been made by the Subcommittee to advance this workstream. The drafting group is working to prepare an initial paper relying on the existing literature. The draft will then be shared for feedback with a cross-section of relevant stakeholders. The draft will then be refined in light of the feedback and further prepared by the Subcommittee for presentation to the Committee for its consideration.

11. Workstream on VAT/GST refunds.

12. An advance draft paper was discussed in the Subcommittee. The paper is intended to provide an overview of the realities facing tax administrations when managing VAT/GST refund claims, whilst at the same time it also provides a taxpayer's perspective where delayed/non refunding of VAT/GST claims arises. The paper will provide an overview of:

- The factors that give rise to refunds e.g., zero rating, capital expenditure;
- The various mechanisms to request refunds from the tax administration, where applicable;
- The various reasons that give rise to the delayed payment of VAT/GST refund claims e.g., budget constraints, reality of excessive fraudulent refund claims;

- The impact on taxpayers where inefficient refund mechanisms/processes exists, alternatively where refunds are not paid or not paid in full e.g., incurred interest on short term loan funding, increase in consulting costs, litigation expenses;
- The various considerations to be taken into account by tax administrations in the VAT/GST refund cycle e.g., the importance of limiting the risk of invalid/non-qualifying/fraudulent VAT/GST registration applications and its ultimate impact on fraudulent refund claims;
- Insights into the non-refunding of VAT/GST in cross border transactions i.e., an overview of the research undertaken by the Vienna University and which have given rise to cross border disputes, such as, the way that delayed refunds is giving rise to increased cross border disputes which in turn can affect location decisions;
- Engagements with various tax administrations regarding their experience with processing VAT/GST refund claims will be documented;
- An overview of the Pakistan Revenue Authority’s VAT refund model;
- Pertinent data from identified tax administrations including:
 - VAT/GST as % of GDP;
 - Refunds as a % of VAT collections;
 - Best practice – monitoring of refunds year-over-year, sectors, trends; and
- The opportunities available and impact of implementing technology in the VAT/GST lifecycle.

The paper is intended to be presented to the Committee at the Twenty-seventh Session.

Workstream on the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data).

13. Progress has also been made by the Subcommittee to advance this workstream. The outline provided in the Annex to this paper was prepared by a smaller drafting group, which has received valuable inputs and comments from Subcommittee participants as well as from the Small Group on Digitalization and Improvement of Tax Administration. This should ensure that the outcomes from the two groups will be complementary.

Organization of work

14. The Subcommittee continues to be aware of its ambitious work plan ahead. It plans to submit draft guidance for a first discussion by the Committee as such draft is ready on each item, starting at the Twenty-seventh Session. The work is performed by smaller drafting groups that benefit greatly from the generous input of participants of the Subcommittee, as well as from participants of other subcommittees and working groups.

Requested Input from the Committee

15. The Committee is invited to:

- provide comments and guidance on the Subcommittee’s current and proposed work in general; and
- in particular, discuss and provide guidance to the Subcommittee regarding the contents of the proposed outline in the Annex on the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data).

Annex

Use of new technologies to improve VAT/GST compliance

Due to the relevance of VAT in tax revenue -everywhere, but especially in developing countries- and the huge amount of microdata involved for its fair and efficient administration, new technologies offer a promising field to improve VAT compliance.

In particular, departing from the work already done to collect and review these new technologies (1), this chapter summarizes the options opened to enhance the tracking of VAT relevant data (2), improve tax services and tax fulfillment facilitating voluntary compliance (3) and exploit tax data analysis to enforce compliance (4), in an environment of high-quality data governance (5).

1. Background: current developments on VAT and technology (ISORA, OECD Inventory of Tax Technology Initiatives -ITTI-, CIAT INDITEC, Inter-American Development Bank (IDB) Digital Maturity Model, etc.).
2. New technologies to track commercial transactions and VAT data (e-reporting; e-invoice; digital cash registers; products and services classification coding; etc.)
 - a. Relative advantages of the different technologies
 - b. Available practices to implement a national strategy
3. Making VAT compliance easier through technology (pre-filled tax returns; digital taxpayer services; digital economy taxation; etc.)
 - a. Better information for taxpayers and tax administration
 - b. Simpler fulfillment of tax obligations
4. Enforcing VAT compliance via tax data analysis (risk assessment and audit selection via big data analysis, social networks analytics, machine learning and artificial intelligence, etc.)
 - a. 360 degrees and real time analysis of VAT data
 - b. Available practices on VAT data analysis
5. Other issues to implement new technologies for VAT compliance (data governance; security of information; confidentiality; etc.)
 - a. Protecting the data
 - b. Managing the data