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**Committee of Experts on International
Cooperation in Tax Matters
Twenty-eighth session**

New York, 19-22 March 2024

Item 3(n) of the provisional agenda

Indirect Tax Issues

Co-Coordinator's Report

Summary

This note is presented to the Committee for *discussion* and *decision*.

At the Twenty-third Session, the Committee approved the establishment of the Subcommittee on Indirect Tax Issues. In the sessions that followed, the Committee subsequently approved the workplan developed by the Subcommittee, which included the drafting of a series of papers on the following topics: (a) overview of VAT/GST in developing countries; (b) VAT/GST treatment of small enterprises; (c) VAT/GST refunds; (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data); (e) interaction between VAT/GST and other taxes; (f) VAT/GST and specific sectors (Tourism and Construction); and (g) VAT/GST and government entities, charities and donor-funded projects. Since then, the Subcommittee has developed drafts on workstreams (a) through (d).

This note provides a short progress report on the work undertaken by the Subcommittee on Indirect Tax Issues, and seeks from the Committee the following:

1. ***comments and guidance*** on the draft papers that are presented for a ***second reading*** on the following workstreams: (a) Overview of VAT/GST in developing countries; (b) VAT/GST treatment of small enterprises; (c) VAT refunds; and (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data). The aim is to refine the papers for their final approval at the Twenty-ninth Session of the Committee.

2. ***approval to:***

- rename the workstream on VAT refunds to “An Introduction to VAT/GST Refunds” to reflect the content of the paper more accurately.

- discontinue the work on the remaining workstreams (e), (f) and (g), as a matter of prioritization.

Co-Coordinator's Report on the Subcommittee on Indirect Tax Issues

Background information

1. At its Twenty-third Session, recognizing the significant role of indirect taxes in countries' tax base, which directly supports several of the Sustainable Development Goals, the Committee endorsed Secretariat's proposal ([E/C.18/2021/CRP.34](#)) to establish a new workstream on Indirect Tax Issues. Consequently, the Committee decided to establish a Subcommittee on Indirect Tax Issues with the mandate to identify priority issues related to indirect taxation where guidance from the Committee may most usefully assist developing countries, with an initial focus on value added tax/goods and services tax (VAT/GST).
2. During the Twenty-fourth Session, the Committee considered and approved a note ([E/C.18/2022/CRP.7](#)) that identified priority areas where its guidance may be most useful to developing countries.
3. At its Twenty-fifth Session, the Committee approved the workplan proposed by the Subcommittee ([E/C.18/2022/CRP.21](#)). This plan aimed at developing guidance in VAT/GST design, compliance and administration to address challenges faced by developing countries. The workplan outlined seven specific workstreams, namely: (a) overview of VAT/GST in developing countries; (b) VAT/GST treatment of small enterprises; (c) VAT/GST refunds; (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data); (e) interaction between VAT/GST and other taxes; (f) VAT/GST and specific sectors (Tourism and Construction); and (g) VAT/GST and government entities, charities and donor-funded projects. Furthermore, the Committee provided valuable feedback on the outlines of the first three workstreams.
4. At its Twenty-sixth Session, the Committee provided observations on the Subcommittee's work in general, as well as comments and guidance on the outline of the paper on the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data).
5. At the Twenty-seventh Session, the Subcommittee presented to the Committee ([E/C.18/2023/CRP.29](#)) initial draft papers for first discussion on the following workstreams: (a) Overview of VAT/GST in developing countries; (b) VAT/GST treatment of small enterprises; (c) VAT refunds; and (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data). The Committee contributed its insights and recommendations on these drafts, facilitating further refinement and progress.

Progress made by the Subcommittee on its work program

6. Since the Twenty-seventh Session of the Committee, the Subcommittee has held two meetings to advance its work.
7. The first meeting was conducted virtually on November 14-15, 2023, where the focus was on integrating the feedback and input received during the last Committee Session into the draft papers. The initial day was dedicated to discussions among Subcommittee participants about refining the drafts based on the Committee's recommendations. On the following day, the session was enriched by insights from a European Commission representative who shared the European experience on the interaction between VAT and transfer pricing. This was complemented by a presentation from the business sector on VAT's implication for the tourism industry, offering a practical viewpoint on the subject.
8. The second meeting was held in person in Addis Ababa, Ethiopia, from February 6-8, 2024, allowing participants the option to join virtually. The meeting was focused on discussing the draft papers that had been updated to reflect comments from the Committee as well as incorporating various countries' experiences. Discussions covered the following workstreams (a) Overview of VAT/GST in developing countries, which is attached to this note as Annex A; (b) VAT/GST

treatment of small enterprises, which is attached to this note as Annex B; (c) VAT refunds, which is attached to this note as Annex C; and (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data), which is attached to this note as Annex D. Also, the Subcommittee suggested to not take forward the work on the following workstreams (e) interaction between VAT/GST and other taxes; (f) VAT/GST and specific sectors (Tourism and Construction); and (g) VAT/GST and government entities, charities and donor-funded projects, due to resource and time constraints. Instead, the focus would be on finalizing the remaining workstreams. Furthermore, a recommendation was made to rename the paper on VAT refunds to “An Introduction to VAT/GST Refunds” to better reflect its scope.

Issues for the Committee

9. The Subcommittee invites the following action by the Committee at its Twenty-eighth Session:

- a. **comments and guidance** on the draft papers that are presented for a **second reading** (but not finalization) on the following workstreams: (a) Overview of VAT/GST in developing countries; (b) VAT/GST treatment of small enterprises; (c) VAT refunds; and (d) the use of new technologies to improve VAT/GST compliance (IT systems, E-invoices/big data). The aim is to refine these papers, with a view to final approval at the Twenty-ninth Session of the Committee.
- b. **approval** to rename the workstream on VAT refunds to “An Introduction to VAT/GST Refunds” to more accurately mirror the analysis provided in the paper.
- c. **approval** to discontinue the work on the remaining workstreams (e), (f) and (g), as a matter of prioritization.