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THE TAXATION OF FOREIGN AID

//DON'T ASK
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BRIEFING NOTE



KEY MESSAGES



Official development assistance (ODA) has generally been exempt from taxation in developing countries since the 1940s. Despite the longevity of this practice, justified primarily on the basis of maximising the quantity of aid, there is relatively little evidence on how much tax is exempted and the impact on development outcomes.

The practice is coming under scrutiny as ODA providers increase support for domestic resource mobilisation (DRM) to meet the Addis Tax Initiative (ATI) commitments. The policy incoherence between tax exemptions for ODA and efforts to support DRM has become more apparent. The Platform for Collaboration on Tax (PCT)

has pledged to review ODA tax exemptions and issue guidelines.

The PCT should focus first on increasing transparency and improving the evidence base before issuing guidance on what specific ODA tax exemptions should or should not apply. At the same time, the most harmful practices should be ended, including the ‘don’t ask, don’t tell’ practice of contracting that facilitates income tax avoidance for aid workers and private contractors.