



10 years of building efficient and effective tax administrations in Africa

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**ATAF HIGH-LEVEL TAX POLICY DIALOGUE:  
ENSURING AFRICA'S PLACE IN THE TAXATION OF THE DIGITAL ECONOMY**

**Victoria Falls, Zimbabwe | 31 July – 1 August 2019**

**CONCEPT NOTE**

**1. INTRODUCTION**

The African Tax Administration Forum (ATAF), together with the Zimbabwe Revenue Authority (ZIMRA), and supported by the African Development Bank (AfDB) is organising the ATAF High-Level Tax Policy Dialogue: Ensuring Africa's place in the Taxation of the Digital Economy. Following a successful mandate renewal by the membership of ATAF in last year's annual event, this year, ATAF will be prioritising an African response to the taxation of the digital economy.

**2. BACKGROUND**

Many African countries have reported concerns about the tax challenges they face as their economies become increasingly digitalised. Digitalisation enables multinational enterprises (MNEs) to carry out business in African countries with no or very limited physical presence. This makes it difficult for African countries to establish taxing rights over the profits the MNE is making from the business activities it carried out.

In the era of a globalised economy, Africa is also providing convenience to its citizens through e-commerce. Global digital-based communications cut across territorial borders and create a realm of human activity that challenges the feasibility and legitimacy of laws based on geographic boundaries. This especially pertains to transactions that are conducted electronically (e-commerce) over the internet, which ignore international boundaries since "place" has little meaning in the networked world.

The challenges arising from digitalisation affect both direct and indirect taxes. On the direct tax aspect, the discussion is whether the current international tax rules sufficiently address the problems created by digital business such as social media, marketplace and search engine platforms. In terms of indirect taxes, the consumption of services can take place in various parts of the world, creating a problem on where to tax consumption.



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### 3. CURRENT TAX LANDSCAPE AND CHALLENGES POSED BY THE DIGITAL ECONOMY

Digitalisation raises the question of how taxing rights on income generated from cross border transactions should be allocated between jurisdictions. The allocation of taxing rights between residence and source jurisdictions has been an issue of considerable concern for African countries for many years. African countries are generally source countries and tax on a source basis<sup>1</sup>. ATAF members often report that they consider the current nexus and profits allocation rules are weighted too heavily in favour of the residence jurisdiction to the detriment of the source (African) jurisdiction.

African countries are also concerned that their tax bases are being eroded by Illicit Financial Flows due to MNEs artificially shifting profits to jurisdictions where the profit are subject little or no tax. They consider that the outcomes of the OECD/G20 BEPS project do not adequately stem these Illicit Flows. This is due to the complexity to administer effectively and the lack of adequate comprehension to address the artificial profit shifting seen in Africa.

The challenges include:

- a) identification of the main challenges of the digital economy;
- b) the need to develop rules to address the tax challenges of the digital economy;
- c) a holistic approach is required, which covers both direct and indirect taxation.
- d) Specific challenges include the ability of a company to have a significant digital presence in the economy of another country without being liable to taxation due to the lack of nexus under current international rules;
- e) the attribution of value created from the generation of marketable location-relevant data using digital products and services;
- f) the characterisation of income derived from new business models and how to ensure the effective collection of VAT with respect to cross border supply of digital goods and services.

Successful tax reforms require the appropriate balance between principles, policy and the implementation by tax administrations. Therefore, **the objectives of the Dialogue are to:**

- Strengthen Africa's position in the debate on the digital economy as well as the debate on taxing rights;
- Inform key stakeholders of the various developments taking place in the global tax arena, particularly and specifically to the taxation of the digital economy;

<sup>1</sup> Source taxation means that the income is taxed in the country in which it arises no matter where the recipient is tax resident



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- Galvanise support for African approaches through the technical work of ATAF in championing African position to overcoming the challenges posed by the digital economy;
- Explore how the current proposals advanced by the OECD will impact developing countries and how best African countries can respond.

#### 4. HIGH-LEVEL TAX POLICY DIALOGUE

The purpose of this High-Level Dialogue is to bring together key stakeholders in both the Ministry of Finance and Tax Administration to form a proposed network that will ensure coordinated tax policy and tax administration decisions and actions in the ever-changing global tax environment. Through a consultative process and dialogue, the meeting will outline priority as well as salient tax-related issues for collaboration between the Ministries of Finance and Tax Administrations. The framework will thus ascertain critical engagement on the objectives, impact and implementation of key policies.

#### 5. TARGET AUDIENCE

The High-Level Dialogue is aimed at senior officials of African Ministries of Finance (Ministers, Permanent Secretaries/Directors General) and Tax Administrations (Commissioner General/Deputy Commissioner General). Senior representatives of International and Continental organisations will be invited to contribute to the understanding of the issues at hand; while the legislature and Civil Society will engage not only on legal reforms but on the advocacy required to achieve the necessary change.

#### 6. STRUCTURE OF THE DIALOGUE

The dialogue will be conducted through debates with key tax policy principles (Ministers of Finance and Permanent Secretaries), Finance Family Imputations (Revenue Administrations, Central Banks) and key African institutions (e.g. AUC, ECA, NEPAD, HLP, PAP) where a specific area of taxation concerns for African countries will be presented and a subsequent high-level dialogue will ensue. The meeting will give opportunities to various stakeholders to assess their advances in implementing international standards while isolating unique African challenges and opportunities for inputting a fresh African perspective at a global level.

The panel discussions will centre on topics such as:

- What are the key tax challenges that African countries face from the digitalisation of their economies?



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- What change is needed to the current global tax rules to meet the challenges digitalisation poses in Africa?
- How might the current ATAF draft proposals for changes to the global tax rules help address those challenges?
- What modalities can tax policy and tax administration use to ensure an Africa response through ATAF on the taxation of the digital economy?

## 7. EXPECTED OUTCOMES

- Increased awareness and understanding of the impact of digitalisation on the African economy.
- A deeper understanding of the tax challenges arising from the digitalisation of African economies
- Further development of an African proposal for revisions to the global tax rules to address those challenges.
- Enhance the collaboration between African Ministries of Finance and tax administrations to build effective tax regimes for digitalised business in Africa.
- Increased collaboration between all stakeholder to improve tax advocacy work in Africa with a primary focus on the tax challenges from digitalisation.

