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International Tax Cooperation: The Challenge to the South

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The Inaugural Annual Forum on Developing Country Tax Policies
and Cooperation for Agenda 2030

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Outline

- Rationale for project
- Objectives of project
- Means of implementation

From Billions to Millions

- **MDGs to SDGs**
 - Not just poverty (poverty, hunger, health, education)
 - Also industrialization and technological upgrading
 - Also environmental revival and prevention of irreversible climate change
 - Billions to Trillions
- **How to finance the Trillions in investment?**
 - Private investment
 - Public investment

Agenda 2030: 17 SDGs, 169 Goals

GOAL 1 END POVERTY

GOAL 2 END HUNGER

GOAL 3 WELL-BEING

GOAL 4 QUALITY EDUCATION

GOAL 5 GENDER EQUALITY

GOAL 6 WATER AND SANITATION FOR ALL

GOAL 7 AFFORDABLE AND SUSTAINABLE ENERGY

GOAL 8 DECENT WORK FOR ALL

GOAL 9 TECHNOLOGY TO BENEFIT ALL

GOAL 10 REDUCE INEQUALITY

GOAL 11 SAFE CITIES AND COMMUNITIES

GOAL 12 RESPONSIBLE CONSUMPTION BY ALL

GOAL 13 STOP CLIMATE CHANGE

GOAL 14 PROTECT THE OCEAN

GOAL 15 TAKE CARE OF THE EARTH

GOAL 16 LIVE IN PEACE

GOAL 17 MECHANISMS AND PARTNERSHIPS TO REACH THE GOALS



Tax Transformation: Billions to Millions

- Need to maximize domestic resource mobilization especially in developing countries
- In tax generation: billions to millions transformation: tax rate of 10% or less, or even 1% or less of revenues
- Any international accounting firm worth its salt should be able to keep tax payments below 10 per cent of revenues when working with companies with international subsidiaries.

From Billions to Millions ¹

- Tax savings are NOT available to enterprises that operate only locally.
- Purely local companies end up bearing a higher proportion of the tax burden to the same extent that multinational companies operating in their midst are able to reduce their local tax payments.

From Billions to Millions 2

- Between 2009 and 2011, McDonald's in Europe reported a cumulative revenue of €3.7 billion and tax payments of €16 million
- On revenues of \$11.9 billion, Amazon paid \$16 million tax in 2015 in Germany
- Independent of currency
 - 2002 to 2013, Apple paid Australian dollars 193 million tax on Australian dollar 27 billion revenue, a tax rate of 0.7 of 1 per cent

Broken international tax system ¹

- Enforced by network of double tax treaties, tax competition, and accounting
- **Variety of concepts and technical standards**
 - Separate entity principle
 - Limited liability
 - Controlled foreign corporations
 - Arms length principle
- **Legacy of colonial economic relations – source versus residence taxation equivalent inside colonial trading blocs**

Broken international tax system 2

- Developed countries are now attempting to reform – G20 BEPS process
 - 2007-2008 financial crisis, explosion in public debt in developed countries
 - Seek to retain control of agenda-setting and norm-setting: OECD-based G20 process
 - Agendas and norms to protect dominance of private companies based in developed countries
- Struggle over where agenda is set and how agenda is set
- OECD versus UN (versus IMF . . .)

Broken international tax system ³

- OECD model disadvantageous to developing countries (IMF May 2014 study)
 - Developing countries loss in tax revenues using OECD model provisions twice that lost by developed countries
 - Source versus residence-based taxation: not part of BEPS mandate
- BEPS outcome proposes standards for all countries

Developing country participation in agenda setting

- Not anti-thetical to OECD reform efforts
- But to incorporate developing country requirements and reform proposals
 - Transfer pricing approaches
 - Profit-split methods
 - Tax treatment of extractive industries
 - Source versus residence taxation – Addis Ababa Action Agenda: taxation where economic activity takes place
 - Developing country innovations and techniques not accepted by OECD

Need to create developing country space on tax policy and tax cooperation

- **Objectives**

- To assist country authorities in undertaking better research, upgrading local capacity and in designing effective tax policies for their own countries drawing on lessons and experiences from the developing country context;

Need to create developing country space on tax policy and tax cooperation

- **Objectives**
- (2) to strengthen and better coordinate developing country engagement with and negotiations in international tax cooperation activities such as in the OECD-G20 processes, the UN tax cooperation work, and regional cooperation activities where there are operating fora in Latin America and Africa, but not in Asia; and facilitate mutual action at the regional and global levels.

Need to create developing country space on tax policy and tax cooperation

- **Objectives**

- (3) To establish international tax cooperation mechanisms among developing country authorities, for arriving at agreed norms and mutual action at the regional and global levels.

How to meet Goals ¹

- Centred around annual forum on developing country tax policies and cooperation
- Annual forum should be a regular event – non *ad hoc*, not dependent on the initiative of an individual country administration
- Collaborative activities and cooperation among tax authorities between annual fora

How to meet Goals 2

- Capacity building not enough
- Deep-seated faults in international tax system:
 - IMF finds that the network of bilateral double taxation treaties based on the OECD model significantly constrains developing countries' rights to earn taxes on foreign company operations in their territories. The negative “spillover impacts” (the effect of tax laws and practices) on developing countries are more than twice as large in non-OECD as in OECD countries

How to meet Goals ₃

- Limiting adverse spillovers on developing countries requires not just capacity building, but also addressing weaknesses in domestic law and international arrangements
- Tax forum will address both domestic tax policies and international matters

How to meet Goals 4

- Program of research and publication by practitioners
 - 1. Taxation by source, in theory and in practice
 - 2. Limits of the separate entity principle and foreign controlled corporations in developing countries
 - 3. Tax treatment of technical services in developing countries
 - 4. The impact of investment treaty obligations on the tax treatment of foreign investors
 - 5. South-South and North-South aspects of tax competition and harmful tax practices
 - 6. Transfer pricing tax policies in Brazil
 - 7. Investment incentives as public expenditures in India
 - 8. “Sixth Method” transfer pricing approach of Argentina
 - 9. Recent reforms of tax treatment of the extractive industry in Ghana
 - 10. Foregone revenues and fiscal pressures in the developing countries
 - And so on

How to meet Goals 5

- **Technical cooperation and exchange of visits**
 - South-south cooperation
 - South Centre, an intergovernmental organization, can provide platform for exchanges and facilitate collaborative activities in-between for a
 - There are precedents and some developing countries in technical cooperation

Thank you



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OBSTACLES TO DEVELOPMENT IN THE GLOBAL ECONOMIC SYSTEM

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Slide 1

- International
 - Policy
 - Space