

Analysis of Imbalanced Tax Treaties of Developing Countries

Insights from the Tax Treaties Explorer Dataset

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Outline

I. Research Question and Objective

II. Introduction of Tax Treaties and Main Components

III. Research Methodology

IV. Key Findings

Research Question

Which provisions in tax treaties
between South Centre Member States and OECD countries
create an excessive imbalance in source taxing rights,
depriving the South Centre Member States of tax revenues?

International Tax Treaties

- Agreements between two countries on taxing cross-border income
- Prevent double taxation, reduce tax evasion, and allocate taxing rights
 - Over 3,000 bilateral tax treaties currently in force
 - UN Model vs. OECD Model

Objective

- Enhance South Centre Member States' source taxing rights
 - Identify trends and common issues
 - Propose practical recommendations

Tax Treaties Explorer Dataset



ICTD

1022 between SC
and OECD

486 in force

183 \leq 0.4

Components

Source Taxing Right: The right of a country to tax income generated within its borders.

- Permanent Establishment (PE): A fixed place of business through which a foreign enterprise conducts business in a country, making it subject to local taxation on income generated from that location.
- Withholding Tax (WHT): Tax collected upfront on certain types of income earned by a foreign person or business.
- Other: Additional rules in tax treaties that influence how countries share the right to tax income.

UN: How closely a treaty aligns with the UN Model.

Methodology

- 4 phase methodology
 - Phase I: Initial filter of treaties → 183 treaties selected
 - Phase II: Filtered treaty analysis
 - Phase III: Trend analysis
 - Phase IV: Country-specific recommendations

South Centr	OECD	Source	WHTrates	PE	Other	UN
Benin	Norway	0,23	0,48	0,09	0,13	0,12
Cape Verde	Portugal	0,28	0,38	0,34	0,13	0,24
Cape Verde	Spain	0,2	0,16	0,19	0,25	0,18
Gabon	Belgium	0,38	0,54	0,47	0,13	0,29
Gabon	Canada	0,39	0,44	0,34	0,38	0,35
Gabon	France	0,27	0,33	0,09	0,38	0,24
Gabon	South Korea	0,27	0,38	0,31	0,13	0,18
Ghana	Belgium	0,31	0,46	0,22	0,25	0,29

Where do low scores come from?

- Low scores come from unfavorable provisions

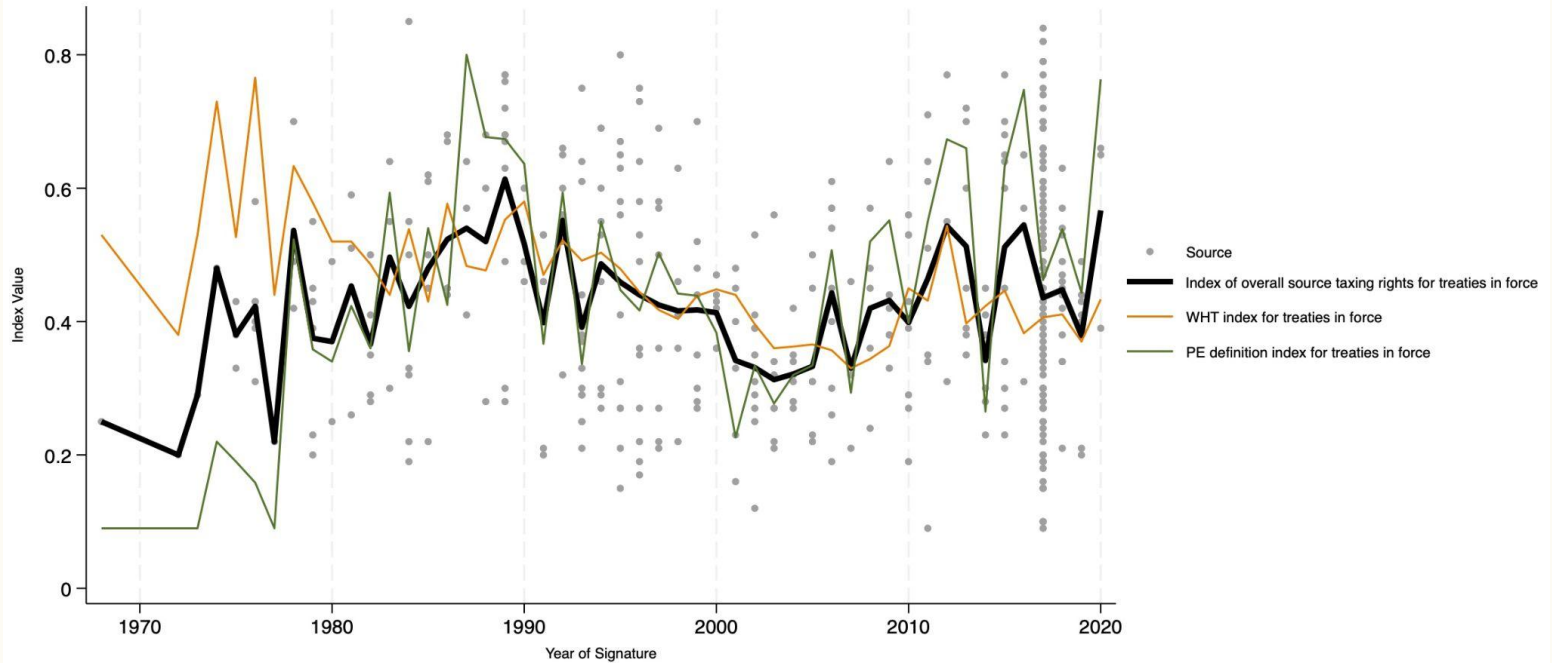
- Example: Permanent Establishment Art. 5(3)(a)C - Construction PE
 - German company decides to build a factory in Bolivia
 - Factory constitutes a Permanent Establishment

- When should Bolivia begin taxing the factory as a Permanent Establishment?
 - Favorable: After 6 months
 - Unfavorable: After 12 months

South Centre	OECD Country	Source	PE	5(3)(a)C
Bolivia	Germany	0,3	0,09	6
Bolivia	Spain	0,22	0,06	12

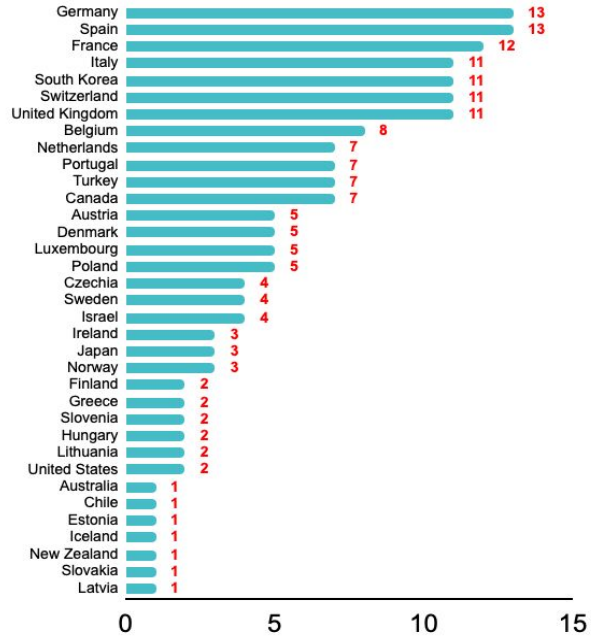
Trend: Time Dimension

Overall Trends in Treaties between South Centre Member States and OECD Countries

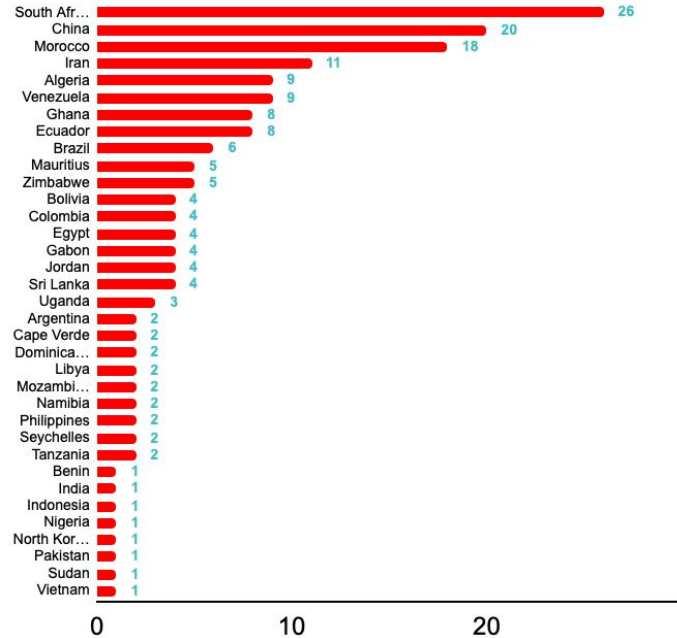


Trend: Measure of Restrictive Treaties

OECD countries with the highest number of restrictive treaties with SC member states

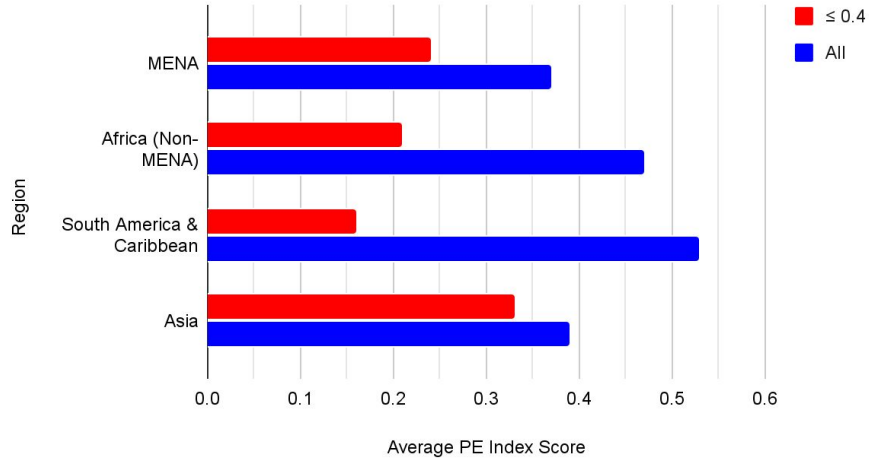


SC member states with the highest number of restrictive treaties with OECD countries

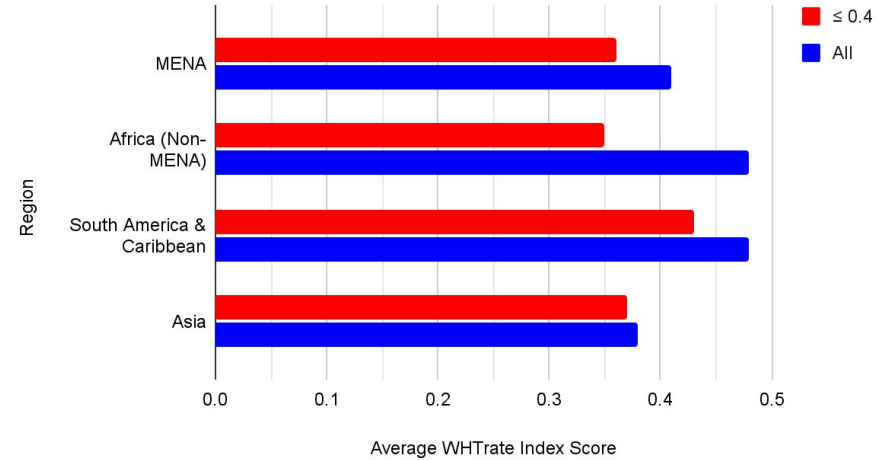


Trend: Regional

PE Index Average by Region



WHTrate Index Average by Region



Findings

- African and South American countries vs. MENA and Asian countries
 - South Africa: Largest number of restrictive treaties (26)
- Lower Withholding Taxes(WHT) for robust Permanent Establishment (PE)
- Taxation of services
- Taxation of royalties (21)
 - Exclusive taxation by residence States – South Africa (15)
- Taxation on international shipping (174)
 - Exceptions - Philippines, Dominican Republic, Sri Lanka, and Tanzania

Implications

- Service sector
 - Growing segment of the global economy
- Resource rich countries
 - Exporter of natural gas, critical minerals, metals

Recommendations

- Reassessment and renegotiation of restrictive tax treaties
 - Bilaterally
 - Proposed United Nations Fast Track Instrument (FTI)

- Integrated tax advocacy approach
 - Bridge gap between domestic policies and international treaties
 - Safeguard revenue rights
 - Domestic resource mobilization

- Interlocutors: Formal and informal networks
 - UN Tax Committee, G24, South Centre

Thank You

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