

Tax Revenue Effects of the UN and OECD STTR

**Presentation of research findings to Member
States of the G-24 and South Centre**

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Reasons, Aims, Design

Problem

Tax treaties restrict tax at **source** on income of nonresidents from activities in the country, even if the income has low or zero tax in the recipient's **residence** country

Reasons

Multinationals can create subsidiary resident in jurisdiction with low or zero tax on receipts of interest, royalties or payments for services (deductible from payor's business income)

Method

Add new article into existing treaties so that restrictions on source taxation are conditional on that income being taxed at a minimum rate in the residence country

Intention

Restores taxing rights of source state & protects developing countries' tax bases

Possible additional revenue from the top-up tax charged

Implementation

Treaty must be **ratified** by both partners

OECD: Multilateral Instrument (MLI)

UN: Fast Track Instrument (FTI)

Development Timelines



January 2020

OECD/ G20 Inclusive Framework statement on Two Pillar approach to address tax challenges of the digital economy

October 2020

OECD report on Pillar Two Blueprint outlines the STTR scope and design

July 2023

Release of OECD Pillar Two Model STTR treaty provision and commentary

September 2023

Signing at OECD of MLI to facilitate STTR implementation
9 signatories (incl Barbados, Benin, Cabo Verde, DR Congo, Indonesia)



April 2022

Concerns about the scope of the OECD STTR and need for an alternative STTR raised in UN Tax Committee meeting

March 2023

UN STTR article text and Commentary approved

October 2024

UN Tax Committee adopts FTI
Awaiting approval

June 2025

Proposed FTI text approved by ECOSOC
Ready for adoption by interested Member States

Key features of the Two STTRs

OECD STTR

- **Scope:** “Covered income”: payments **to related parties** of interest; royalties; services income; insurance and reinsurance premiums; financing fees; payments for distribution rights and the right to use equipment
- Prescribed **materiality** and **mark- up** thresholds
- **STTR Rate:** Minimum rate: 9%; Maximum rate: 9%, taking into account residence and source jurisdiction rates
- **Inclusion in treaties:** As model provision for bilateral negotiations or adopted through Multilateral instrument with willing partner states
- Complete and ready: take-it-or-leave-it basis
- **Collection:** Annual charge in the year following that to which the tax applies, based on STTR return

UN STTR

- **Scope:** All income and capital gains payments to related and unrelated parties
- No thresholds
- **STTR Rate:** Minimum rate: by agreement; Maximum rate: source state’s own domestic law rate (unless otherwise agreed)
- **Inclusion in treaties:** As model provision for bilateral negotiations or adopted through UN Fast- Track Instrument with willing partner states
- Requires agreement on rate and other details
- **Collection:** Deductible directly from payments on a current basis

Research Methodology

Research Question

Which STTR version would be most beneficial to the SC and G-24 Member States?

Research Design

- Methodology for modelling the STTR effects
- We used publicly available data & applied the STTR rules to identify treaties which could be improved and estimate the possible revenue impact
- Member states can use this methodology to evaluate their treaties & possible impact

Reviewed Countries

- Coverage: 59 SC/G-24 members states
 - Excluded: 6 SC/G-24 member states (Burundi, Guatemala, Haiti, Honduras, Micronesia, and Nicaragua) with no bilateral treaties
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Data Sources

- OECD BaTIS (3rd Edition) & ITIS datasets
 - US Country-by-Country reporting data
 - Bilateral treaties in force March 2023
 - Domestic legislation of counterpart residence states
 - Model applied to data for 2021
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Limitations

- Data unavailable for some income streams especially interest and capital gains
 - No adjustment for preferential tax regimes, mark-up and materiality thresholds
-

STTR Methodology

STEP 1: Eligible Treaties

- Identify treaties that restrict source taxation of the covered categories of income to below 9% (OECD) or below the agreed rate (UN)
- Requires detailed analysis of each tax treaty and relevant tax rate in partner state

STEP 2: Qualifying Treaties

Include treaties **where**:

- residence state does not tax income from abroad (territorial tax system), **or**
- domestic tax rate on qualifying income in the residence state is below 9% (OECD) or agreed rate (UN), **or**
- a regime which reduces the tax rate or amount taxable applies

STEP 4: Revenue Estimation

STTR Specified Rate = STTR minimum rate
less Nominal statutory rate in residence state
less Maximum source state rate

STTR Revenue Estimate =
STTR Specified Rate X Qualifying Income

STEP 3: Qualifying Income

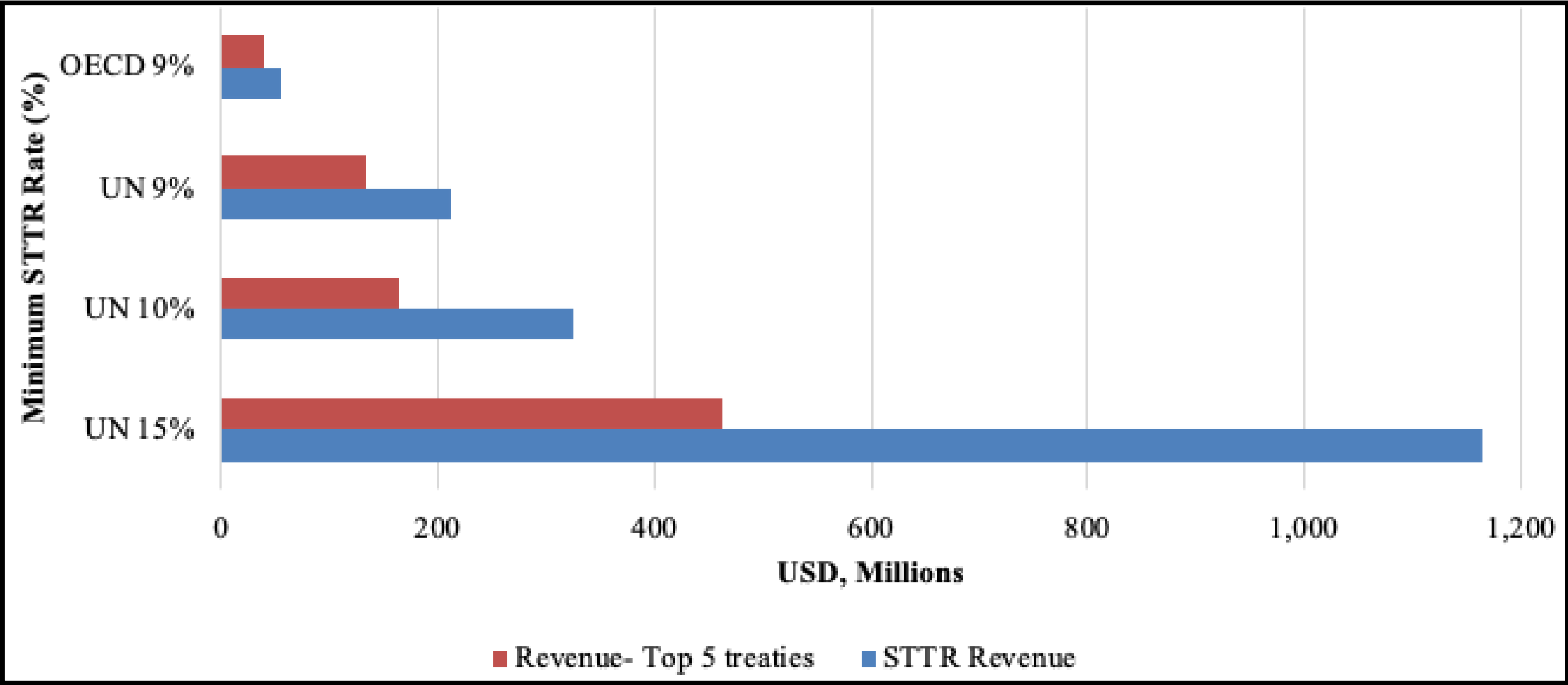
- For each eligible treaty, obtain data for income within the scope of each STTR paid to a resident of the counterpart state
- UN STTR includes all income and capital gains
- OECD STTR: Only covered income, several exclusions

Main Research Findings

OECD STTR: USD 55.6m, 100 treaties, 28 SC/ G-24 States

UN STTR

- 9%: USD 212m, 171 treaties, 40 SC/ G-24 States
- 10%: USD 325m, 210 treaties, 45 SC/ G-24 States
- 15%: USD 1,165m, 317 treaties, 49 SC/ G-24 States



Eligible & qualifying treaties

Eligible Treaties

- Starting point: **1,414 treaties** in force for 59 SC/ G-24 States
- Sources: ICTD, IBFD and official country websites
- Identify treaties where tax in residence state is below STTR specified minimum rate

Qualifying Treaties

- Include treaties **where** residence state does not tax income from abroad or NSR is below the thresholds
- Sources: Official country websites (residence state domestic legislation), IBFD
- Limitations: Territorial regimes not examined in detail, no adjustment for preferential regimes and tax incentives

STTR	Eligible Treaties	Qualifying Treaties
OECD	1,058	100
9% UN	1,058	171
10% UN	1,058	210
15% UN	1,319	317

Assumptions

UN STTR modeled using 9%, 10% and 15% rates; functions as a top- up tax; agreed minimum rate = maximum rate



OECD STTR: Qualifying treaties

Algeria: Bahrain, Jordan, Lebanon, Mauritania, Syria	Iran: Bahrain, Jordan, Kenya, Lebanon, Syria, Turkmenistan	Mali: Morocco, Senegal	Seychelles: Bahrain, Bermuda, Eswatini, Ethiopia, Guernsey, Isle of Man, Jersey, Monaco, San Marino, Zambia
Barbados: Bahrain, Panama, San Marino	Ivory Coast: Guinea- Bissau, Senegal	Mauritius: Eswatini, Guernsey, Jersey, Monaco, Namibia, Rep. Congo, Botswana	South Africa: DR Congo, Eswatini, Ethiopia, Kenya, Malawi, Namibia, Zambia
Benin: Mali, Niger, Senegal, Togo	Jordan: Bahrain, Lebanon, Palestine, Syria	Mexico: Bahrain, Costa Rica, Panama	Sudan: Syria
China: Bahrain, Botswana, Ethiopia, Morocco, Rep. Congo, Syria, Turkmenistan, Zambia	Kenya: Zambia	Morocco: Bahrain, Guinea, Lebanon, Mali	Syria: Bahrain, Jordan, Lebanon
Egypt: Bahrain, Jordan, Lebanon, Morocco, Palestine, Syria	Lebanon: Bahrain, Jordan, Morocco, Senegal, Syria	Pakistan: Bahrain, Lebanon, Jordan, Syria, Turkmenistan	Tanzania: Zambia
India: Syria	Libya: Syria	Palestine: Jordan	Uganda: Zambia
Indonesia: Jordan, Syria	Malaysia: Bahrain, Lebanon, Namibia, Turkmenistan	Philippines: Bahrain	Vietnam: Panama, Palestine



UN STTR: Qualifying treaties

Algeria: Bahrain, Jordan, Lebanon, Mauritania, Syria, Bosnia & Herzegovina, Bulgaria, Canada, Qatar, UAE	China: Bahrain, Botswana, Ethiopia, Morocco, Rep. Congo, Syria, Turkmenistan, Zambia, Barbados, Bosnia & Herzegovina, Bulgaria, Canada, Cyprus, Hungary, Jamaica, Kyrgyzstan, Laos, Macau, Mauritius, Moldova, Nigeria, North Macedonia, Papua New Guinea, Qatar, Singapore, Sudan, UAE	Indonesia: Jordan, Syria, Bulgaria, Canada, Hungary, Laos, Papua New Guinea, Qatar, Singapore, Sudan, UAE	Jordan: Bahrain, Lebanon, Palestine, Syria, Bosnia & Herzegovina, Bulgaria, Canada, Cyprus, Morocco, Qatar, Singapore, UAE
Barbados: Bahrain, Panama, San Marino, Botswana, Mauritius	Egypt: Bahrain, Jordan, Lebanon, Morocco, Palestine, Syria, Bulgaria, Canadian, Cyprus, Hungary, Mauritius, Singapore, Sudan, UAE	Iran: Bahrain, Jordan, Kenya, Lebanon, Syria, Turkmenistan, Bulgaria, Cyprus, Hungary, Kyrgyzstan, North Macedonia, Qatar, Sudan	Kenya: Zambia, Qatar, UAE
Benin: Mali, Niger, Senegal, Togo, Morocco	India: Syria, Botswana, Canada, Cyprus, Ethiopia, Fiji, Hungary, Jordan, Kenya, Kyrgyzstan, Mauritius, Morocco, Myanmar, Namibia, North Macedonia, Qatar, Singapore, Sudan, Turkmenistan, UAE, Zambia	Ivory Coast: Guinea- Bissau, Senegal, Canada, Morocco	Lebanon: Bahrain, Jordan, Morocco, Senegal, Syria, Bulgaria, Cyprus, Qatar, UAE

UN STTR: Qualifying treaties



Libya: Syria, Singapore	Mexico: Bahrain, Costa Rica, Panama, Canada, Hungary, Jamaica, Qatar, Singapore, UAE	Philippines: Bahrain, Canada, Hungary, Nigeria, Qatar, Singapore, UAE	Syria: Bahrain, Jordan, Lebanon, Bulgaria, Cyprus, Morocco, Qatar, Sudan, UAE
Malaysia: Bahrain, Lebanon, Namibia, Turkmenistan, Bosnia & Herzegovina, Kyrgyzstan, Laos, Mauritius, Moldova, Morocco, Myanmar, Papua New Guinea, Sudan, Syria	Morocco: Bahrain, Guinea, Lebanon, Mali, Bulgaria, Canada, Hungary, Jordan, North Macedonia, Senegal, Singapore, Syria, UAE, Zambia	Seychelles: Bahrain, Bermuda, Eswatini, Ethiopia, Guernsey, Isle of Man, Jersey, Monaco, San Marino, Zambia, Barbados, Botswana, Cyprus, Kenya, Mauritius, Qatar, Singapore, UAE	Tanzania: Zambia
Mali: Morocco, Senegal	Pakistan: Bahrain, Lebanon, Jordan, Syria, Turkmenistan, Bosnia & Herzegovina, Bulgaria, Canada, Kyrgyzstan, Mauritius, Morocco, Nigeria, Qatar, Singapore, UAE	South Africa: DR Congo, Eswatini, Ethiopia, Kenya, Malawi, Namibia, Zambia, Botswana, Bulgaria, Canada, Cyprus, Grenada, Hungary, Mauritius, Nigeria, Qatar, Singapore, UAE	Uganda: Zambia, Mauritius
Mauritius: Eswatini, Guernsey, Jersey, Monaco, Namibia, Rep. Congo, Botswana, Barbados, Cyprus, Qatar, Singapore, UAE	Palestine: Jordan	Sudan: Syria, Qatar, UAE	Vietnam: Panama, Palestine, Bulgaria, Canada, Hungary, Laos, Macau, Myanmar, Qatar, San Marino, Singapore, UAE

UN STTR: Additional qualifying treaties



Angola: UAE	Ecuador: Canada, Singapore, UAE	Mozambique: Macau, Mauritius, UAE	Trinidad & Tobago: Canada
Argentina: Canada, Qatar, UAE	Ethiopia: Cyprus, Singapore, UAE	Namibia: Mauritius	Venezuela: Barbados, Canada, Qatar, UAE
Brazil: UAE	Gabon: Canada	Nigeria: Canada, Singapore	Zimbabwe: Botswana, Bulgaria, Canada, UAE
Cabo Verde: Macau, Mauritius	Ghana: Morocco, Singapore	Panama: Barbados	
Colombia: Canada	Guyana: Canada	Peru: Canada	
Cuba: Barbados	Iraq: Hungary	Sri Lanka: Bahrain, Bosnia & Herzegovina, Canada, Mauritius, Qatar, Singapore, UAE	

Qualifying income

BaTIS and ITIS datasets

- Bilateral inflows and outflows of services and royalty payments, 17 years (2005 to 2021), 204 economies
- Not reported in BaTIS: Interest, payments for distribution rights, guarantee and financing fees (except FISIM), capital gains
- Excluded from analysis: travel (in country spending by tourists), government goods and services

Modelling the STTR effects

Map each STTR qualifying income category to:

- The BaTIS categories and sub- categories
- The UN Model Convention
- The OECD Model Convention



Related party transactions: OECD STTR

- 2019- 2021 overall average (45.62%) computed using US Country by Country Reporting data
- Data only reported by ultimate parents of US MNEs with annual revenue of \$850m or more
- Data available for 20 counterpart residence states that have treaties with SC/ G-24 members
- 45.62% average applied where data was unavailable

Mapping qualifying income

Income Category	BaTIS	OECD Model/ STTR	UN Model
Interest	Not reported	Art 11	Art 11
Royalties	Charges for the use of intellectual property	Art 12, excl software	Art 12, excl software (2025 Revision)
Use or right to use product or service distribution rights	Not reported	Art 7, excl from Art 12 royalty definition	Art 7, excl from Art 12 royalty definition
Rent or any other payment for use of industrial, commercial, or scientific equipment	Charges for the use of intellectual property	Art 7, excluded from Art 12 royalty definition	Art 12, included in royalty definition

Income Category	BaTIS	OECD Model/ STTR	UN Model
Insurance and reinsurance premiums	Direct insurance, reinsurance, auxiliary insurance, pension	Art 7 Direct insurance, reinsurance, auxiliary insurance included as services Pension excluded	Direct insurance: Art 5(6) Reins: Art 5(6)/ 7 Others: Art. 7
Fees to provide a financial guarantee, or other financing fees	Financial services explicitly charged, financial intermediation services	Art 7 Financial intermediation services only	Art 7/ 12B
Capital gains	Not reported	Art 7 Excluded from scope	Art 13

Mapping qualifying ‘services’ income

BaTIS	OECD Model/ STTR	UN Model
Telecommunications, computer, and information services (telecom, computer software, computer services other than software, information services)	Art 7 Computer services other than software’ (as services) only	Art 7, 12A, 12B
Manufacturing services on physical inputs owned by others	Art 7 Included as services income	Art 12A
Maintenance and repair services	Art 7 Included as services income	Art 12A
International Transport (air, shipping, others)	Art 8 (air and shipping); Art 7 (others) Excluded	Art 8, 8 alt A/B (air and shipping); Art 7 (others)

BaTIS	OECD Model/ STTR	UN Model
Construction (construction abroad, in reporting economy)	Art 7 Included as services income	Art 12A
Other business services (R&D; professional and management consulting; technical, trade related and other business services)	Art 7 Included as services income	Art 12A
Personal, cultural, and recreational services (audio-visual and related services, other personal, cultural, recreational services e.g. health, education, heritage)	Art 7 Included as services income Audio-visual services excluded	Audio-visual: Art 12B Others: Art 12A

Revenue Estimation

STTR Revenue Estimate = STTR Specified Rate X Qualifying Income

STTR Specified Rate = STTR minimum rate /less Nominal Statutory Rate in Residence State /less maximum Source State Rate



OECD STTR

- **Minimum rate:** 9%
- **Residence nominal statutory rate:** General headline CIT rate **or** specific rate applicable to income category or entity type
- Adjusted for preferential adjustments and 'any tax on net income'



UN STTR

- **Minimum rate:** By agreement
- **Residence nominal statutory rate:** 'low level of taxation' i.e. either statutory tax rate on income is below agreed rate or preferential regime (exemption, exclusion) applies

OECD STTR: Revenue Estimation



SC/G24 Member State	Residence State	STTR Specified Rate (9% - NSR in Residence State- Source State Tax)					Payment for Exports from Residence State- BaTIS (USD Millions)					Related party revenue ratio (%)	STTR Revenue Estimate (USD millions)
		Interest	Royalties	Tech. Services	Direct Insurance	Reinsurance	Royalties	Tech. Services	Direct Insurance	Reinsurance	Financial Intermediation		
China	Rep. Congo		4%	9%	9%	9%	0.36	208.03	0.38	0.45	0.00	85.11%	16.0102
Mexico	Costa Rica			9%		9%	0.05	208.86	0.31	0.37	0.55	53.81%	10.1598
China	Bahrain			9%	9.0%	9.0%	2.24	128.66	58.19	69.33	0.88	37.73%	8.7302
China	Morocco			9%		9.0%	4.42	86.96	0.89	1.06	0.21	32.26%	2.5621
Mexico	Panama	4%		9%		9%	0.01	54.61	0.32	0.38	0.40	43.41%	2.1640
Egypt	Lebanon		4.0%	9%		9.0%	0.05	18.85	2.72	3.24	0.21	101%	2.0190
Egypt	Palestine			9%	9%	9%	0.05	26.07	9.05	10.79	0.00	45.62%	1.8852
Barbados	Panama	4%	2%	9%	9%	9%	0.03	11.99	8.60	10.24	1.31	43.41%	1.2559
Barbados	Bahrain	9%	9%	9%	9.0%	9.0%	0.14	14.75	6.02	7.18	0.07	37.73%	0.9563

9% UN STTR: Revenue Estimation



SC/G24 Member State	Residence State	STTR Specified Rate (9% - NSR in Residence State- Source State Tax)						Payment for Exports from Residence State- BaTIS (USD Millions)						STTR Revenue Estimate (USD millions)
		Interest	Royalties	Tech services	Capital gains	Transport	Insurance & reinsurance	Royalties	Total Tech. Services	Total Transport	Insurance & Pension Services	Direct Insurance	Reinsurance	
China	Bahrain			9%	9%	9%	9%	2.24	110.32	171.78	171.91	58.19	69.33	40.86
China	Rep. Congo		4%	9%	9%	9%	9%	0.36	280.74	68.83	1.11	0.38	0.45	31.58
China	Morocco			9%	9%	9%	9%	4.42	121.61	145.12	2.63	0.89	1.06	24.16
Mexico	Costa Rica			9%	9%	9%	9%	0.05	212.12	24.81	0.92	0.31	0.37	21.38
China	Ethiopia	2%	4%	9%	9%	9%	9%	-	0.93	180.91	0.02	0.01	0.01	16.37
Mexico	Panama	4%		9%	9%	9%	9%	0.01	58.43	25.13	0.93	0.32	0.38	7.58
Egypt	Palestine			9%	9%	9%	9%	0.05	23.08	31.97	26.74	9.05	10.79	7.36
Barbados	Panama	4%	1.5%	9%	9%	9%	9%	0.03	13.19	20.30	25.40	8.60	10.24	5.30
Egypt	Morocco			9%	9%	9%	9%	0.07	25.00	21.99	1.31	0.44	0.53	4.35

10% UN STTR: Revenue Estimation



SC/G24 Member State	Residence State	STTR Specified Rate (10% - NSR in Residence State- Source State Tax)						Payment for Exports from Residence State- BaTIS (USD Millions)						STTR Revenue Estimate (USD millions)
		Interest	Royalties	Tech. services	Capital gains	Transport	Insurance & reinsurance	Royalties	Total Tech. Services	Total Transport	Insurance & Pension Services	Direct Insurance	Reinsurance	
China	Bahrain			10%	10%	10%	10%	2.24	110.32	171.78	171.91	58.19	69.33	45.40
China	Rep. Congo		5%	10%	10%	10%	10%	0.36	280.74	68.83	1.11	0.38	0.45	35.09
China	UAE			1%	1%	1%	1%	79.63	665.80	2,489.03	184.66	62.51	74.47	33.39
China	Morocco			10%	10%	10%	10%	4.42	121.61	145.12	2.63	0.89	1.06	26.85
Mexico	Costa Rica			10%	10%	10%	10%	0.05	212.12	24.81	0.92	0.31	0.37	23.75
China	Ethiopia	3%	5%	10%	10%	10%	10%	-	0.93	180.91	0.02	0.01	0.01	18.19
India	UAE			1%	1%	1%	1%	17.89	465.21	1,069.26	100.50	34.02	40.53	16.35
Mexico	Panama	5%		10%	10%	10%	10%	0.01	58.43	25.13	0.93	0.32	0.38	8.42
Egypt	Palestine			10%	10%	10%	10%	0.05	23.08	31.97	26.74	9.05	10.79	8.18

15% UN STTR: Revenue Estimation



SC/G24 Member State	Residence State	STTR Specified Rate (15% - NSR in Residence State- Source State Tax)						Payment for Exports from Residence State- BaTIS (USD Millions)						STTR Revenue Estimate (USD millions)
		Interest	Royalties	Tech. services	Capital gains	Transport	Insurance & reinsurance	Royalties	Total Tech. Services	Total Transport	Insurance & Pension Services	Direct Insurance	Reinsurance	
China	UAE			6%	6%	6%	6%	79.63	665.80	2,489.03	184.66	62.51	74.47	200.37
India	UAE	1%		6%	6%	6%	6%	17.89	465.21	1,069.26	100.50	34.02	40.53	98.10
China	Bahrain	5%	5%	15%	15%	15%	15%	2.24	110.32	171.78	171.91	58.19	69.33	68.21
China	Rep. Congo	5%	10%	15%	15%	15%	15%	0.36	280.74	68.83	1.11	0.38	0.45	52.64
China	Barbados			6%	15%	6%	6%	2.89	39.43	6.02	661.51	223.92	266.79	42.42
China	Morocco	5%	5%	15%	15%	15%	15%	4.42	121.61	145.12	2.63	0.89	1.06	40.49
China	Qatar			5%	5%	5%	5%	0.41	94.61	652.65	12.32	4.17	4.97	37.98
Mexico	Costa Rica	5%	5%	15%	15%	15%	15%	0.05	212.12	24.81	0.92	0.31	0.37	35.63

Conclusion



OECD STTR


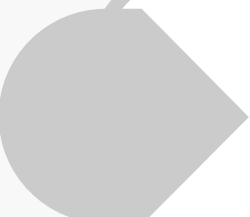


- Highly complex and restrictive
- Little or no benefit to SC/ G24 members
- No impact on any OECD- SC/ G24 member treaty



UN STTR

- Simpler and more comprehensive
- More impact, especially due to wider scope (unrelated parties, capital gains, no thresholds)
- Greater benefit if rate $> 9\%$ can be agreed

Way Forward

-  Use STTR methodology and suitable data to **carefully evaluate** all existing treaties: payment flows and domestic tax regime in recipient countries
-  Identify **problematic treaties** and **evaluate** whether they cause unjustifiable losses
-  **Apply Anti- Abuse measure** (Principle Purpose Test) to deny deduction of payments routed through low- tax country
-  **Renegotiate** these treaties to include UN STTR



Thank You

23 July, 2025

