Introductory statement by
Alexander Trepelkov, Director, Financing for Development Office, UN-DESA, on the Report of the Secretary-General “Strengthening of institutional arrangements to promote international cooperation in tax matters, including the Committee of Experts on International Cooperation in Tax Matters” (E/2011/76)
26 April 2011

Mr. President,
Distinguished delegates,

I have the honour to introduce the report of the Secretary-General on “Strengthening of institutional arrangements to promote international cooperation in tax matters, including the Committee of Experts on International Cooperation in Tax Matters” (E/2011/76), submitted in response to ECOSOC resolution 2010/33. Against the backdrop of universal consensus on the key role of international tax cooperation for the mobilization of domestic resources for development, the report reviews the existing institutional arrangements, including complementarities between the work done by the UN Committee of Experts on International Cooperation in Tax Matters and other international organizations, such as the Bretton Woods institutions, OECD and relevant regional bodies. It also summarizes the views provided by Member States and presents options, for consideration by the Council, on strengthening of the UN institutional capacity to promote international tax cooperation.

The setting

The relationship between financing for development and international tax cooperation features prominently on the UN development agenda. Last year’s Summit on the Millennium Development Goals (MDGs) highlighted the need for enhancing domestic resource mobilization and fiscal space through modernized tax systems, more efficient tax collection, broadening the tax base and effectively combating tax evasion and capital flight. While each country is responsible for its tax system, it is important to support national efforts of developing countries by enhancing international cooperation and participation in addressing tax matters.

In the wake of the recent financial and economic crisis, the global recession has depressed government revenues and aggravated budget deficits, while creating a need for stimulus packages and recovery measures in many countries. Meanwhile, pressure is mounting to address long-term development goals, such as the MDGs, as well as new challenges related to climate change, population ageing, volatility of food and fuel prices, and support for fragile and conflict-affected States. Thus, donor countries have a strong renewed interest in helping developing countries to improve their tax revenues, as a way to reduce pressure for additional financing for development.

UN Committee of Experts on International Cooperation in Tax Matters

Due to its universal membership and legitimacy, the United Nations has a key role to play in promoting international tax cooperation to the benefit of both developed and developing countries. Under the current institutional arrangements, the 25-member Committee of Experts on International Cooperation in Tax Matters serves as a subsidiary body of ECOSOC. Its core mandate is to keep under review and update as necessary the *UN Model Double Taxation Convention between Developed and Developing Countries* and the *Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries*. In addition, the Committee provides a framework for dialogue with a view to enhancing and promoting cooperation among national tax authorities; considers how new and emerging issues could affect international tax cooperation and develops assessments, commentaries and appropriate recommendations; and makes recommendations on capacity-building and the provision of technical assistance. In all its activities, the Committee gives special attention to developing countries and countries with economies in transition. The Committee meets annually for five working days in Geneva and submits its report to ECOSOC at its substantive session.

For most of its work the Committee relies on ad hoc subcommittees and working groups composed of experts and observers who work throughout the year, using both electronic communications and face-to-face meetings. The subcommittees have been instrumental in taking forward the Committee's work on updating the UN Model Tax Convention; revision of the Manual for the Negotiation of Bilateral Tax Treaties; drafting a Practical Transfer Pricing Manual for Developing Countries; and on capacity-building. In accordance with ECOSOC resolution 2006/48, the Secretary-General established a trust fund to seek voluntary contributions, in particular to support the participation of experts from developing countries in the Committee's activities. However, to date, no contributions have been received.

Complementarities between work of the Committee and other organizations

While there is no question about overlap of the work programme of the Committee with those of the IMF and World Bank, whose role is not essentially one of multilateral tax cooperation, the question is often raised about possible duplication between the work done at the United Nations and OECD. Indeed, the UN Model Tax Convention draws upon the OECD Model (which itself draws upon the League of Nations work) but the two remain different in key respects. Both models seek to prevent double taxation, but the UN Model preserves a greater share of tax revenue in the country where investment or other activity takes place, while the OECD Model preserves a greater share in the country of the investor or trader. Such distinct differences validly reflect the different memberships and priorities of the two organisations. Therefore, the UN Model is heavily relied upon by developing countries in tax treaty negotiations, and is expected to be even more widely used upon completion of its 2011 update.

The 192-country UN membership, reflecting a vast variety of perspectives, realities and priorities, provides for its globally inclusive approaches to addressing international tax matters. In recognition of UN tax work, UN representatives have been invited to participate in other tax fora, such as the G-20 Development Working Group on Domestic Resource Mobilization, the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, the OECD Informal Task Force on Tax and Development, the International Tax Dialogue, the German Government's International Tax Compact, the Asian Development Bank Institute and others. In this cooperative work, the UN Secretariat seeks to provide constructive contributions, to the extent possible within its limited budgetary and staff resources. This inter-institutional collaboration helps to avoid unwarranted duplication in meeting the needs of UN Members States.

Views provided by Member States

To date, a total of 32 countries and one regional grouping provided their views in response to a note verbale circulated to all Member States by the Secretariat. All respondents agreed on the need to strengthen international cooperation in tax matters, frequently stressing that it was essential to enhance: (1) collaboration and cooperation among existing institutions active in this area, including between the UN Committee of Experts and the relevant OECD initiatives; (2) involvement and participation of developing countries in relevant fora; and (3) regional dialogues on tax matters. Most countries acknowledged the importance of the work done by the Committee, especially in relation to the UN Model Tax Convention and its contribution to enhancing international cooperation in tax matters, in particular between developing and developed countries. There was an agreement that the Committee's effectiveness should be improved, but views differed on whether or not the Committee should be converted to an intergovernmental body.

Countries that objected to the conversion of the Committee commonly cited the following three reasons: (1) the danger of duplication of work of other international organizations and the resulting risk of establishment of multiple and inconsistent international standards in the area of international taxation; (2) additional resource requirements with the risk of fragmenting the already limited resources currently allocated to international tax issues; and (3) the possibility of interfering with the ongoing work of the existing Committee, especially on the revision of the UN Model Tax Convention, and preventing its successful conclusion. Several countries were of the view that while the conversion of the Committee would not necessarily result in enhancing its effectiveness, increasing the resources dedicated to its work, including funding for the work of the subcommittees and working groups, would be essential.

Another group of countries were of the view that an intergovernmental body should be established with dedicated technical staff and expanded budget. As the only international tax cooperation body with its membership comprising a balanced representation of both developing and developed countries and with the benefit derived from the legitimacy and convening power of the United Nations, it could play a crucial role in fostering dialogue and cooperation between national tax authorities and in promoting North-South, South-South and triangular cooperation. According to the proponents of a conversion, it would provide the Committee with more authority, consolidate its achievements and further advance its work towards effective treatment of the relationship between tax and development.

Full texts of the replies received to date are available on the FfD website at www.un.org/esa/ffd/tax. Further views are welcome and will be posted on the same website.

Possible options for the strengthening of institutional arrangements

Drawing upon the views provided by Member States and other relevant material, the following three options have been identified:

(1) Strengthening the existing arrangements within the United Nations while retaining the current format of the Committee of Experts;

(2) Converting the Committee of Experts into an intergovernmental commission serving as a subsidiary body of ECOSOC; and

(3) Creating an intergovernmental commission and retaining the current Committee of Experts as a subsidiary body of the commission.

Under option 1, no new entity would be created, but rather the attempt would be made to fully utilize and enhance the effectiveness of the existing arrangements, including the Committee's methods of work. The main advantage of this option is that it would allow for the continuation of the ongoing work of the Committee with no need for adjustments and transitional provisions. However, this option does not address the profound need for a truly global all-inclusive norm-setting body for international tax cooperation at the intergovernmental level, which would offer developing countries a full "seat at the table".

Option 2 provides for the creation of a global, all-inclusive body for international tax cooperation at the United Nations, which is the most appropriate forum to host this body because of its universal membership and legitimacy. Models and other recommendations developed by this body would have universal legitimacy and authority. As a result of its intergovernmental status, the commission would be able to prepare draft resolutions and decisions on tax policy and tax administration issues on behalf of ECOSOC and submit them directly to the Council for action, which would enhance the impact of its work. The conversion of the Committee, however, could pose some risk of possible disruption to its ongoing work, and would thus require putting in place some transitional provisions, especially with a view to ensuring the successful completion of the 2011 update of the UN Model Tax Convention.

Option 3, which combines options 1 and 2, would be the most comprehensive in terms of meeting the key objective of providing developing countries with the opportunity for an effective voice and participation when issues of cooperation on tax matters are being decided by the international community, while ensuring the important work of the Committee is not disturbed. It would afford the most flexibility in responding to the need for enhanced international tax cooperation, both at the intergovernmental and expert levels. On the other hand, it is likely to be the most resource intensive, combining most of additional resource demands of both option 1 and option 2.

It is not possible to estimate resource requirements of the conversion under options 2 and 3 without specifying the commission's membership, working methods, frequency of meetings and other relevant details. Should a draft proposal in this regard be submitted to ECOSOC for action, the Secretariat would respond with a statement on programme budget implications, as appropriate. However, irrespective of whether or not a conversion is proposed, under all the three options, additional resources will need to be allocated, in order to fully utilize the existing arrangements, specifically to support: (a) the Committee's working methods, namely, the work of its subcommittees and working groups; (b) capacity-building activities referred to in the Committee's current mandate; and (c) enhanced coherence, coordination and cooperation between the United Nations and other institutions and initiatives in the area of international tax cooperation.

Conclusion

ECOSOC may wish to consider the three options analysed in the report or any other modalities for the strengthening of institutional arrangements within the UN to promote international cooperation in tax matters, including the Committee of Experts. Ensuring that the UN plays its proper role in international tax cooperation in terms of its institutional capacity would be a significant contribution by the Council to enhancing domestic resource mobilization for development. It would respond to a real opportunity, and an urgent need, for greater international cooperation in tax matters for the benefit of both developed and developing countries in their common pursuit of achieving the MDGs by 2015.

Thank you.