

ECOSOC Special Event on International Tax Cooperation

(New York, 14–15 March 2012)



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Highlights

- Launch of 2011 Update of the United Nations Model Double Taxation Convention garners considerable interest from UN journalists and international news agencies
- ECOSOC holds, for the first time, a one-day special meeting on international cooperation in tax matters
- International organizations agree on the need to strengthen international tax cooperation and highlight a special role of the United Nations
- UN is invited to participate as an observer in the OECD Committee on Fiscal Affairs
- Developing and developed countries remain divided on the proposed conversion of the Committee of Experts on International Cooperation in Tax Matters into an intergovernmental body
- Developing countries call for additional resources to support the work of the Committee, including from the UN regular budget

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Overview

The Economic and Social Council held, on 15 March 2012, a one-day special meeting to consider the question of international cooperation in tax matters, including institutional arrangements to promote such cooperation. The President of ECOSOC invited representatives of national tax authorities to participate in the meeting. Accordingly, Ms. Allen Kagina, Commissioner-General of the Uganda Revenue Authority, delivered a keynote address on “*Current Challenges, Priorities and Experiences of Developing Countries in Tax Matters*”.

The central feature of the meeting was an official launch of the *United Nations Model Double Taxation Convention between Developed and Developing Countries: 2011 Update*.

The meeting also featured a panel discussion on “*The Role of Multilateral Bodies in Strengthening International Cooperation in Tax Matters*”, with the participation of major international organizations active in the tax area.

The ECOSOC official meeting was preceded by an expert group meeting on “*Transfer Pricing and Capacity Development in Tax Matters*”, organized jointly, on 14 March 2012, by FfDO/DESA and the Friedrich-Ebert-Stiftung (FES) New York Office.



Launch of the UN Model

Official launch

The *United Nations Model Double Taxation Convention between Developed and Developing Countries: 2011 Update* was officially launched on 15 March 2012. The launch featured panel presentations and distribution of the e-publication, as well as promotional materials. The UN Model can be downloaded from the FfD website and its printed version will be available later this year.

At the launch, **Mr. Armando Lara Yaffar** (Mexico), Chair of the Committee of Experts on International Cooperation in Tax Matters, recalled the history of the UN Model and described the work of the Committee on key substantive issues in finalizing the 2011 update. The presentation by **Mr. Alexander Trepelkov**, Director, FfDO/DESA, was on the role of the UN Model in the context of Financing for Development. The key point was to illustrate that a UN Model-based treaty, as compared to the one based on the OECD Model, would give more taxing rights to a developing country. In addition, **Mr. Michael Lennard**, Chief, International Tax Cooperation Unit, FfDO/DESA, outlined the key features of the UN Model focusing on those articles, which were updated as compared to the 2001 version. Following the panel presentations, seven Committee members highlighted the Committee's achievements and stressed the need for additional resources to support its work.

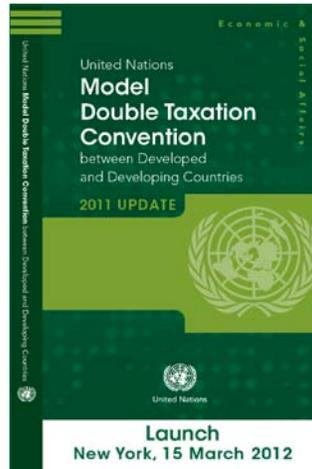
UN Model Convention

UN Model Convention, authored by the Committee of Experts on International Cooperation in Tax Matters, assists developing countries in entering of bilateral tax treaties, in support of their development goals. While many provisions of the UN Model Convention and the OECD Model Convention overlap, these Models diverge in many important areas, clearly reflecting the different memberships and priorities of the two organizations. The UN Model generally preserves a greater share of tax revenue to the country where investment or other activity takes place, while the OECD Model preserves more taxing rights to the country of the investor, trader, etc. Thus, the UN Model would normally allow developing countries more taxing rights on income generated by foreign investments in these countries.

Press conference and media coverage

The launch of the UN Model Convention was preceded by a press conference, which garnered considerable interest from UN journalists. Mr. Alexander Trepelkov, Director, FfDO/DESA, Mr. Armando Lara Yaffar, Chair, UN Committee of Experts, and Mr. Michael Lennard, Chief, International Tax Cooperation Unit, FfDO/DESA, briefed journalists on the scope and content of the revised UN Model and answered questions. They emphasised the value-added of the UN Model for developing countries in furthering their development goals when negotiating double tax treaties with developed countries. The press conference resulted in numerous press reports, especially by news agencies of developing countries.

Press articles across the world reported on the key role of the UN Model in encouraging international investment and promoting sustainable development, as well as in combating tax evasion. For instance, *Chinadaily's* headline read "UN updates convention on double taxation to spur investment in developing nations". Quoting Alexander Trepelkov, it continued that the UN Model was "designed to facilitate the drafting of bilateral tax agreements that attempt to prevent double taxation on income from country-to-country investments, thereby encouraging investment in developing countries as well as technology transfer and economic development". The *Africa en ligne*, echoing *African Manager* and quoting Armando Lara Yaffar, explained that "the main objective of the revision of the UN Model had been to take into account recent developments in the areas of international tax policies relevant for both developed and developing countries". The *Caribbeannewsnow* emphasized that the UN Model aimed both "to prevent double taxation between countries", and "to avoid tax evasion, which costs countries \$3.1 trillion every year".



ECOSOC Special Meeting on International Tax Cooperation



Opening

Following the opening remarks by the President of ECOSOC, **H.E. Mr. Miloš Koterec** (Slovakia), Director of FfDO/DESA, **Mr. Alexander Trepelkov**, introduced the report of the Secretary-General on the *Role and Work of the Committee of Experts on International Cooperation in Tax Matters* (E/2012/8), prepared in consultation with the Committee members and relevant international organizations. The report identified some deficiencies and gaps in international tax cooperation and suggested ways of addressing them, with particular reference to the perceived strengths and weaknesses in the Committee's working methods and outputs.

Overall, the report concluded that the Committee was well placed to make a distinctive, practical and enduring contribution to improving international tax cooperation, and explored opportunities for creating greater synergies between the UN policy-development and capacity-building work and that of other international organizations and regional bodies. The report was well received by all delegations. There was a widespread agreement among the Committee members and beyond that additional resources were urgently needed to support its work and to enable it to fulfill its mandate.

Ms. Allen Kagina, Commissioner-General of the Uganda Revenue Authority, delivered a keynote address on "*Current Challenges, Priorities and Experiences of Developing Countries in Tax Matters*". According to the speaker, strengthening domestic resource mobilization in developing countries was not only a question of raising revenue, but also that of designing a tax system that pro-

moted inclusiveness, encouraged good governance, reflected society's views on fair income and wealth distribution and promoted social justice. Despite significant progress in this area, weak capacity of tax administrations, corruption and the missing reciprocal link between tax and public and social expenditures remained as main challenges in many developing countries.

Panel discussion on "*The Role of Multilateral Bodies in Strengthening International Cooperation in Tax Matters*"

The panel discussion featured presentations by high-level officials of major international organizations active in the tax area.



Mr. Pascal Saint-Amans, Director, Center for Tax Policy and Administration, OECD, provided an overview of his organization's activities, which reached out beyond the OECD membership.

He emphasized the importance of avoiding double standards in the provision of technical advice, as long as different levels of development of countries were duly taken into account. The speaker called for enhanced involvement of the UN Secretariat in the work of OECD, including UN participation as an observer in the OECD Committee on Fiscal Affairs. An official letter to that effect from the Secretary-General of OECD addressed to the Secretary-General of the United Nations was received on 13 March 2012.



Mr. Michael Keen, Deputy Director, Fiscal Affairs Department, IMF, focused on his organization's capacity development activities in the tax area. He emphasized that in addition to in-

creasing tax revenue, measured by tax/GDP ratio, it was important to build more efficient and transparent tax systems in developing countries. He stressed that technical advice to developing countries should focus not only on the revenue but also on the expenditure side, in order to provide a more integrated view of tax and development. Mr. Keen called for the UN participation in the International Tax Dialogue, which he perceived as an optimal framework for dialogue between various partners.



Mr. Richard Stern, Global Product Specialist for Business Taxation, World Bank Group, provided an overview of relevant capacity development activities undertaken by the World Bank. He emphasized that technical

advice to developing countries must be demand driven and that the real needs of those countries should be identified in consultation with their tax administrations. According to the speaker, the overall goal of this work should be to let tax systems evolve in a way that facilitates economic growth and development.



Mr. Márcio Verdi, Executive Secretary, Inter-American Centre of Tax Administrations (CIAT), outlined CIAT's activities aimed at enhancing cooperation, including through exchange of experiences and best practices among its 40 member countries, with a view to strengthening their tax administrations. He also reported on CIAT's cooperation with other multilateral organizations and recent joint initiatives that resulted in an effective coordination of efforts. Mr. Verdi stressed that such coordination required additional efforts to optimize the use of resources and minimize the costs. The speaker called on the UN Committee to involve, to a greater extent, regional tax organizations in its work.

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Mr. Logan Wort, Acting Executive Secretary, African Tax Administration Forum (ATAF), shared the experience of establishing his new organization (founded in 2009). It was important that ATAF was able to demonstrate immediate value-added and impact by providing its member countries with a series of capacity development programmes. He acknowledged that ATAF had benefited from the support of other multilateral organizations and civil society but found it challenging to navigate the complex multilateral landscape. The speaker empha-

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General discussion



During the general discussion, all countries agreed on the need to strengthen international cooperation in tax matters and on the important role of the UN work in this area. However, the discussion revealed the continued divide between developing and developed countries on the specific issue of the proposed conversion of the Committee of Experts into an intergovernmental body. Developing countries emphasized the need to establish a truly universal and inclusive body for international tax cooperation at the intergovernmental level, which would embody democratic principles on a level playing field by giving developing countries a “full seat” and “equal voice” at the table, and thus supported the conversion. Developed countries, on the other hand, opposed the conversion and proposed to focus on improving the effectiveness of the current structure and making sure that existing resources were used most effectively. Many developing countries called for additional resources to support the work of the Committee, including from the UN regular budget.

Mr. Masatsugo Asakawa (Japan), Chair, Committee on Fiscal Affairs (CFA), OECD, stated that giving the UN a greater role in the OECD tax work would support the UN work in that area and would be an efficient way to strengthen collaboration between the two organizations. He reiterated the invitation from the Secretary-General of OECD to the UN Secretariat to participate as an observer in the CFA and its Working Parties and invited the UN to take part in the activities of the OECD Global Relations programme. On its part, the OECD would like to contribute to the Committee's work on its *Practical Manual on Transfer Pricing for Developing Coun-*

tries. He also expressed the view that UN was uniquely positioned to reflect interests of developing countries, especially those of the Least Developed Countries.



H.E. Mr. Manjeev Singh Puri, Deputy Permanent Representative of India, confirmed India's position that it was extremely important to bring the UN work on international tax matters into the intergovernmental process by up-

grading the Committee of Experts to an intergovernmental commission. He was of the view that the OECD Transfer Pricing Guidelines should not have been endorsed by the UN Model and the UN Committee as they had been agreed upon only by the OECD Member States. Instead, an alternative set of guidelines should be developed by a UN intergovernmental body on the basis of consensus amongst all UN Member States.

As a next step, the Council will take up the issue of international cooperation in tax matters during the general segment of its substantive session in July 2012.

For more detailed information, please consult the web page of the meeting at: <http://www.un.org/esa/ffd/tax/2012ICTM/index.htm>

Expert group meeting on “Transfer Pricing and Capacity Development in Tax Matters”

On 14 March 2012, the Financing for Development Office (FfDO) of DESA and the Friedrich-Ebert-Stiftung (FES) New York Office jointly organized an Expert Group Meeting on “*Transfer Pricing and Capacity Development in Tax Matters*”. It was held in the run-up to the official meeting of ECOSOC on International Tax Cooperation, which took place on 15 March 2012. Combining the official and expert-level meetings allowed securing broader participation in both meetings of national tax authorities, relevant international organizations and tax experts from the public and private sectors.

Over 100 participants attended the expert group meeting, including UN delegates and senior officials of international organizations active in tax matters, such as the IMF, World Bank, OECD, European Commission, the African Tax Administration Forum (ATAF) and the

Inter-American Center of Tax Administrations (CIAT), nine members of the UN Committee of Experts on International Cooperation in Tax Matters, as well as experts from civil society, the private sector and academia. Representatives of UNDP and UN-ECLAC were also present.

The agenda of the meeting focused on the two current priority areas in the work of the Committee, namely: (1) practical transfer pricing issues for developing countries as a contribution to the Committee's current work on a *Practical Manual on Transfer Pricing for Developing Countries*, to be adopted at its next session in October 2012; and (2) capacity development programmes in developing countries, based on the 2011 Update of the UN Model Double Taxation Convention and the forthcoming UN Practical Manual on Transfer Pricing. The main objective of the meeting was to provide a platform for an open informal dialogue among all stakeholders committed to improving international tax cooperation, with a view to seeking their inputs into the Committee's work.

Opening

Following opening remarks by Mr. Alexander Trepelkov, Director of FfDO/DESA, and Mr. Werner Puschra, Executive Director of the FES New York Office, the meeting featured a keynote address by **Mr. Vito Tanzi**, former Director of the Fiscal Affairs Department of the IMF, entitled “*Building Fiscal Capacity through Greater Tax Cooperation*”. He outlined major historical developments that had cumulatively contributed to the current limitations in tax capacity of developing countries and emphasized the need for both domestic and global tax reforms to enable those countries to increase domestic resource mobilization. The speaker called for the establishment of a World Tax Organization, which would be equipped with the necessary tools to, *inter alia*, address the growing problem of fiscal evasion, which had shifted from being merely a domestic issue to a global phenomenon.

Transfer Pricing

First part of the meeting was dedicated to the discussion of key issues in transfer pricing from the developing countries' perspective. Transfer pricing refers to setting of prices in international transactions between companies that are members of a multinational enterprise. If

the method used to determine the price of such transactions does not reflect the true value, profits might be effectively shifted to low- or no-tax jurisdictions (where the company may have no real presence) and losses and deductions to high-tax jurisdictions, depriving a country unfairly of tax revenue. This complex area of international taxation heavily depends on availability of data and expert skills, which raises particular difficulties for developing countries. Speakers exchanged transfer pricing experiences of various countries and widely acknowledged the current UN work on a *Practical Transfer Pricing Manual for Developing Countries* as particularly timely.

Capacity development in tax matters

The second part of the meeting focused on capacity development in tax matters. It was noted that the 2011 Update of the UN Model Double Taxation Convention and the forthcoming Practical Transfer Pricing Manual provided the UN Committee and UN-DESA with a solid foundation to expand their activities in this area. Assistant Secretary-General Jomo Kwame Sundaram outlined a potential leading role for the United Nations in capacity development in tax matters and the future direction it could take. His presentation was followed by comments by Ms. Allen Kagina, Commissioner-General of the Uganda Revenue Authority, and Mr. Armando Lara Yaffar (Mexico), Chairperson of the Committee of Experts, who highlighted the skills and data gaps faced by many developing countries in the tax area and the unique role that the UN can and should play in addressing those gaps.

Many speakers emphasized that the UN, owing to its global membership and inclusive and impartial working methods, was well suited to assume a leading role in international tax cooperation to the benefit of all its Member States. It was noted, however, that lack of sufficient resources had thus far limited the capacity development work within the UN Committee and the support provided by the Secretariat. Several speakers stressed the need for further budgetary and extra-budgetary resource allocations to enable UN-DESA to fully fulfill its mandates in this area.

The IMF, World Bank, European Commission, OECD, ATAF and CIAT and FfDO/DESA presented their perspectives on capacity development in tax matters. They mentioned ongoing initiatives of their respective organizations, building on their “comparative advantages”. Several speakers stressed the need for better coordination of different initiatives as part of enhanced cooperation. It was noted, however, that such cooperation and coordination could be very resource intensive by itself. It was also emphasized that there had recently been a clear shift from supply-driven to demand-driven assistance in the tax area, with developing countries being gradually more capable of assessing their own needs, but that the shift was not complete.

For more detailed information, please consult the web page of the meeting at: <http://www.un.org/esa/ffd/tax/2012EgmTax/index.htm>



This meeting also featured a launch of the FES Perspectives Brief, entitled *Transfer Pricing is a Financing for Development Issue*, authored by Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, UN-DESA.