

# Why have tax treaties?

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- Governments enter into tax treaties for a variety of reasons
  - Mostly economic considerations
  - But not always

# Economic Reasons

- To facilitate inbound and outbound trade and investment by:
  - Removing or reducing double taxation
  - Removing tax discrimination
  - Reducing excessive taxation
  - Providing certainty with respect to taxation
  - Simplifying tax compliance and administration
  - Providing for tax sparing

## Economic Reasons (2)

- To prevent tax avoidance and fiscal evasion
  - Exchange of tax information
  - Assistance in collection of taxes
  - Minimising tax arbitrage

## Non-economic reasons

- International obligations or expectations
  - Under regional economic agreements such as EU, ASEAN
  - International organisations eg. OECD

## Non-economic reasons (2)

- Political pressures
  - Desire to show willingness to conform with international tax standards
  - Desire to foster diplomatic relations with another country
  - Response to political pressure from another country

## Developing country perspective

- Facilitating outbound investment not a high priority
- Main focus is on attracting inbound investment, especially foreign direct investment
- Inbound supply of skills and technology also important
- Tax avoidance and evasion?

# Key factors in attracting inbound investment

- Relief from double taxation
  - Most countries unilaterally relieve source/residence double taxation
    - Treaties still useful for confirming such relief
  - Resolving residence/residence double taxation
  - Resolving source/source double taxation

# Developing country perspective

- Relief from double taxation (cont)
  - Arm's length standard for profit allocation re intra-entity and related party dealings
- Removing tax discrimination
- Removing excessive taxation
- Providing certainty
- Simplifying tax compliance

## Developing country perspective

- However, tax treaties are not the whole answer to attracting foreign investment!
- Must also have good infrastructure for investment, eg. political and economic stability, robust regulatory framework, suitable workforce, reliable and effective administration.

# Developing country perspective

- Developing countries are often pressured into having tax treaties by countries that want them to
  - Reduce source taxation
  - Exchange tax information
- This can have significant costs for revenue and for tax administration
  - However it can also have long-term benefits