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**Economic and Social Council**  
**Committee of Experts on International**  
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**Report of the Expert Group Meeting on “Tax Aspects of Domestic  
Resource Mobilisation – A Discussion of Enduring and  
Emerging Issues”**

*Rome, 4-5 September, 2007*

## ***Background***

Although the United Nations (UN) tax work is deeply grounded in the early work of the League of Nations, this year marks the 40<sup>th</sup> anniversary of Economic and Social Council Resolution No. 1273 (XLIII) adopted on 4 August 1967, leading to the setting up of the Ad Hoc Group of Experts on Tax Matters, which was renamed the Committee of Experts on International Cooperation in Tax Matters (“the Tax Committee”) in 2004. In 2002, the Financing for Development Conference at Monterrey highlighted in its Monterrey Consensus<sup>1</sup> the role of domestic resource mobilisation for development and specifically called for increased cooperation in tax matters under the category of “systemic issues”.

In a spirit of drawing upon the lessons of the last 40 years, but (most importantly) looking to enduring and emerging tax issues and the role of international cooperation in helping address such issues over the coming years, the United Nations Financing for Development office, in conjunction with the International Fund for Agricultural Development (IFAD)<sup>2</sup>, and with the assistance of the Italian Ministry of Finance, sponsored an Expert Group Meeting of a small number of eminent tax policy makers, administrators, academics and other experts<sup>3</sup> to consider, in a very practical sense, areas where greater international cooperation might realistically make the greatest impact at a reasonable level of cost.

The discussions were wide ranging but focused on tax as a means of development, especially in developing economies and economies in transition, and with a special consideration for where the United Nations could add extra value in such areas by furthering international cooperation. As the meeting was essentially designed to freely generate ideas and share diverse perspectives on tax and development issues, this report does not attribute comments to particular speakers or seek to deal with every suggestion or idea generated. The views and conclusions in any case do not necessarily reflect views of the United Nations or the United Nations Committee of Experts on International Cooperation in Tax Matters.

While this report therefore only gives a relatively short summary of the main discussion points, and includes the Recommendations of the Group, specific presentations made at the Meeting can be found at the Financing for Development Office’s Tax Matters website<sup>4</sup>.

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<sup>1</sup> Available at <http://www.un.org/esa/ffd/indexOverview.htm>

<sup>2</sup> <http://www.ifad.org/>

<sup>3</sup> The participants, each participating in their personal capacity, were Mr. Bernell L. Arrindell of Barbados, Mr. Tizhong Liao of China, Mr. Noureddine Bensouda and Mr. Mustapha Kharbouch of Morocco, Mr. Stig Sollund of Norway, Mrs. Liselott Kana of Chile, Mr. Martin Grote of South Africa, Mr. Erwin Silitonga of Indonesia, Dr. Indira Rajaraman of India, Professor Yash Tandon of the South Centre, Mr. David Spencer of the Tax Justice Network, Mr. Claudino Pita of the Inter-American Center of Tax Administrations (CIAT), Mr. Paolo Ciocca of Italy and IFAD and Mrs. A. Luisa Perrotti and Mr. Enrico Martino of Italy. The UN Secretariat also participated.

<sup>4</sup> <http://www.un.org/esa/ffd/ffdtaxation.htm> under the heading “Meetings”.

## ***A Central Theme – addressing development issues means addressing tax issues***

A key theme in discussions was the centrality of tax issues, and international tax cooperation, towards allowing for sustained development in developing countries (a term which is used in this report to also include economies in transition) most notably in the domestic and international mobilisation of resources.

It was recognised that tax issues played a key role in encouraging investment, but that this by itself was not enough to sustain and further such development. A workable tax system, effectively administered, could assist in expanding a jurisdiction's fiscal space. By enhancing the mobilisation of its own domestic resources - supplemented by official development assistance - the necessary fiscal framework conditions can be established for financing public infrastructure and for providing necessary health, education and other services that all play an important part in ensuring development is not merely sustained but is in fact broadened and deepened over time.

Next to taxes' key resource mobilisation role, it was noted that the wide spectrum of fiscal charges provide governments with an effective social order and economic policy tool kit. For example, taxes could function as market-based instruments to encourage or discourage certain kinds of activities (negative externalities), investments, and consumption in accordance with a chosen government plan for development. An effective tax system, sharing the benefits of international experience and cooperation, but articulated in the light of the voice and aspirations of each particular country, would therefore allow such countries more options in the drawing up and implementation of their national development strategies.

It was suggested that the developmental role of effective and efficient tax systems will necessarily increase as other instruments that have often been used for developmental purposes, such as tariffs and subsidies, are less readily available to such governments in an era of growing trade liberalisation.

The participants acknowledged that there would be differences among countries as to where the balance should lie between encouraging trade and investment on the one hand, and the taxation of such economic activity in host/receiving countries, on the other. In an increasingly complex and globalised business and tax environment, the importance of a country finding its unique way towards an appropriately balanced and competitive development model was nevertheless recognised and greater international cooperation in the tax field could only assist such countries in that challenging task.

## ***A Key Sub-theme – no unnecessary duplication, but recognition of a distinct UN constituency and voice***

The Group recognised that the limited resources available to the UN tax work meant such work had to be closely targeted and focused on the role of international tax cooperation in furthering development. It is important to note that the UN is the only truly global body fully representative of the world community working, inter alia, in the field of international taxation, and has a special focus on the interests of countries in development. However, it was recognised that other bodies, including regional associations of tax administrations, Bretton Woods Institutions and the Organisation for Economic Cooperation and Development, had done work which was often well adapted to the developmental goals of the UN tax work and the particular needs of developing countries. Hence, the UN tax work should draw upon this important work done in areas which strongly reflect and accommodate developing country interests.

The work of other fora nevertheless had to be closely tested in the crucible of developing country interests, following the Monterrey Consensus approach. In case it passes that key condition or test, the UN, notably the

Tax Committee, should as far as possible seek to work with such fora and cooperatively build upon such work. This cooperation should be founded on the principles that there should be “no unnecessary duplication” and that every difference in international tax norms from that adopted by other broadly representative bodies should have a reason based on the distinct goals of the UN tax work and its different constituency.

It was recognised that this did not mean that the UN should merely stand back and wait for the results of work in other fora – it should proactively seek to work with such bodies to help shape that work in a way that reflects the developmental goals of the UN Membership in this area. The UN should, therefore, seek to take a leadership role both in terms of the subject areas it works on and the ways it approaches issues of international tax cooperation.

## *Discussion on Specific Issues*

### **Resource Taxation Issues**

It was noted that even among developing countries there will often be differing approaches to the taxation of resources, especially as between exporters of such resources and demand side economies, but that the UN tax work had an important function in balancing the legitimate tax interests of all countries economically involved in such activity.

It was also noted that there were broad issues that overarched the issue of taxation of resources. The exploitation of newly discovered or extractable petroleum, gas or mineral resources reserves could lend impetus to the development of a country, but in practice this had often not been the case. In fact the developmental potential of such reserves had often proven illusory. There was a discussion of the so-called “resource curse” whereby resource rich countries often did not show the expected development upon the discovery and exploitation of resources. It was noted that there were many reasons why this had happened, and that were specific tax aspects to such a situation.

Some of these tax dimensions of the problem often included issues of a failure of political will, insufficient legal backing or lack of administrative capacity to ensure that taxes due were actually paid. Reliance on taxes from such activities could lead to the fiscal health being precariously tied to one, often very volatile, industry, and unable to ensure sustainable levels of development in the long term. Certain projects might be so large, or so enmeshed in political considerations, that tax incentives (competitively offered between countries in many instances) have negotiated away the practical need to pay tax, in return for other benefits to the country or part of it (such as the employment outcomes) that may over time prove to be overstated, non-existent or even to be distractions from other investments likely to provide greater sustained development over the long term.

There may in some cases be a lack of transparency, or even a misleading quality, as to the tax situation of the projects and the fiscal benefits to the community, and a failure to take into account the long term calls on the government as a result of environmental degradation, dislocation of local populations, health issues, and retraining when the resources are exhausted.

It was noted that more regional coordination and cooperation in understanding the real domestic costs of certain tax incentives, such as tax holidays, might be useful in preventing a “race to the bottom” that might encourage investment in a technical sense, but not on a basis that yields the developmental benefit generally attributed to investment.

The governance issues, including transparency of relations between business and government, were noted, and the Extractive Industries Transparency Initiative (EITI) was particularly referred to<sup>5</sup>. The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas, and mining. The Initiative works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments regarding resource tax collections, and utilisation of these funds.

The issues of transfer pricing that may arise in resource sectors were also noted, and there were specific issues discussed, such as the need to value, despite the practical difficulty of valuing, diamonds on an arm's length basis, especially in an industry characterised by complex and close international networks and relationships.

It was noted that there was no single tax model suitable for every developing country and every situation, but that a model incorporating self-adjusting tax increases in times of high commodity prices will guarantee stability of the fiscal benefits while ensuring the resource-rich country remains an attractive place for investment.

It was also noted that there were creditability issues for many international taxes on resource exploitation – was the relevant imposition an income tax creditable under tax treaties or was it some other form of non-income related tax, such as a turnover tax. It was indicated that the UN Tax Committee may have a role in greater international cooperation to give guidance to countries and to increase the predictability and certainty of tax treatment in the resource sector, which could increase foreign direct investment into those sectors.

### **Taxation of Fishing**

Discussion of the taxation of fishing noted the link to sustainability of the harvesting of fish stocks, itself linked to broader issues of sustainability of development. The difficulties of addressing intensive fishing activities under current Model Tax Conventions, and bilateral treaties based upon them, were also noted. It was recognised that there were issues of enforcement that would be served by better international and intranational cooperation and coordination, and that the UN would have a role in any such developments.

It was noted that adopted tax measures should not create incentives for overexploitation, which would run counter to the quest for sustainable development, and that care must be taken in creating such incentives in any case, as they may, for example, result in low grade timber being used to replenish overexploited high grade timber. In general, the tax treatment of exploited resources must be designed to take into account the dynamics of the resource renewal process.

The hope was expressed that better international cooperation to fight international tax avoidance and evasion could lead to an improved internal position also for some countries. Some participants noted that often the key information necessary to combat tax avoidance and evasion was not available internally because tax crimes were not always treated as strongly as other crimes, even though they were serious inhibitors of country development and impeded the alleviation of poverty. It was noted that there needed to be greater international recognition of this, including the importance of not in practice encouraging crimes against *other* jurisdictions, while simultaneously deterring such activities against a country's *own* taxation system.

### **Land Tax**

On land tax, it was noted that land taxation was an important way of ensuring water sanitation, law and order and education, including for the benefit of both landowners and those not sharing in that ownership of land. It was recognised that there were problems in having accurate ownership information readily available, and that sharing

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<sup>5</sup> See <http://www.eitransparency.org/>

of best practice and technical assistance would be helpful in this regard. There were also great difficulties in achieving high levels of land tax compliance, and it was suggested that one way of achieving this might be to link ownership rights to having paid tax. It was also acknowledged, however, that land tax set at too high a level could unfairly deprive landowners of their land, especially if they were no longer in the workforce. It was debated how many of the issues in this area could be regarded as tax issues, but it was noted that the International Fund for Agricultural Development was doing useful work in this area.

### **Environment Taxes**

There was a general discussion on developments in the area of environment taxes and the part such taxes would in future play in alleviating environmental damage and helping to restore the environment. It was noted that nearly all of the initiatives and activities regarding environmental taxes had hitherto come from environmental bodies and agencies, as would be expected, but that the sums involved in ameliorating some current environmental issues, such as climate change, and the targeting of tax incentives towards better environmental practices would inevitably need substantive and material tax structure changes. This would trigger broad policy discussions on appropriate tax structure changes, but also discussions as to how that administration could most effectively implement the policy, and on mitigating resulting burdens to a country's tax administration.

It was recognised that international cooperation in areas characterised by international pollution spillover effects would constitute a natural area for UN involvement, with a focus on assisting developing countries to engage with these complex matters of policy design, international cooperation and administration.

It was noted that very useful work had been done in this area by others<sup>6</sup>, and that it was important not to unnecessarily duplicate that work, but the Group considered that the UN Committee of Experts on International Cooperation in Tax Matters might be in a position to undertake some preliminary work in this area. One option would be for the Committee to task a small subcommittee or working group with preparing a short report on the tax issues likely to arise in this area and that fall within the Tax Committee's mandate on cooperation in the field of international tax matters. This would be with a view to deciding the role the Committee might play, in this area, in improving cooperation, exchange of experiences and capacity building.

The group also suggested that the Tax Committee, with the assistance of the Secretariat, should consider whether it can formally link-in with the work of other UN environmentally focussed committees or other bodies when tax matters are considered, such as by participating in relevant working parties.

### **Innovative Sources of Financing for Development**

There were two aspects to this discussion, the first being the costs to development of tax avoidance and evasion, with the possibility of reducing such activities to unlock funding for development.

It was noted that tax avoidance and evasion were in many respects a product of enhanced international networks and means of communication, and of an increasingly globalised business and financial environment. Unfortunately, tax administrations had, for historical and other reasons, been very slow to create similar international networks, in terms of effective flows of information to counter tax avoidance and evasion, and to share experiences and develop and enhance capabilities addressing the resulting tax compliance gap.

Participants noted that while safeguards had to be in place for any such flow of information, this was an important area for future international tax cooperation. Important work continued to be done by international organisations active in the area, including regional associations of tax administrations, at both the policy and

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<sup>6</sup> For example, see *The Political Economy of Environmentally Related Taxes*, OECD, Paris (2006).

administrative levels, and it was noted that the United Nations should work with such other fora to internalise the principle that functioning tax systems needed to be based on a solid informational basis and targeted with a certain level of administrative authority to obtain the necessary information when it is not voluntarily provided.

The connection of tax avoidance and evasion with broader capital flight issues, the seriousness of which were recognised at the 2005 World Summit, was noted. One participant indicated that the organisation he represented was promoting a series of recommendations to confront problems of capital flight and related tax avoidance and evasion, with several suggestions for areas where the United Nations Committee of Experts on International Cooperation in Tax Matters could have an important role.

It was noted that some effective work in this area was being undertaken by other fora, including some organisations that were seeking greater cooperation and sharing of experiences and “learnings” among tax administrations, assisting them in addressing some of the data and technology issues in effectively countering tax avoidance and evasion, increasing knowledge, understanding and capacity, and promoting relevant agreements between countries.

It was also noted that the UN could play a role in helping to strengthen coordination mechanisms between those organisations, which in many cases may involve the holding of joint activities, the exchange of experiences and, especially, avoiding unnecessary duplication of activities, to thereby maximise the benefits that such activities will generate for individual countries.

The second aspect of “Innovative Sources of Financing for Development” was the possible role that greater international cooperation at the tax policy and administration level could play in the application of other “innovative sources of finance”, such as levies on money transfers, aircraft flights and the like, including in the prevention of double taxation in these areas. While there was recognition of the significance of this debate, the absence of an expected speaker on the topic meant that the issue was not discussed in any detail at the meeting.

### **Tax Aspects of Trade and Investment**

There was a discussion about the impact on developing countries of reduced tariff and similar revenues as a result of trade liberalisation and it was generally considered that for many countries this would result in a significant squeeze on public finances, since many would be insufficiently prepared to compensate for the impact of such changes in terms of either their tax administration or their tax policy and legislation, and because in any case taxes were generally harder to collect than tariffs and the like.

The increasingly important role of value-added taxes (VATs) in filling the gap was becoming apparent, although it was noted that VATs could be regressive unless, for example, there were effective and non-offsettable import tariffs on luxury goods, and also that in many countries, VATs were a subnational tax, whereas tariffs and the like were generally accruing to central governments.

It was considered that the UN Tax Committee may have a role in promoting international cooperation on indirect tax matters to assist developing countries in dealing with these changes and in ensuring their tax base was consistent with their development plans, working with, and building upon the work of other organisations active in this area.

It was suggested that the Committee may also have an important role in promoting international cooperation in other areas where tax policy and administration interacted with trade and investment policy and its implementation, including the tax treatment of services (where the Committee was already working on tax treaty aspects of the issue) including the identification and auditing of such trade, and the encouragement of South-South trade and investment, including the tax treatment of Small and Medium sized Enterprises.

There was a discussion of tax issues relating to the growth in “private equity” funds, used in this sense to mean investments that mobilise large amounts of capital, essentially for the purpose of facilitating leveraged buyouts of companies, which are then restructured and parts of which are usually on-sold. A participant noted that not only do some private equity undertakings make use of tax avoidance schemes, but that the tax laws of some countries favoured such activities by taxing profits as a capital gain (with a lower rate) rather than as income (with a higher rate), potentially disfavouring more obviously productive investment.

### **Transfer Pricing**

The term “transfer pricing” refers to pricing arrangements between separate units - companies, business units, or divisions - that are part of the same corporate group. It can apply, for example, to intra-group transfers of goods, services and intangibles, as well as to financing and cost-sharing arrangements.

Such arrangements are ever-increasing, and they present an opportunity for “mis-pricing” and misallocation of revenue and expenses across the corporate group to reduce its total tax bill (such as by having the profits appear to be generated in a low tax or no tax country, with the deductions available in a higher tax country). Transfer pricing presents great challenges for tax administrations, especially in developing countries, and also for international tax cooperation – the ideal is often seen in terms of a system that is clear and encourages investment yet allows for countries to achieve their fair share of taxation of such economic activity.

It was noted that in the tax aspects of transfer pricing there was a certain consensus at the doctrinal level and there was also a certain degree of convergence in tax legislation on transfer pricing. The focus in both these areas was generally on recognising that the “arm’s length” principle should prevail (though not always, as other approaches such as “formulary apportionment” had their advocates). In other words, such prices should be equivalent to those corresponding to similar transactions carried out between independent businesses under similar circumstances. However there was not the same level of coincidence in the methods for applying that principle to particular factual scenarios.

Over-invoicing, under-invoicing, invoicing of fictitious transactions, the use of inadequate figures or forms of transaction (under-capitalisation, for example) were identified as some of the mechanisms used for unduly reallocating revenues and expenses between related companies, with a view to minimising the taxes paid on the earnings of the group.

The role of the tax administrator in applying transfer pricing rules consistently with policy was a vital but difficult one, and there was an obvious need for international cooperation to help supply technical assistance and to advance cooperation. There would be value in encouraging countries to take a more harmonised practical approach, where such an approach was consistent with their policies in the area and national development strategies, and with the goals of the UN tax work.

In such a complex area, it was important to draw upon work done in other fora, including relevant associations of tax administrations. The role of “pragmatic” solutions such as “safe harbour” pricing and advance pricing arrangements in alleviating some of the burden on taxpayers and administrators, while safeguarding the revenue, was also addressed.

It was noted that, while transfer pricing was not currently under consideration by the UN Tax Committee, it was an area of particular concern to many developing countries, and the technical difficulties, and need for specialist administrative staff with expertise in the subject, meant this was an area where there was a need for greater technical cooperation, including training, targeted seminars, cooperative preparation of manuals, good practice



digests and the like. Some projects were already in place to help in this regard, but the UN could play an important role in the area also, assisting developing countries in closing the skills gap that separates them from most of the developed countries in this area and allowing them to undertake a more effective defence of their legitimate viewpoints and interests.

Transfer pricing was identified as one of many areas where greater cooperation between developing countries, sharing practices that had been successful for them and might assist other developing countries, should be encouraged. It was noted that the UN Secretariat dealing with tax matters had begun discussions with the UN Special Unit on South-South Cooperation with a view to facilitating such a project, in the context of the Special Unit's "Sharing Innovative Experiences" programme, and that this could cover many of the topics dealt with at this meeting, not merely transfer pricing.

The special issues involved in transfer pricing involving intangibles such as use of "brands" was discussed, especially the issues involved for developing countries, such as attempting to judge the authenticity of the intangible properties concerned, identifying the real ownership of the intangible property in both legal and economic senses, analysing how the intangible is used and deciding, against this background, whether the transfer price is within the range of what is reasonable, bearing in mind whether it is commensurate with the extent of transferred rights and corresponding obligations.

## ***Recommendations***

Following these presentations and discussions, the Group of Experts on Tax Aspects of Domestic Resource Mobilisation decided that it should make a series of recommendations to the United Nations Committee of Experts on International Cooperation in Tax Matters ("the Committee") and the United Nations Secretariat ("the Secretariat") as appropriate. In taking this approach, it recognised that at this stage only a limited number of recommendations should be made, to prevent focus being lost on key issues, but that this did not reflect any lack of importance of other issues and proposals.

In making these recommendations, the Group also recognised that there are particular procedures and protocols within the United Nations which would need to be followed in dealing with issues having a possible budgetary impact, which the recommendations do not seek to supplant. The Group noted that the Committee would decide the areas of its attention, but the Group hoped that the discussions and recommendations from the meeting in Rome would assist the Committee in that task.

The Group's recommendations are as follows:

### **Recommendation 1 – Tax as a Central Developmental Issue**

The Group notes that the issue of reliable tax bases, and international cooperation to achieve them, are at the heart of any initiatives to achieve sustainable development, including in the proposed follow-up to the Monterey Conference – expected to be held in Doha, Qatar in the latter part of 2008.

The Group therefore recommends that this central aspect of tax cooperation to wider development issues needs to be articulated more clearly to those not directly involved in tax matters, and urges those in a position to do so to ensure that those participating in the preparation for the Doha Conference, and in the Conference itself, are fully aware of this aspect, such as by correspondence between the Ministers of Finance and the Ministers for Foreign Affairs.

### **Recommendation 2 – Resource Taxes and Land Taxes**

On the taxation of resources, including mining, petroleum, forestry and fishing, and in relation to the imposition and administration of land taxes, the Group recommends that the Committee and the Secretariat should, as a first step, explore opportunities for greater sharing of developing country experiences, and refinement of practices in these areas, and for technical cooperation also. This is with a view to enhancing the capacity of developing countries to mobilise their domestic resources as a platform for further development on a sustainable, including environmentally sustainable, basis.

Such a UN involvement, building on work done in this area (such as the Extractive Industries Transparency Initiative) and working with other organisations to ensure that resource tax revenues are reported separately and remain within a host country, could assist in strengthening the ability of developing countries to effectively negotiate on tax related issues. It could also enhance transparency in the relations between the extractive industries and government, to the benefit of good governance and, in turn, to sustainable economic development.

### **Recommendation 3 – Environmental Taxes**

The Group notes that environmental taxes need to be seen in a tax as well as an environmental perspective and recognises the important role which the Committee will need to play in the international cooperation aspects of environmental taxes in future.

The Group urges the Committee to put itself in a position to build upon the work already under way at international, country and regional level in this area, including by international organisations, preferably by tasking a small group with preparing a concise document on the tax issues likely to arise in this area and that fall within the Committee's mandate on cooperation in the field of international tax matters.

The Group also recommends that the Committee, with the assistance of the Secretariat, consider whether it can formally link in with the work of other UN environmentally focussed committees and other bodies when tax matters are considered, such as by participating in relevant working parties.

### **Recommendation 4 – Innovative Sources of Finance**

The Group notes the important role that effective action against avoidance and evasion, including ensuring that appropriate obligations to exchange tax information are in place and are met in practice, will play in supporting sustained development. In addition, tax base protection can be enhanced by measures that seek to preserve and shore up a country's legitimate source tax base rules in the interest of sustainable development.

The Group noted that the reasons for capital flight may be varied, but that it has an important tax aspect which is within the mandate of the Committee, including its work in encouraging effective exchange of information. The Group considers that this is an area where there is scope for the Committee and Secretariat to facilitate the sharing of effective tax practices in addressing capital flight issues among developing countries.

The Group recommends that the Committee and the Secretariat identify particular practical areas where technical cooperation and assistance could be most effective in helping limit international tax avoidance and evasion, as far as possible working with others active in this area or drawing upon their work. Assistance in international audit capabilities and techniques may be one such area for further work.

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**Recommendation 5 – Trade and Investment**

The Group noted that tax and trade reforms were so closely related that they needed to be considered together (or “hyphenated” as “tax-trade reform” issues, as one participant expressed it). In particular they noted the impact on developing countries of reduced tariff revenues as a result of trade liberalisation.

The Group therefore recommended that the United Nations should cooperate with others active in this field to assist countries in dealing with the disruptions caused by trade liberalisation to public finances, and that the Committee should consider what methods of technical cooperation and assistance could most readily assist in this area, without duplicating other relevant work, and as far as possible working with others active in this area. This would also involve consideration of international cooperation in the area of indirect taxes such as value added taxes.

The Group noted the growing importance of services in world trade and the potential impact on the tax bases of countries, but also recognised the difficulties in ensuring that taxation of services could be achieved on an equitable and stable basis. It noted that the work so far in the UN had focused on the treatment of services in the UN Model Tax Convention, but that there were also broader taxation issues, including capability issues in developing countries.

The Group therefore recommends that the Committee, as the only truly global body in this field, should draw upon the work of other organisations and countries in this area, and work towards a set of taxing norms in this area which fully reflect the interests of developing countries and their practical administrative capabilities - taking into account economic developments and the way services are provided cross border in modern economies.

The Group also noted that while tax incentives may have an important role in attracting foreign direct investment, they may, unless carefully thought out and their implications well understood, harm the fiscal base of that country or other countries, and that the Committee and Secretariat may have a role in allowing developing countries to share experiences in this regard with a view to ensuring sustainable development.

**Recommendation 6 – Transfer Pricing**

The Group noted that the Committee has a unique role in assisting developing countries to meet the challenges of transfer pricing issues. This applied especially, but not exclusively, in the case of intangibles - issues such as those relating to the valuation of brand names. The Group recommends that the Committee task a small subcommittee or working group to analyse the real practical issues and the opportunities for improving international cooperation in this area, in line with the Committee’s mandate.

The Group also recommended that technical assistance in this area should be focused on examining such issues on a practical case study basis, and helping developing countries to find workable solutions to these issues. Further, the Committee and its Secretariat should explore other opportunities for greater sharing of developing country experiences and practices, and refinement of such practices, in this area.

**Recommendation 7 – Drawing upon Wide Expertise**

The Group recommends that the Committee, in tasking some of the above issues to subcommittees and working groups, should ensure that experts in transfer pricing, environmental taxation and other relevant areas, are able to actively and constructively participate in such work.

**Recommendation 8 – Meeting the Committee Mandate**

The Group recognised that the very limited resourcing of the United Nations tax work, including of Committee related meetings, technical cooperation and assistance, and of the Secretariat supporting that work, means that it has not fully met its developmental promise, and urges the Secretariat to actively follow up on, in particular:

- The identification of UN technical cooperation and assistance funds not currently fully utilised, with a view to their use on technical cooperation and assistance in the field of international cooperation in tax matters;
- Ensuring that the Secretariat to the Committee is sufficiently resourced, in terms of both financial and human resources on a permanent basis, along lines structurally similar to that of the OECD Centre for Tax Policy and Administration. This will allow the Committee to effectively meet its mandate, and will allow the Committee and Secretariat to actively assist developing countries on international tax issues, to help achieve sustainable tax bases with a development focus; and
- Seeking funding, by whatever proper means, to support the mandate of the Committee.

**Recommendation 9 – Future of this Group**

The Group noted the value of the informal debating model of the Rome meeting, comprising a small group of experts from diverse backgrounds, able to discuss matters freely across a wide range of issues but delivering some concrete recommendations for consideration. Based on this experience, it is therefore proposed that such a Group should meet again, preferably yearly, to consider current and emerging issues with a development focus and to make recommendations for consideration by the Committee and the Secretariat.

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