



Tax Treatment of Services

Liselott Kana

***Coordinator of the Subcommittee on
Tax Treatment of Services for Developing Countries***

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<http://www.un.org/esa/ffd/events/event/ie-2016-ictm.html>

Taxation of Services

- The value of services accounts for around 20% of global trade (UNCTAD), with developed countries accounting for about two thirds of exports of services
- Still, most countries do not have a definition of “services” for taxation purposes in their domestic law
 - The UN Model, OECD Model and GATS do not contain a definition of “services” either
- However, many countries tax certain types of income from services differently from other amounts
- The distinction between services and other types of payments can be difficult to make, especially where services are ancillary or a subsidiary aspect of a transfer of intellectual property, lease of equipment or supply of know-how

Services and BEPS

- The inadequacy of rules on the taxation of income from services exposes countries to the risk of base erosion
 - For developing countries, services provided by non-residents pose the greatest risk of profit shifting
- Transfer pricing of services among associated entities poses serious risks of abuse, given the inherent difficulty that is often encountered in valuing services
 - It is important to ensure that residents are charging an arm's length price for services provided to related non-residents
- Sometimes, it is difficult to distinguish whether income is derived from rents, royalties or the provision of services, which may be subject to different taxation regimes – hence creating potential for abuse
 - For example, in the case of intellectual property

Subcommittee on Tax Treatment of Services for Developing Countries

- During its annual session October 2009, the Committee established a Subcommittee on Tax Treatment of Services, with the mandate to:
 - Broadly address the taxation of services
 - Address the particular issue of taxation of fees for technical services by presenting wording, including different options, for the text of the Article on Technical Services including text for its Commentary
- The Committee in 2012 endorsed the addition of a new article to the UN Model, dealing with fees for technical services.

Base erosion

Income	1000	1000
Expenses	<u>500</u>	500
Payment for services		<u>200</u>
Net profits	500	300
Tax on profits (30%)	150	100

Cross border services

