



Base Erosion and Profit Shifting

Carmel Peters

***Coordinator of the Subcommittee on Base Erosion
and Profit Shifting Issues for Developing Countries***

**ECOSOC Special Meeting on International Cooperation in Tax Matters
New York, 9 December 2016**

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

Base Erosion and Profit Shifting

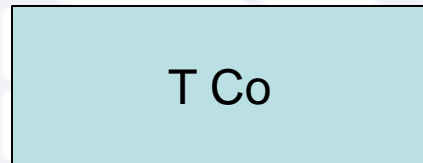
- Base erosion and profits shifting (BEPS) refers to tax avoidance strategies used by multinational enterprises (MNEs), which exploit gaps and mismatches in tax rules to artificially shift profits to no or low-tax locations
- BEPS results in forgone tax revenue and higher cost of tax collection and thus has a negative impact on domestic public resources
- BEPS not only affects developed countries, but is a major concern for developing countries as well, given that they rely on corporate taxation for a large share of their revenues

A Practical Example

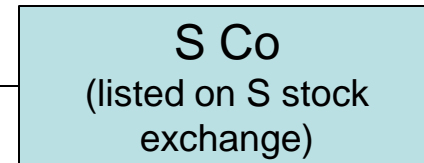
BEFORE RESTRUCTURE

State T

State S



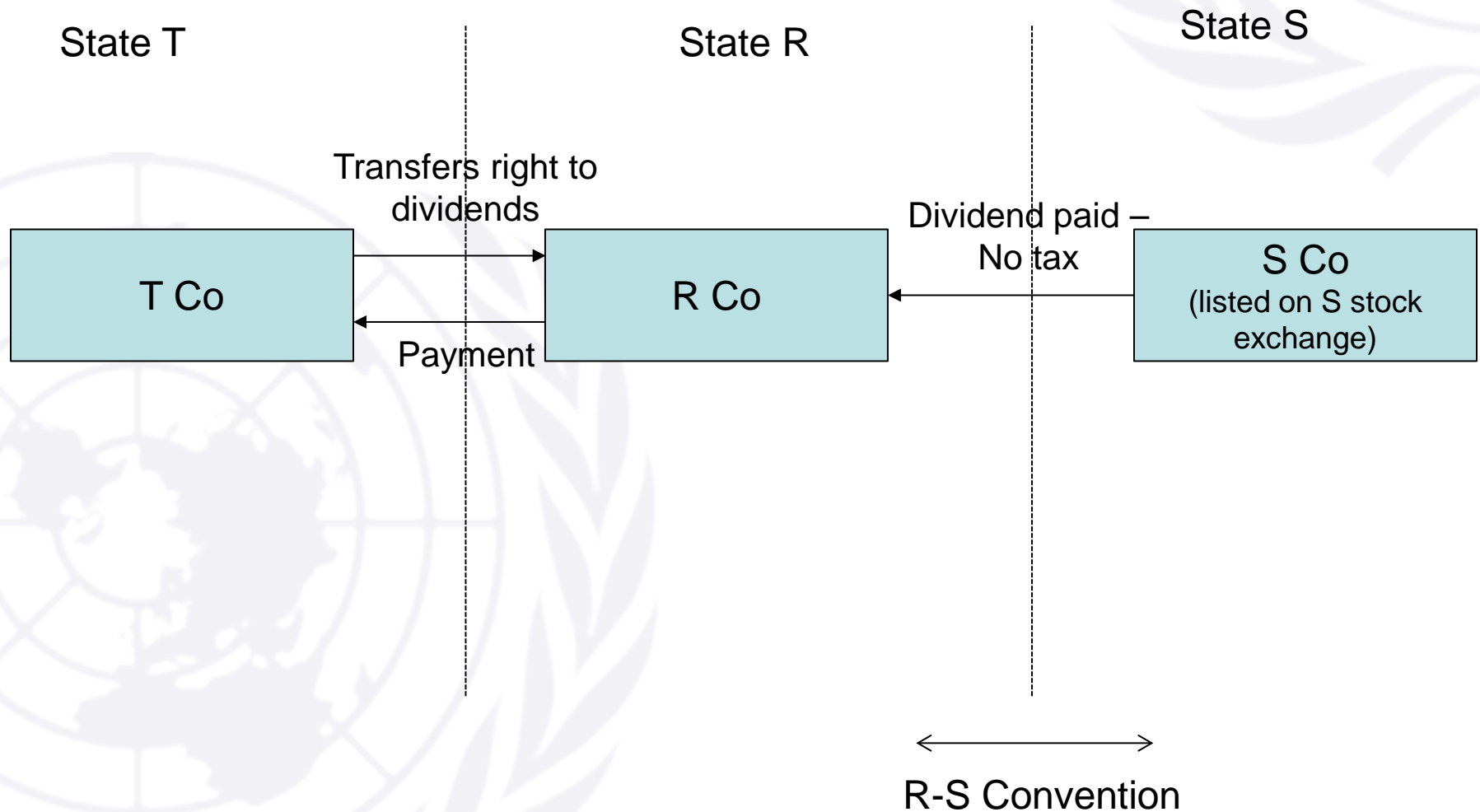
Dividend –
taxed at 25%



←→
No T-S Convention

A Practical Example

AFTER RESTRUCTURE



Addis Ababa Action Agenda

- Member States committed to:
 - Improve the fairness, transparency, efficiency and effectiveness of tax systems, including by broadening the tax base
 - Reduce opportunities for tax avoidance
 - Consider inserting anti-abuse clauses in all double tax treaties
 - Ensure that multinational groups pay taxes to governments of countries where economic activity occurs and value is created

Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries

- Monitor developments on BEPS issues and keep a communication channel open with officials in developing countries in order to:
 - Help inform developing countries on such issues
 - Facilitate the input of developing country experiences and views into the ongoing international initiatives to tackle BEPS
 - Create greater awareness of responses to BEPS that would work for developing countries
- Propose revisions to the UN Model Double Taxation Convention to take account of developments in the area of international tax policies regarding BEPS issues and how to address them

Changes to the UN Model Convention

- New preamble to establish treaties not to be mis-used
- New articles to address treaty abuse
- Changes to existing articles to address specific treaty abuse structures
- Expansion of taxing rights where the income is earned