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# Tax treaties with developing countries

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Monday, 20 June 2016

The background of the entire slide is a close-up photograph of a young child's face, looking slightly to the right with a serious expression. The child has dark, curly hair. In the top left corner, there is a red speech bubble containing the text 'Change lives. For good.' and the 'act:onaid' logo. The main headline is in large white font, and a grey box in the bottom left contains three lines of red text.

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**ActionAid works for a world free from poverty and injustice.**

**An international organisation headquartered in South Africa.**

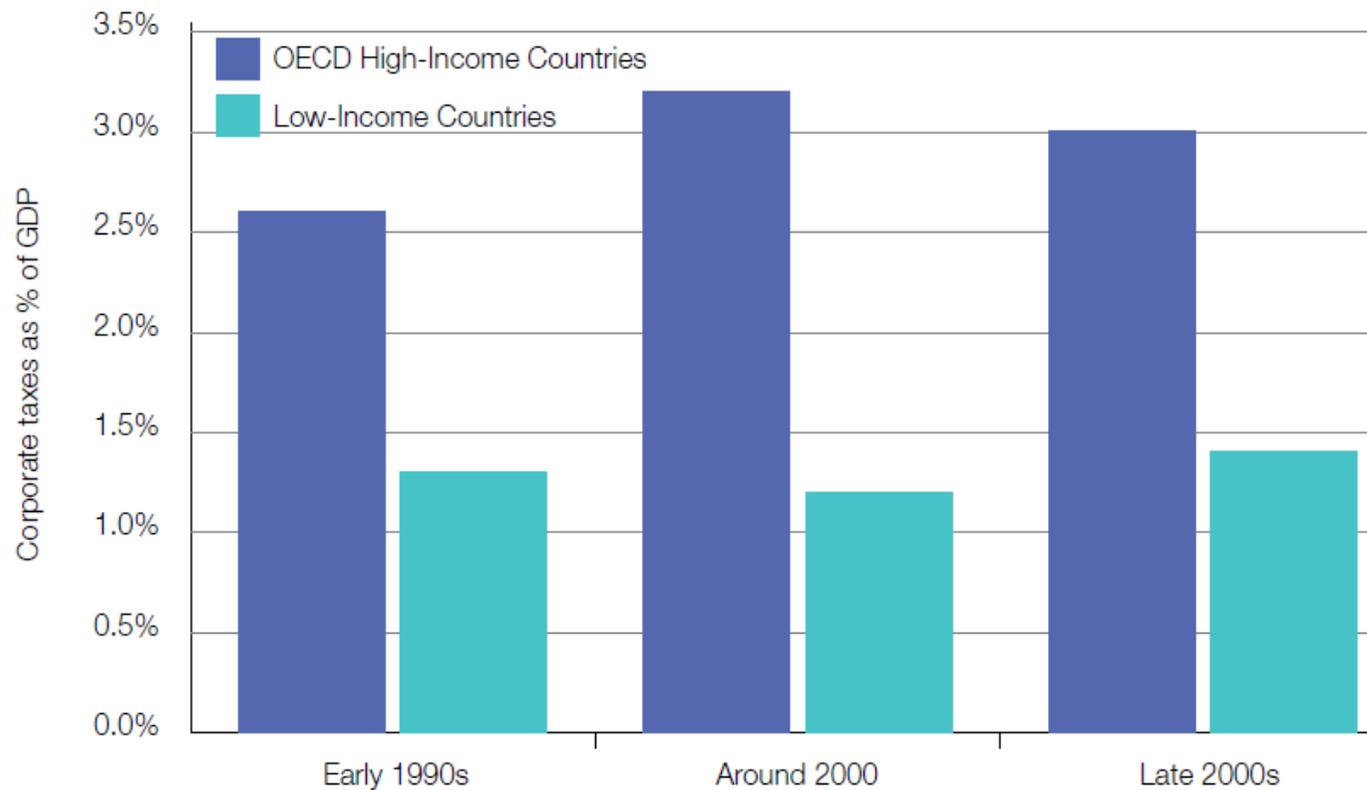
**Work with over 15 million people in 45 countries.**

**Campaign on tax justice.**

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## Rich countries collect far more tax from corporations than poor countries

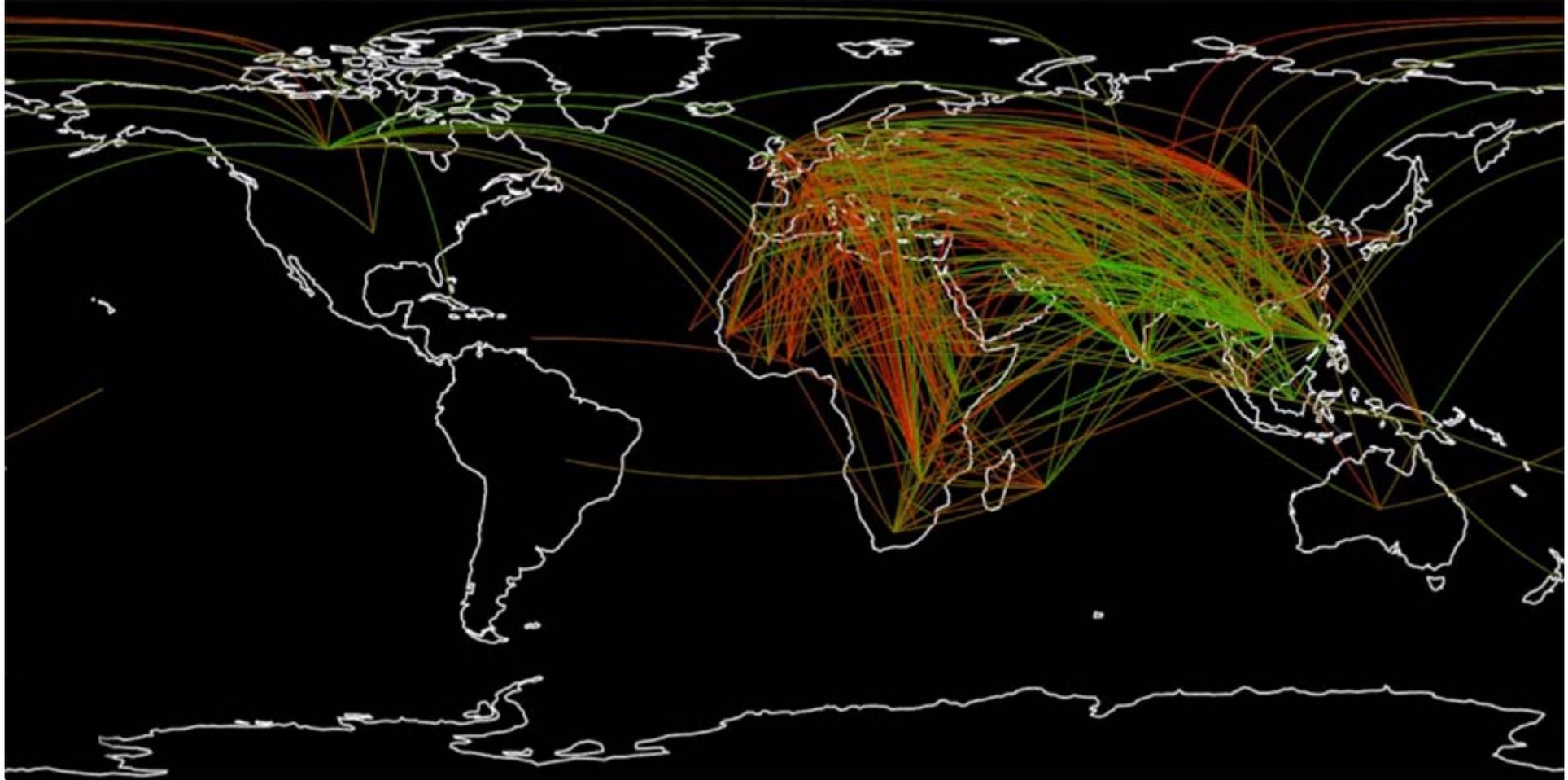


Source: ActionAid estimates, based on data from the International Centre for Tax and Development (ICTD)

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>1,500 tax treaties between  
developed and developing countries



Source: Visual by Zachary Korman @ZackKorman,  
data from ActionAid Tax Treaties Dataset



# Presentation overview

1. Distribution of taxing rights and its impact
2. Previous recommendations
3. The ActionAid Tax Treaties Dataset
  - the overall source – residence balance
  - profits tax limitations
  - withholding tax limitations
  - capital gains tax limitations
4. What can be done

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# Distribution of taxing rights

Distribution principles:

- 1) Allow the source country to fully tax the income derived in its territory
- 2) Remove entirely the source country's right to tax a particular type of income derived in its territory and assign taxing right on that income exclusively to the residence country
- 3) Divide the taxing rights between the source and residence countries

In treaties with lower income countries, whilst clauses are neutral in theory, the impact will be asymmetric.



## The amount of tax revenue at stake

- SOMO report: Interest and dividend provisions in Dutch tax treaties cost developing countries roughly €770 million (in 2011)
- IMF report: Interest and dividend provisions in US tax treaties cost non-OECD countries roughly US\$ 1.6 billion (in 2010)
- ActionAid report: Dividend provisions in Bangladesh's tax treaties cost Bangladesh roughly US\$85 million (in 2013)

Dividend and interest payment clauses in tax treaties are likely to cost developing countries billions of dollars each year.

The cost of other treaty provisions have not been established.

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## Previous recommendations

“‘Treaty shopping’—the use of tax treaty networks to reduce tax payments—is a major issue for many developing countries, which would be well-advised to sign treaties only with considerable caution.”

IMF Staff Report on Spillovers on International Corporate Taxation  
(2014)

“Where Member States, in double taxation conventions which they have concluded among themselves or with third countries, have committed not to tax a given item of income, Member States should ensure that such commitment only applies where the item is subject to tax in the other party to that convention.”

Commission Recommendation of 6.12.2012 on aggressive tax  
planning (2012)

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# Lack of publicly available information

What does best practice look like in treaties with developing countries?

Which treaties limit developing countries' taxing rights more than most?

How has a re-negotiation altered the source-residence balance in a certain treaty?



# The ActionAid Tax Treaties Dataset

## Aim:

Enable analysis of the source – residence balance in tax treaties.

## Scope:

The content of 519 treaties signed by low and lower middle income countries in Asia and sub-Saharan Africa. An EU Member State is party to 177 of these.

## Main insight:

The tax rights that tax treaties remove from lower income countries varies widely from treaty to treaty – huge improvements could be made by implementing best practice.

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<http://taxtreaties.taxpower.org/>

The screenshot shows the ActionAid website interface. At the top left is the ActionAid logo. The main content area features a world map where countries are color-coded based on the number of very restrictive tax treaties they have. A legend in the bottom left corner indicates the following categories: 10-18 (dark red), 5-9 (medium red), 2-4 (light red), and 1 (yellow). A popup window is open over the map, titled "Which lower income countries have most given up their power to tax global companies?". The popup contains the following text:

See higher income countries    How to use the map -

### Which lower income countries have most given up their power to tax global companies?

Tax treaties are reducing the taxes paid by multinational companies and depriving the world's poorest communities of money that could fund essential public services. When public services are deprived of funding, it's women and girls who are hit the hardest, worsening global inequality. Tax treaties dictate which country has the right to tax a multinational company's profits. We have found that generally, these are unfair and benefit the higher income country over the lower income country.

ActionAid has commissioned independent research which cracks open these opaque and outdated treaties – analysing more than 500 treaties that higher income countries have with lower and lower middle income countries in Africa and Asia.

**Click on your country to see how many very restrictive tax treaties it has and how restrictive they are.**

Close

Number of very restrictive treaties

- 10 - 18
- 5 - 9
- 2 - 4
- 1

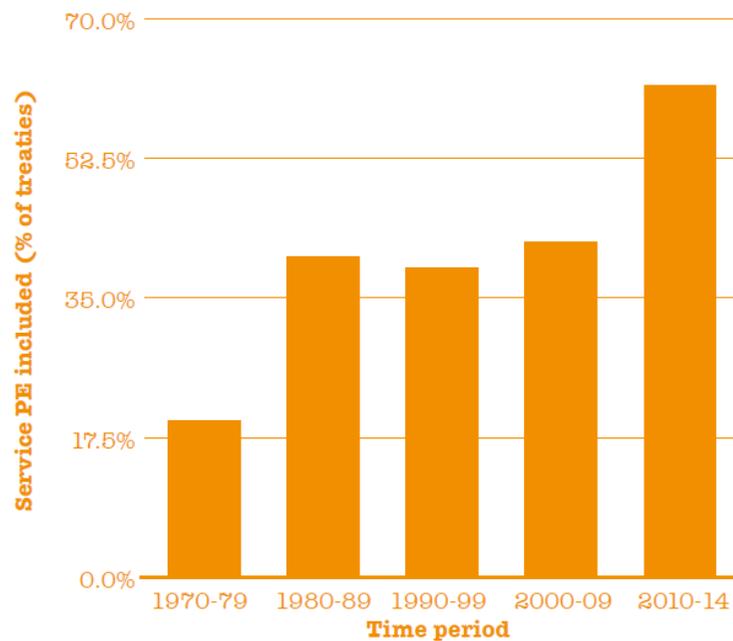
Click on a lower income country above to see how many treaties it has that dramatically restrict its power to tax global companies

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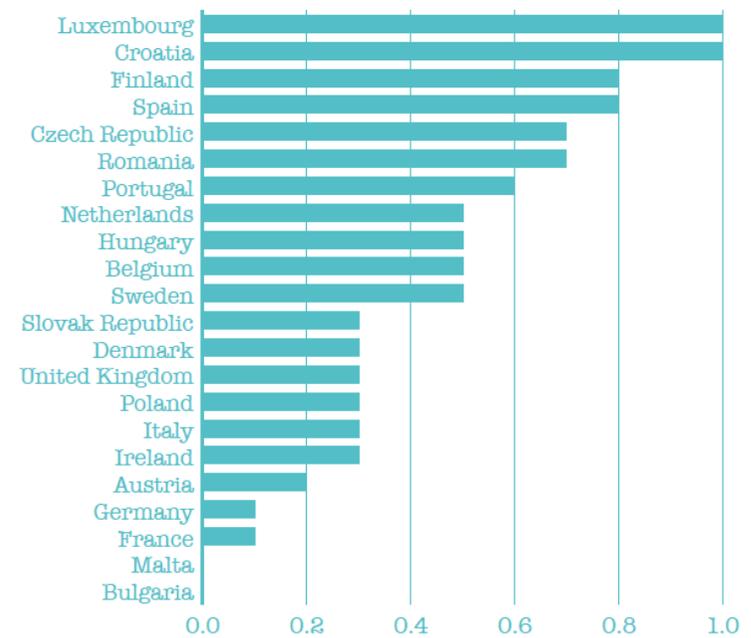
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# Profits tax

**Figure 1:** Services PE clause included (% of treaties, over time)



**Figure 2:** Services PE clause included (% of treaties, by country)

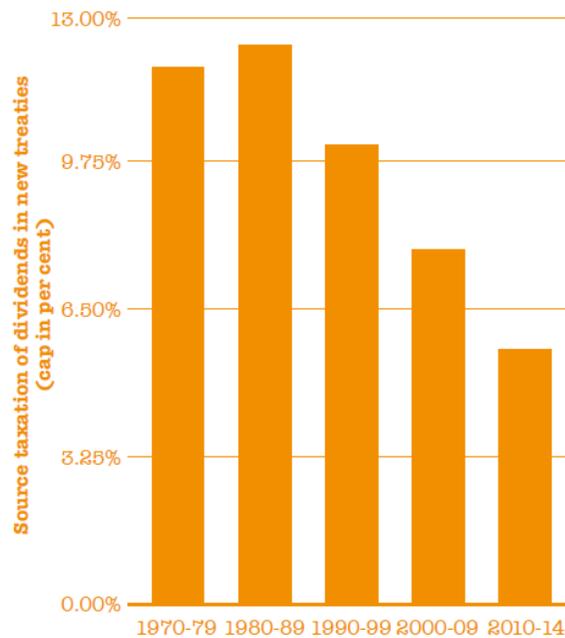


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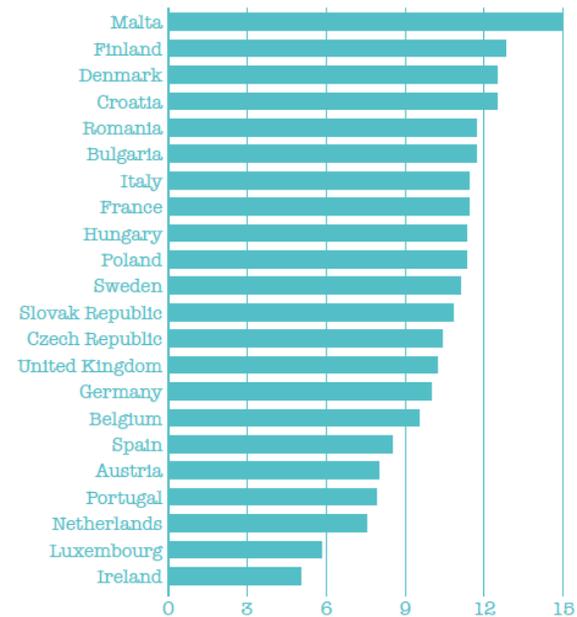
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# Withholding tax

**Figure 3:** Source taxation of dividends (average cap in %, over time)



**Figure 4:** Source taxation of dividends (average cap in %, by country)

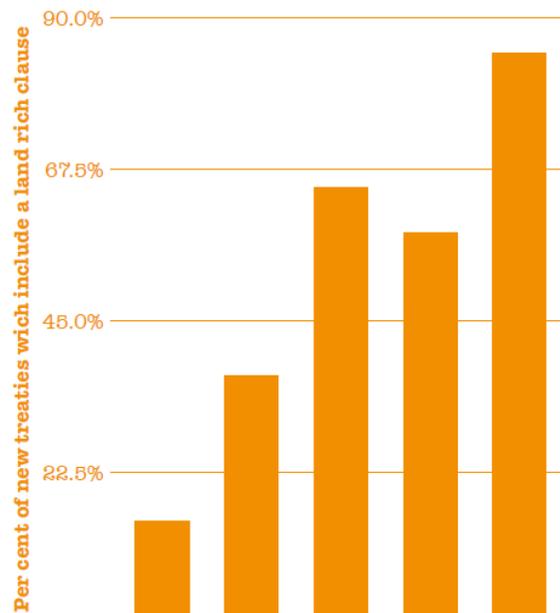


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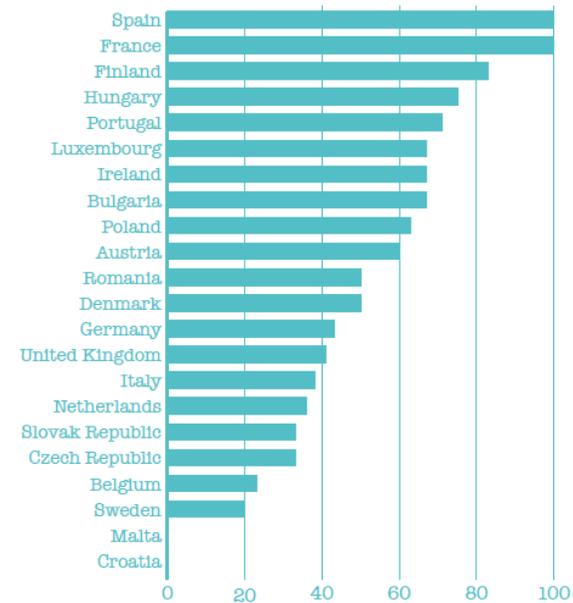
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# Capital gains tax

**Figure 5:** Source taxation of capital gains on 'land rich' company (% of treaties, over time)



**Figure 6:** Source taxation of capital gains on 'land rich' company (% of treaties, by country)





## What can be done?

Unequal treaties can be renegotiated, if there's political will.

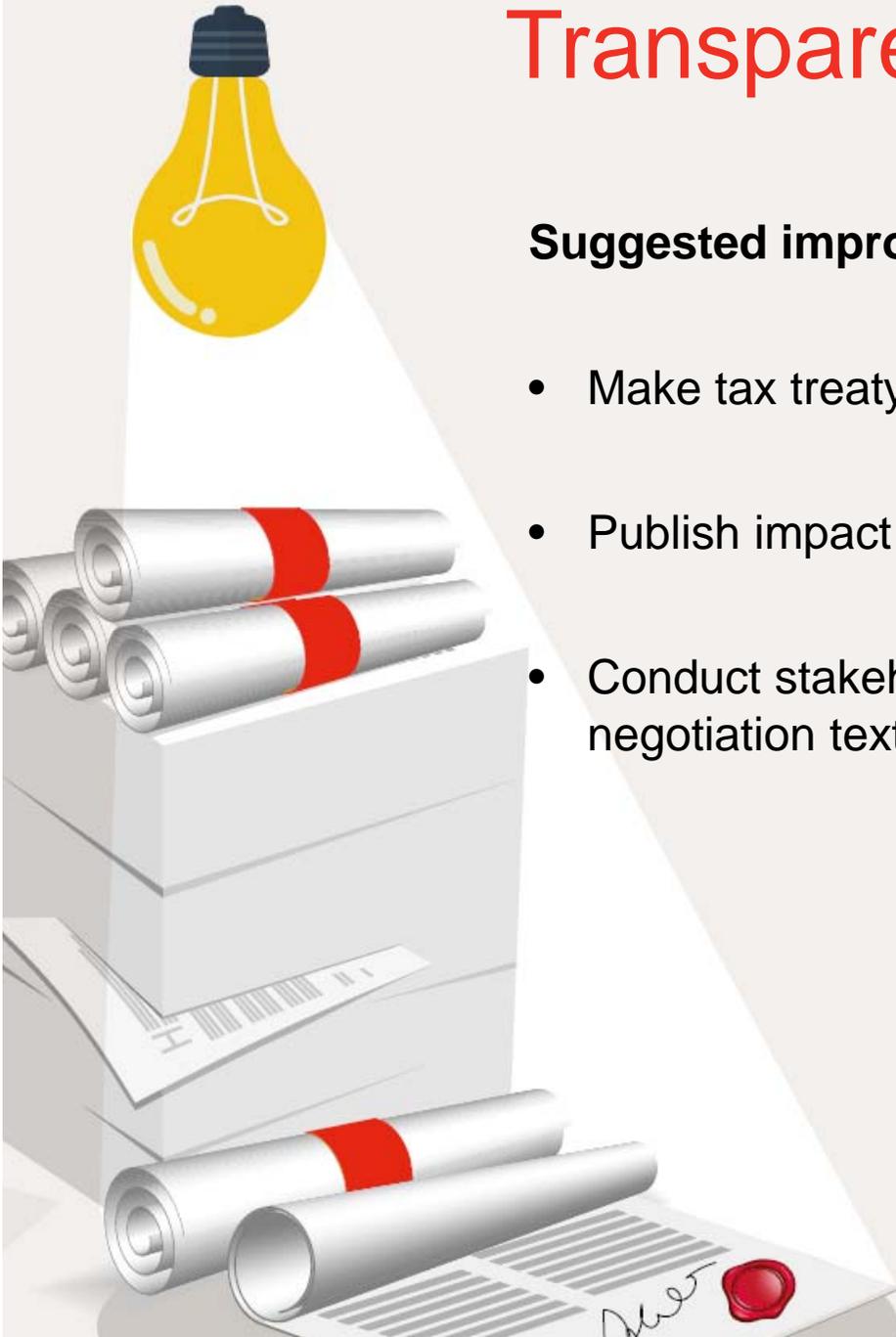
A political commitment to reassess the balance of taxing rights that EU countries have with low and lower middle income countries would be a very important step in this process.

Efforts can be made to increase transparency.

# Transparency & accountability

## Suggested improvements:

- Make tax treaty negotiations known to the public.
- Publish impact assessments.
- Conduct stakeholder consultations based on draft negotiation texts.





## ActionAid are calling for governments to:

- Urgently reconsider the treaties that most restrict the tax rights of low and lower-middle income countries.
- Subject treaty negotiation, ratification and impact assessments to far greater public scrutiny.
- Take a pro-development approach to the negotiation of tax treaties with developing countries, by adopting the UN model tax treaty as the minimum standard.



# The role of the European Commission

## **ActionAid would welcome:**

- Continued strong work on tax treaties, covering more than just withholding taxes, with a strong result, such as an EC Communication.
- Spillover analyses (involving stakeholder input) of the impact of Member States' tax treaties, and other tax policies, on developing countries.
- Further the work in the Platform on the impact of Member States' tax regimes on developing countries more broadly.

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Thank you.