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Special meeting on international cooperation in tax matters

Summary record of the 10th meeting
Held at Headquarters, New York, on Monday, 29 April 2019, at 10 a.m.

President: Ms. King . . . . (Saint Vincent and the Grenadines)
later: Ms. Azucena (Vice-President). . . . . (Philippines)

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The meeting was called to order at 10.15 a.m.

Agenda item 18: Economic and environmental questions (*continued*)

(h) International cooperation in tax matters (*continued*)

Opening of the special meeting

1. **The President** said that the special meeting would further examine the role of taxation as a tool to strengthen domestic resource mobilization and as a fiscal policy instrument to directly support progress towards the Sustainable Development Goals. Participants in the interactive dialogue on taxation and the digitalization of the economy would consider how various proposals for corporate tax changes could address tax avoidance and base erosion and profit shifting in order to support domestic resource mobilization by developing countries.

2. **Mr. Harris** (Assistant Secretary-General for Economic Development and Chief Economist) said that effective tax systems were key to generating the domestic resources needed to finance achievement of the Sustainable Development Goals and to support enabling investment frameworks. They were also powerful incentives that influenced private investment and consumption decisions. As a result, taxation clearly belonged in the Sustainable Development Goals toolkit; such recognition gave extra importance and resonance to global, regional, national and subnational tax norm-setting. Suitable venues and support should be provided to allow for development-focused tax discussions and decision-making. Policy should be informed by the 2030 Agenda for Sustainable Development and yield fair results for all, particularly for those countries with the fewest resources and weakest capacities. Furthermore, discussions on revising the international tax architecture and setting new tax norms must involve the participation of all countries and a variety of non-State actors.

3. The issue of how best to tax profits from cross-border digital transactions was being widely debated. Several factors must be taken into account when assessing such proposals. Any reform of the relevant tax rules must consider the potential implications for all countries, particularly developing countries and countries in special situations. It was also important to examine the feasibility of each proposal, given countries' administrative capacities, and the possible implications for existing national tax policies, income distribution and broader sustainable development objectives. Even reforms that increased global tax revenues could negatively impact the tax base of least developed and developing countries. Placing their needs and capacities at the centre of decision-making would therefore help to create a fairer international tax system and more enduring contributions to advancing sustainable development for all.

4. Climate change mitigation and adaptation must be effectively supported by fiscal measures that reflected the "polluter pays" principle and took into account the social costs of carbon emissions and pollution. Carbon taxation and energy subsidy reform were key elements in transitioning the world to a low-carbon economy. In addition to environmental taxes on harmful pollutants or on specific products or inputs, other environmental taxation efforts would be critical to shifting consumer and business behaviours towards more sustainable patterns. However, such fiscal measures should be implemented in a holistic manner that was consistent with national sustainable development strategies to ensure alignment between government expenditures and environmental objectives. Any potential regressive effects – (for example, the effect of transport taxes on low-income households) – should be offset by using the revenues for redistributive expenditures.

5. While global inequality had modestly decreased in the past three decades, income inequality had risen significantly at the national level. Fiscal policies were important tools for combating inequality while promoting inclusive economic growth. Countries wishing to scale up or redesign redistributive policies should look at the effects of both taxes and expenditures. Tax progressivity was key to having the wealthier parts of society finance a greater proportion of public goods. At the same time, expenditure policies should be aligned with sustainable development strategies to deliver public services equitably and ensure that no one was left behind.

Interactive dialogue: "Taxation and the digitalization of the economy"

6. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel), moderator, said that the interactive dialogue would attempt to determine what constituted the digital economy, explore the tax repercussions of relevant policies, gain a better understanding of the obstacles to reaching international consensus and identify the steps to be taken over the next year.

7. **Mr. Aw** (Counsel, Legal Department, International Monetary Fund (IMF)), panellist, said that the debate surrounding taxation and digitalization highlighted the limitations of the current international tax system, which was coming under increasing stress due to changes in business practices and advancements in

technology. Although current rules for business income source taxation required a nexus in the form of physical presence, technology reduced the need for a physical presence to do business in a country. With regard to user participation, consumers who provided valuable information did not form part of the permanent establishment of the tech company, and the value of that information was not considered as location-specific rents. In addition, hard-to-value intangible assets created difficulties in applying the arm’s length principle. While those challenges were not new, there was increasing economic and political pressure to address them. As a result, some countries had adopted unilateral, short-term, ring-fence tax measures. However, such measures could result in distortions, create complexities and jeopardize the current tax cooperation. It was no longer possible to compartmentalize digital business, as it formed a significant part of the global economy. While fundamental reform of the international tax system was likely needed, it must be a long-term objective and would require a more inclusive multilateral process.

8. According to the IMF policy paper entitled “Corporate taxation in the global economy”, which documented recent developments in international taxation, vulnerabilities to profit shifting persisted despite unilateral tax measures, and the issue of tax competition remained unaddressed. Given that current approaches might not fully address the international tax implications of digitalization, the policy paper included more fundamental options for international tax system reform, such as minimum taxes on inbound and outbound investments, a destination-based cash flow tax that allocated taxing rights based on where consumption took place, formula apportionment and residual profit allocation. IMF had explored the merits and shortcomings of each option in terms of its ability to address profit shifting and tax competition, the ease of implementation from both a legal and practical standpoint, and the extent to which it was suitable for conditions in low-income countries. The purpose of the policy paper was not to set any standards, but rather to provide an analysis of possible reform options to enrich the current discussion and debate.

9. Without a world tax organization, the international community must consider how to cooperate more effectively and inclusively. While the Inclusive Framework on Base Erosion and Profit Shifting of the Organization for Economic Cooperation and Development (OECD) and Group of 20 (G-20) was a positive development, the process must be even more inclusive, for example, through member involvement in standard-setting as well as implementation. The Inclusive Framework’s final report on the implications of digitalization for taxation, to be delivered to the G-20 in 2020, could serve as the basis for a cooperative approach going forward, given that ring-fencing was not feasible or desirable in the long term. While it was too early to endorse any particular alternative, minimum taxes were useful in addressing tax avoidance and profit shifting. Nevertheless, much more analysis of the legal issues and practical consequences would be necessary, including the distributional effects that each option could have. The IMF Executive Directors broadly agreed on the role of IMF and the Platform for Collaboration on Tax, which comprised the United Nations, IMF, the World Bank Group and OECD, in improving inclusiveness and effectiveness.

10. **Mr. Mensah** (Co-Chair, Committee of Experts on International Cooperation in Tax Matters; and Assistant Commissioner, Revenue Authority of Ghana), panellist, said that no country could ignore the digitalization of the economy or the consequences that it had on attempts to mobilize revenue for development. Current international tax rules could not adequately address the challenges it posed and should be revised. Business models were increasingly characterized by scale without mass, a heavy reliance on intangible assets and data and user participation. As a result, the current nexus based on physical presence was becoming increasingly redundant and impracticable. In the case of a cross-border enterprise, where demand and supply were spread across different jurisdictions, the international community must ensure that taxing rights were allocated fairly to the relevant States in order to avoid double taxation.

11. The OECD Inclusive Framework, the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development and the Committee of Experts on International Cooperation in Tax Matters, as well as regional tax bodies, including the African Tax Administration Forum, were making every effort to reach a global consensus to address those issues. There should not be a one-size-fits-all approach; the solution must take into account the needs of developing countries, their various stages of economic development and their capacity to administer tax rules. It should not be restrictive, narrow or complex. In addition, it must be applicable to all sectors of the economy and take note of the changing face of technology.

12. In order to help reach a global consensus regarding the digitalization of the economy, the Committee of Experts had established a Subcommittee on Tax Challenges Related to the Digitalization of the Economy. It was also working on a draft paper that

would evaluate the proposals developed by the Committee of Experts and in other forums, giving special attention to the interests of developing countries with regard to administrability, different economies and market forces. The Committee of Experts would also provide alternative or modified approaches for the allocation of taxing rights and nexus rights, including a withholding tax.

13. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) asked how tax policy would be impacted by the fact that supply and demand were increasingly spread across different jurisdictions.

14. **Mr. Mensah** (Co-Chair, Committee of Experts on International Cooperation in Tax Matters; and Assistant Commissioner, Revenue Authority of Ghana) said that the current rules, which required a physical presence for taxation, were no longer adequate in the digital economy because some huge multinational companies were able to have a significant economic presence without necessarily having a physical presence. A global solution should acknowledge that developing countries could be impacted by such a scenario and could lose out if international tax reform did not provide for some allocation of taxing rules.

15. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) said that, despite considerable agreement that the digital economy should not be ring-fenced, political pressure and other motivations had led some countries to implement unilateral measures, which presumably created even more barriers for reaching international consensus. She asked how it would be possible to unravel some of those measures in moving towards a unified goal.

16. **Mr. Aw** (Counsel, Legal Department, International Monetary Fund (IMF)) said that many countries had implemented unilateral measures as short-term stopgaps to address the issue while engaging in international discussions. He hoped that countries were still coming to the table and trying to reach a multilateral consensus.

17. **Ms. Uy** (Director, Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (IMF)), panellist, said that much remained to be done before international tax cooperation could achieve efficiency and the best growth impact in a manner that was fair to all parties and countries. While advanced countries had historically engaged in the taxation of cross-border investments, in recent years, there had been greater awareness of the importance of improving the fairness of international tax matters for developing countries and increasing their engagement in global discussions. Developing countries had a strong stake in reforming the international corporate tax system, as its revenue implications disproportionately affected them. Tax revenue of lower-income countries relative to gross domestic product was substantially lower and much more dependent on corporate income taxes than it was in advanced countries, and the share of corporate income tax revenues lost from base erosion and profit shifting was much higher. A boost in the revenue prospects of developing countries would support their development and the achievement of the Sustainable Development Goals.

18. With regard to taxation of the digital economy, the Group of Twenty-Four had proposed the concept of significant economic presence to address the limitations of the definition of permanent establishment in the current tax rule, which allowed companies to market their products without paying taxes in jurisdictions where they did not have a physical presence. More work would be necessary in the short and medium term to better define substantial economic presence, which would involve determining the taxable presence of a non-resident enterprise based on a number of factors that indicated sustained interaction with the economy of that country. Such factors could include the revenues generated on a sustained basis in a jurisdiction, the user base, online contracts and the volume of digital content through a digital platform. In the coming months, it would be essential to assess the impact of those factors and come up with a concrete design for a new rule based on substantial economic presence for taxing the digital economy.

19. In developing the substantial economic presence rule, it was important to consider how best to allocate profits across jurisdictions. The starting point was to use a corporation's business profits as a tax base, as they were produced by the activities of both the producing country and the market country. In order to determine the value of user action, solutions must be simple enough to be implemented effectively in countries with limited administrative capacities. Revenue generated by user transactions served as a clear proxy to attribute profit. Furthermore, the Group of Twenty-Four had proposed applying withholding taxes to transactions, as a simple way to tax the attributed profit. A number of countries were familiar with such withholding taxes and could extend them to digital activities. The Group of Twenty-Four recommended further consideration of that issue. Fractional apportionment was another way to attribute profits that took users into account. The tax base could be determined by simply applying a corporation's global tax rate to the revenues and sales generated in a particular country or jurisdiction. While that practice would clearly require a significant amount

of coordination, it should be considered in the global debate on a multilateral solution.

20. A fair and just allocation of taxing rights between jurisdictions created a virtual cycle. Taxes enabled the supplying country to be much more efficient, and taxes paid where demand was generated promoted economic development which, in turn, further increased demand. All countries therefore had a stake in reforming the international corporate tax system. In order to achieve consensus on a global solution, any recommended approach should be flexible enough to accommodate differences in tax laws in various jurisdictions and countries' preferences regarding tax treaties.

21. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) wished to know more about the process of reaching consensus within the Group of Twenty-Four as it had worked to define and quantify value creation and the different methodologies for taxing it.

22. **Ms. Uy** (Director, Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development) said that the Group of Twenty-Four had established a working group to identify key areas, which included the digital economy, taxation of extractives, indirect taxation and multinational enterprises. Working group members had agreed that it was important to participate in the current global debate on digital transactions and had met regularly to identify potential solutions.

23. The solution of substantial economic presence was not new; it had been articulated in the OECD report entitled *Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report*. The working group had decided that it should be further considered in the ongoing debate. The expertise in the current global forum should be brought to bear in creating a technical, concrete design for a substantial economic presence rule. The working group was willing to provide support in that endeavour.

24. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in Tax Matters), panellist, said that tax policy played an important role in domestic resource mobilization, allowing countries to achieve the Sustainable Development Goals by financing specific action. Taxation could also help shape behaviours; excise taxes were one example of that.

25. The international tax system faced challenges because it relied on the existence of a physical presence in the market jurisdiction where multinational enterprises did business. As a result, the G-20 had called for a global solution that would allow multinational enterprises to pay their proper share of taxes in the jurisdiction where value was created. According to the OECD interim report entitled *Tax Challenges Arising from Digitalisation – Interim Report 2018*, the characteristics of the new business model were scale without mass and a high reliance on intangibles. It was also noted in the report that the digital economy should not be considered a separate entity; the economy itself was becoming more digitized every day.

26. Proposals to address those challenges focused on designing nexus and profit allocation rules and addressing broader base erosion and profit shifting concerns. While there were several approaches to designing new nexus and profit allocation rules, they would entail some complicity measures. The link to value creation would require an analysis of where market intangibles were developed and whether user participation created value around the globe, which would not be simple to measure. According to the rules, a distinction must be made between routine and non-routine profits to determine which portion of those non-routine profits would be shared among different jurisdictions in order to apply that distribution in formulary apportionment. While the significant economic presence approach had addressed formulary apportionment, it was still very complex.

27. In order for a global solution to be agreed, it must take into account everyone's needs, particularly those of developing countries. As an organization focused on developing international standards and ensuring that no one was left behind, the United Nations must play an important role. The global solution must also be simple and administrable, with a view to creating a more sustainable and predictable atmosphere for competent tax authorities as well as taxpayers; greater tax certainty would be an incentive for businesses to promote and bolster cross-border investment. Without an inclusive global solution, the international community ran the risk of undermining the sustainability of the economy. It was therefore important to cooperate and include all stakeholders in the challenging programme of work. Lastly, political endorsement was critical to implementing the global solution.

28. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) asked how to take into account start-ups and early stage companies, which were increasingly based on intangibles and digital business models, in attaining fair taxation without stifling their growth.

29. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in Tax Matters) said that start-up companies could incur losses before being in a position to derive profits. The consensus-based solution should therefore take losses into account and analyse the global profits of enterprises, which was quite complex. The challenge was to find a balanced solution that would be fair for any kind of enterprise and would provide the tax certainty needed to apply taxing rights.

30. **Mr. Jenn** (Co-Chair, Task Force on the Digital Economy, Organization for Economic Cooperation and Development (OECD); and Deputy International Tax Counsel, Department of the Treasury of the United States of America), panellist, said that there had been broad-ranging discussion under the OECD/G-20 Base Erosion and Profit Shifting Project, but the question of how taxing rights should be allocated across countries had generally been explicitly excluded from the conversation. Following tax reform in the United States of America, the discussion had begun to focus more on where the income of a multinational group was taxed rather than the rate at which it was taxed. At the outset, the focus had been on digital companies and highly digitalized business models. However, it was clearly not possible to ring fence the digital economy, which was a reality across industries and business models. As a result, the discussion taking place within the Project was very broad-based for the time being and centred on how taxing rights should be allocated among countries.

31. There was a widespread belief that the consensus around existing rules for allocating taxing rights among countries was no longer suitable in certain key regards. As a result, a number of countries had begun to take unilateral action towards having a greater share of revenue taxed in their jurisdiction. Those unilateral legislative actions, by no means limited to digital companies, had focused mainly on businesses with highly visible consumer brands and reflected the political motivation for those policies. Dissatisfaction with the existing norms was also reflected in the audit practices of tax administrations around the world, which were increasingly divergent in terms of how they were interpreting existing guidance, for example, how to apply the arm’s length principle. Both the audit practices and unilateral measures had increased uncertainty and compliance costs for businesses and created risks for both tax administrations and taxpayers. That uncertainty and the threat it posed to cross-border commerce had been an impetus for countries to engage in the broader conversation about how taxing rights should be allocated and to consider different approaches that would provide market jurisdictions with greater taxing rights over businesses selling into their jurisdiction, regardless of business models.

32. The economic and political reality had motivated the current conversations at OECD. A public consultation had been held in March 2019 on its approach, and the feedback from both businesses and other stakeholders had been very encouraging. Participants in the OECD discussion had agreed to explore a two-pillar approach. The first pillar focused on how taxing rights were allocated among countries, and the second focused on reinforcing some of the effects of the Base Erosion and Profit Shifting Project, which had targeted low-taxed and stateless income.

33. Under the first pillar, there was general agreement to explore approaches that would allocate greater taxing rights to the market; the aim would be to restore a stable international consensus that would obviate the need for aggressive audit practices or other unilateral legislative measures. The discussion was currently focused on the nexus question and what portion of profits should be allocated to countries with a taxable nexus. While a number of proposals were still being considered, the overall aim was to develop a common approach that was simple enough to be administered and complied with by tax administrations of different resource capacities and businesses with different resource profiles. Achieving consensus would be challenging because it touched on the very fundamental principles of the existing tax system. Nevertheless, there was strong motivation to do so, given that the continued unravelling of consensus around existing international tax norms and unilateral taxation measures posed a significant threat to global commerce and the welfare of individual countries.

34. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) asked what would happen if a full consensus was not reached by 2020.

35. **Mr. Jenn** (Co-Chair, Task Force on the Digital Economy, Organization for Economic Cooperation and Development (OECD); and Deputy International Tax Counsel, Department of the Treasury of the United States of America) said that, absent a consensus agreement at OECD by the end of 2020, there would likely be a spike in the development of unilateral approaches by countries, which would necessarily force the parties to return to the table and reconsider their positions in a short period of time. The motivation to come up with a consensus approach was strong because those issues would only become more pressing.

36. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in

Tax Matters) said that, in the absence of an urgent global solution, the proliferation of uncoordinated unilateral measures would create more chaos. Without a sustainable international tax system, cross-border trade and investment would collapse. Furthermore, taxes were necessary to finance achievement of the Sustainable Development Goals, and every multilateral enterprise must be taxed fairly. The Committee of Experts on International Cooperation in Tax Matters was therefore committed to working towards an effective solution.

37. **Mr. Harris** (Assistant Secretary-General for Economic Development and Chief Economist) asked whether it would be easier to reach a consensus on a new approach by focusing initially on certain types of transactions, rather than on all transactions with a digital component. A good starting point might be digital transactions that pertained to physical goods because they were more tangible, making it easier to assign value and identify the concerned parties. He wondered how best to establish the framework for that kind of consensus-building and how long it would take to reach an agreement on the partial consensuses that must gradually accumulate on the way to developing a full approach.

38. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in Tax Matters) said that the Committee of Experts on International Cooperation in Tax Matters was also working towards a solution. At the current stage, all proposals were being considered, including withholding taxes. However, since it was not possible to ring fence the digital economy, it would not be easy to determine which transactions should be covered by any specific, targeted withholding tax rule. The efforts of various intergovernmental bodies must be coordinated to avoid developing proposals that could not be merged into one global solution.

39. **Mr. Jenn** (Co-Chair, Task Force on the Digital Economy, Organization for Economic Cooperation and Development (OECD); and Deputy International Tax Counsel, Department of the Treasury of the United States of America) said that the effort to achieve global consensus covered a number of interrelated parts. Countries would be eager to see the whole picture and know how all the parts interacted and could affect them before agreeing to any solution. They would therefore be reluctant to agree to a consensus with a very limited scope.

40. **Ms. Ryding** (Head of Advocacy, European Network on Debt and Development) said that it was difficult to see how a global solution could be achieved when OECD, whose 36 member States were mostly wealthy countries, was determining which countries received which taxing rights internationally. She wondered how the solution would be beneficial to developing countries, particularly the poorest countries. In 2015, when the OECD countries and the G-20 had negotiated a new international tax system, over 100 developing countries had been excluded from negotiations. Nevertheless, all countries had been invited to participate in the Inclusive Framework and follow the rules that had been decided. In order to participate in the current revision of the rules, developing countries had to sign on to the Base Erosion and Profit Shifting Package, which included approximately 2,000 pages of decisions. She did not understand how that process could be referred to as international cooperation or how the result would be considered a global consensus. The Group of 77 and China, which represented over 130 developing countries, had called for the issue to be addressed in a meeting at the United Nations, where all countries were equal.

41. The global tax rules were becoming increasingly complex. While her organization welcomed some of the discussions on new ways to ensure international taxation in a digital economy, especially those held in the Group of Twenty-Four, it was concerned that the new tax rules would make the system more complex and that another revision would be necessary in a few years.

42. **Mr. Jenn** (Co-Chair, Task Force on the Digital Economy, Organization for Economic Cooperation and Development (OECD); and Deputy International Tax Counsel, Department of the Treasury of the United States of America) said that, while the work on digitalization was being undertaken under the auspices of OECD, approximately 130 countries were participating in the Inclusive Framework. All members participated on an equal footing with OECD member States and were represented in the steering group. They were able to share their views and could choose to be part of the consensus or to withhold consensus.

43. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in Tax Matters) said that the OECD Inclusive Framework was not the only international body working on new tax rules. The Committee of Experts on International Cooperation in Tax Matters was also working to provide a global solution. In the Committee, all States Members of the United Nations were taken into consideration. Although the Committee was comprised of only 25 members, development levels and geographical considerations were taken into account in their appointments. As a result, the Committee was considered to be reflective of most of the developing

countries. The potential solution provided by the United Nations should be coordinated with that of the Inclusive Framework to ensure that no one would be left behind.

44. **Mr. Aw** (Counsel, Legal Department, International Monetary Fund (IMF)) said that the Platform for Collaboration on Tax, comprised of the United Nations, IMF, OECD and the World Bank, could also further inform the process. IMF and the World Bank were undertaking technical assistance and capacity development work in the field, focusing heavily on measures related to base erosion and profit shifting. As a result, those organizations would be in a unique position to provide a practical perspective on the ability of developing countries to adopt such measures in a manner that was cost-efficient and did not take up precious resources dedicated to administering national tax laws.

45. **Mr. Roelofsen** (Member, Committee of Experts on International Cooperation in Tax Matters), referring to the statement made by the representative of the European Network on Debt and Development, said that it was important to distinguish between what had occurred under the Base Erosion and Profit Shifting Project and what was currently occurring in the discussion on the digitalization of the economy. The base erosion and profit shifting measures developed under the auspices of OECD and the G-20 appeared to be very efficient in combating tax avoidance by multinational enterprises and served all tax administrations equally, including those of developing countries.

46. With regard to the digitalized economy, the focus was on determining when, and to what extent, countries could tax multinational profits. While he agreed that OECD member States might have different interests than developing countries in that context, a number of non-OECD countries participated in the Inclusive Framework. Furthermore, the Committee of Experts on International Cooperation in Tax Matters had decided to examine the question as well and would take independent decisions on what it considered to be a proper attribution of taxing rights between developed and developing countries.

47. **Mr. Bansal** (Member, Committee of Experts on International Cooperation in Tax Matters) said that automation and digital technologies had changed the methodology of doing business. As a result, the century-old rule that based taxation on physical presence must be updated with the establishment of a nexus rule. The significant economic presence proposal was not new; it had been included in the OECD report entitled *Addressing the Tax Challenges of the Digital Economy, Action 1 – 2015 Final Report*. Businesses must pass through some sort of delineation process, whether it was the significant economic presence proposal or any refined form of that proposal. The international community should not worry unduly about the ring-fencing aspect.

48. Taxing the digital economy was a very complex matter that required a global solution on which consensus would not be easily reached. Nevertheless, it was important to recognize the growing impatience among various marketing jurisdictions which did not know when or whether a consensus solution would be found. A few countries had adopted certain measures prescribed in the 2015 OECD report, which were referred to as interim or unilateral measures. In his opinion, whatever their faults, those measures had sensitized the world to the urgent need to find a solution to the problem.

49. The United Nations was the proper forum for consideration of international tax reform because it was inclusive and could ensure that both developed and developing countries would have a voice. The Committee of Experts on International Cooperation in Tax Matters had a clear mandate in the interest of developing countries. It should therefore work in parallel with other forums, examine their work and develop a simple solution that relieved double taxation while allocating a share of revenues to developing countries, which was essential for them to meet the Sustainable Development Goals.

50. **Ms. Gada** (Contributor to *Forbes* and Consumer News and Business Channel) asked the panellists what specific, tangible outcomes or milestones they hoped to reach by the end of 2020.

51. **Mr. Aw** (Counsel, Legal Department, International Monetary Fund (IMF)) said that there was a clear need for a more inclusive approach to finding a solution to the tax challenges arising from digitalization. OECD would present its final report to the G-20 in 2020. He hoped that, in the next year and a half, institutions with a more global membership, including the United Nations, IMF and the Platform for Collaboration on Tax, would be able to contribute more to that discussion. The IMF policy paper entitled "Corporate taxation in the global economy" represented a step in that direction.

52. **Mr. Jenn** (Co-Chair, Task Force on the Digital Economy, Organization for Economic Cooperation and Development (OECD); and Deputy International Tax Counsel, Department of the Treasury of the United States of America) said that the next year and a half would be critical. By the end of May 2019, the OECD Inclusive Framework should be considering, and hopefully approving, a detailed work plan that would set

forth the policy and technical work to be done to carry the project forward to its conclusion at the end of 2020. There was a common desire to unify the different approaches suggested under the first pillar into a single, simple and administrable proposal, for which more work was needed. He hoped that it could be achieved by the end of 2019 so that 2020 could be spent on fleshing out the more technical aspects of the consensus.

53. **Mr. Protto** (Director, Division of International Tax Relations, Ministry of Treasury of Argentina; and member, Committee of Experts on International Cooperation in Tax Matters) said that there was political pressure to come up with a globally agreed solution that took into consideration the needs of all jurisdictions. To avoid the dissemination of contradictory unilateral actions, the various organizations working on a solution would need to coordinate their efforts. While he was confident that a global solution would be drafted, it had to be simple and easy to administer in order to reduce uncertainty.

54. **Ms. Uy** (Director, Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development) said that the next year and a half would be critical for the debate in the Inclusive Framework. The Group of Twenty-Four hoped to encourage international organizations and relevant think tanks to contribute as much as possible to the technical aspects of the work going forward, as well as to reflect the broader voice of all countries, particularly lower-income countries. The Group supported the greater engagement of the Committee of Experts on International Cooperation in Tax Matters and the Platform for Collaboration on Tax in order to improve the inclusiveness of consultations.

General discussion

55. *Ms. Azucena (Philippines), Vice-President, took the Chair.*

56. **Ms. Abdelhady-Nasser** (Observer for the State of Palestine), speaking on behalf of the Group of 77 and China, said that the Group emphasized the importance of inclusive cooperation and dialogue among national tax authorities and welcomed the work of the Committee of Experts on International Cooperation in Tax Matters. Appropriate emphasis must be placed on creating an enabling global environment and global partnership for development, balanced against the increased emphasis on domestic resource mobilization, and capacity-building in tax matters remained relevant and necessary. It was counterproductive to highlight the importance of domestic resource mobilization in developing countries without robustly addressing the issues that impeded their ability to capture necessary resources.

57. In order to mobilize domestic resources for the implementation of the 2030 Agenda, the international community must scale up international tax cooperation, combat illicit financial flows and eliminate safe havens. The Group of 77 and China reiterated its commitment to work towards strengthening regulatory frameworks at all levels to further increase transparency and accountability in financial institutions, the corporate sector and public administrations. It was also committed to strengthening international cooperation and national institutions to combat money laundering and the financing of terrorism and illegal activities. The Group urged the Committee of Experts and its subcommittees to fulfil their mandate to consider new and emerging issues, including illicit financial flows, tax evasion and corruption, and seek to eliminate them by promoting strengthened national regulation and increased international cooperation, taking into account best practices and lessons learned on tax policy and administration.

58. The digital divide between developed and developing countries remained significant, and the rapid expansion and sectoral spread of digital methods posed profound challenges to the tax systems of all countries. The Group of 77 and China stood ready to engage actively in the global discourse on tax matters with a view to making it as transparent and inclusive as possible.

59. **Mr. Necula** (Romania), speaking on behalf of the European Union and its member States, said that enhanced domestic resource mobilization and the establishment of an efficient, effective, fair and transparent international tax environment were essential to all Governments' efforts to achieve inclusive growth, poverty eradication and sustainable development. They increased the predictability and stability of financing for sustainable development, reduced aid dependency and, when coupled with sound public expenditure management, delivered more public goods and services where needed, thereby strengthening the social contract between Governments and citizens. Money-laundering, corruption, illicit financial flows and tax evasion and avoidance continued to derail sustainable development and disproportionately affected developing countries. The European Union and its member States worked closely with partner countries to address illicit financial flows and promote progressive taxation, anti-corruption measures and redistributive public expenditure policies. They also encouraged development partners and partner countries to join the Addis Tax Initiative.

60. The European approach to international cooperation in tax matters, as outlined in the "Collect More, Spend Better" strategy, addressed the revenue and expenditure aspects of domestic public finance in a holistic manner. The strategy focused on effectively closing tax policy and compliance gaps and addressing issues related to public expenditure management. The European Union recognized the work of OECD in the Global Forum on Transparency and Exchange of Information for Tax Purposes, which had 154 members and was the premier international body for ensuring the implementation of relevant internationally agreed standards. The European Union also welcomed the valuable and relevant work on base erosion and profit shifting under the Inclusive Framework, in which all countries that wished to participate had an equal voice in standard-setting, implementation and monitoring. In addition, the Platform for Collaboration on Tax aimed to better frame technical advice to developing countries as they sought increased capacity support and greater influence in designing international rules. Regrettably, it had been impossible to reflect many of those initiatives in the outcome document of the 2019 Economic and Social Council forum on financing for development follow-up.

61. **Mr. Vieira** (Brazil) said that, given the increasing cross-border economic activity in recent years, the international dimension of taxation had concrete implications for States' national budgets, particularly for developing countries, and their ability to fully implement the 2030 Agenda. The international community must reduce international tax avoidance and increase the exchange of information between tax authorities to foster a transparent tax environment. His delegation appreciated the work of the Committee of Experts on International Cooperation in Tax Matters, especially the Subcommittee on Extractive Industries Taxation Issues for Developing Countries, whose work was useful in taxing oil and gas in Brazil. In addition, his delegation welcomed the recent Economic and Social Council forum on financing for development follow-up, during which all countries had agreed that any consideration of tax measures in response to the digitalization of the economy should include a thorough analysis of the implications for developing countries. His delegation also fully supported the work of the Committee of Experts and other appropriate forums to find possible solutions to that matter and was confident that a global outcome would be reached.

62. As international taxation norms and standards were undergoing rapid transformations, developing countries must be fully integrated and participate actively in discussions. Brazil therefore welcomed efforts to make international tax coordination bodies more democratic and representative and recognized the fundamental role of the United Nations in such discussions.

63. **Mr. Sparber** (Observer for Liechtenstein) said that his country had joined the OECD Inclusive Framework in 2016 and had incorporated the international standards developed under the Base Erosion and Profit Shifting Project into national law and tax treaty policy. With regard to tax cooperation, Liechtenstein had significantly expanded its network of double tax agreements in recent years; it was now a signatory of 20 such treaties. It had signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting and would be amending existing treaties to reflect the minimum standard to prevent treaty abuse. Domestic tax provisions had also been aligned with international standards.

64. His Government remained committed to implementing international standards on tax transparency, which was one of the pillars of its financial centre strategy. Liechtenstein had recently received a "largely compliant" rating in the 2019 (Second Round) Peer Review Report on the Exchange of Information, conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes. It had also ratified the Convention on Mutual Administrative Assistance in Tax Matters, allowing for cooperation with more than 120 partner jurisdictions; had introduced the Standard for Automatic Exchange of Financial Account Information in Tax Matters as an early adopter; and had implemented spontaneous exchange of information and country-by-country reporting.

65. The work of the Committee of Experts on International Cooperation in Tax Matters was important for effective cooperation, especially in preserving consistency in the development of norms and standards. A strong and coherent international framework for cooperation in tax matters could make an important contribution to achieving the Sustainable Development Goals.

66. **Mr. Gimenez** (Norway) said that public and private sector domestic resource mobilization would be the main determinant of the extent to which the Sustainable Development Goals were achieved by 2030. Norway was committed to promoting international tax cooperation and supporting domestic actions to enable low-income countries to transition to middle- and high-income status. His delegation supported the advancement of an international tax system built on the principles of accountability, transparency and predictability and felt that joint and multilaterally agreed standards were the

best way to improve domestic revenue mobilization. In addition, Norway was on track to reach the Addis Tax Initiative target to double tax-related official development assistance by 2020. Its strategy combined support for broad multilateral action on tax norms and targeted capacity-development cooperation with a select number of partner countries, working with both State and non-State actors.

67. The international community must consider how fiscal policies could be used to advance equality and equity within and between countries. The Inter-Agency Task Force Report on Financing for Development Review and Follow-up had concluded that the current financial governance system, including the taxation system, contributed to growing inequalities. Progressive tax policies, improved tax administration and integrated tax system reform could help to increase equality. Multilateral and bilateral partners should prioritize supporting capacity development and enabling policy options. Effective tax administration also contributed to reducing corruption and improving transparency.

68. Taxing the digital economy provided an opportunity to support the domestic resource mobilization of developing countries and ensure that profits were registered and taxed appropriately. The process of rewriting international rules to incorporate digital taxation would have to be inclusive of developing countries and take into account the effects on equality. The United Nations had an important role to play in ensuring that the voices of least developed countries were heard in the negotiations on international tax rules for the digital economy. Other multilateral organizations should also rely on an inclusive process in negotiating tax rules. Cooperation between OECD and the United Nations, as well as the use of the Platform for Collaboration on Tax to ensure coherence, would be of paramount importance.

69. **Ms. Udida** (Observer for Nigeria) said that her delegation wished to see the Committee of Experts on International Cooperation in Tax Matters upgraded to an intergovernmental body with universal membership in the near future. Enhanced domestic resource mobilization could increase the predictability of financing and reduce aid dependency. Along with sound public expenditure management, it would help Governments deliver more public goods and services, thereby strengthening the social contract between Governments and citizens. Nevertheless, it would be counterproductive to highlight the importance of domestic resource mobilization in developing countries without addressing the international loopholes that impeded their ability to retain a significant portion of their resources. Effective taxation of large businesses, including multinational enterprises, could boost domestic revenue, reduce income inequalities within and between States and contribute to perceptions of fairness in the international tax system. Her delegation encouraged the Committee of Experts to advocate more strongly for multinational enterprises to pay taxes where economic activity occurred and value was created. It also encouraged strengthening regulatory frameworks at all levels to increase transparency and accountability for financial institutions, thereby mitigating transfer pricing, trade misinvoicing, base erosion and profit shifting.

70. The digital divide between countries was significant and posed profound challenges to tax systems, particularly in developing countries. While virtual assets could help to combat illicit financial flows, they were also exploited for illicit activities. Member States and relevant organizations must take appropriate measures to prevent and counter such illicit use. Her delegation supported multilateral initiatives to enhance domestic revenue mobilization and promote fair, efficient and transparent tax systems, as well as Member State initiatives such as the forthcoming second follow-up to the International Expert Meeting on the Management and Disposal of Recovered and Returned Stolen Assets, including in Support of Sustainable Development, hosted by Ethiopia and Switzerland. Nigeria remained committed to ongoing efforts, undertaken in partnership with Norway, to galvanize international cooperation to combat illicit financial flows and strengthen good practices on asset returns in order to foster sustainable development.

71. **Mr. Prongthura** (Observer for Thailand) said that taxation was a crucial means of implementing the 2030 Agenda, as it helped to mobilize public resources and to finance achievement of the Sustainable Development Goals. Improving tax collection capacity was therefore key for all countries. Growing opportunities and business transactions in the digital economy posed new challenges to tax collection. There was a need to strike the right balance between collecting a fair amount of tax to generate government revenue for the provision of public goods and maintaining an environment conducive to business investment. International tax rules would therefore need to move beyond conventional means of collecting taxes. They must ensure an equitable distribution of the tax base between the home and host countries of digital businesses.

72. While tax issues concerning the digitalization of the economy were technically complex, international tax rules must be practical, simple and administrable, particularly in developing countries, where resource and capacity constraints tended to be more prevalent. International tax cooperation was key to ensuring

effective and coherent implementation across countries. The support and engagement of national Governments and regulators, as well as all businesses and service providers, would be crucial to that end.

73. **Mr. Sinha** (India) said that tax revenue was the most important means by which developing countries mobilized resources to meet the ambitious targets of the 2030 Agenda. The Committee of Experts on International Cooperation in Tax Matters should focus on how the tax-related consequences of the digitalized economy affected achievement of the Sustainable Development Goals, particularly in developing countries. Given the increasingly globalized nature of business and the ability to conduct it without a taxable physical presence, tax policies must include a perspective beyond national borders, and institutional arrangements must be strengthened. The work of the Committee to increase information exchange and capacity-building could not be a substitute for genuine and equitable multilateralism in determining global norms and standards on taxation. The implementation of a truly universal agenda would require a platform in which all countries had an equal voice. The United Nations was the only forum that could provide a platform for open, transparent and inclusive processes that would safeguard the interests of all Member States. The process should be truly inclusive, not merely inclusive in name.

74. While India continued to advocate for upgrading the Committee of Experts to an intergovernmental body with universal membership, it also sought to ensure that the Committee, in its current form, had the resources to better organize its work and absorb the travel expenses of members from developing countries wishing to attend subcommittee meetings. In that connection, India had contributed to the Trust Fund for International Cooperation in Tax Matters for the previous two years and remained the only country to have done so.

The meeting rose at 12.40 p.m.