E/C.18/2013/CRP.14

Distr.: General
21 October 2013

Original: English

Committee of Experts on International Cooperation in Tax Matters
Ninth session
Geneva, 21-25 October 2013
Agenda item 0Rp)(v) capacity building

United Nations Capacity Development Programme on International Tax Cooperation Progress Report

Summary

This note provides an update on progress in development and implementation of the United Nations capacity development programme on international tax cooperation under the responsibility of the Financing for Development Office of the United Nations Department of Economic and Social Affairs.

1. Mandate

The United Nations Economic and Social Council (ECOSOC), in its resolution 2012/33, recognized "the work of the Financing for Development Office in developing, within its mandate, a capacity development programme in international tax cooperation aimed at strengthening the capacity of the ministries of finance and the national tax authorities in developing countries to develop more effective and efficient tax systems, which support the desired levels of public and private investment, and to combat tax evasion, and requested the Office, in partnership with other stakeholders, to continue its work in this area." In 2013, this mandate was reiterated and expanded. Specifically, ECOSOC recognized the progress made by the Financing for Development Office (FfDO) in its work and requested "the Office, in partnership with other stakeholders, to continue its work in this area and to further develop its activities."

2. Relationship with the Committee

Owing to the fact that FfDO provides secretariat support to the Committee of Experts on International Cooperation in Tax Matters (the Committee), its programme of capacity development on international tax cooperation draws, to a large extent, on the outputs of the Committee with a view to disseminating and operationalizing them as capacity development tools for the benefit of developing countries.

account the needs of developing countries; 6) Assisted in identifying participants from developing countries for capacity development events. In the future the Committee members will also be asked to serve as instructors and mentors for FfDO's capacity development events, in their respective regions.

3. Application and negotiation of double tax treaties drawing on the UN Model

The first area of focus of the programme is on strengthening capacity of the ministries of finance and national tax authorities in developing countries to negotiate, administer and interpret tax treaties, drawing on the 2011 version of the UN Model.

Many developing countries lack adequate understanding of the provisions of the UN Model, especially of its new, 2011 version. Moreover, many developing countries reviews were held: (1) on 12-13 October 2012 in Geneva; and (2) on 26-27 January 2013 in Rome. The final technical review will be held on 11-13 December 2013 in New York, after which the course will be finalized. It is expected that full version of the course can be delivered in 4-5 days. The first training event is planned for the first half of 2014. At the later stage, regional plug-ins for the course will be developed to make sure that the course is relevant to the regions and “train-the-trainer” programme will be carried out in order to enable regional experts to teach the course. An on-line version of the course will also be developed and made available to developing countries.

Other activities

In addition, in order to disseminate the 2011 version of the UN Model, as well as to prepare developing countries for the forthcoming developing its own course on tax treaty negotiation, the United Nations should join forces with the OECD, which already has a very comprehensive training programme in this area. The role of the UN will be to ensure that the programme is offered to a wide spectrum of developing countries, and to provide inputs to the materials, which relate to the UN Model. The first UN-OECD practical workshop on negotiation of double tax treaties is already under preparation and will be held on 19-23 May 2014 in Vienna. FfDO will be seeking nominations from developing countries to attend this event.

It was also decided that a number of practical papers needed to be developed on selected topics in negotiation of tax treaties, namely: 1) Why negotiate tax treaties; 2) Tax Treaty Policy Framework and Country Model; 3) Preparing for Tax Treaty Negotiation; 4) How to Conduct Tax Treaty Negotiations; and 5) Post-negotiation Activities. Accordingly, FfDO contracted two consultants, namely Ms. Ariane Pickering, Former Chief Tax Treaty Negotiator, Australian Tax Office and Treasury, Australia; and Mr. Odd Hengsle, Former Director-General, Tax Treaties and International Tax Affairs, Ministry of Finance, Norway who drafted the above-mentioned papers. These papers were discussed and revised during the Rome and New York meetings held as part of the project undertaken jointly by FfDO and the International Tax Compact (ITC), which is described below. These papers are being presented to the Committee during its 9th session in Geneva as possible input to the *UN Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries* (see E/C.18/2013/CRP.7). They will also be available on FfDO website as capacity development tools

c. Administration of double tax treaties

In parallel, FfDO and ITC launched a joint project, entitled “Strengthening the capacity of ministries of finance and national tax authorities in developing countries to effectively negotiate, interpret and administer tax treaties”. The financial contribution for the project has been provided by the German Federal Ministry for Economic Development and Cooperation (BMZ were frank in sharing their countries' experiences and concerns. The discussion contributed to: (i) identifying the needs of developing countries in the area of tax treaty administration and negotiation an

The UN Handbook is available at http://www.un.org/esa/ffd/documents/UN_Handbook_DTT_Admin.pdf. Printed copies will also be available to developing countries at the 9th session of the Committee.

4. Practical issues in transfer pricing for developing countries

The second area of focus of the capacity development programme is on strengthening the capacity of developing countries to apply the transfer pricing analysis and, in particular, the arm's length principle to transactions between associated enterprises of multinational groups. Many developing countries are vulnerable to abuse and revenue loss from tax evasion in the complex area of transfer pricing, because their capacities and resources in this area are often limited and insufficient.

The trigger for launching a capacity development project in this area was the adoption and launch of the UN Transfer Practical Manual in October 2012 and May 2013 respectively.

The capacity development project aims at developing a basic *UN Course on Practical Issues in Transfer Pricing for Developing Countries* based on the UN Transfer Practical Manual.

The Course will follow the structure of the Manual as its modules will correspond to its chapters of the Manual. Modules will be authored by several experts, most of whom have already been identified.

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Costs and thereby maximize their tax revenues". Tax Transaction Costs (TTCs) comprise the administrative costs incurred by the Government in collecting tax revenues (so called, collection costs), and the burden to taxpayers in complying with tax laws (so called, compliance costs). As such, these costs impact on the ability of countries to attract investment and on the amount of tax revenues available for development funding.

The project focuses on the development of an empirical methodology aimed at measuring and assessing TTCs, with a view to reducing them and, as a result, increasing tax revenues. A first draft of this methodology has been presented and reviewed during a workshop (Panama City, Panama, 27-28 February and 1 March 2013), which was attended by representatives of national tax authorities from ten Latin American countries, namely Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Panama, Paraguay, Peru and Uruguay.