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Economic and Social Council

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Research Report

The Question of:

Improving international cooperation on tax matters

Introduction

Taxation has been around for millennia. The first traces of a taxation system have been found in Ancient Egypt, around 2900 B.C.E. during the First Dynasty of Egypt. There were two types of tax back then: the tithe and the corvée. The tithe was simply 1/10 of something, so the person's income. The corvée was slightly different, though. Corvée was basically slave labor by peasants who were too poor to pay the other forms of taxes. Genesis 47-24 also talks about taxation, where you would give 1/5th of the crop harvest to the Pharaoh and use the other 4/5ths to feed yourself and your household. Over the centuries, there have been many different forms of taxes, paid with many different currencies, based on many different measurements of wealth. Nowadays, the most common forms of taxation in the Western world are: Income tax (%age of gross income, usually in tax brackets); social security contributions; wealth tax (on the total value of personal assets); property tax (on real estate land, based on value of the property, paid to the local government); inheritance tax; value-added tax (VAT); sales tax (21% in the Netherlands); road tax; and lastly import/export tariffs.

The Committee

As one of the six primary organs of the UN, the Economic and Social Council (ECOSOC) is a forum responsible for discussing and writing policy recommendations regarding international economic and social problems. Founded in 1945, ECOSOC consists of all member states in the UN, as well as several NGOs who have been granted consultative status to participate in the UN. The committee meets annually for a four-week session during July. Since 1998, ECOSOC also holds one meeting each year in April, during which it consults with the finance ministers representing the World Bank and the International Monetary fund.

The rules of procedure for ECOSOC are the same as the rules for all of the general assemblies:

1. The committee will begin with lobbying, during which delegates merge clauses to form resolutions.
2. The chair will open debate on a resolution.
3. Delegates can speak for or against the resolution or submit amendments (up to the second degree)
4. Delegates will vote on the resolution as a whole.

In order to prepare for the conference, it would be a good idea to:

1. Read the research reports
2. Research your country and their connection to the issue at hand
3. Write a brief policy statement explaining your country's opinion and what they wish to achieve (this may help you formulate arguments during the session)
4. Write some potential clauses for the topics that are most relevant to your delegation

Key Terms

Taxation
A tax is a compulsory financial charge, or some other type of levy, imposed upon a taxpayer by a governmental organization in order to fund various public expenditures.

Bilateral taxation
Double taxation is the levying of tax by two or more jurisdictions on the same declared income (in the case of income taxes), asset (in the case of capital taxes), or financial transaction (in the case of sales taxes).

Bilateral tax agreement / tax treaty (abbreviatd as DTA for double tax agreement)
A bilateral tax agreement can be written and signed by two jurisdictions to prevent bilateral taxation. Multilateral treaties are also possible and used. For example, the EU member states are parties to their own multilateral agreement with regards to value-added tax (VAT.) DTAs not only reduce double taxation but also help eliminate tax evasion and encourage cross-border trade efficiency.

Tax evasion
Tax evasion is the illegal evasion of taxes by individuals, corporations, and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned or overstating deductions.

Tax avoidance
Tax avoidance is the legal use of tax laws to reduce one's tax burden. Both tax evasion and avoidance can be viewed as forms of tax noncompliance, as they describe a range of activities that intend to subvert a state's tax system, although such classification of tax avoidance is not indisputable, given that avoidance is lawful, within self-creating systems.

Tax haven
A tax haven is a country or place where the effective taxation rate for foreign investors is very low. For example, Jersey, off the Normandy coast of France, is considered a tax haven. Offering an almost-zero taxation rate, Jersey is on the receiving end of very limited bilateral tax treaties, meaning that a corporation is likely to be taxed twice on their income, though it's near 0% in Jersey. Modern corporate tax havens have non-zero apparent rates of taxation and high levels of OECD–compliance, and thus have large networks of bilateral tax treaties. Though, through some clever mechanisms, known as base erosion and profit shifting, the effective taxation rate is closer to zero. The use of tax havens results in a loss of tax revenues to countries that are not tax havens and are therefore frowned upon by the international community.

Base erosion and profit shifting (BEPS)
BEPS refers to corporate tax planning strategies used by multinationals to "shift" profits from higher–tax jurisdictions to lower–tax jurisdictions, thus "eroding" the "tax–base" of the higher–tax jurisdictions. The OECD definition is: "Exploiting gaps and mismatches in tax rules." However, academics proved corporate tax havens (such as Ireland, the Caribbean, Luxembourg, the Netherlands, Singapore, Switzerland, and Hong Kong) who are the largest global BEPS hubs, use OECD–whitelisted tax structures and OECD–compliant BEPS tools. The largest tax avoidance tool in history is known as the Double Irish arrangement, a BEPS corporate tax tool.

The double Irish exploits the different definitions of corporate residency in Ireland and the US. Dublin taxes companies if they are controlled and managed in Ireland, while the US' definition of tax residency is based on where a corporation is registered. Companies exploiting the double Irish put their intellectual property into an Irish-registered company that is controlled from a tax haven such as Bermuda. Ireland considers the company to be tax-resident in Bermuda, while the US considers it to be tax-resident in Ireland. The result is that when royalty payments are sent to the company, they go untaxed - unless or until the money is eventually sent home to the US parent company.

General Overview

Countries levy taxes to generate income. Without taxes, many governments would just collapse, so the prospect of something going wrong in that field is horrifying to most ministries of finance. It is a common occurrence that people have two separate incomes from two separate countries, while they live in one of those countries (or neither.) Usually, income tax is levied by the taxation authority on all income earned. Let's say that this person earns X dollars in country A from renting out a holiday house but lives in country B and works in Country B as a plumber earning Y dollars. Their income is then X + Y dollars, which means their taxes in Country B are levied over X + Y dollars. However, income X is earned in country A, where it is also taxed by the revenue service of Country A. This means that the X dollars are taxed twice, while it is only earned once.

The main body of authority on the exact matter that is outlined in this report, is the Committee of Experts on International Cooperation in Tax Matters. Meeting biannually, the generates practical guidance for governments, tax administrators and tax payers on fundamental and frontier issues in international tax cooperation. It operates within the broader efforts to mobilize financing and other support for sustainable development. It works by advancing deep understanding and technical mastery of the issues, to support effective mobilization of domestic resources on the ground, especially in least developed countries and others in special situations. The 18th session of the committee was held in New York City on 23-26 April 2019, and it had multiple topics on the agenda. The committee discussed the role of taxation in effectively raising domestic resources to finance the SDG's set by the UNGA, focusing on specific issues of environmental taxation, the informal economy, and gender equality. Also, the committee is tasked to keep several documents up to date with today's changing world and economy, these are the *Handbook on Extractive Industries Taxation Issues for Developing Countries, the UN Model Double Taxation Convention between Developed and Developing Countries, and the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries.* The committee also provides practical guidance on avoiding and resolving tax disputes between states, by reviewing and aiming to finalize a draft chapter of the Mutual Agreement Procedure. Also on the table was the question of how to levy carbon taxes, who should pay these taxes, how exemptions would work, and what an appropriate tax rate would be.

Major Parties Involved

Committee of Experts on international cooperation on tax matters (CEICTM)

Set up by the 2004/69 resolution passed in the Economic and Social Council, this committee is mandated to

1. Keep under review and update as necessary the United Nations Model Double Taxation Convention between Developed and Developing Countries and the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries;

2. Provide a framework for dialogue with a view to enhancing and promoting international tax cooperation among national tax authorities;
3. Consider how new and emerging issues could affect international cooperation in tax matters and develop assessments, commentaries, and appropriate recommendations;
4. Make recommendations on capacity-building and the provision of technical assistance to developing countries and countries with economies in transition;
5. Give special attention to developing countries and countries with economies in transition in dealing with all the above issues.

As of July 2015, through GA resolution 69/213, the Committee has biannual sessions lasting four working days each. One is at UNHQ in New York City, and the other is in the UN Offices at Geneva.

Comprising of 25 members nominated by governments to act in their professional capacity, the members serve 4-year terms after having been appointed by the Secretary-General. They are drawn from various fields related to tax matters, such as tax policy and administration, and adequately represent geographical areas and different taxation systems.

Organization for Economic Co-operation and Development (OECD)

The OECD is an intergovernmental economic organization with 36 member countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices and coordinate domestic and international policies of its members.
Most OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries. As of 2017, the OECD member countries collectively comprised 62.2% of global nominal GDP (US$49.6 trillion) and 42.8% of global GDP (Int$54.2 trillion) at purchasing power parity. The OECD is an official United Nations observer.

The G20

The Group of Twenty, an international forum of representatives from government and central banks of the member states, is mandated to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The members states are 19 countries with some of the largest economies in the world. The 20th member is the European Union, which is also represented by the many EU member states in the G20 as an independent member. Collectively, the G20 economies account for around 90% of the gross world product , 80% of world trade , two-thirds of the world population, and approximately half of the world land area.
The 2012 G20 Los Cabos summit tasked the OECD to develop a BEPS Action Plan, which 2013 G-20 St. Petersburg summit approved. The project is intended to prevent multinationals from shifting profits from higher- to lower-tax jurisdictions. An OECD BEPS Multilateral Instrument, consisting of 15 Actions designed to be implemented domestically and through bilateral tax treaty provisions, were agreed at the 2015 G20 Antalya summit.

Timeline of Events

3000 B.C.E. – First taxation system occurs in Ancient Egypt

1948 – the OEEC is created to administer American and Canadian aid in the framework of the Marshall Plan for the reconstruction of Europe after World War II.

1961 – the OEEC is reformed into the OECD with 20 founding members.

1991 – The Double Irish arrangement is conceived and started being used by U.S. multinationals to avoid taxation

2004 – The Committee of Experts on International Cooperation in Tax Matters is created by the ECOSOC through resolution 2004/69.

2012 – G20 politically backs OECD to make an effort to combat the usage of BEPS-tools.

2015 – The CEICTM now meets twice a year.

Previous attempts to solve the issue

Apple was fined 13 billion Euros in corporate tax fine for unpaid Irish taxes on about 111 billion Euros of profits earned from 2004-2014.

The USA implemented the Tax Cuts and Jobs Act (TCJA) in Dec. 2017, which effectively led Ireland and the use of Irish BEPS tools to their demise. Though, a resurgence of another sort of BEPS tools reignited Ireland as the tax haven it once was.

The United Nations Model Double Taxation Convention between Developed and Developing Countries and *the Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries*, managed by CEICTM, were created with the goal of developing countries not being the target of corporate greed by being used as a tax haven. Most developing countries either don't have great governmental revenue service authorities or don't have many tax treaties, making them susceptible to such practices. Contrary to what one might think, this heavily damages the already unstable economy of a developing country. It is therefore of paramount importance that developed countries attempt to help these developing countries come out of the vicious cycle.

Resolutions 2017/2 and 2018/1 passed by ECOSOC to hold a one-day annual meeting to consider international cooperation in tax matters including, as appropriate, its contribution to mobilizing domestic financial resources for development and the institutional arrangements to promote such cooperation, with the participation of the representatives of national tax authorities.

The 18th meeting was held immediately following the 16th session of the Committee of Experts on International Cooperation in Tax Matters. It aimed to facilitate a dialogue between the Committee and the Council and provide input to the intergovernmental consideration of tax matters at the United Nations, as mandated in the Addis Ababa Action Agenda. The special meeting served as an important opportunity to address emerging tax policy and administration issues related to the digitalization of the economy. The meeting also discussed, with relevant stakeholders, broader thematic issues in international tax cooperation.

Questions a Resolution Must Answer (Q.A.R.M.A.)

[This is the section to give your delegates direction in what they need to include in the resolution. You can let them think about moral dilemmas as well as practical pointers towards their plan (who, what, where, how, etc.)

Here too it is important to make clear to the delegates that they should **not** limit themselves to only the questions standing here.

- Should the OECD completely limit the use of BEPS tools?
- How far should we give the OECD and CEICTM the power to mandate legislative change in governments?
- Should we really solve the issue of tax havens? Yes, they benefit the large corporations and harm the tax haven itself, but a country like Ireland already has a sustainable economy, so should we really change it by taking away the business these corporations bring to Ireland and Bermuda?
- Should the ECOSOC, the OECD, the G20, or the CEICTM levy a carbon tax internationally?
- What is a simple and fair way of levying the carbon tax?
- What companies are exempt from the carbon tax?
- Should we, as the global political landscape, enter into more bilateral tax treaties?
- Are multilateral agreements better than bilateral agreements?
- Is fining companies (like Apple in 2016) really a good way to solve the problem?
- Can we improve the methods of finding out if companies are avoiding taxes through certified OECD practices?