

# Why have tax treaties?

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“Capacity Building on Tax Treaty Negotiations”  
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Governments enter into tax treaties for a variety of reasons

Mostly economic considerations

But not always

# Economic Reasons

To facilitate inbound and outbound trade and investment by:

## Economic Reasons (2)

To prevent tax avoidance and fiscal evasion

Exchange of tax information

Assistance in collection of taxes

Minimising tax arbitrage

# Non-economic reasons

International obligations or expectations

Under regional economic agreements such as EU, ASEAN

International organisations eg. OECD

## Non-economic reasons (2)

### Political pressures

Desire to show willingness to conform with international tax standards

Desire to foster diplomatic relations with another country

Response to political pressure from another country

# Developing country perspective

Facilitating outbound investment not a high priority

Main focus is on attracting inbound investment, especially foreign direct investment

Inbound supply of skills and technology also important

Tax avoidance and evasion?

# Key factors in attracting inbound investment

## Relief from double taxation

- Most countries unilaterally relieve source/residence double taxation
  - Treaties still useful for confirming such relief
- Resolving residence/residence double taxation
- Resolving source/source double taxation



# Developing country perspective

## Relief from double taxation (cont)

Arm's length standard for profit allocation  
re intra-entity and related party dealings

Removing tax discrimination

Removing excessive taxation

Providing certainty

Simplifying tax compliance

## Developing country perspective

However, tax treaties are not the whole answer to attracting foreign investment!

Must also have good infrastructure for investment, eg. political and economic stability, robust regulatory framework, suitable workforce, reliable and effective administration.

# Developing country perspective

Developing countries are often pressured into having tax treaties by countries that want them to

- Reduce source taxation

- Exchange tax information

This can have significant costs for revenue and for tax administration

- However it can also have long-term benefits