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Revision of the wording of Article 26 of the UN Model Convention**Summary*

This paper presents the position of the subcommittee as to the revision of Article 26 of the UN model. It takes the changes to the OECD model as a starting point (as recommended by the Committee) and takes into account the commentaries made at the first session (December 2005) and the work made by the subcommittee members.

This paper reflects the conclusions of the discussions on previous session and the opinions of the members of the subcommittee. The intention of the document is to give the Committee all relevant information to decide on the changes to be made to article 26 of the UN Model at the 2006 meeting.

*The present paper was prepared by the subcommittee on exchange of information (Coordinator: Mr. José Antonio Bustos Buiza). The views and opinions expressed are those of the author and do not necessarily represent those of the United Nations.

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I. Introduction

1. In July 2005, Article 26 on exchange of information of the OECD Model Tax Convention on Income and on Capital (OECD model) has been amended with the purpose to widen its scope and coverage. The Committee of Experts on International Cooperation in Tax Matters formed under the auspice of the UN Economic and Social Council appointed in its first meeting in December 2005 a sub-committee of experts with the mission to consider possible revision of Article 26 of the UN Model and its commentary in the light of the changes made to Article 26 of the OECD model. The sub-committee is guided in this task by the work of the ad hoc committee mentioned above, which was based on a paper prepared by Mr. David Spencer.

2. This paper presents the position of the sub-group as to the revision of Article 26 of the UN model. It takes the changes to the OECD model as a starting point (as recommended by the Committee) and takes into account the commentaries made at the 2005 meeting and the work made by the sub-committee members.

3. As a preliminary remark, the sub-group is of the opinion that no changes should be made to the commentary of Article 26 before an agreement is reached upon the wording of the same. The main issues related to these changes, as reported in the ad hoc committee report, are as follows:

- "foreseeably relevant" versus "necessary";
- Taxes covered;
- Disclosure to oversight bodies;
- Domestic tax interest;
- Bank secrecy;
- Dual criminality requirement; and
- Automatic exchange of information.

II. Revision of the wording of Article 26 of the UN model

A. "Foreseeably relevant" versus "Necessary"

4. The word "necessary" in paragraph 1 of Article 26 of the 2003 OECD model was replaced by the phrase "foreseeably relevant" in the 2005 version. The commentary of the Article (paragraph 5) indicates clearly that the intention was to broaden "*to the widest possible extent*" the scope of exchange of information between Contracting States. However, the commentary defines two limits to this scope: Contracting States may not (i) engage in "fishing expeditions" nor (ii) request information that is "*unlikely to be relevant to the tax affairs of a given taxpayer*".

5. The term "necessary" may be considered as an undefined, confusing and ambiguous term. That is why the proposed wording uses the term "relevant" instead of the term "necessary". Therefore, the first sentence of Article 26 of the UN model would read as follows: "*The competent authorities of the Contracting States shall exchange such information as is **relevant** for carrying out ...*".

6. The wording of the OECD model (i.e. foreseeably relevant) because of the term "foreseeably" may create some confusion and ambiguity when it comes to the implementation of the provision, especially that the commentary (paragraph 5) did not present clearly the rationale of this amendment.

16. Therefore, the proposal does not incorporate an amendment to Article 26 of the UN Model similar to the amendment made to Article 26 of the OECD Model mentioned above.

D. Absence of domestic tax interest

17. A new paragraph (paragraph 4) was added to Article 26 of the OECD Model in its 2005 version. This paragraph provides that "*(i)f information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the previous sentence is subject to the limitations of paragraph 3 (i.e. paragraph 2 in the UN model) but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information.*"

18. This paragraph offers an important guarantee as to the effectiveness of exchange of information between Contracting States, as these may not avoid the obligation to provide information under Article 26 on the grounds that they have no (tax) interest in the requested information. This, however, should not mean that a Contracting State must provide the requested information regardless of its capacity or of the cost that it may incur to do so. This is an important issue particularly for tax authorities in developing countries. The obligation contained in the proposed paragraph 4 should be tempered to take into account the capacity and (material and human) resources of the competent authorities of the requested State.

19. Accordingly, the proposal includes wording to charge the requesting party with any "*extraordinary costs*" incurred in providing the requested information.

20. Therefore, the proposal adds a paragraph 4 to Article 26 of the UN Model drafted in the same way as paragraph 4 in the OECD model (see above) and providing for the following at its end:

"Extraordinary costs incurred in providing information shall be borne by the Contracting Party which requests the information. The competent authorities of the Contracting Parties shall consult with each other in advance if the costs of providing information with respect to a specific request are expected to be extraordinary."

21. Members of the sub-committee are troubled by the suggestion that the requested party would be able to require the requesting to bear so-called "extraordinary costs," especially when the requested party is a developed country because the potential for abuse could be high. This issue is of particular significance in the case of so-called de facto bank secrecy. If a government has gone to some trouble NOT to have information to exchange, it can easily assert that the cost of obtaining it on request is high. In most cases, however, the cost would be negligible if the government had acted in good faith in the beginning and had not tried to avoid its obligation to exchange information.

E. Bank secrecy

22. A new paragraph (paragraph 5) was added to the OECD Model in 2005. It reads as follows: "*In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institutions, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interest in a person*".

23. This is one of the key amendments introduced by the 2005 revision of the OECD Model. The intention here (according to the commentary of the Article (paragraph 19.10)) is to prevent Contracting States to use the limitations provided for in paragraph 3 as a basis for declining requests of information held by banks, financial institutions, nominees, fiduciaries, etc. or information related to ownership.

III. Conclusion

32. Based on the development made above, the sub-group proposes to amend the wording of Article 26 of the UN Model as follows:

"Article 26

EXCHANGE OF INFORMATION

1. *The competent authorities of the Contracting States shall exchange such information as is **relevant/may be relevant** for carrying out the provisions of this Convention or to the administration or enforcement of the domestic laws **concerning taxes of every kind and description imposed on behalf of the Contracting States, or of their political subdivisions or local authorities**, insofar as the taxation thereunder is not contrary to the Convention, in particular for the prevention of fraud or evasion of such taxes **and combating tax avoidance**. The exchange of information is not restricted by Articles 1 **and 2**.*
2. *Any information received under paragraph 1 by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State. However, if the information is originally regarded as secret in the transmitting State, it shall be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to the taxes referred to in paragraph 1. Such persons or authorities shall use the information only for such purposes but may disclose the information in public court proceedings or in judicial decisions. The competent authorities shall, through consultation, develop appropriate conditions, methods and techniques concerning the matters in respect of which such exchanges of information shall be made, including, where appropriate, exchanges of information regarding tax avoidance.*
3. *In no case shall the provisions of paragraphs 1 **and 2** be construed so as to impose on a Contracting State the obligation:*
 - a) *To carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;*
 - b) *To supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;*
 - c) *To supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information the disclosure of which would be contrary to public policy (ordre public);*
4. *If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information. Extraordinary costs incurred in providing information shall be borne by the Contracting Party which requests the information. The competent authorities of the Contracting Parties shall consult with each other in advance if the costs of providing information with respect to a specific request are expected to be extraordinary.*

5. *In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.*

6. *A Contracting State shall exchange information with the other Contracting State pursuant to this Article without regard to whether the conduct being investigated would constitute a crime under the laws of that Contracting State if such conduct occurred in that Contracting State.*