“Mobilising Domestic Resources through Tackling Base Erosion and Profit Shifting (BEPS)”

Organised by the OECD in partnership with UN-DESA

6.15 pm and 7.45 pm, 14 July 2015

Mars Meeting room, Hotel Elilly, Addis Ababa, Ethiopia

Base Erosion and Profit Shifting (BEPS) is a global problem which requires global solutions. BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax. This session aims at raising awareness on the impact of BEPS on developing countries and how the OECD/G20 BEPS Project is tackling BEPS as a collective international effort.

Thematic focus

The 3rd UN Financing for Development (FfD) Conference will underline the primacy of domestic resource mobilisation, particularly taxation, for reaching the Sustainable Development Goals (SDGs), building on the Doha Review Conference in November 2008.

Moving towards a simpler, more equitable, transparent and broad based tax system has been a concern for developing countries for decades. Yet half of Sub-Saharan African countries still mobilise less than 15% of their GDP in tax revenues, below the minimum level of 20% considered by the UN as necessary to achieve the Millennium Development Goals by 2015. Several Asian and Latin American countries fare little better.

Some of the poorest countries rely very heavily on corporate tax revenue from Multinational Enterprises (MNEs). In Burundi, for example, one company contributes nearly 20% of total tax collection. It is therefore critical that developing countries are able to tax the full profits that are realized in their jurisdictions and to tackle opportunities for MNEs to artificially separate the allocation of their taxable profits from the jurisdictions in which they arise.

BEPS refers chiefly to instances where the interaction of different tax rules leads to some or part of the profits of MNEs not being taxed. The urgency of domestic resource mobilisation to finance sustainable development and the risk of BEPS comes together in sharp focus when developing countries’ reliance on corporate income tax is considered.

At the 2013 St. Petersburg Summit, Group of Twenty (G20) leaders recognised that “developing countries should be able to reap the benefits of a more transparent international tax system, and to enhance their revenue capacity, as mobilizing domestic resources is critical to financing development” and mandated the OECD to identify BEPS issues relevant to developing countries and consider actions to address them. By the end of 2015 the OECD/G20 BEPS Project will have delivered and structurally changed the design and operation of tax rules governing cross-border economic activity, with truly global implications for developed and developing countries alike.

Engagement of developing countries in the OECD/G20 BEPS Project is therefore important, in particular to ensure they receive appropriate support to address the challenges they face. Through direct participation in the BEPS Project developing countries are providing input at the working and decision-making levels. The specific concerns of developing countries are shaping the solutions to counter BEPS. Intensive dialogue in collaboration with regional organisations is engaging a broader group of developing countries and a new effort is underway to translate the complexity of the BEPS Project into user-friendly guidance and tools for developing countries.

Contribution to the Financing for Development Conference

The Addis Conference provides a critical opportunity to bring together senior level figures from governments, regional tax organisations and civil society to:

1. **Strengthen the understanding of the magnitude and impact BEPS is having on developing countries' capacities to mobilise domestic resources.** Developing countries will highlight their priorities regarding BEPS and express their need for targeted capacity support to address BEPS concerns. It is important to recognise that the risks faced by developing countries from BEPS may be different both in nature and scale to those faced by developed countries. This means that BEPS actions for developing countries may need specific emphases or nuances compared to those most suitable for advanced economies.

2. **Raise global awareness at the highest political level on how the OECD/G20 BEPS Project is tackling BEPS as a collective international effort which stands to assist both developed and developing countries.** In particular, developing countries will have the opportunity to share how they contribute to and benefit from the OECD/G20 BEPS Project, including through the structured dialogue process, regional meetings and capacity building. Partners will also highlight the increasing synergies between joint work by the OECD and the UN to assist developing countries in dealing with BEPS.

3. **Call on the international assistance providers to increase their support to capacity building on BEPS in developing countries,** including developing toolkits and guidance to support the practical implementation of the BEPS measures and other related priority issues for developing countries (wasteful tax incentives, for example) . Currently around 0.2% of Official Development Assistance (excluding the IMF) is estimated to support the development of tax systems in developing countries, despite strong evidence to suggest that international assistance can be a powerful catalyst and lever for domestic resource mobilization. For example, with modest international support, revenue collection from transfer pricing audits in Kenya has doubled from USD 52 million for 2012 to USD 107 million for 2014.

4. **Launch the UN Handbook on Selected Issues in Protecting the Tax Base of Developing Countries.** This handbook draws upon and contributes to the work of the UN Committee of Experts on International Cooperation in Tax Matters and its relevant Subcommittees, including the Subcommittee on BEPS, as well as the work of the OECD project on BEPS, as appropriate, with a view to complementing that work from a capacity development angle. It comprises a collection of papers developed in a novel demand-driven manner taking into account inputs from developing countries.

Partners

The OECD, in partnership with UN-DESA, will organise this side event with support from a geographically wide and diverse coalition of partners including governments, regional tax organisations and civil society.

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