Ensuring a sound tax base in developing countries: Are the current international initiatives sufficient?
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Introduction of the topic and panelist

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Questions

• Pay your taxes where you add the value: Ensuring a sound tax base in developing countries: Are the current international initiatives sufficient?
  1. Are developing economies more vulnerable for base erosion and profit shifting by multinationals than developed economies?
  2. To what extent will the BEPS project also contribute to better and fairer taxation in developing countries?
  3. Should developing countries (also) envisage other measures to raise their tax revenues than those resulting from the BEPS project? What type of measures can we think of?
4. Can developing countries afford to reduce tax incentives for multinationals?
5. Are withholding taxes still a suitable instrument for developing countries?
6. Would developing countries benefit more from a more radical overhaul of the allocation of the tax base between jurisdictions with respect to profits and capital income?
7. If so, which international initiatives could be helpful to this end?
8. Which measures can developing countries take themselves to benefit from international reforms?
Panel

• Ruud de Mooij (International Monetary Fund)
• Jan Loeprick (World Bank Group)
• Nara Monkam (African Tax Administration Forum)
• Aart Roelofsen (Dutch Ministry of Finance)
• Eric Kemmeren (Tilburg University)
Ensuring a sound tax base in developing countries based on the principle of origin (business profits, interest, royalties)

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Principle of origin

• Allocation of tax jurisdiction on income to a state if the income has been created through *a substantial income-producing activity* within the territory of that state

• *Origin* of income:
  Substantial income-producing activity by an *individual*
  N.B. Source ≠ origin

• *Substantial* activity:
  Activity forms an essential and significant part of the activity as a whole
Origin-based distribution rules: interest and debt-claims

- Debtor is originator of the interest income
- Close connection between interest and capital gains on debt-claims
- Origin-based allocation: State in which debtor produces the interest income
- Reduces tension between equity and debt financing
- Mitigates (abusive) rule shopping
- Enhances tax neutrality
- Reduces tax fraud
Origin-based distribution rules: Royalty/capital gains on intangibles

• Royalty to be subdivided
  1. Compensation for write-offs on original market value of intangible property concerned
  2. Compensation for maintaining the intangible property
  3. Compensation for bearing risks
  4. Interest component

• Allocation rules royalty/capital gain
  • Parts 1-3 to substantial activity state of lessor
  • Part 4 (only in royalty) to substantial activity state of lessee
Concluding observations

• Origin-based allocation of income
  • Justified
  • Feasible
  • Improves efficiency of globalizing economies
  • Enables developing states to reduce gap in economic development with developed states
Statement 1

A creditor should be taxed on the received interest in the State where the debtor carries on his entrepreneurial activities.
A creditor should be taxed on the received interest in the State where the debtor carries on his entrepreneurial activities

A. Agree

B. Disagree
A creditor should be taxed on the received interest in the State where the debtor carries on his entrepreneurial activities.

A. Agree

B. Disagree
Royalties should be taxed in the State where the lessor carries on his entrepreneurial activities, with the exception of the interest component, which should be taxed in the State where the lessee carries on his entrepreneurial activities.
Royalties should be taxed in the State where the lessor carries on his entrepreneurial activities, with the exception of the interest component, which should be taxed in the State where the lessee carries on his entrepreneurial activities.

A. Agree

B. Disagree
Royalties should be taxed in the State where the lessor carries on his entrepreneurial activities, with the exception of the interest component, which should be taxed in the State where the lessee carries on his entrepreneurial activities.

A. Agree

B. Disagree

29

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