

**Committee of Experts on International
Cooperation in Tax Matters
Twenty-third session**

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Taxation and Coronavirus disease (COVID-19): pandemic and post-pandemic issues

Summary

This note describes some of the impacts of Covid 19 pandemic on government policy and businesses and highlights some issues raised by the pandemic that may have an effect on countries' domestic resource mobilization (DRM) for financing the Sustainable Development Goals (SDGs).

The purpose of this note is to seek views of Members of the United Nations Tax Committee on substantive issues raised by the pandemic and on a possible role for the committee. If they consider that such a role exists, the note recommends that a decision should be made regarding the creation of small group composed mainly of Committee members that would report back at the 24th session on what possible targeted practical guidance that can be provided by the Committee in a short time frame but will have high value added for developing countries.

Background

1. The Covid-19 pandemic has pushed governments, around the world, to take unprecedented actions to limit the spread of the virus. Those measures include lockdown, curfew, social distancing, shutdown of some businesses and limitation of international travel. Moreover, the pandemic has put pressure on countries to support individuals and businesses by giving subsidies and tax incentives. These efforts have exacerbated debt vulnerabilities and the need to raise additional revenues, particularly for developing countries.

2. Furthermore, during the pandemic period, while in some industries the demand has increased, in others it has completely collapsed. Also, many enterprises have faced contraction of their operations and disruption of supply chains due to lack of people, lack of resources, border closing, stock shortage, sourcing and procurement as well as tariffs. Cash flow management and consideration of payment terms were also an issue. Therefore, some enterprises have reviewed their contractual terms and changed the way they conduct business. Many employees start working virtually, whether from home in the same country as their employer, or in their home country or in other countries where they were forced to stay when travel restrictions were imposed.

3. Movement of people and change of supply chains can have tax consequences. Moreover, the proliferation of incentive regimes in order to promote economy recovery may create opportunities for tax avoidance in the post-covid era. It may also create tax competition between countries and more pressure on some developing countries' tax regimes.

4. Many countries, international and regional organizations, as well as some tax advisory firms, academics, and non-governmental organizations, have issued guidance, created blogs, and organized events on how to tackle issues related to the impact of COVID-19 on taxation. For instance, many countries have issued guidance related to extensions of deadlines, flexible payment plans, suspension of penalties and interest, etc.

5. The Platform for Collaboration on Tax (PCT)¹ has created a web page, updated regularly, that includes tax policy and tax administration knowledge resources from the PCT Partners relevant in the context of the COVID-19 crisis response.² This includes, for example, work done by different PCT Partners on:

- A Guidance on tax treaties and the impact of the COVID-19 pandemic;³
- A Guidance on the transfer pricing implications of the COVID-19 pandemic;⁴
- Special Series notes to help members address the economic effects of COVID-19;⁵

¹ The Platform for Collaboration on Tax is a joint effort launched in April 2016 by the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank Group (WBG)

² <https://www.tax-platform.org/covid19-response>

³ <https://www.oecd.org/coronavirus/policy-responses/updated-guidance-on-tax-treaties-and-the-impact-of-the-covid-19-pandemic-df42be07/>

⁴ <https://www.oecd.org/coronavirus/policy-responses/guidance-on-the-transfer-pricing-implications-of-the-covid-19-pandemic-731a59b0/>

⁵ <https://www.imf.org/en/Publications/SPROLLS/covid19-special-notes>

- A webinar on taxing time: the role of investment incentives in economic recovery and growth;⁶
- A Webinar on the COVID-19 Impact on Transfer Pricing.⁷

6. Regional tax organizations have also carried out activities on the topic. For example:

- The African Tax Administration Forum (ATAF) has released a series of suggested measures that African Revenue Authorities should consider in their responses to the COVID-19 global pandemic;⁸
- The Inter-American Center of Tax Administrations (CIAT) has created a blog to reflect on tax policy measures that can be implemented after the end of the pandemic in the economic recovery phase;⁹
- The CREDAF¹⁰ has organized a webinar on “Post-Covid-19 Taxation: collect more and foster the economic recovery;”¹¹
- The Association of Tax Authorities of the Islamic Countries (ATAIC) and the IMF have organized three virtual seminars (webinars), with a focus on “how to address challenges faced by tax practitioners in the wake of COVID-19.”¹²
- The Commonwealth Association of tax Administrators (CATA) in collaboration with the OECD and the Caribbean Organization for Tax Administrators (COTA) have hosted a virtual meeting on “tax policy and tax administration responses to COVID-19.”¹³
- The Intra-European organisation of Tax Administrations (IOTA) has organized a webinar on “Delivery of e-services to taxpayers affected by COVID-19;”¹⁴
- The Network of Tax Organisations (NTO) has organized a peer-learning session on “Managing tax compliance in the context of Covid-19 pandemic;”¹⁵;
- The Pacific Islands Tax Administrators Association (PITAA) has organized a regional webinar on “improving compliance in the large taxpayer segment.” The event covered topics such as the importance of large taxpayers in reprioritizing revenue collections during COVID-19, key features of an effective large taxpayer compliance strategy and stakeholder relationship management.¹⁶

Issues:

7. Although substantial work has already been done by different actors, a plethora of new tax questions may be raised due to the fact that tax audits have started to be conducted by tax administrations for the COVID-19 period and also with the benefit of hindsight. Because many

⁶ <https://www.worldbank.org/en/events/2021/05/05/taxing-times-the-role-of-incentives-in-economic-recovery-and-growth>

⁷ <https://www.un.org/development/desa/financing/events/un-webinar-covid-19-impact-transfer-pricing>

⁸ <https://www.ataftax.org/ataf-publishes-measures-to-help-manage-the-impact-of-covid-19-on-tax>

⁹ <https://www.ciat.org/tax-measures-in-the-post-covid-19-crisis/?lang=en>

¹⁰ Exchange and Research Centre for Leaders of francophone Tax Administrations

¹¹ <https://credaf.org/en/credaf-webinar-post-covid-19-taxation-collect-more-and-foster-the-economic-recovery/>

¹² <https://www.taxcompact.net/event/covid-19-challenges-faced-tax-systems-wake-covid-19>

¹³ <https://catatax.org/from-the-secretariat/2020/8/1/tax-administration-responses-to-covid-19-caribbean-region-share-experiences>

¹⁴ <https://www.iota-tax.org/event/webinar-delivery-e-services-taxpayers-affected-covid-19>

¹⁵ <https://www.nto.tax/sites/default/files/resources/NTO%20nd%20Webinar%20concept%20and%20programme-.pdf>

¹⁶ <http://www.pitaa.org/pr-01-of-2021-conclusion-of-the-regional-webinar-on-improving-compliance-in-the-large-taxpayer-segment/>

countries follow the United Nations Model Double Taxation Convention between Developed and Developing Countries (the UN Model), there may be a need for similar clarifications in interpreting provisions that are unique to the UN Model. For example, **Covid constraints -- quarantine or travel restrictions, or feeling of being unsafe to travel during the Covid-19 pandemic etc.** -- implicate provisions involving thresholds that rely on physical location, mainly:

- Article 5 on permanent establishment (PE), namely in cases of:
 - a building site, construction, assembly or installation project or supervisory activities in connection therewith exceed six months; or
 - the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose for a period exceeding 183 days in the last 12 months commencing or ending in the fiscal year.
- Article 14 on independent personal services in cases where a resident of a contracting State performing professional services or other activities of an independent character stay in the other contracting State for a period exceeding 183 days in the last 12 months commencing or ending in the fiscal year.
- Article 15 on income from employment on the issue of taxing right: in cases where an individual who is resident in one State and excised an employment in another contracting State but exceed the aggregate 183 days threshold in any twelve-month period commencing or ending in the fiscal year.

8. Moreover, the COVID-19 pandemic has brought about many transfer pricing challenges, as highlighted in the issue note on transfer pricing ([E/C.18/2021/CRP.24](#)) that recommends that work on this topic would be undertaken by a potential Transfer Pricing Subcommittee.

9. In addition, to the above-mentioned issues, as the pandemic accelerated the shift to e-commerce, challenges have grown regarding the application of value added tax, namely regarding tax collection.¹⁷ The Committee may consider undertaking work on the application of value added tax to electronic transactions (please note that Indirect Taxes, other than health taxes, are addressed in a separate conference paper ([E/C.18/2021/CRP.34](#))).

10. Also, with the demand increase in some industries and the proliferation of tax incentives to promote the economy, some enterprises may take advantage of lack of examination of tax incentives in some countries and do some tax planning by receiving subsidies from government while distributing dividends to their shareholders. Hence the issue of considering solidarity and wealth taxes as pointed out in the issue note on that topic ([E/C.18/2021/CRP.33](#)).

Possible Value addition of the UN Tax Committee

11. Although substantial work has already been carried out by different actors as mentioned above, with the benefit of hindsight and the diversity of experiences, exposures and perspectives brought to the UN Tax Committee by its Members, the Committee could explore working on new practical guidance on taxation and Coronavirus disease. Such guidance would take advantage of the value addition that the Committee could provide. This value-added lies in:

¹⁷ <https://www.oecd.org/tax/tax-global/tax-co-operation-for-development-progress-report-on-2020.pdf>

- the keen responsibility of keeping under review and updating, as necessary, the UN Model as well as the Manual on Transfer Pricing, as it is stipulated in its mandate;
- the special attention to developing countries and countries with economies in transition, especially for new and emerging issues as it is indicated in the Committee mandate;
- the diversity and the equitable geographical distribution of its Members representing different tax systems, while serving in their personal capacities.

Recommendations

Considering the possible value addition of the Committee in this area, the Committee is asked to decide whether it would like to explore work on taxation and the coronavirus disease and, if so, as the next step, to decide whether to establish a small group with a mandate to:

- identify gaps not covered by existing guidance where possible targeted practical guidance can be provided by the Committee in a short time frame but will have high value added for developing countries; and
- report back its activities and recommendations at the 24th session of the Committee.

In undertaking its work, the small group should be comprised of Committee Members, observers from tax administrations or Ministries of Finance as well as members from international and regional organizations.

The main benefit of such a small group (rather than a Subcommittee) would be its efficiency and effectiveness in producing outputs within a short period of time.