Permanent Mission of Canada
to the United Nations

Mission permanente du Canada
auprès de l'Organisation des Nations Unies

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The Permanent Mission of Canada to the United Nations presents its compliments to the Financing for Sustainable Development Office of the Department of Economic and Social Affairs, and has the honour to refer to Note DESA-23/00487 of 27 February 2023 requesting the input of Member States to the Secretary General's report analyzing all relevant international legal instruments, other documents and recommendations that address international tax cooperation.

The Permanent Mission of Canada to the United Nations further has the honour to transmit, herewith, the Government of Canada's submission to this request. The Government of Canada supports the need for international cooperation to ensure fair and effective taxation and encourages the Secretary General's report to examine how the United Nations can add value through collaboration with existing tax cooperation processes.

The Permanent Mission of Canada to the United Nations avails itself of this opportunity to renew to the Financing for Sustainable Development Office of the Department of Economic and Social Affairs the assurances of its highest consideration.

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Financing for Sustainable Development Office (FSDO),
Department of Economic and Social Affairs (DESA),
United Nations
New York

Permanent Mission of Canada to the United Nations
Mission permanente du Canada auprès des Nations Unies
New York

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Canada

Promotion of Inclusive and Effective Tax Cooperation at the United Nations

Canada's submission to the call for input for the preparation of the UN Secretary General's Report in response to General Assembly Resolution 77/244

Canada supports the need for international cooperation to ensure fair and effective taxation, which is an important tool for governments around the world to ensure the delivery of essential public goods and services. Canada appreciates the desire among many countries, in particular developing countries, for international tax arrangements that would better help harness taxation to support development efforts.

Background on international tax co-operation and the resolution

During the voting process on this resolution last fall, Canada noted that existing institutional arrangements for tax co-operation have considerably broadened and improved to enable the effective involvement of all interested countries. This includes the OECD, which in recent years has developed new and global formats to address the challenges of tax coordination.

Under the leadership of the OECD and the G20, the Global Forum on Transparency and Exchange of Information for Tax Purposes has created new standards for information exchange between tax authorities and helped countries implement them. This cooperation has effectively ended bank secrecy and ensured that money cannot be hidden in other jurisdictions. Today, the Global Forum has 166 members.

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) was established in 2016 to address corporate tax avoidance and harmful tax practices and ensure that all interested jurisdictions can participate on an equal footing in the development of BEPS standards. As of today, 142 members, including a large number of developing countries, have joined this work. Canada welcomes this broad participation. The Inclusive Framework continues to grow as additional countries join, including jurisdictions not separately represented at the UN. The Inclusive Framework operates on a governance basis that ensures all members are on an equal footing. Its decision-making process is based on consensus, which ensures dialogue and bargaining, with the result that the tax standards developed will be implemented by sovereign jurisdictions.

Importantly, countries that are members of the Global Forum and the Inclusive Framework make commitments to implement certain standards regarding tax transparency, addressing tax avoidance, and avoiding harmful tax practices. These are subject to peer reviews to ensure that countries are respecting their commitments and that standards are not mere aspirational goals but are actually implemented.

Impact on existing international taxation initiatives

Given a desire to avoid duplication and fragmentation of efforts, and concerns regarding available resources – both financial and human – it would not be helpful for a new UN process to cover ground already covered by existing processes. Indeed, over 50 member states voted in favour of amendments to the resolution, suggesting widespread concern about some of the directions that may be implied.

The Inclusive Framework is currently working to devise rules to implement a two-pillar plan for international tax reform agreed by 138 countries. This plan is the most ambitious reform of international taxation in a century, and includes changes to ensure a fair tax contribution from large multinational corporations – both on how much tax they pay and where they pay it. These are landmark changes in international tax, with particular benefits for developing countries, including a re-allocation of profit to market jurisdictions based on formulary allocation, simplified approaches to transfer pricing, and a significant reduction in the scope for tax competition.

This process is well underway, with countries already embarking on legislative action to implement a global minimum tax regime under the second pillar. Launching intergovernmental discussions at the UN on new mechanisms for cooperation in the same area could undermine the Inclusive Framework discussions, which are at a critical stage, and divert scarce country resources when they are most needed. The negotiations have been delicate, balancing the interests of a diverse range of countries. They nonetheless remain constructive and inclusive with developing countries, including countries in special situations, actively engaged and helping shape the core rules of the two-pillar plan.

The Inclusive Framework is also aware of the need for significant capacity building work to allow developing countries to fully participate in discussions and benefit from reforms. Work in this area is already well underway through the OECD and partners, including various regional tax organisations.

Timing and the need for thorough consultation

Canada believes that thorough consultation with Member States on the Secretary General's report is essential. We are concerned that the allotted time before the autumn General Assembly will be insufficient to prepare a report that reflects adequate consideration of the existing arrangements and the best avenues for improved cooperation. Most country delegates in New York are non-experts in tax matters and will need to consult with Treasury/Finance and Tax Administration departments in capitals to obtain relevant input. The process for the report should take into account the possibility that it will take more time than is provided for in the resolution to devise a meaningful assessment and action plan. Canada encourages the Secretary General to consult with Member States not only at this preliminary stage but also as the report is being drafted, and to share a draft for comment before it is finalized.

Review of existing legal and institutional arrangements

The Secretary General's report should start with an analysis of what already exists, what has been achieved, and what gaps remain. We recommend a focus on how taxation can help developing countries achieve the Sustainable Development Goals (SDGs). While the taxation of multinational enterprises is often a focus for stakeholders, this is an area already covered by the very active initiatives of the Inclusive Framework outlined above. It will be important that the report identify gap areas with strong potential for domestic resource mobilization.

In responding to the Resolution's request that the report analyse all relevant international legal instruments, other documents, and recommendations that address international tax cooperation, we recommend that it also cover relevant fora and initiatives. Thus the report should cover, at a minimum:

- Bilateral tax treaties to address double taxation and non-taxation
- Bilateral tax information exchange agreements
- Convention on Mutual Administrative Assistance in Tax Matters
- Global Forum Standard for Exchange of Information on Request
- Common Reporting Standard and the Multilateral Competent Authority Agreement for the exchange of information on financial accounts
- Reporting Rules for Digital Platforms
- Crypto-Asset Reporting Framework
- International VAT/GST Guidelines, including with respect to cross-border digital sales
- G20/OECD Inclusive Framework on Base Erosion and Profit Shifting
- BEPS recommendations (e.g., Country by Country reporting)
- Multilateral Instrument on BEPS
- Pillars One and Two
- Financial Action Task Force Recommendations
- Forum on Tax Administration
- The academies on tax crimes and other financial crimes
- Platform for Collaboration on Tax (PCT), a joint initiative of the UN, IMF, WBG, and OECD

- Tax Inspectors Without Borders, a joint initiative of the UN and the OECD
- Knowledge Sharing Platform for Tax Administrations (KSP_{TA})
- Inclusive Forum on Carbon Mitigation Approaches

In addition, as discussed below, the report should expand its focus beyond cross-border taxation. There are more significant opportunities to advance resource mobilization and the SDGs through international cooperation on improved domestic tax policy and administration, beyond corporate income taxation. The report should analyse existing instruments, fora, initiatives, and recommendations in these areas as well.

Recommended directions for the report

We are concerned that the Resolution's call for discussions on a possible international tax cooperation framework or instrument that is developed and agreed upon through a UN intergovernmental process was not preceded by thorough analysis of such an initiative. For example, it is not clear what would be achieved by such an instrument or framework that is not already achieved with other mechanisms. Similarly, the existing architecture of large networks of bilateral tax treaties, tailored to the specific situations of bilateral relationships, is deeply ingrained in the international tax system such that it is difficult to conceive how it could be replaced by a single instrument. This suggests that any analysis of options for strengthening the inclusiveness and effectiveness of international tax cooperation should be pragmatic.

The report should evaluate the extent to which developing countries are able to take advantage of existing tax cooperation mechanisms such as those listed above, and potential avenues to facilitate their participation. Capacity building and aligning with country priorities are both important for greater developing country engagement.

The potential next steps should prioritize building on the existing mechanisms for international tax cooperation, and should focus on how these systems can be improved and how developing countries can better benefit from them, as opposed to proposing competing mechanisms. Any new initiatives should focus on gap areas not currently covered.

The UN Committee of Tax Experts has generated many useful outputs. A close examination of these successes suggests that the Committee's most significant contributions have been focused on the needs of developing countries. The Secretary General's report should recognize that, if the UN attempts to expand and extend its tax work, it may no longer have the ability to maintain this focus. While Resolution 77/244 targets the needs and concerns of developing countries, the UN exists for all of its members, developed countries included. For many international tax issues, there is no one-size-fits-all solution.

The differences between the UN and OECD model tax conventions (MTCs) are an example of this. The UN's MTC is intended for use by developing countries because they perceive the OECD MTC as inappropriate for their needs in some areas. However, the converse is true: the UN MTC is not appropriate for the needs of developed countries in certain respects. It would be ironic if an expanded role at the UN in tax matters were to necessitate a realignment towards rules that work appropriately for both developed and developing countries, thus reducing the UN's focus on developing country tax issues. Instead, the Secretary General report should explore ways to increase the complementarity of the tax work of the UN, the OECD, and other relevant bodies. A possible way forward in this respect could be for the UN to increase its participation in OECD activities, so that complementary UN work can be developed in parallel (rather than only after the OECD work has been completed, as currently often happens).

Closer collaboration between the UN and other relevant bodies can also be helpful in tax capacity building. The UNDP-OECD programme Tax Inspectors Without Borders is a good example of what such partnerships can achieve. The upcoming implementation of the two-pillar solution to the tax challenges of digitalization offers an opportunity to expand these partnerships. The G20/OECD Inclusive Framework currently has the most expertise in these initiatives, while the UN and PCT partners the IMF and WBG have extensive networks with developing countries that will benefit from assistance in implementing them.

The report should also not fall into the trap of exaggerating the importance of international corporate taxation to domestic resource mobilization and meeting the SDGs. For example, value-added taxes play a much more significant role in providing revenues to governments worldwide, and other taxes (including social security contributions and personal income tax) also exceed corporate income tax in importance.[1] An IMF report released in February 2023 pointed out the strong potential for increasing tax revenues offered by value-added tax, excises (which can also correct for negative externalities in the health and environment areas), taxation of extractive industries, increasing progressivity and reducing informality in the personal income tax, and property tax reform. The IMF document also discusses the need for better administration of tax systems for collecting revenues.[2] These are promising areas for promoting the SDGs where the Secretary General report could provide more value added, rather than focusing on international corporate income taxation, where extensive cooperation efforts are already underway.

Resource implications

The report should consider the resources needed for any new initiatives. The most recent public financial statements of the OECD indicate budgeted expenditures on tax programmes of close to €40 million. The OECD also receives in-kind contributions of facilities to support its regional tax work. Consideration of the resource requirements associated with the Secretary General's recommendations will be essential for their credibility. This extends to consideration of human resources; the development and implementation of any recommendations would

[1] Emmanuelle Modica, Sabine Laudage, Michelle Harding. *Domestic Revenue Mobilisation: A new database on tax levels and structures in 80 countries*. OECD Taxation Working Papers No. 36, June 2018, p. 18. Available online at https://doi.org/10.1787/a87feae8-en .

[2] International Monetary Fund. *International Corporate Tax Reform*. February 2023. Available online at https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/06/International-Corporate-Tax-Reform-529240.

take significant involvement by tax experts, who are in short supply and subject to competing priorities.

Conclusion

Let us build upon the successes already achieved in areas like tax transparency and combatting tax avoidance and consider options for improvement in the operation of the existing mechanisms. We encourage the Secretary General's report to examine how the UN can add more value through collaboration with existing processes to advance the interests of developing countries. Another key focus should be to consider how international cooperation regarding the use of value-added and excise taxes, environment-related taxes, resource levies, income and property taxes, and other instruments beyond international corporate income tax can contribute to domestic resource mobilization in support of countries' efforts to meet the Sustainable Development Goals.