UN Framework Convention on International Tax Cooperation – Workstream I Issues Note (27 June 2025)

<u>Position Paper from Brazil</u>

Abstract

This position paper presents Brazil's general comments on the Issues Note dated 27 June 2025, prepared under Workstream I of the Intergovernmental Committee on the Framework Convention on International Tax Cooperation. It focuses in particular on paragraphs 15 and 18 of the note. Brazil welcomes the initiative to consolidate multilateral consensus around key principles governing the allocation of taxing rights and the relationship between taxation and sustainable development. In doing so, this contribution builds on the outcomes of the Brazilian G20 Presidency, notably the G20 Ministerial Declaration on International Tax Cooperation and the Leaders' Declaration adopted in Rio de Janeiro, both adopted in Rio de Janeiro (2024). Brazil advocates for a fairer, more inclusive, and development-oriented international tax order—one that recognizes the value generated in market jurisdictions and places Domestic Resource Mobilization (DRM) at the center of efforts to achieve the Sustainable Development Goals (SDGs).

1. Comments on Paragraph 15 – Fair Allocation of Taxing Rights

Paragraph 15 invites Member States to assess whether the principles outlined in paragraph 14 provide a suitable foundation for defining a commitment to the fair allocation of taxing rights. Brazil welcomes the policy principles and considerations outlined in paragraph 14, and we would like to see reflected other background or structural conditions of developing countries that have to be taken into consideration while interpreting or applying those principles, including:

- tax mix: a heavy reliance on indirect taxation due to limitations in the enforcement of income taxes;

- administrability and enforcement: low audit and compliance capacities when dealing with complex transfer pricing and aggressive tax planning by multinationals;

- balanced negotiations: asymmetric treaty payment flows and bargaining power during the negotiations often resulting in limited source taxing rights or asymmetric tax revenue impacts in efforts to attract foreign investment;

- Chronic fiscal constraints linked to external debt, capital flight, and low DRM capacity;

- Asymmetries in international capital markets, insufficiencies in the global financial safety net, volatility and high interest rates in advanced economies, decreasing levels of ODA, unilateral trade measures and financial restrictions, all compounding an external scenario that brings high debt service costs, promotes instability and further constrains developing countries capacities to strengthen institutions, promote growth and collect revenues; and

- virtual presence: the provision of services and intangibles have been increasingly less reliant on long term physical presence in the source country, reinforcing the importance of taxing income generated within domestic markets.

Brazil expects the UNFCITC to focus on international tax cooperation initiatives that can be effectively implemented and support a stable and predictable international tax system, taking into account the valuable contributions of academia, the business sector and civil society organizations. By using a precautionary approach, we highlight the importance of prioritizing issues that are more likely to garner consensus without neglecting DRM. In the context of this project, DRM is likely to be seen, in most of the specific issues to be addressed in the Brazil as restoring taxing rights and the effectiveness of tax systems or, in other words, as the sovereign right all jurisdictions to effectively exercise their taxing rights in a more balanced international tax order. Additionally and in more concrete terms, as the G20 Leaders 'Declaration (Rio de Janeiro, 2024) reaffirmed, DRM must also pay particular attention to capacity building and to ensuring effective taxation of high-net worth individuals.

The G20 Leaders 'Declaration (Rio de Janeiro, 2024) reaffirms the commitment to strengthening international tax cooperation in ways that support the SDGs and safeguard the policy space needed for countries to adopt fair, progressive, and environmentally responsive tax measures. The Declaration underscores the imperative of enhancing DRM, with particular attention to capacity building for developing countries and to ensuring effective taxation of high-net worth individuals. Cooperation in this regard could involve the exchange of best practices, promotion of dialogue on tax principles, and the development of anti-avoidance mechanisms, including the examination of potentially harmful tax practices.

Brazil therefore encourages the participants in the Intergovernmental Negotiations Committee to adopt a broad understanding of economic activity, incorporating digital value chains and the economic relevance of markets to the Convention. One of the interpretations of the principle of fairness must allow jurisdictions to tax income generated through the use of their infrastructure, consumer base, and economic environment, even where the service provider has no permanent establishment.

2. Comments on Paragraph 18 – Tax Cooperation and Sustainable Development

Paragraph 18 calls for suggestions to enhance the article of the Convention addressing the relationship between international tax cooperation and sustainable development. Brazil strongly supports the inclusion of this dimension and advocates that the article moves beyond declaratory language by incorporating operational and normative principles. Normative principles that should guide this provision include:

- Equitable allocation of taxing rights: International tax rules should recognize the right of all jurisdictions — including developing economies — to effectively tax cross-border economic activities that take place in or target their markets, thereby promoting global fiscal equity;

- Progressivity and redistributive taxation: International tax cooperation should reinforce the role of taxation as a tool for reducing inequalities (SDG 10), promoting inclusive growth, and enabling social protection systems (SDG 1);

- Sovereign fiscal space: Jurisdictions must retain sufficient policy autonomy to design tax systems that are consistent with their development strategies and capable of responding to social and environmental imperatives (SDGs 13 and 16);

- Support for shared sustainable development needs: Tax frameworks should contribute to the financing of collective development priorities, such as climate action, digital inclusion, and public health, among others, in line with the broader 2030 Agenda.

Operational principles should include:

- DRM as a central objective: The Convention and its protocols should prioritize strengthening the capacity of countries — particularly developing ones — to mobilize public revenues in a sustainable and growth-friendly manner (SDG 17.1).

- Impact assessments linked to SDGs: New international tax standards should undergo ex ante and ex post assessments of their impact on SDGs, especially poverty eradication, education, health, and climate financing.

- Institutional capacity building: The Convention should include commitments for technical assistance, knowledge-sharing, and financial support to enable effective implementation by countries with limited fiscal and administrative capacities.

- Inclusive governance and rule-shaping: The institutional design of the Convention should ensure the meaningful participation of developing countries in decision-making, including in agenda-setting, drafting, and revision of tax standards.

- Safeguards against harmful tax practices: Cooperation should include mechanisms to identify, discourage, and address tax regimes and planning structures that undermine DRM or distort the international allocation of taxing rights.

Conclusion

Brazil reiterates its support for a Framework Convention that strengthens the global architecture for international tax cooperation in a manner that is inclusive, development-oriented, and operationally feasible. The Convention should promote fairness in the allocation of taxing rights, support the DRM, and contribute meaningfully to the achievement of the SDGs.

These priorities are aligned with the commitments set forth in the G20 Ministerial Declaration on International Tax Cooperation and the G20 Leaders ’Declaration adopted in Rio de Janeiro in 2024, which emphasize the importance of equitable and transparent tax systems, capacity building for developing countries, and effective taxation of high-net-worth individuals. Brazil remains committed to constructive engagement in the negotiation process and encourages all parties to work towards consensus-based solutions that reflect the realities and priorities of the Global South.