

The People's Republic of China - Written Comments on the Draft Issue Notes for the Working Streams of the Intergovernmental Negotiating Committee on the UN Framework Convention on International Tax Cooperation

We support the establishment of the working streams to facilitate the development of draft text of the UN Framework Convention on International Tax Cooperation (hereinafter referred to as the "Framework Convention") and the two early protocols. We thank the efforts of relevant working streams and participating Member States. We appreciate the progress achieved and will continue to participate in the drafting work to make our due contributions.

We should all strive to develop an inclusive and balanced global convention. In both the current negotiations and future discussions on Framework Convention and protocols, the positions of different Member States with different stages of development should be taken into consideration. Careful discussions and thorough consultations for relevant tax matters are needed, to bridge differences and seek convergence to the greatest extent possible.

I. Regarding the Draft Issue Note on the Framework Convention

The content of the Framework Convention should primarily consist of high-level principles. Detailed and substantive provisions specifying rights and obligations in tax matters should be defined in relevant protocols. The current draft issue note reflects the discussions within the working stream and captures the existing notion among Member States on several "commitments" for the Framework Convention.

II. Regarding the Draft Issue Note on Protocol I

We would like to highlight three aspects for the discussions on the taxation of income derived from cross-border services:

First, the diverse needs of different Member States should be fully respected and considered during the negotiations of Protocol I for such a difficult and intensive matter, to ensure the broader participation among Member States and to develop rules that might be widely acceptable to Member States. **Second**, Member States that have established their domestic tax systems and bilateral tax treaty network based on current international tax rules may expect and seek continuity and stability. When developing new rules in Protocol I, more consideration should be given to the proper coordination and compatibility with, or possible transition pathways for the existing international tax frameworks. **Third**, any new rules for taxing cross-border services should be grounded in a solid theoretical basis and coherent principles. It is a matter of great importance to avoid creating complex or fragmented rules, which will lead to double taxation, over-taxation and tax disputes, and will hinder cross-border

investment and trade.

III. Regarding the Draft Issue Note on Protocol II

The draft issue note has covered the primary barriers to prevention and resolution of tax disputes that Member States encounter, laying an important foundation for the next steps. In terms of the scope, we believe that Protocol II should address only tax disputes involving cross-border transactions and should not extend to mechanisms for the prevention or resolution of purely domestic disputes. And, we support the concept of optionality in designing relevant mechanisms in Protocol II, which will enhance the flexibility of the protocol and encourage broad participation among Member States.