

**Intergovernmental Negotiating Committee on the UN Framework Convention on International
Tax Cooperation Workstream II
Saudi Arabia's written comments**

We thank the Co-Lead for her work in preparing the issues note, which highlights the important discussions in the workstream sessions regarding challenges in taxing cross-border services. We provide Saudi Arabia's comments below that aim to build on this work and highlight areas where we believe further clarity or attention is needed.

Abstract

The note rightly outlines the challenges with taxing cross-border digital services and we encourage further exploration of their evolving nature, including the current issues related to the level playing field. In developing new rules, it is important that the scope remains focused on operating models that are not currently taxed under existing rules, ensuring that the efforts are dedicated towards the most pressing and unresolved challenges.

Furthermore, new nexus rules of taxation of services should be clearly defined, not overly complicated or over generalized to avoid the risk of subjecting irrelevant business models to taxation and would lead to misattribution of profits and create disruption.

Finally, the suggestion to treat goods and services the same way needs further considerations given their characteristics are different.

Workstream II: Taxation of Services

The issues note provides useful overview of how cross-border services are currently being taxed and why possible new rules are needed. However, to support effective drafting of a future protocol, the workstream discussions should further consider and discuss the following:

While paragraph 13 refers to challenges from digital services, the full implications still need to be explored in greater depth. Digitalization has not only changed how services are delivered but also continues to rapidly evolve and create business models that do not align with the current tax systems. Hence, the workstream discussions should not only describe existing issues but should move beyond to anticipate how these models will function in the future, as well as, the workstream discussions should breakdown the types and models of digital services and their specific tax challenges to ensure the rules remain relevant and effective over time.

The note can add more on the current issues related to the level playing field, this creates real competitive distortion and undermines neutrality.

In developing possible new rules, we believe that taxation should be based on demonstrable economic presence in the source country, not merely on access to the market. This is important as the scope should remain focused on operating models that are not currently taxed under existing rules, ensuring that the efforts are dedicated towards the most pressing and unresolved challenges. Namely, novel business models that came as a result of digitalization, as well as conventional ones that are being digitalized.

Furthermore, we believe that any new rules must be linked to a clear scope to avoid over complexities or be overly broad. Also, it is important that new nexus rules avoid capturing cross-border services associated with models that are focused on coordination and administration, where its functions are not directly market specific revenue but rather serve broader operational purposes. If we over complicate or over generalize the nexus of taxation of services, there would be a risk of subjecting irrelevant models to taxation and would lead to misattribution of profits and create disruption. Therefore, it is necessary to differentiate between different models without applying a wide blanket provision on all types of cross-border services.

Finally, we have noted that Paragraph 16 mentions that some jurisdictions see no reason to differentiate between taxation of services and the sales of goods. However, we believe that this requires further examination.