




Coalition for Dialogue on Africa - South Centre Dialogue Series on IFFs

Comparing Tax Revenues to Be Raised by Developing Countries
from the OECD and UN Solutions for Taxing the Digital Economy

Concept Note

 Wednesday 1 June 2022  1500 - 1700 CET / SAST  Virtual Meeting

Register Here: https://us02web.zoom.us/webinar/register/WN_n17Wotf6SGuZL_8Y_Dhc9Q

Webinar ID: 856 4641 8734 Webinar Passcode: 659191

Co-Organized by:



Background

The 1st African Fiscal Policy Forum (AFPF I), co-organized by the Coalition for Dialogue on Africa (CODA) and the South Centre, brought together key stakeholders to discuss the current global processes towards combatting IFFs, re-allocation of taxing rights, the role of African regional institutions, the importance and place of Africa's voice and representation in these processes.

The AFPF I produced a series of Outcomes and Recommendations.¹ Para 13 of the Outcomes is as follows regarding the OECD and UN solutions on digital taxation:

'The two-pillar solution will be a legally binding agreement if signed and ratified. However, it is not a package; each pillar must be signed and ratified separately. Thus far the agreement has been solely political. African and other developing countries must carefully assess and decide whether to sign it or not and should analyze the costs and benefits for each of the pillars. They must compare the benefits from alternatives to Pillar 1 such as Article 12B of the UN Model Tax Convention or unilateral tax measures as well as alternatives to Pillar 2 such as Alternative Minimum Taxes. Article 12B is simple to implement and offers potentially much higher revenue collection for developing countries.'

Para 19 of the Outcomes then goes on to say:

'To provide quantitative information on the potential outcomes of the two-pillar solution and other alternatives, CoDA and South Centre launched a call for papers on studies to assess and quantify the likely impacts of these proposals on the economies of developing countries. This will allow an assessment of the revenue gains from (a) Amount A of Pillar 1 contrasted with revenues from Article 12B (on both gross and net basis approaches) and (b) the expected revenues under Pillar 2. These studies will ideally cover each Member State of the African Union and Member States of the South Centre.'

1. <https://codafrika.org/2021/12/10/first-african-fiscal-policy-forum/>

<https://taxinitiative.southcentre.int/event/first-african-fiscal-policy-forum/>

Objectives of the dialogue

This dialogue is a follow up to and responds to the main call of AFPF I, namely the need to provide the Member States of the African Union (AU) and the South Centre with an assessment of the revenue gains from the OECD and UN digital tax solutions.

It is expected that by July 2022, the Multilateral Convention (MLC) that will give effect to the OECD's solution, Pillar One, will be presented to developing countries for signature. If they agree, they will have to forego all other unilateral measures and restrict their taxing rights to the Pillar One framework. Thus, it is vital that such an important and historic decision be fully informed, especially regarding the alternatives available. The data on revenue impacts is an integral part of such a decision-making process, as policymakers will be able to see which solution will give their countries more revenues.

Further, the Pillar One agreement will have to be ratified in national legislatures. Hence, the support of the larger polity is required. The data showing the impact of the revenue of the countries will enable decisions makers to determine whether such a decision is genuinely in the national interest, and whether alternatives are more suitable instead.

The Dialogue will be organized virtually and the discussions structured around the following two sessions:

Session 1: Presentation of Revenue Assessments for Amount A vs Article 12B

CODA and the South Centre undertook a study and have obtained quantitative data on revenue impacts of the two solutions, Amount A of Pillar One for the OECD and Article 12B for the UN, respectively, for AU and South Centre Member States. This session will hear a presentation of the findings of the study. This is aimed at providing developing countries with the quantitative means to assess for themselves which policy option is more suitable for their countries.

Session 2: Alternative Measures

Pillar One is not the only solution for the developing countries and is fundamentally a redistribution of the taxing rights. Accordingly, it will only work if the developed countries, where the tech giants and large MNEs are based, ratify it. This session of the dialogue will examine:

- Which are the key developed countries whose ratification is essential for Amount A to work?
- Can developing countries be forced to give up their taxing rights by ratifying Pillar One when the developed countries can opt out?
- How can developing countries and their intergovernmental institutions ease the pressure if they wish to reject Pillar One?
- What are the alternative policy options available to the developing countries?
- What is the experience of developing countries in implementing national measures like digital service taxes, significant economic presence and others?
- What is the assessment of Article 12B as a solution?
- What will incentivize the developed countries to agree to include Article 12B into existing tax treaties?
- What is the assessment of the ongoing effort in the UN Tax Committee to multilateralize Article 12B through a UN Multilateral Instrument?

Format and Structure of the Dialogue Series

The dialogue series will be conducted virtually.

Participants in the Dialogue Series

Participants will include high-level officials from ministries of finance, tax administrations, financial intelligence authorities, African central banks and other relevant organisations working on IFFs; experts; African regional organizations including the Regional Economic Communities (RECs); representatives of the private sector, and civil society actors.

Date and Time

1 June 2022, 1500 - 1700 CET / SAST