SPECIAL ISSUE

Analysing the Impact of UN and OECD Subject to Tax Rule for G-24 and South Centre Member States

Suranjali Tandon* **and Chetan Rao**†

* Author is associate professor at the National Institute of Public Finance and Policy, New Delhi
† Author is an officer of the Indian Revenue Service

Abstract

The Subject to Tax Rule (STTR) is meant to address base erosion and profit shifting in cross – border transactions. The United Nations (UN) and Organisation for Economic Co-operation and Development (OECD)/Group of Twenty (G20) Inclusive Framework have developed models of the STTR that countries may choose to adopt in their treaties. This paper provides a review of these designs of two STTR models and proceeds to estimate the revenue gains for the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) and South Centre Member States that may arise from a STTR that covers different kinds of payments. The OECD STTR is limited to related-party payments and imposes thresholds based on mark-up and materiality, reducing its applicability in practice. In contrast, the UN STTR offers broader coverage, applies to both related and unrelated parties, and does not impose restrictive thresholds, making it more administratively feasible for developing countries. Although the estimated gains from the OECD STTR appear modest due to its narrow scope, the UN STTR shows greater potential. The analysis also highlights data limitations and the need for access to microdata for accurate country-level assessments.

Recommended citation: Suranjali Tandon and Chetan Rao**,** *Analysing the Impact of UN and OECD Subject to Tax Rule for G-24 and South Centre Member States,* Special Issue (Geneva and Washington, DC, South Centre and G-24, 2025). Available from https://www.southcentre.int/sc-g-24-special-issue-2-july-2025/.

Keywords: *United Nations (UN), Organisation for Economic Co-operation and Development (OECD), Subject to Tax Rule (STTR), South Centre, Intergovernmental Group of Twenty-Four (G-24), Tax, International Tax, Pillar Two, Global Minimum Tax*

This paper was commissioned by the South Centre and the Intergovernmental Group of Twenty-Four (G-24) as part of the call for papers issued in June 2024. Opinions expressed in the paper and other materials are those of the authors and do not necessarily reflect the position of the South Centre or the G-24. Any mistakes or omissions in this research are the sole responsibility of the authors.

THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT (G-24)

The G-24 coordinates the position of developing countries on monetary and development issues in the deliberations and decisions of the Bretton Woods Institutions (BWI). In particular, the G-24 focuses on issues on the agendas of the International Monetary and Financial Committee (IMFC) and the Development Committee (DC) as well as in other relevant international fora.

SOUTH CENTRE

The South Centre is a permanent intergovernmental organization. It is composed of and accountable to developing country Member States. It conducts policy-oriented research on key policy development issues and supports developing countries to effectively participate in international negotiating processes that are relevant to the achievement of the Sustainable Development Goals (SDGs). The Centre also provides technical assistance and capacity building in areas covered by its work program.

TABLE OF CONTENTS

1. INTRODUCTION 1
2. CONTEXT FOR THE INTRODUCTION OF THE SUBJECT TO TAX RULE..................................... 2
   UN Subject to Tax Rule (UN STTR) 4
3. EVOLUTION OF THE SUBJECT TO TAX RULE.. 5
   OECD STTR Model Provision 8
   UN Subject to Tax Rule 11
   Evaluation of the two STTRs 12
4. ESTIMATION OF REVENUE IMPACT OF STTR 18
   Methodology and database 18
5. CONCLUSION 28

ANNEXURE 29

1. INTRODUCTION

The Subject to Tax Rule (STTR) is a key component of international tax reforms aimed at addressing Base Erosion and Profit Shifting (BEPS) in cross-border transactions. Designed primarily to protect the taxing rights of source countries, the rule allows the imposition of additional taxes on payments that are subject to low or no taxation in the recipient jurisdiction.

STTR evolved within the Organisation for Economic Co-operation and Development (OECD)/ Group of Twenty (G20) Inclusive Framework and was supported by the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) and the South Centre for its importance for curbing treaty-based BEPS risks. The context of its introduction is important for evaluating the proposal, as it defines its purpose. Section 2 therefore details the context. Thereafter in Section 3, differences in design and application between the OECD and United Nations (UN) versions of the STTR are critically examined, with particular attention to their scope, thresholds, and administrative requirements. In section 4, estimates of the revenue impact of both models are presented, focusing on their applicability to treaties and the implications for developing countries. Finally, the paper concludes by comparing the practical utility of the OECD and UN STTRs, offering recommendations for maximizing their effectiveness in safeguarding the tax bases of source countries.

2. Context for the introduction of the Subject to Tax Rule

The OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS), presently consisting of 147 jurisdictions, had been tasked with developing a solution to address the tax challenges arising from the digitalization of the economy[1]. Under the mandate of G20 leaders[2], the Inclusive Framework has worked on two key pillars to overhaul the global tax system:

Pillar One: This has the following two components:

- Amount A is a part of residual profit (25%) of large multinational enterprises (MNEs) having revenue above €20 billion and profitability above 10%, and sales sourced to the market jurisdiction of at least €1 million[3], that can be taxed by market jurisdiction without having a permanent establishment. It is to be implemented by a Multilateral Convention (MLC) for which a draft has been prepared so far and placed in public domain[4].
- Amount B, which is a guidance for determining the Arm's Length Price (ALP) for distribution activities in a jurisdiction, which will modify the OECD transfer pricing guidelines. Presently it is optional, but some countries want Amount B to be mandatory and be linked with Amount A Multilateral Convention (MLC) adoption[5]. Amount B document was released by OECD led Inclusive Framework on 19 February 2024 and updated in June 2024[6].

Pillar Two: This is aimed at taxing income of MNEs that is not taxed or taxed below the minimum rate. It consists of following two set of rules:

- Global Anti-Base Erosion or "GloBE" Rules establish a framework to ensure that multinational enterprises (MNEs) with annual consolidated group revenues of €750 million or more are subject to a minimum effective tax rate of 15% in each jurisdiction where they operate. If the effective tax rate in a jurisdiction falls below this threshold, a top-up tax can be imposed under domestic laws, or alternatively in the parent jurisdiction or the payor jurisdiction, through a coordinated set of interlocking rules[7]: the Income Inclusion Rule (IIR) and the Undertaxed Profit Rule (UTPR). These rules operate in a specific order as

---

[1] In the 2017 G20 Hamburg Leaders' Declaration, the G20 acknowledged the need to address the tax challenges posed by digitalization and provided a clear mandate to the OECD Inclusive Framework on BEPS: "We are also working with the OECD on the tax challenges raised by digitalisation of the economy."

[2] Key Statement from the 2019 G20 Osaka Leaders' Declaration: "We … endorse the ambitious work program that consists of a two-pillar approach, developed by the Inclusive Framework on BEPS, to address the tax challenges arising from the digitalization of the economy and will redouble our efforts for a consensus-based solution with a final report by 2020."

[3] For jurisdictions with a gross domestic product (GDP) below €40 billion, a reduced revenue threshold of €250,000 applies.

[4] Organisation for Economic Co-operation and Development, *Multilateral convention to implement Amount A of Pillar One* (Paris, 2023). Available from https://www.oecd.org/tax/beps/multilateral-convention-to-implement-amount-a-of-pillar-one.pdf.

[5] Currently, Guidance on Amount B is optional. However, it is proposed by some countries primarily the United States, to continue work on Amount B to make it mandatory and they have linked it with Amount A signing. A proposal on Amount B Phase 2 (also called Framework for Amount B) is presently under discussion. For details see IF Co-Chairs' statement providing an update on the progress of Pillar One released on 13th January 2025 and available at https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/pillar-one-update-co-chair-statement-inclusive-framework-on-beps-january-2025.pdf.

[6] Organisation for Economic Co-operation and Development, Pillar One: Amount B fact sheets (2023). Available from https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/cross-border-and-international-tax/pillar-one-amount-b-fact-sheets.pdf.

[7] Organisation for Economic Co-operation and Development, Pillar Two: GloBE rules fact sheets (2023). Available from https://www.oecd.org/tax/beps/pillar-two-GloBE-rules-fact-sheets.pdf.

prescribed in the agreed GloBE Model Rules, ensuring that top-up taxes are allocated across jurisdictions.
- The Subject to Tax Rule (STTR) enables the source country, which may be restricted under a tax treaty from taxing certain income of a multinational enterprise (MNE), to impose a withholding tax if the income is subject to a nominal tax rate of less than 9% in the jurisdiction of the recipient. The STTR primarily targets treaty-based base erosion risks related to payments such as interest, royalties, and other defined categories of income.

The Subject to Tax Rule (also referred to as OECD STTR in the paper) is a treaty-based rule designed to be implemented through either a Multilateral Instrument (MLI) or bilateral negotiations. It aims to safeguard source countries—particularly developing economies—by ensuring they can impose additional taxes on payments like interest, royalties, payments for distribution rights, insurance and reinsurance premiums, fees for financial guarantees and other financing services, rental or payments for the use of industrial, commercial, or scientific equipment, and payments for the provision of services, if these are taxed below a set minimum rate (9%) in the recipient jurisdiction. As a rule, STTR applies to cross-border payments between connected parties and is seen to be aligned to the goal for curbing base erosion where payments flow through low-tax jurisdictions.

On October 8, 2021, the IF issued a statement endorsing the Two-Pillar solution[8], aimed at addressing the tax challenges of digitalization. The statement explicitly acknowledged the importance of the STTR, particularly for developing countries, as it ensures that countries with corporate tax rates for covered payments below 9% implement the STTR into their bilateral treaties when requested by developing IF members. The minimum tax rate for the STTR was set at 9%, and the rule provides the source country the right to apply a top-up tax equal to the difference between the tax rate on the payment and the STTR minimum rate i.e. 9%.

Following extensive negotiations, the OECD STTR Model Provision and Commentary were finalized in June 2023 and approved by the IF in July 2023[9]. The rule applies to payments such as interest, royalties, and services[10] but excludes capital gains. For payments other than interest and royalties, an 8.5% mark-up threshold applies. A materiality threshold limits STTR application to payments exceeding € 1 million in jurisdictions with a gross domestic product (GDP) above € 40 billion, or € 250,000 in smaller economies. To prevent misuse, the STTR incorporates an anti-abuse rule aimed at curbing the manipulation of payments between connected persons to exploit low-tax jurisdictions and evade the minimum tax requirements. This rule particularly addresses cases where covered payments, such as interest, royalties, and service fees, are artificially routed through intermediaries or connected entities in low-tax jurisdictions to avoid taxation in the source country.

The STTR Multilateral Instrument[11] (STTR MLI) was opened for signature in October 2023 which allows countries to amend existing bilateral treaties to incorporate these provisions. The

---

[8] Organisation for Economic Co-operation and Development, "Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy", 8 October 2021. Available from https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.pdf.

[9] Organisation for Economic Co-operation and Development, *Tax Challenges Arising from the Digitalisation of the Economy – Subject to Tax Rule (Pillar Two): Inclusive Framework on BEPS* (Paris, 2023). Available from https://doi.org/10.1787/9afd6856-en.

[10] Payments for distribution rights, insurance and reinsurance premiums, fees for financial guarantees and other financing services, rental or payments for the use of industrial, commercial, or scientific equipment, and payments for the provision of service are included within the scope of STTR.

[11] Organisation for Economic Co-operation and Development, *Multilateral Convention to Facilitate the Implementation of the Pillar Two Subject to Tax Rule* (Paris, 2023). Available from https://www.oecd.org/en/topics/sub-issues/subject-to-tax-rule/multilateral-convention-to-facilitate-the-implementation-of-the-pillar-two-subject-to-tax-rule.html.

MLI is to ensure that the STTR is uniformly implemented across bilateral treaties, preventing treaty shopping and minimizing profit-shifting risks for source countries.

The signing ceremony of the STTR MLI was held on September 19, 2024. Nine countries - Barbados, Belize, Benin, Cabo Verde, the Democratic Republic of the Congo, Indonesia, Romania, San Marino, and Turkiye - signed the STTR MLI[12]. Additionally, Belgium, Bulgaria, Costa Rica, Mongolia, Portugal, Senegal, Seychelles, Thailand, Ukraine, and Uzbekistan have expressed intention to sign the MLI.

UN Subject to Tax Rule (UN STTR)

Parallel to the OECD's efforts, the United Nations (UN) has introduced a Subject to Tax Rule (STTR) as part of its work on the update to the United Nations Model Double Taxation Convention between Developed and Developing Countries. The UN STTR as part of the priority for the UN Tax Committee agenda was approved during the 23rd virtual session of the UN expert committee in October 2021[13], where it was recognized as an issue of impact for the developing countries. The UN STTR was approved at the Twenty-Sixth Session of the Committee of Experts on International Cooperation in Tax Matters[14], reflecting a commitment to enhance the tax rights of source countries, particularly for developing nations. This approval ensures that the STTR will be incorporated into the next update of the UN Model Tax Convention which is expected in 2025. It is proposed to be included in the UN Fast-Track Instrument[15].

It applies to a broad range of payments, including those between both related and unrelated parties, ensuring comprehensive coverage of cross-border transactions. The rule allows flexibility through bilateral negotiations to determine the applicable minimum rate and accommodates specific exemptions that can be mutually agreed upon by treaty partners. It does not impose restrictive thresholds or limits, simplifying its implementation and making it administratively efficient. Relief from double taxation is provided through the residence state under Article 23 of the UN Model, ensuring fairness and consistency.

---

[12] Organisation for Economic Co-operation and Development, Signatories and Parties to the Multilateral Convention to Facilitate the Implementation of the Pillar Two Subject to Tax Rule (2024).
[13] United Nations, *Committee of Experts on International Cooperation in Tax Matters Report on the twenty-third session (virtual session, 19–28 October 2021)*, Economic and Social Council Official Records, 2022, Supplement No. 25, Document no. E/2022/45-E/C.18/2021/4. Available from https://docs.un.org/en/E/C.18/2021/4.
[14] United Nations, *Report on the twenty-sixth session of the Committee of Experts on International Cooperation in Tax Matters*, document E/2023/45/Add.1-E/C.18/2023/2. Available from https://docs.un.org/en/E/2023/45/Add.1.
[15] The UN Fast-Track Instrument (FTI) by the United Nations Tax Committee aimed at streamlining the incorporation of provisions from the UN Model Tax Convention, including the Subject to Tax Rule (STTR), into existing bilateral tax treaties. The FTI provides a simplified mechanism for developing countries to renegotiate treaties with their partners, ensuring quicker adoption of updated international tax rules.

3. EVOLUTION OF THE SUBJECT TO TAX RULE

The STTR was developed as part of a broader effort to combat profit-shifting and base erosion under Pillar Two. It is designed to ensure that source countries, particularly developing economies, can safeguard their tax bases when payments are routed through low-tax jurisdictions. The rule modifies key provisions of bilateral tax treaties to enable withholding taxes and other source-based taxes on under-taxed payments, primarily focusing on interest, royalties, and business profits. It was originally part of the German proposal for minimum tax on MNEs' profits[16].

The foundation of Pillar Two's approach to preventing profit-shifting was laid by the January 2019 Policy Note[17] titled *"Addressing the Tax Challenges of the Digitalisation of the Economy,"* which was approved by the Inclusive Framework. The policy recognized the tax challenges arising from digitalization as part of the broader landscape of BEPS challenges. It emphasized the importance of coordinated multilateral action to prevent a fragmented approach that could lead to harmful tax competition and base erosion. The subject to tax rule, along with the income inclusion rule and tax on base eroding payments, was considered be to part of this coordinated multilateral effort to ensure that low-tax jurisdictions do not drain the tax base of source countries.

The outline of the subject to tax rule was explained in the May 2019 Programme of Work document[18] in which it was discussed under the heading "Tax on base eroding payments". It was supposed to be a mechanism to address base eroding payments that are subject to low or no taxation. Specifically, Paragraph 74 of the document explains that the STTR complements the undertaxed payment rule by subjecting payments to withholding taxes or other taxes at the source when these payments are not sufficiently taxed in the recipient jurisdiction. It goes on to explain that the rule would apply withholding taxes or other taxes at the source and deny treaty benefits for certain items of income, particularly where payments are taxed below an agreed threshold. Specifically, the STTR emphasizes modifications to the scope or operation of several key treaty benefits, prioritizing interest and royalty payments. The modifications were supposed to focus on:

1. Business Profits: This provision would remove the limitation on taxing business profits of non-residents unless they are attributable to a permanent establishment (Article 7 of the OECD Model Convention).
2. Transfer Pricing Adjustments: Addressing the need for corresponding adjustments where another contracting state makes a transfer pricing adjustment (Article 9 of the OECD Model Convention).
3. Dividends, Interest, and Royalties: Modifying the limitations on taxation in the source state concerning dividends (Article 10), interest (Article 11), royalties (Article 12), and capital gains (Article 13) under the OECD Model.
4. Other Income: Adjusting the exclusive taxing rights over other income types to align with the state of residence's tax policy (Article 21).

---

16 Johannes Becker and Joachim Englisch, "The German proposal for an effective minimum tax on MNE profits*",* Kluwer International Tax Blog, 17 January 2019. Available from https://kluwertaxblog.com/2019/01/17/the-german-proposal-for-an-effective-minimum-tax-on-mne-profits/.

17 Organisation for Economic Co-operation and Development, "Addressing the tax challenges of the digitalisation of the economy – Policy Note" (2019). Available from https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/cross-border-and-international-tax/policy-note-beps-inclusive-framework-addressing-tax-challenges-digitalisation.pdf.

18 Organisation for Economic Co-operation and Development, *Programme of work to develop a consensus solution to the tax challenges arising from the digitalisation of the economy* (Paris, 2019). Available from https://doi.org/10.1787/87061b68-en.

It also discussed the key design principles that were to shape the STTR, with a particular focus on ensuring effectiveness, minimizing compliance costs, and avoiding double taxation. This included:

1. Consideration of STTR next to the undertaxed payments rule. It acknowledged the importance of amending bilateral tax treaties to incorporate STTR.
2. A test was proposed to assess when income should be subject to the STTR, taking into account the level of taxation in the recipient country. The design aimed to balance the rule's effectiveness against the compliance burden on taxpayers and tax authorities.
3. A key concern was how withholding taxes would function under the STTR, especially in cases where the effective tax rate in the recipient country was not known at the time the payment was made. This uncertainty presented a risk of double taxation, and the design aimed to mitigate this risk through mechanisms that would provide greater certainty.
4. Initially, the STTR focused on related-party payments (such as between subsidiaries of MNEs), but the document raised the possibility of extending the rule to unrelated parties to address risks in other types of cross-border payments.
5. Consideration of different rule designs based on the type of payments being taxed. While the initial scope of the STTR was supposed to be limited to interest and royalties, the document explored expanding the rule to cover other types of payments—depending on the risks posed by each type of transaction.

On October 8-9, 2020, during a meeting of the OECD/G20 Inclusive Framework, a decision was made to release the Reports on the Pillar One and Pillar Two Blueprints. These reports were accompanied by a cover note acknowledging that, although no formal agreement had been reached, the Blueprints laid a solid foundation for future consensus. The Pillar Two Blueprint[19], primarily focused on the Global Anti-Base Erosion (GloBE) rules, included a chapter on the Subject to Tax Rule (STTR). The Blueprint Report recognized the STTR as a treaty-based rule that complements the GloBE rules by specifically addressing BEPS risks linked to intragroup payments. These payments often exploit low nominal tax rates in the payee jurisdiction, thus undermining the tax base of source countries. It emphasised that STTR was designed to help source jurisdictions counteract such risks and protect their taxing rights. The features of the STTR, as per the Blueprint Report were to include:

- Focus on Source Jurisdictions: The STTR specifically targets the risks posed to source jurisdictions by BEPS structures involving intragroup payments, which often take advantage of low nominal tax rates in the payee's jurisdiction. This emphasis reflects a recognition that source countries should have the right to impose a top-up tax when income benefiting from treaty protections is inadequately taxed.
- Not Revisiting Taxing Rights: Unlike Pillar One, which addresses the allocation of taxing rights between jurisdictions, the STTR is not designed to revisit these fundamental questions. Instead, it focuses on enhancing the taxing rights of source jurisdictions that have ceded some taxing rights under income tax treaties, allowing them to tax income that has not been appropriately taxed due to BEPS practices.
- Application to Covered Payments: The STTR is designed to apply to specific categories of payments that present a greater risk of base erosion, including interest, royalties, and other defined payments. It stated that work undertaken till the publication of the Report had considered payments related to mobile capital, assets, or risks, acknowledging that similar concerns may arise regarding capital gains that are shifted from the source state.

[19] Organisation for Economic Co-operation and Development, *Tax challenges arising from digitalisation – Report on Pillar Two Blueprint: Inclusive Framework on BEPS* (Paris, 2020). Available from https://doi.org/10.1787/abb4c3d1-en.

- Standalone Treaty Provision: The STTR will not be implemented through amendments to the OECD Model Tax Convention governing the allocation of taxing rights over business profits or other income types. Instead, it will take the form of a standalone treaty provision, which allows it to function independently of existing treaty frameworks while addressing specific BEPS risks.

The Blueprint Report outlined the essential design components for the STTR, that it will

- be designed to apply to payments between connected persons, as defined by the OECD and UN Model Tax Conventions.
- target a specific set of payments that present base erosion risks, with further consideration given to expanding its scope to include structures that shift gains to low-tax jurisdictions.
- include a materiality threshold to ensure that the rule is focused, based on factors such as the size of the multinational group and the ratio of covered payments to total expenditures.
- use a nominal tax rate trigger for its application to allow the payer jurisdiction to impose a top-up tax, ensuring payments are taxed up to the minimum rate, coordinated with any existing withholding taxes.

The review of the background documents reveals that STTR is based on the principle that when a source state has ceded its taxing rights on certain payments under a tax treaty, it should have the ability to reclaim some of those rights if the income is taxed, if at all, in the residence state at a rate below the minimum agreed rate. This provision is meant in addressing the issue of contrived cross-border group structures that are designed to artificially shift profits out of source countries. This principle is part of Paragraph 15.2 of the Article 1 Commentary on the OECD Model Tax Convention (2017)[20], which is also referenced in the UN Model Tax Convention (2021)[21]:

“Most of the provisions of tax treaties seek to alleviate double taxation by allocating taxing rights between the two states, and it is assumed that when a state accepts treaty provisions that restrict its right to tax certain income, it generally does so under the understanding that this income will be taxed in the other state.”

By reestablishing taxing rights for the source state in such circumstances, the STTR aims to assist developing countries—especially those with limited administrative capacities—in safeguarding their tax bases and enhancing their revenue collection efforts.

In July 2021, the Inclusive Framework issued a statement[22] that significantly advanced the development of the STTR. This statement recognized that the STTR was primarily designed to address the concerns of developing countries. It emphasized that IF members had agreed to include the STTR in their tax treaties with developing countries upon request. The rule was framed as a top-up tax, which would be limited to the difference between a minimum tax rate of 7.5% to 9% and the tax already imposed on the covered payment. Later, in the October

---

[20] Organisation for Economic Co-operation and Development, *Model tax convention on income and on capital: Condensed version 2017* (Paris), Commentary on Article 1.
[21] United Nations, *United Nations model double taxation convention between developed and developing countries 2021* (New York). Available from https://doi.org/10.18356/9789210001007.
[22] Organisation for Economic Co-operation and Development, “Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy”, 1 July 2021. Available from https://www.oecd.org/en/about/news/announcements/2021/07/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.html.

2021 Inclusive Framework statement[23], the minimum rate for the STTR was fixed at 9%[24]. The IF statement reiterated that members with nominal corporate tax rates below this minimum would implement the STTR in their bilateral treaties with developing country members of the IF when requested.

After further negotiations, the STTR Model Provision and Commentary were finalized by the OECD Working Party 1 in June 2023 and approved by the IF in July 2023[25]. The finalized STTR applies to payments such as interest, royalties, and services[26] between connected parties, though capital gains are excluded. The rule allows the source state to impose a top-up tax if the residence state taxes these payments at an adjusted nominal tax rate below 9%, with a materiality threshold and an 8.5% mark-up for payments other than interest and royalties. Additionally, the Model Provision includes a targeted anti-abuse rule to prevent non-applicability of STTR through back to back arrangements and a partial guardrail to prevent abuse of mark-up threshold.

OECD STTR Model Provision

Taxing Right in the Source State

The STTR restores taxing rights to the source state if income arising in that state is subject to a tax rate below 9% in the contracting state of the payee (i.e., the residence state). The provision is as follows:

"1. Where, in accordance with the provisions of Articles 7, 11, 12, and 21, the tax that may be charged in a Contracting State on an item of covered income arising in that State is limited, that income may, notwithstanding those provisions, be taxed in that State if it is subject to a tax rate below 9% in the Contracting State of which the person deriving that income is a resident." (*Paragraph 1*)

This provision applies to Article 7 (business income), Article 11 (interest), Article 12 (royalties), and Article 21 (other income) of the relevant tax treaties. If the residence state either does not tax the income or applies a tax rate lower than 9%, the source state gains the right to impose additional tax on that income.

Taxing Right Limited to a Specified Rate

The source state's additional taxing rights are limited to the "specified rate," calculated as the difference between 9% and the tax rate applied in the residence state (*Paragraph 2*). Additionally, the calculation accounts for any taxing rights the source state already has under the relevant tax treaty, e.g., any withholding tax applicable as per the tax treaty. Thus, the top-up tax available to the source state is calculated as:

9% - (rate of tax in the residence state) - (taxing rights already available to the source state under the treaty)

---

[23] Organisation for Economic Co-operation and Development, "Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy", 8 October 2021. Available from https://www.oecd.org/en/about/news/announcements/2021/07/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.html.

[24] No rationale was provided for choosing 9% rate and appears to be a negotiated rate.

[25] Organisation for Economic Co-operation and Development, *Tax challenges arising from the digitalisation of the economy – Subject to Tax Rule (Pillar Two): Inclusive Framework on BEPS* (Paris, 2023). Available from https://doi.org/10.1787/9afd6856-en.

[26] The "covered income" includes: interest, royalties, payments for distribution rights, insurance and reinsurance premiums, fees for financial guarantees and other financing services, rental or payments for the use of industrial, commercial, or scientific equipment, and payments for the provision of services.

Covered Income

The STTR applies to the following items of Covered Income (*Paragraph 4*):

i. Interest
ii. Royalties
iii. Payments made for the use of, or the right to use, distribution rights for products or services
iv. Insurance or reinsurance premiums
v. Fees for providing financial guarantees or other financing fees
vi. Rent or any payment for the use of industrial, commercial, or scientific equipment
vii. Income from the provision of services

It is important to note that the definition of "covered income" follows the terms provided in the bilateral treaty between the two states applying the STTR. The STTR does not apply to:

- Payments for the use of a ship for passenger or cargo transportation in international traffic (on a bare boat charter basis) (*Paragraph 4(b)(i)*),
- Income derived by entities taxed based on the tonnage of a ship under the contracting state's laws (*Paragraph 4(b)(ii)*).

Applies Only to Payments Between Connected Persons

The STTR applies only to payments made between connected persons (*Paragraph 10*). A person is considered "connected" to another if:

- One has control over the other, or
- Both are under the control of the same third party.

A person is considered connected if one holds more than 50% of the beneficial interest (or shares/votes) in the other, or a third party holds more than 50% of the beneficial interest in both persons.

Targeted Anti-Avoidance Rule for Connected Persons

The STTR includes a targeted anti-avoidance rule (*Paragraph 11*) to prevent abuse through back-to-back arrangements designed to sever the connection between the payer and the payee. If a covered payment is made to an unconnected intermediary, but the intermediary later pays a connected person in the residence state, the STTR may still apply.

Example:

If SCo (resident in State S) makes a payment of 100 to ACo (a company in State S), and ACo subsequently pays 99.5 to RCo (a connected party in State R with a tax rate below 9%), the STTR would apply to the 99.5 payment, treating it as covered income arising in State S.

Exclusions from Covered Income

The STTR excludes income arising in a contracting state and derived by an individual, a recognized pension fund, a non-profit organization, the state itself, state-owned entities, international organizations, and certain professionally managed investment vehicles (*Paragraph 8*). These exclusions are justified as these entities are often not subject to domestic tax for policy reasons (e.g., single-layer taxation for retirement plans).

Meaning of "Tax Rate"

The "tax rate" for the purpose of the STTR is defined as the statutory rate of tax applicable to the income in the residence state (*Paragraph 5*). If the resident enjoys any preferential adjustment (such as a tax exemption or deduction), the tax rate is adjusted to reflect this. The starting point for determining the tax rate is the rate applicable to the net income of the resident. If preferential treatment exists (e.g., exemptions or deductions), the tax rate is recalculated to reflect the actual rate applicable to the covered income.

Preferential Adjustments

A preferential adjustment is a permanent reduction in the amount of covered income subject to tax (*Paragraph 6*), such as:

- Exemptions or deductions,
- Tax credits (excluding foreign tax credits).

Preferential regimes typically apply to specific types of geographically mobile income, such as royalties, interest, insurance premiums, or fees for services.

For example, if a company in State R enjoys an 80% exemption on qualifying income, the adjusted nominal tax rate is calculated as statutory rate × (100% - exemption).

Mark-Up Threshold[27]

For payments other than royalties and interest, the STTR does not apply if the income only reflects a mark-up of 8.5% or less over direct and indirect costs (*Paragraph 9*). The justification for the inclusion of a markup threshold is based on the need to efficiently manage low-risk transactions while focusing on higher BEPS risks. To prevent abuse of the mark-up threshold, an anti-abuse guardrail has been introduced. If a connected third party provides the services but is taxed below 9%, the costs passed on will be disregarded if they exceed 80% of the total costs. (*Paragraph 9(c)*)

Materiality Threshold

The STTR will not apply unless payments exceed a materiality threshold. For countries with GDP over € 40 billion, the threshold is € 1 million. For smaller economies, the threshold is € 250,000 (*Paragraph 12*).

Administration of STTR

The STTR will be administered ex-post, based on an annualized charge (*Paragraph 14*). This ensures that compliance takes into account preferential tax adjustments or other relevant factors.

Elimination of Double Taxation

The STTR restores taxing rights to the source state and does not remove any taxing rights from the residence state. Therefore, the residence state is not obligated to eliminate double

[27] India has conveyed its reservations in respect of the inclusion and rate of Mark-up threshold, and the ineffectiveness of the guardrails, which have been recorded as a footnote in the STTR Model Provision and Commentary, approved by the Inclusive Framework in July 2023. The reservation is reproduced herewith: “India wishes to record its reservation on the mark-up percentage which it considers too high and it finds the guardrails ineffective. However, India has no objection to the approval and subsequent publication of this document to enable jurisdictions to join the MLI on STTR/incorporating STTR in their tax treaties.”

taxation resulting from the STTR. Taxes paid under the STTR will be factored into the Effective Tax Rate (ETR) calculations under the GloBE rules.

UN Subject to Tax Rule

The UN STTR was approved in March 2023 at the Twenty-Sixth Session of the Committee of Experts on International Cooperation in Tax Matters[28]. As discussed earlier, the model provision is added to the United Nations Model Double Taxation Convention between Developed and Developing Countries (UN Model) and will be included in the 2025 update.

Core Features of the UN STTR

1. **Secondary Taxing Right:**
   The STTR grants the source state a secondary taxing right if the residence state fails to impose a minimum level of tax on income derived by a resident of the other state. This is a safeguard against double non-taxation scenarios where income is not taxed in either the source or residence state.

2. **Bilaterally Negotiated Threshold Rate:**
   The STTR requires countries to negotiate the minimum tax rate below which income is considered subject to low taxation in the residence state. This flexibility allows countries to tailor the rule to their specific circumstances and economic priorities.

3. **Broad Scope:**
   The UN STTR applies to all types of income, not just specific categories like interest or royalties. This ensures a comprehensive approach to preventing double non-taxation.

4. **Exemptions:**
   The STTR allows for certain exemptions to be negotiated bilaterally. This flexibility can accommodate specific needs or concerns of the countries involved.

5. **Unrelated Party Payments:**
   The STTR is not limited to related-party transactions. This means it can address double non-taxation issues arising from transactions between unrelated parties.

6. **Consideration of Exemptions and Deductions:**
   The STTR requires consideration of exemptions, deductions, or special preferential regimes that may reduce the effective tax rate in the residence state. This ensures that the rule is applied fairly and consistently.

7. **Relief Mechanism:**
   Ensures that the residence state provides relief from double taxation under Article 23 of the UN Model, aligning with international standards for tax fairness.

8. **Placement within the UN Model:**
   The STTR is introduced as a new paragraph under Article 1 of the UN Model, reinforcing its compatibility with existing treaty provisions.

9. **Administration Through the Fast-Track Instrument (FTI):**

[28] United Nations, *Report on the twenty-sixth session of the Committee of Experts on International Cooperation in Tax Matters*, document E/2023/45/Add.1-E/C.18/2023/2. Available from https://undocs.org/E/2023/45/Add.1.

The UN STTR is proposed to be included in the FTI, a streamlined mechanism for amending bilateral double tax agreements. This aims to facilitate the efficient implementation of the STTR.

Evaluation of the two STTRs

In their 2023 brief, Chowdhary and Diasso[29] critically assess the design limitations of the STTR under the OECD/G20 Pillar Two framework, emphasizing that the rule has deviated from its original goal of being broad and straightforward to operate. A major limitation, according to them, is the low tax rate of 9%, which significantly reduces the rule's utility for developing countries. These countries typically have higher withholding tax rates in their tax treaties—ranging from 10% to 15%—and had advocated for a minimum rate of 20-25%. The 9% rate was set low to align with the overall Pillar Two rate of 15%, but the brief argues that this will yield minimal additional revenue for developing countries. A higher minimum rate could have allowed the STTR to be set at a more advantageous level, comparable to the withholding tax rates in many developing countries' treaties, and thus, would have been more effective in raising revenues.

The brief emphasizes that developing countries, through the Group of Twenty-Four (G-24), had called for the inclusion of all service fees and capital gains under the rule. The authors note that while the GloBE rules already include portfolio gains in their tax base, this mainly benefits residence countries, which are predominantly developed nations. The brief argues that the same principle should apply comprehensively across Pillar Two, including the STTR, to ensure that source countries—primarily developing nations—retain the first right of taxation, especially regarding capital gains. This would allow developing countries to protect their tax bases more effectively and capture revenues from income generated within their jurisdictions.

Another key design flaw, according to the brief, is the limitation to related parties or connected persons. The authors point out that this restriction is unnecessary, as base-eroding payments can occur even between unrelated parties. This is demonstrated in other BEPS measures, such as Action 4 on thin capitalization, which does not limit its application to related parties. Furthermore, the administration of the connected persons test is described as overly complex and resource-intensive for tax administrations, especially in developing countries with limited administrative capacity. The brief also critiques the low-return exclusion, which excludes certain payments from the STTR's scope based on their profitability. According to the authors, this is an unnecessary restriction, as base erosion should be addressed regardless of the return on payments, especially in service sectors where erosion risks persist regardless of profit margins.

Brian J. Arnold's article, "Earth to OECD: You Must Be Joking – The Subject To Tax Rule of Pillar Two," published in the *Bulletin for International Taxation* in February 2024[30], offers a critical analysis of the STTR and its potential implications for developing countries.

Arnold argues that the STTR's benefits for developing countries are uncertain and may be minimal. While the STTR aims to prevent base erosion and profit shifting by allowing source countries to tax certain income that is subject to low taxation in the residence state, its application is complex and constrained by numerous limitations. One key limitation is that the STTR only applies to developing countries that have a tax treaty with a developed country. Even then, a developed country can avoid the STTR by raising its corporate tax rate to 9% or

[29] Abdul Muheet Chowdhary and Sebastien Babou Diasso, "Enforcing secondary taxing rights: Subject to tax rule in the UN model tax convention", Tax Cooperation Policy Brief No. 30 (Geneva, South Centre, 2023). Available from https://www.southcentre.int/tax-cooperation-policy-brief-30-25-march-2023/.

[30] Brian J. Arnold, "Earth to OECD: You must be joking — The Subject to Tax Rule of Pillar Two", *Bulletin for International Taxation*, Vol. 78, No. 2 (2024).

more. This means many developing countries may not see any significant additional tax revenue from the STTR.

Another limitation is the administrative burden associated with implementing the STTR. Developing countries would need to identify relevant tax treaties, analyze their own tax systems and those of their treaty partners, and establish administrative procedures to collect and manage the STTR tax. These costs could outweigh any potential benefits.

Furthermore, the STTR has a narrow scope, excluding certain types of income and requiring complex calculations to determine eligibility. The article emphasizes that the STTR is likely to result in little to no additional tax revenue for developing countries and may even impose significant administrative burdens.

In conclusion, Arnold's analysis suggests that the OECD STTR may not be as beneficial for developing countries as portrayed. The complex requirements, limited scope, and potential for developed countries to circumvent the STTR's application raise concerns about its effectiveness in addressing base erosion and profit shifting in these jurisdictions.

In their article "A Tale of Two STTRs" (2024), Picciotto, Kadet, and Michel[31] provide a critical evaluation of the differences between the OECD STTR and the UN Model STTR, focusing on how these rules affect source taxation. They identify a key distinction in the treatment of services income. The OECD STTR restricts the source country's ability to tax this income by requiring two conditions: the payment must be made to a connected person, and the income must exceed an 8.5% mark-up over direct and indirect costs. This restrictive scope, they argue, limits the rule's effectiveness in addressing profit shifting and base erosion, particularly for services such as digital services, which are often provided without a physical presence in the source country. These restrictions create loopholes that disadvantage developing countries, where cross-border service payments are a significant source of revenue leakage.

The OECD STTR also incorporates a targeted anti-avoidance rule to address back-to-back arrangements, where intermediaries in higher-tax jurisdictions are used to channel payments to low-tax jurisdictions. While this safeguard is intended to capture the ultimate low-taxed beneficiary, the authors note that it introduces complexity and interpretative challenges, particularly for under-resourced tax administrations. The OECD STTR's exclusions—such as unrelated-party payments, software payments, and other categories of digitalized income—further diminish its applicability and effectiveness.

By contrast, the UN STTR offers a broader and simpler framework, applicable to all payments, whether to related or unrelated parties, without requiring materiality thresholds or mark-up conditions. It allows the source country to tax income arising within its jurisdiction if the residence state taxes it below the agreed minimum rate, ensuring that taxing rights are not undermined by preferential regimes in residence countries. The UN STTR's straightforward design makes it administratively feasible for developing countries, though its implementation depends on bilateral treaty negotiations or adoption through the UN Fast-Track Instrument.

The authors conclude that while the OECD STTR aligns with the Inclusive Framework's broader goals under Pillar Two, its restrictive scope and complexity undermine its utility for developing countries. The UN STTR, with its broader applicability and administrative simplicity, is better suited for safeguarding source taxation rights and addressing base erosion. They advocate for developing countries to prioritize the adoption of the UN STTR to protect their tax bases and ensure equitable taxation of cross-border income.

---

[31] Sol Picciotto, Jeffery M. Kadet, and Bob Michel*, "*A Tale of Two Subject-to-Tax Rules*", Tax Notes International,* 4 March 2024. Available from https://www.taxnotes.com/special-reports/oecd-pillar-2-global-minimum-tax/tale-two-subject-tax-rules/2024/03/01/7j7z2.

The Independent Commission for the Reform of International Corporate Taxation (ICRICT) published a report on STTR in August 2024[32].The report analyzes the two prevailing STTR models and their potential impact on developing countries.

The ICRICT argues that the OECD's STTR proposal offers limited benefits for developing nations due to its narrow scope. The OECD version excludes several categories of income from its purview, such as payments to unrelated parties, income below a certain profitability threshold, and software usage fees. This restricted approach, according to the ICRICT, allows for continued erosion of developing countries' tax bases through various loopholes. Additionally, the International Monetary Fund (IMF) estimates that the OECD STTR would impact only a small fraction of existing tax treaties, resulting in minimal revenue gains for developing countries.

In contrast, the ICRICT finds the UN STTR to be a more favorable option. It has broader applicability, encompassing a wider range of income types and eliminating administrative complexities associated with deferred application. The report emphasizes that the UN STTR empowers developing countries by offering them more leverage during bilateral tax treaty negotiations. The ICRICT recommends that developing countries prioritize adopting the UN STTR model in their treaties. It also suggests implementing domestic measures to disallow tax deductions for payments directed to low-tax jurisdictions. Finally, the report urges developing countries to review their existing tax treaties to identify those facilitating tax base erosion and consider renegotiation or termination of such agreements.

The African Tax Administration Forum (ATAF) conducted a comprehensive analysis of the OECD and UN STTR to assess their implications for African nations, which primarily serve as source jurisdictions. The ATAF report[33] emphasizes that African countries, being net importers of capital, are at risk of tax base erosion due to low or no taxation in residence countries on payments such as interest, royalties, and service fees. The OECD STTR, set at a 9% minimum rate, covers a limited scope of payments and is applicable only to transactions between connected entities. The rule permits source countries to impose additional tax on covered income if the effective tax rate in the residence state falls below the threshold. However, this rule excludes many payments, including those to unrelated parties and software fees, limiting its effectiveness for African nations.

In contrast, the UN STTR is broader and allows for taxation of a wider range of income categories, including payments to both related and unrelated parties, without materiality or mark-up thresholds. ATAF notes that the UN model is administratively simpler, as it requires tax to be applied immediately when payments are made, avoiding the complexities of the OECD's ex-post approach. While the UN STTR's application depends on bilateral negotiations, ATAF suggests it may offer better protection for African tax bases due to its wider applicability and straightforward administration.

The ATAF report concludes that African countries might benefit more from the UN STTR's broader scope and simplicity, while also recommending domestic measures to prevent deductions for payments to low-tax jurisdictions. Additionally, it encourages African countries to review and renegotiate tax treaties that enable base erosion through low tax payments.

[32] Independent Commission for the Reform of International Corporate Taxation, "The subject to tax rule: A comparison of the OECD and UN versions" (August 2024). Available from https://www.icrict.com/wp-content/uploads/2024/09/Subject_to_Tax_Rule_OECD_vs_UN.pdf.
[33] African Tax Administration Forum, Technical analysis of the Inclusive Framework and United Nations Subject to Tax Rule*s* (2024).

Antonia Strachey's paper, *The Subject-to-Tax Rule in East Africa: Is It Worth It?*[34], provides a nuanced comparison between the OECD and UN STTRs, emphasizing their implications for East African countries. Strachey highlights that the OECD STTR, while integrated into the broader Pillar Two framework, is narrowly scoped. It applies only to payments between connected parties, imposes profitability and materiality thresholds, and caps the minimum withholding rate at 9%. This limited design, coupled with its administrative complexity, makes it challenging for countries with low administrative capacities to benefit significantly from the OECD STTR.

In contrast, the UN STTR is lauded for its broader applicability and simplicity, including payments to unrelated parties and avoiding restrictive thresholds. The paper argues that the UN STTR better suits the tax needs of developing countries, offering more autonomy to protect their tax bases. However, Strachey notes that the bilateral negotiation process required for implementing the UN STTR could be time-intensive for countries with limited resources. Ultimately, the analysis underscores that the OECD STTR may fall short in addressing base erosion risks in the region, whereas the UN STTR holds greater potential for supporting source taxation rights.

The paper by Das and Tayal (2024)[35] provides a comparative analysis of the OECD and UN STTR, focusing on their implications for developing countries. The authors highlight significant differences between the two models. The OECD STTR has a narrow scope, covering only payments between connected parties and excluding income below a certain profitability threshold. Additionally, its application is limited to specific categories of payments, such as interest and royalties, while excluding broader income types like capital gains. The OECD model also introduces administrative complexities, such as a materiality threshold and ex-post compliance, making it less accessible for developing countries with limited administrative capacities.

In contrast, the UN STTR offers a broader scope, applying to all payments unless explicitly excluded and without requiring profitability thresholds or materiality limits. It also encompasses a wider range of income, including capital gains, and is administratively simpler, requiring immediate application rather than deferred compliance. However, the UN STTR's adoption is contingent on bilateral negotiations, which can be time-intensive. Despite this, the authors argue that the UN STTR better protects the tax bases of developing countries by granting them greater taxing rights and administrative ease.

In this background the key differences between UN and OECD STTR[36] can be tabulated as below:

[34] A. Strachey, "The Subject-to-Tax Rule in East Africa: Is It Worth It?", *World Tax Journal*, Vol. 16, No. 3 (2024). Available from https://doi.org/10.59403/1376n6h.
[35] R. R. Das and S. Tayal, "Comparing two subject to tax rules: The United Nations vs. the OECD/Inclusive Framework – Which version is better for developing countries?", *Bulletin for International Taxation*, Vol. 78, No. 12 (2024). Available from https://doi.org/10.59403/1gvea4.
[36] The table is based on the August 2024 Report by the Independent Commission for the Reform of International Corporate Taxation (ICRICT) and Das & Tayal (2024).

Table 1: Comparison of UN and OECD STTR

Criteria	UN STTR	OECD STTR
Scope of Payments	Applies to all payments unless explicitly excluded	Limited to specific payments: interest, royalties, insurance premiums, financial guarantee fees, rent for equipment, and service fees
Applicability to Related/Unrelated Parties	Applies to both related and unrelated parties	Limited to payments between related parties
Nominal Tax Rate Threshold	Can be decided bilaterally	Triggered when the nominal tax rate in the residence state is below 9%; adjusted rates for preferential regimes considered
Mark-Up Threshold	Not applicable	Does not apply when payments result in a markup on cost of 8.5% or less in the residence state in case of all covered incomes except interest and royalties
Administrative Complexity	Simpler administration, applies to current payments	Ex-post compliance based on an annual charge
Materiality Threshold	No materiality threshold	Applies for payments exceeding € 1 million (GDP > € 40 billion) or € 250,000 (GDP < € 40 billion)
Relief Mechanism	Source state applies domestic law and bilateral treaty relief; residence state provides relief under Article 23	Residence state not obligated to provide relief
Anti-Avoidance Provisions	Relies on general anti-avoidance rules	Includes targeted anti-avoidance rules to prevent abuse through intermediaries
Circuit Breaker Provision	Not applicable	STTR MLI contains a circuit breaker provision for jurisdictions ceasing to qualify as developing countries
Integration in Tax Model	Will be included in the UN Model Tax Convention	A stand-alone provision not integrated into the OECD Model
Adoption Mechanism	Requires bilateral negotiations; Fast-Track Instrument (FTI) option under development	It can be implemented through Multilateral Instrument (MLI) which is open for signature and has been signed by nine countries or bilateral treaty amendments

Criteria	UN STTR	OECD STTR
Commitment for inclusion on STTR in treaty	No such commitment	The October 2021 statement contains political commitment that members of the IF that apply nominal corporate income tax rates below 9% on the covered income streams would implement the STTR into their bilateral treaties with developing Inclusive Framework members when requested to do so.

As the UN and OECD model STTR vary in scope, it may be useful to check the revenue impact of each of these. The next section presents these findings.

4. Estimation of Revenue Impact of STTR

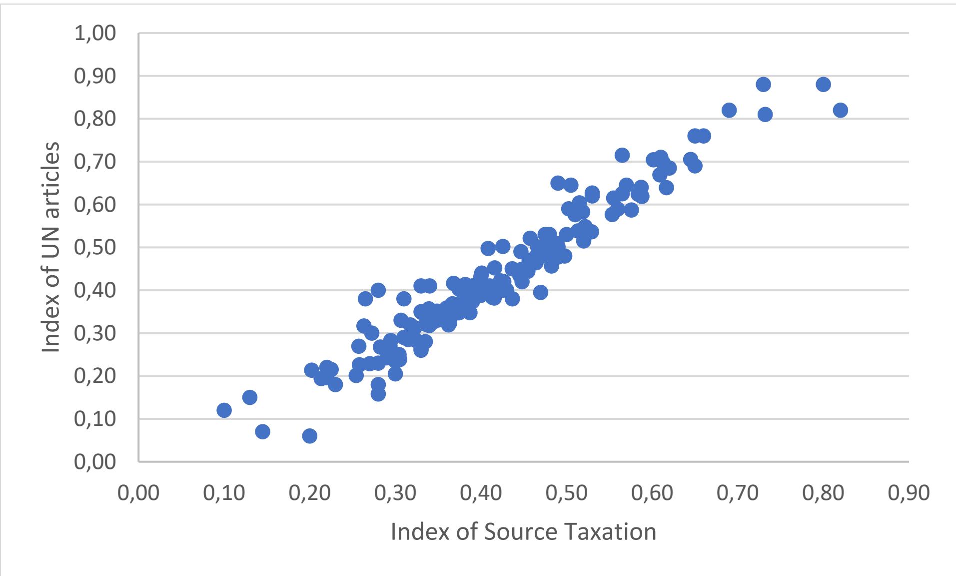
In order to assess the impact of the subject to tax rule, we estimate first the number of treaties that it would be applicable to and thereafter try to estimate the revenue gains from applying UN and OECD model of STTR.

Methodology and database

First, in order to estimate the number of treaties to which the STTR applies the tax treaty explorer database is used to list treaties in force with their respective withholding rates as well as the treatment of capital gains tax. The tax treaty database by the International Centre for Tax Development (ICTD)[37] is used for analyses in the paper. The authors in this paper have focused primarily on countries that are members of G-24 and the South Centre.

Interestingly, the tax treaty database reports an index for source based taxation and treaty provisions that are as per the UN model. It is often argued that greater source based taxation is assured by the inclusion of UN model based treaty language. Figure 1 shows that there is positive correlation between the two - the inclusion of UN based articles are associated with higher source country taxing rights.

Figure 1: Average of Index of UN Based Articles and Index of Source Based Taxation 2021



Source: Based on Tax Treaty Data Explorer, ICTD

The subject to tax rule under the UN model convention, as detailed in the earlier section would cover more heads of incomes as well as extends to unrelated party transactions thus allowing source countries with a higher right to tax. The adoption of UN STTR could be potentially more beneficial to developing countries. In order to assess the impact the adoption of the two versions of STTR can have on the tax revenues, the withholding rates in treaties and corresponding corporate tax rates prevailing in partner countries are analysed. We do not correct the numbers for related party transactions and the mark up threshold, thus the number

[37] International Centre for Tax Development, "Datasets: The Tax Treaties Explorer". Available from https://www.ictd.ac/dataset/tax-treaties-explorer/.

of treaties and the revenue estimates are for the UN STTR. It can be assumed that based on further correction the OECD STTR collections will be lower.

To begin with there are a number of treaties that offer withholding rates that are lower than 9 per cent and at the same time treaties exempt tax treatment of gains from alienation of shares and similar interests (Article 13(4) and (5)). The rates applicable to interest, royalty, technical services fees (note that where the article on royalty includes a section for fees for technical services it is treated as having a Fees for Technical Services (FTS) article) as well as the treatment of capital gains are analysed from the dataset. It may be noted that the tax treaty explorer dataset treats the omission of the article coupled with the inclusion of source country taxing rights at par/similar to the taxation of the incomes. Therefore, the capital gains will be exempt in all cases where the treaty omits such article and no similar right is afforded under income tax laws. Taking simply the tax treaty rates and treatment it is observed that there are a sufficient number of them with rates below 9%. At present, the maximum number of exemptions is for fees from technical services. This would be largely on account of the exclusion of the article.

Table 2: Number of treaties of South Centre and G-24 Countries with withholding rates less than 9 per cent or exempt

Income Type	Number of South Centre and G-24 Countries that have withholding rates less than 9 per cent or exempt the income
Interest	184
Interest (financial institutions)	268
Royalties	210
Royalties (copyright payments)	247
Royalties (use of equipment)	282
Technical service fees	880
Capital gains (land rich companies)[38]	384
Capital gains (other shares)[39]	657

For the OECD STTR to apply, the withholding rates along with corporate tax rate must be less than 9 per cent. Therefore, for treaty pairs we take the relevant withholding rate and the corporate tax rate or capital gains tax applicable on income flows in the state of residence. In a treaty pair there are bilateral flows of incomes and therefore, the corporate tax rate of the relevant partner applies, depending on the direction of flows. Using such criteria it is observed that the number of treaties to which it applies is reduced quite substantially. The list of treaties covered by STTR for incomes other than capital gains are reported in Table A.2 in the Appendix. In order to evaluate this, we look at the share of the countries in world investment flows, which takes into account that the jurisdictions may be used by third parties or may be bilaterally significant for partner countries. Similarly, we calculate the share in services exports.

[38] Art. 13(4) Capital gains (land rich company): Gains from the alienation of shares or comparable interests may be taxed in a Contracting State if these shares or comparable interests derived more than a certain percentage of their value from immovable property situated in that State.

[39] Art. 13(5) Capital gains (other shares): Gains from the alienation of shares in a company, or comparable interests, may be taxed in the Contracting State in which the company is a resident, if the alienator holds more than a certain percentage of the capital of that company or entity.

Table 3: Number of treaty partners with withholding rates less than 9 per cent or exempt and corporate tax rate in state of residence less than 9 per cent for South Centre and G-24 Countries

Income Type	Number of South Centre and G2-4 Countries when minimum rate is 9%	Number of South Centre and G-24 Countries when minimum rate is 15%
Interest	10	35
Interest (financial institutions)	15	40
Royalties	10	32
Royalties (copyright payments)	10	31
Royalties (use of equipment)	11	37
Technical service fees	17	102
Capital gains (land rich companies)	124	304
Capital gains (other shares)	202	502

While it would be of interest to list out the treaties, there are countries that are identifiable as those which tend to have more of treaties with low withholding rates alongside a low corporate tax rate. For example, in the case of interest and royalty, Bahrain, Guernsey and Bermuda have qualifying treaties.

The analysis of the impact of the OECD STTR highlights its limited effectiveness for South Centre and G-24 countries at the current 9% minimum rate. Table 3 shows that relatively few treaties are within the STTR's scope under this threshold. For instance, only 10 treaties apply to interest payments and 10 to royalties when the minimum rate is 9%, while technical service fees are covered in just 17 treaties. Similarly, capital gains derived from land-rich companies are included in only 124 treaties. This narrow scope limits the ability of source countries to effectively address base erosion and profit shifting through the OECD STTR.

The exclusion of capital gains from the scope of the OECD STTR is a notable limitation. Capital gains, particularly those derived from land-rich companies and shares, represent a significant source of potential tax revenue for developing countries. However, the OECD STTR does not address this income type, leaving a gap in its ability to protect source countries' tax bases. This exclusion diminishes the potential gains that could be achieved through broader application of the STTR.

To assess the potential impact of a higher minimum rate, the analysis tested the effects of increasing the threshold to 15%, in line with the GloBE proposal. The results demonstrate a significant increase in the number of treaties to which the STTR would apply. These results indicate that a higher minimum rate substantially enhances the STTR's reach, allowing it to capture a broader range of transactions and increasing its potential to protect source countries' tax revenues.

This expanded analysis demonstrates that the effectiveness of the OECD STTR is heavily influenced by the minimum rate and the scope of income types it covers. While a 9% threshold has limited applicability, raising the rate to 15% significantly improves its coverage, potentially enabling source countries to secure a greater share of tax revenues. Moreover, the exclusion of capital gains in the OECD STTR represents a missed opportunity, as this income type could generate substantial additional revenue for developing nations if included. These findings suggest that both the rate and scope of the STTR are critical considerations for ensuring its relevance and effectiveness for source countries. It is important to note the fact that portfolio capital gains are part of the GloBE taxbase but are not included in STTR inspite of both being part of Pillar Two.

In order to estimate the additional revenue that will be available on account of the application of the STTR, it is possible to take the bilateral trade in services and apply the top up rates. The information on service categories is reported by OECD in its balanced trade in services data[40] and the relevant tax provision is different for each of the services. The treaty provision applicable as per the UN and OECD model is summarised below in Table 4. There are four key differences in both the models. First, the OECD Model explicitly grants no taxing rights to the source state for royalties under Article 12. However the OECD STTR uses the definition of royalty as contained in the treaty so it does not change the taxing right. Second, unlike the UN Model, the OECD Model does not have a specific article for technical services fees. Such income is handled under Article 7 if connected to a permanent establishment (PE) or Article 21 for limited cases thus reducing the source based taxation opportunities. Third, construction projects constitute a PE under Article 5 of the OECD Model if they last more than 12 months, as opposed to the UN Model's 6-month threshold. Lastly, the OECD Model uses Article 21 (Other Income) as a catch-all for income not addressed by specific articles, giving broader reliance on the residence-based taxation principle. While each treaty may have provisions modelled on the UN or OECD model, we do not analyse specifically the wording of the article as the tax gap estimated is based on the withholding and corporate tax rates. In so far as our estimates are concerned the only difference that is possible to account for between the models is that of taxation of fees for technical services, which either exists in a treaty or not.

Table 4: Relevant treaty article for category of services

Service	**Treatment under UN model**	**Treatment under OECD model**
Manufacturing services and repair services	Likely covered under Article 7 (Business Profits) as business activities connected to enterprises.	Taxable under Article 7 (Business Profits) if connected to a permanent establishment (PE) in the source state.
Transport	Sea, Air, and Other Modes; Postal and Courier Services: Covered under Article 8 (International Shipping and Air Transport) for operations in international traffic. Transport not in international traffic may revert to Article 7 (Business Profits) or other applicable articles based on the specifics	Sea, Air, and Other Modes; Postal and Courier Services: Covered under Article 8 (International Shipping and Air Transport) for profits from international traffic. Non-international traffic (e.g., domestic transport) may fall under Article 7 (Business Profits) if linked to a PE.
Acquisition of goods and services, short-term seasonal work	These activities might fall under Article 7 (Business Profits) if connected to a permanent establishment.	Acquisition of goods and services, short-term seasonal work: May fall under Article 7 (Business Profits) if part of a PE's business.
Employment-related services	Might also engage Article 15 (Dependent Personal Services) for taxation.	Employment-related travel income may fall under Article

[40] United Nations Trade and Development (UNCTAD) trade data was incomplete: https://unctad.org/statistics

		15 (Income from Employment).
Personal Travel (health, education, others)	Potentially covered under Article 21 (Other Income) if they do not fall under specific provisions. Otherwise, personal income derived from travel could relate to Article 18 (Pensions and Social Security Payments) in relevant contexts.	Taxation of income derived from these activities is generally addressed under Article 21 (Other Income) unless another specific article applies.
Construction	Specifically addressed under Article 5 (Permanent Establishment) if the construction lasts more than six months; and Article 7/ 12A	Construction activities constitute a PE under Article 5 if they last more than 12 months. Profits are taxable under Article 7 (Business Profits).
Insurance and Pension Services (IPS)	Insurance: If there is a provision for an insurance PE in the treaty, this would be covered under Article 5 (Permanent Establishment), which explicitly addresses insurance activities in certain cases (e.g., premium collection or risk coverage through a PE). Pension payments: Addressed under Article 18 (Pensions and Social Security Payments).	Insurance activities: Taxable under Article 7 (Business Profits) unless connected to a PE, in which case profits are attributed to the PE. Pensions: Specifically addressed under Article 18 (Pensions).
Financial services	FISIM (Financial Intermediation Services Indirectly Measured): Typically connected to Article 7 (Business Profits) unless there is a permanent establishment or other specific rules; and Art. 12A	Profits derived from financial intermediation fall under Article 7 (Business Profits) if linked to a PE.
Charges for Intellectual Property (CIP)	Licenses for research outcomes, software: Covered under Article 12 (Royalties).	Covered under Article 12 (Royalties) if the payment is for the use or right to use intellectual property.
Telecommunications, Computer, and Information Services (TCI):	Telecommunication, software, news agencies: Covered under Article 12A (Fees for Technical Services) or Article 12 (Royalties), depending on whether fees are for technical services or intellectual property use.	Article 12 (Royalties) applies if payments are for intellectual property use. Otherwise, may fall under Article 7 (Business Profits) if linked to a PE.

Other Business Services (OBS)	R&D, management consulting, technical services: Addressed by Article 12A (Fees for Technical Services), particularly for legal, accounting, and management services. If such services are performed through a fixed base, Article 14 (Independent Personal Services) may also apply.	R&D, management consulting, technical services: Income may fall under Article 7 (Business Profits) if attributable to a PE. Services not attributable to a PE may fall under Article 21 (Other Income), as the OECD Model lacks an equivalent to the UN Model's Article 12A (Fees for Technical Services).
Personal, Cultural, and Related Services (PCR)	Audiovisual, health, education: Likely covered under Article 17 (Artistes and Sportspersons) for performance-related income or Article 21 (Other Income) for general taxation of unspecified income.	Audiovisual, health, education: Article 17 (Entertainers and Sportspersons) applies to income from performances. Other services may fall under Article 21 (Other Income) unless connected to a PE, in which case Article 7 (Business Profits) applies.
Government Goods and Services (GGS)	Governed by Article 19 (Government Service), which specifically addresses remuneration and pensions for government service.	Governed by Article 19 (Government Service) for income from remuneration and pensions related to government employment.

For the treaties identified the bilateral trade data specific to services is not available to carry out the computation on the tax gap. However, we have provided the tool, accompanied to this paper as an excel file, to compute the same based on the information available to domestic authorities.

Using the information on bilateral trade in services and the tax treaties database the revenue impact is estimated to be small or insignificant. For one, there are very few treaties of G24 and South Centre countries to which the STTR would apply. In fact, the gain from OECD STTR would be realised if the scope is expanded to apply the rule to capital gains. If the tax rate applicable under OECD STTR were to change to 15 per cent then the number of treaties will increase. As observed, the number of treaties to which it is applicable doubles.

The STTR also applies to related party transactions and has a specific mark-up threshold. In terms of related party transactions only Country by Country Reporting (CbCR) data is available for computation. We compute this for reference for treaty pairs and from the available information, compute this for country pairs as per level of development. It is observed that on an average the share of Related Party Transactions (RPT) in total is about 25 per cent (see Table A.1 in annexure).

The OECD STTR applies to related-party transactions and introduces an 8.5% markup threshold for certain categories of payments, such as service fees and financial guarantee payments. Payments exceeding this threshold are subject to the STTR, while those below it are excluded. Although the 8.5% threshold was designed to focus on higher-margin transactions and minimize administrative burdens for low-margin payments, it significantly limits the STTR's applicability in practice. This threshold, when combined with the complexities of applying safeguards against abuse, raises critical concerns for source countries, particularly those in the developing world. The STTR applies to related party transactions and relies on the 8.5% mark-up threshold to determine its applicability to payments other than royalties and interest. While the threshold is assessed on a case-by-case basis, limited information about transaction margins complicates the practical application of this rule. To address this gap, related party transaction data from the Orbis database was analyzed to estimate margins across different transaction types and regions.

Table 5: Average for companies in North America across years

	Weighted average 3 years before adjustments %	2022 %	2021 %	2020 %
Number of observations (companies)	544	544	544	544
Maximum	4130.61	7300.33	2288.41	3078.3
Upper quartile	166.3	160.08	181.06	148.84
Median	36.34	36.26	36.33	36.22
Lower quartile	14.61	13.39	13.32	12.81
Minimum	0.49	0.12	0.11	0.15
Standard Deviation	281.85	536.73	241.42	222.98

For North America, the analysis in Table 5 shows that the median mark-up consistently exceeds the 8.5% threshold, with a median value of approximately 36% across three years. Only in the case of 8 per cent of companies are margins less than 8.5 per cent which means STTR will apply to a large fraction of the transactions.

Table 6: Average for companies in Asia across years

	Weighted average 3 years before adjustment %	2022 %	2021 %	2020 %
Number of observations (companies)	1929	1929	1929	1928
Maximum	1859834	1631048	3549091	1703715
Upper quartile	29.37	30.1	31.57	27.73
Median	14.04	14.19	13.77	13.22
Lower quartile	7.09	6.76	6.13	6.02
Minimum	0.15	0.11	0	0
Standard Deviation	64452.5	54946.11	122859	66392.17

Although the median mark-up in Asia exceeds 8.5%, 22 per cent of the firms report a mark-up below 8.5%. As shown in Table 6, the median value of margins in Asia are 14.04 per cent for the three years, thus the application of the STTR will be relatively larger for North America. This of course will apply alongside the criterion related to 9 per cent minimum rate.

The 8.5% markup rule is particularly difficult to apply due to the complexity of verifying costs and determining whether payments meet the threshold. Tax administrations, especially in developing countries, often lack the resources and capacity to assess the direct and indirect costs associated with each transaction. This is further compounded by the prevalence of low-value service payments, such as routine back-office functions, in many developing countries. These payments, often characterized by markups as low as 5% (aligned with the OECD BEPS guidelines on low-value-adding services), are excluded under the 8.5% threshold, despite representing significant outbound payments in source countries.

Safeguards to prevent abuse of the markup rule, such as through back-to-back arrangements, add further layers of complexity. Back-to-back arrangements involve routing payments through intermediaries or connected entities in low-tax jurisdictions to artificially inflate costs or avoid meeting the markup threshold. The OECD STTR includes anti-abuse provisions to address such practices, but these safeguards are challenging to enforce. They require a detailed audit trail, robust data-sharing agreements, and significant administrative resources—capabilities that many developing countries lack.

The administrative challenges of applying the markup threshold and enforcing anti-abuse safeguards exacerbate these issues, making the rule less accessible for resource-constrained tax administrations.

The STTR's design raises two critical questions: (1) What minimum rate should apply under the UN model to maximize its relevance for source countries? (2) Are the treaties to which it applies economically significant, i.e., do they involve substantial investment and trade flows? Addressing these questions is essential to ensuring that the STTR delivers meaningful benefits for developing countries, particularly those reliant on treaty partners with significant economic ties.

Assuming that the differential between 9 per cent and the withholding plus corporate taxes applies to all exports and imports, i.e. without the margin and related party transaction filters, the revenue generated from the top up taxes can be calculated. In the case of exports, the relevant tax rates are treaty withholding and corporate tax rate in the exporting country since the incomes against export of services will be credited to the exporting country. In the case of imports, the relevant tax rates are withholding rates and corporate tax rate in the exporting country. Therefore, the top up tax is calculated for the services as follows:

$$Top\ up\ tax\ on\ Export_{ij} = Export_{ij} * (9 - Gross\ tax\ paid)$$

$$Top\ up\ tax\ on\ Import_{ij} = Import_{ij} * (9 - gross\ tax\ rate_j)$$

Gross tax rate = Nominal statutory rate in residence State + treaty withholding rates

The stepwise calculation of the STTR revenues is provided below:

Step wise calculation of the STTR application

- We take the tax treaties from the ICTD tax treaty explorer database. This lists all existing treaty relationships.

- For each of these treaties the withholding rates applicable to specific incomes are mentioned.
- For the purpose of estimating the number of treaties to which the STTR will apply, we select interest, royalty, and capital gains articles of tax treaties.
- The countries have been classified as South Centre and G-24 member countries.
- Thereafter the statutory corporate tax rates are compiled for the pair of countries corresponding to each treaty. This gives a full rate of tax applicable to a transaction.
- In order to select the treaties where the STTR will be applicable the criteria used is that the sum of withholding and statutory corporate tax rate is less than 9 per cent. In order to estimate impact the following method is used - for the treaty between Country X and Y, the withholding rate applicable to the treaty X and the statutory corporate tax rate in Y are added to check if outflows from X to Y are subject to STTR. Similarly, for outflows from Y to X the corporate tax rate prevailing in X and withholding tax rates are added and checked for applicability of STTR.

  The income flows and the applicable tax rates are as follows:

  1. Income: Charges for the use of intellectual property i.e. licences for the use of outcomes of research; and development; licenses to reproduce and/or distribute computer software (CIP)
     Treaty Article: 12(2)C
  2. Income: Telecommunications, computer and information services (TCI)
     Treaty Article: 12(2)C
  3. Other business services (OBS)
     Treaty Article: 12 A

Based on this calculation the estimated revenues from three services - charges for use of intellectual property, telecommunications, computer and information services, and other business services is limited. Applying a further restriction that the transactions are with related parties, these revenues would be reduced to a fourth and a further reduction on account of mark ups being less than 8.5%. There are services that would be taxable in a jurisdiction based on the presence of PE. These services have not been included in the estimates. This applies to services and does not correct for mark-up or RPT and therefore is assumed to be UN version of STTR.

Table 7: Estimated revenues for all countries (in USD million) assuming 9% minimum rate

Service	Revenue from exports of services	Revenue from imports of services
Charges for use of intellectual property	0.026	0.0496
Telecommunications, computer and information services	9.52	0.348
Other business services	7181.09	233.08

Since no correction is made for related party transactions or mark-up it can be presumed that these more closely approximate the UN STTR based estimates. For the purpose of calculation we take both the exports and imports because there are transactions that involve a payment out of and into G-24 or South Centre countries. We may be interested in cases where payments are collected by the developing countries. This would include both sides because there are three kinds of treaty partner pairs - South Centre/G-24 country-developed country, South Centre/G-24-South Centre/G2-4 country pair and developed-developed country pair. Thus export and import side of transaction are important as in the case where both are South Centre/G-24 member countries the top up tax will be collected by a member country. The numbers for export of services and imports of services are not equivalent because it is assumed that the STTR would apply on the side of the transaction where the tax rate is below the minimum. The estimates suggest that countries exporting services would be subject to STTR and many of these would be developed countries. The above estimates are based on 9 per cent rate. The estimates for G-24 and South Centre member countries are reported in the appendix. To explain the computation take the example of CIP exports from Bahrain to Iran. In this case the exports from Bahrain will generate payments to Bahrain. In this case Iran will collect taxes where the withholding rate plus corporate tax is less than 9 per cent. On this basis the treaty has been selected and the revenue generated is the difference between 9 per cent and applicable rates applied to total export revenue.

5. Conclusion

This paper has compared the UN and OECD Subject to Tax Rules (STTR), analyzing their respective scopes, administrative features, and potential revenue impact for South Centre and G-24 countries. The analysis shows that the UN STTR, with its broader scope, coverage of both related and unrelated party transactions, and lack of mark-up and materiality thresholds, is better tailored to the needs of developing countries. In contrast, the OECD STTR is more limited, applying only to payments between connected persons and requiring additional tests—such as the 8.5% mark-up and materiality threshold—which reduce its applicability and revenue potential.

Based on the treaty-level analysis and simulations using balance of payments and service trade data, the UN STTR covers a significantly larger number of treaty scenarios, especially when expanded to include capital gains, which are excluded under the OECD STTR. Tables presented in the annex show that even under a 9% threshold, the OECD STTR applies to a narrow set of treaties, and the addition of mark-up and related party filters further reduces its effective coverage.

Furthermore, the revenue estimates using export-import data for key service categories (such as charges for intellectual property and technical services) indicate that the potential revenue from the OECD STTR is modest at best, particularly when filtered by related-party transactions and profit margins. In contrast, the UN STTR allows a more comprehensive application without needing complex compliance mechanisms.

A critical limitation highlighted in this paper is the restricted nature of publicly available data, particularly the aggregated and anonymized nature of OECD CbCR statistics, which makes precise modeling of STTR impact challenging. Access to microdata—including actual bilateral treaty provisions, related-party data, and profit margins—remains essential for accurate country-level estimates. Countries possess such data and are thus in a much better position to evaluate the true impact of different STTR designs. To support policy decisions, international cooperation on data sharing and analytical capacity building will be crucial.

In sum, while the OECD STTR benefits from multilateral political commitments and implementation mechanisms such as the MLI, the UN STTR provides a more equitable and administratively feasible option for developing countries to safeguard source taxation rights and protect their tax bases from erosion.

ANNEXURE

Table A.1: Developed to Developing Average

Country A	**Country B**	**Related Party Revenue**	**Total Revenue**	**RPR/TR % (rounded off)**
Bulgaria	North Macedonia	1772913	22063461	8.04
Denmark	North Macedonia	1537286	16461924	9.34
Denmark	Ukraine	48380556	744293228	6.5
France	North Macedonia	34179260	97193480	35.17
France	Ukraine	531512396	3566906163	14.9
Germany	Iran	83112000	389801000	21.32
Germany	Moldova	103744000	238575000	43.48
Germany	Kosovo	1720000	66118000	2.6
Germany	Ukraine	754410000	3573324000	21.11
Germany	North Macedonia	554168000	995181000	55.69
Greece	Ukraine	-650748	16809726	-3.87
Italy	Ukraine	13346613	268318480	4.97
Italy	Moldova	11493950	38988132	29.48
Japan	Moldova	100162264	158657906	63.13
Japan	Ukraine	497407594	2342107059	21.24
Luxembourg	North Macedonia	134817	34688199	0.39
Luxembourg	Ukraine	6284367549	9374562091	67.04
Norway	Ukraine	33193000	63405000	52.35
Romania	Ukraine	16881821	47841032	35.29
Spain	Ukraine	14626522	369889669	3.95
Switzerland	Ukraine	2600145894	4076212551	63.79
AVERAGE				**26.47**

Country A	**Country B**	**Related Party Revenue**	**Total Revenue**	**RPR/TR % (rounded off)**
Australia	Philippines	448910228	590309805	76.05
Australia	Mauritius	39546	-114421	-34.56
Australia	Indonesia	17576199	1870220213	0.94
Australia	China	472079972	3019827223	15.63
Australia	India	737675788	1067960940	69.07
Australia	Mexico	523229683	1526845164	34.27
Australia	South Africa	1237173381	3444988481	35.91

Australia	Papua New Guinea	32803682	4299994793	0.76
Australia	Vietnam	104259294	490202467	21.27
Australia	Thailand	114832361	832662136	13.79
Belgium	Morocco	201200000	428600000	46.94
Belgium	Brazil	4806800000	17805100000	27
Belgium	China	9128300000	23215200000	39.32
Belgium	India	283000000	2323200000	12.18
Belgium	Mexico	6936600000	14923400000	46.48
Belgium	South Africa	329100000	3251600000	10.12
Canada	China	9446150000	22182363000	42.58
Canada	Mexico	5543796000	19034657000	29.12
Germany	Ivory Coast	13277000	187025000	7.1
Italy	Ivory Coast	47310	51402392	0.09
France	Ivory Coast	893355721	6069625364	14.72
Denmark	Ghana	40059236	264149814	15.17
Denmark	Kenya	41553427	88799460	46.79
Denmark	Philippines	176120801	431332762	40.83
Denmark	Sri Lanka	62891628	144754897	43.45
Denmark	Tanzania	9695582	13063400	74.22
Denmark	Morocco	238405892	285710929	83.44
Denmark	Indonesia	291237892	802579613	36.29
Denmark	Venezuela	4199985	4409632	95.25
Denmark	Georgia	11350928	66206170	17.14
Denmark	Vietnam	911871660	1755979771	51.93
Denmark	Egypt	156421089	519340811	30.12
Denmark	India	1524779351	3890569467	39.19
Denmark	Mexico	802435548	2696364952	29.76
Denmark	Pakistan	38734456	192936261	20.08
Denmark	South Africa	319353638	2183912746	14.62
Denmark	Tunisia	8302917	12704455	65.35
Denmark	Thailand	1289437434	1912423622	67.42
France	Ghana	138973443	1435893089	9.68
France	Guinea	42176717	1382531709	3.05
France	Kenya	142793059	2099545012	6.8
France	Madagascar	60470212	827315434	7.31
France	Lebanon	47810115	950365686	5.03
France	Togo	33163992	487510117	6.8
France	Indonesia	1387474380	5241522936	26.47
France	Venezuela	917613	83079019	1.1
France	Gabon	1569735414	2554863007	61.44
France	Morocco	5944241926	17837515785	33.32
France	Philippines	1933565022	3207012409	60.29
France	Vietnam	556899057	2768936584	20.11
France	Thailand	2606826406	7124301942	36.59

France	South Africa	625944424	8277328818	7.56
France	India	7184495525	22851711028	31.44
France	Mauritius	187694307	543147293	34.56
France	Mexico	6227895503	22430972337	27.76
France	Senegal	339920509	3665689937	9.27
France	Tunisia	1476112059	2626814485	56.19
Germany	Ghana	27297000	582670000	4.68
Germany	Kenya	74118000	444209000	16.69
Germany	Liberia	0	67286000	0
Germany	Mongolia	0	61861000	0
Germany	Pakistan	88323000	725765000	12.17
Germany	Philippines	1725575000	4088390000	42.21
Germany	Sri Lanka	129094000	316543000	40.78
Germany	Vietnam	1290025000	4309748000	29.93
Germany	Zambia	8976000	45106000	19.9
Germany	Zimbabwe	3189000	25649000	12.43
Germany	Thailand	6072896000	16447653000	36.92
Germany	Morocco	820886000	2311559000	35.51
Germany	South Africa	7760272000	22727144000	34.15
Germany	Trinidad and Tobago	2997000	33190000	9.03
Germany	Indonesia	1723048000	7439824000	23.16
Germany	Namibia	4010000	104389000	3.84
Germany	Venezuela	12391000	758322000	1.63
Germany	India	8077272000	35768145000	22.58
Germany	Kyrgyzstan	0	4035000	0
Germany	Mexico	28443641000	64369800000	44.19
Germany	Syria	597000	8111000	7.36
Germany	Turkmenistan	55000	3118000	1.76
Germany	Tunisia	1037981000	1208259000	85.91
Germany	Mauritius	48330000	-71492000	-67.6
Germany	Uzbekistan	4152000	47707000	8.7
Greece	Uzbekistan	0	10164284	0
Greece	Morocco	0	243789	0
Greece	Tunisia	0	276471	0
Italy	Mozambique	17735694	206166624	8.6
Italy	Pakistan	7500939	104937200	7.15
Italy	Philippines	5039130	262862912	1.92
Italy	Vietnam	415652640	960535488	43.27
Italy	Thailand	159366640	871443008	18.29
Italy	Tunisia	427901408	618219136	69.22
Italy	Venezuela	39423300	97713080	40.35
Italy	South Africa	161037104	796081792	20.23
Italy	Morocco	114554760	256008112	44.75
Italy	Mexico	1518876800	6087292416	24.95

Japan	Morocco	1458480783	1879163154	77.61
Japan	Zambia	107494447	260840474	41.21
Japan	Sri Lanka	112543472	487362080	23.09
Japan	Peru	143746512	2074054474	6.93
Japan	Uzbekistan	0	26770129	0
Japan	Philippines	13432523984	25472992528	52.73
Japan	Vietnam	16995178279	40142306160	42.34
Japan	Thailand	78565701838	1.83E+11	42.93
Japan	Mexico	26452996195	54044345584	48.95
Japan	Pakistan	3281703	1253167939	0.26
Japan	South Africa	1627647747	11515551043	14.13
Luxembourg	Sri Lanka	135976	114295137	0.12
Luxembourg	Morocco	338686982	952359370	35.56
Luxembourg	Trinidad and Tobago	30362	89826058	0.03
Luxembourg	Tunisia	17663668	103090638	17.13
Luxembourg	Vietnam	137521212	599299046	22.95
Luxembourg	Thailand	55747959	767553124	7.26
Luxembourg	South Africa	399747904	5465803761	7.31
Luxembourg	Mauritius	131845039	200903923	65.63
Luxembourg	Mexico	7909662766	24060075126	32.87
Luxembourg	Senegal	14839165	113173340	13.11
Norway	Vietnam	21048000	187685000	11.21
Norway	Thailand	828323000	3310963000	25.02
Norway	Philippines	18436000	198512000	9.29
Norway	South Africa	19866000	408314000	4.87
Portugal	São Tomé and Príncipe	-8272	17485723	-0.05
Portugal	South Africa	7141837	81079424	8.81
Portugal	Tunisia	13350033	79971313	16.69
Romania	Sri Lanka	7292461	43607916	16.72
Romania	Vietnam	7440957	36136078	20.59
Romania	Zambia	15831345	21785826	72.67
Romania	Tunisia	6954251	21775161	31.94
Romania	South Africa	305545941	1391539653	21.96
Romania	Thailand	147611068	1183572920	12.47
Romania	Tajikistan	1358969	2766633	49.12
Romania	Uzbekistan	4280833	20904256	20.48
Spain	Vietnam	5220093	94176423	5.54
Spain	Tunisia	268609	16258555	1.65
Spain	Thailand	196618213	692978457	28.37
Spain	Venezuela	334677072	4203619709	7.96
Switzerland	Vietnam	762443444	2881403364	26.46
Switzerland	Trinidad and Tobago	108866832	2497580626	4.36
Switzerland	Tunisia	11598271	383375599	3.03

Switzerland	Thailand	784869037	8457805854	9.28
Switzerland	Venezuela	1686568	28521093	5.91
Switzerland	Zambia	547095	61644831	0.89
United States	Venezuela	20441478	175294158	11.66
AVERAGE				**24**

Source: Computed from CbCR data reported to OECD

Step wise use of excel sheet tool:

1. Treaty articles listed with their respective withholding rates
2. Qualifying treaty is identified by taking the sum of the corporate tax rate and withholding rate for a country in a treaty pair and it is less than 9 per cent and full information is available on corporate tax rates
3. Tax applicable is CIP/TCI/OBS export * (9-corporate tax rate in country 1-withholding rate)
4. Tax applicable is CIP/TCI/OBS import *(9-corporate tax in country 2-withholding rate)

Table A.2: Article wise treaties qualifying as per STTR for South Centre /G-24 countries (excluding capital gains)[41]

Article of Treaty to which STTR will apply	Treaty Partner 1	Treaty Partner 2
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	Seychelles
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
Article 11(2)	Algeria	Bahrain
	Bahrain	Syria
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	Sudan
	Bahrain	Morocco
	Bahrain	Jordan
Article 11(2)(F)	Bahrain	Seychelles

[41] Note that the number of treaties with capital gains to which STTR will apply is substantial and so have not been included in the Table for brevity.

	Bahrain	Mexico
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	Seychelles
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
Article 12(2)	Algeria	Bahrain
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	Seychelles
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
Article 12(2)©	Algeria	Bahrain
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	Pakistan
	Bahrain	Seychelles
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
Article 12(2)€	Algeria	Bahrain
	Bahrain	Philippines
	Bahrain	Iran
	Bahrain	Lebanon
	Bahrain	China
	Bahrain	Seychelles
Article 12(A)	Bahrain	Mexico

	Bahrain	Egypt
	Barbados	China
	Barbados	Mauritius
	Barbados	Mexico
	Barbados	Seychelles
	Bermuda	Seychelles
	Guernsey	Mauritius
	Guernsey	Seychelles
	Isle of Man	Seychelles
	Jersey	Mauritius
	Jersey	Seychelles
	Algeria	Bahrain
	China	Turkmenistan
	Iran	Turkmenistan
	Malaysia	Turkmenistan
	Pakistan	Turkmenistan

Table A.3: Revenue estimates for South Centre/G-24 countries from CIP exports

Partner 1	Partner 2	Revenue estimate in million USD
Bahrain	Iran	0.0199
Bahrain	Lebanon	0.0013
Bahrain	Seychelles	0.0003
Bermuda	Seychelles	0.0046
Palestine	Vietnam	0.0262

Table A.4: Revenue estimates for South Centre/G-24 countries from CIP imports

Partner 1	Partner 2	Revenue estimate in million USD
Algeria	Bahrain	0.0497

Table A.5: Revenue estimates for South Centre/G-24 countries from TCI export

Partner 1	Partner 2	Revenue estimate in million USD
Bahrain	Iran	6.92
Bahrain	Lebanon	1.39
Bahrain	Seychelles	1.18
Bermuda	Seychelles	0.027

Table A.6: Revenue estimates for South Centre/G-24 countries from TCI import

Partner 1	Partner 2	Revenue estimate in million USD
Algeria	Bahrain	0.348147

Table A.7: Revenue estimates for South Centre/G-24 countries from OBS export

Partner 1	Partner 2	Revenue estimate in million USD
Bahrain	Philippines	191.1386
Bahrain	Iran	143.5632
Bahrain	Lebanon	90.64888
Bahrain	China	3262.174
Bahrain	Seychelles	14.97308
Bahrain	Mexico	367.2279
Bahrain	Egypt	515.9459
Barbados	China	2473.898
Barbados	Mauritius	1.763839
Barbados	Mexico	113.704
Barbados	Seychelles	5.451761
Bermuda	Seychelles	0.60166

Table A.8: Revenue estimates for South Centre/G-24 countries from OBS import

Partner 1	Partner 2	Revenue estimate in million USD
Algeria	Bahrain	100.1414
China	Turkmenistan	122.9952
Iran	Turkmenistan	6.033043
Malaysia	Turkmenistan	2.548823
Pakistan	Turkmenistan	1.362613

SOUTH CENTRE

International Environment House 2
Chemin de Balexert 7–9
1219 Geneva
Switzerland
+41 22 791 80 50
south@southcentre.int
www.southcentre.int

G-24 INTERGOVERNMENTAL GROUP OF TWENTY FOUR

700 19th Street
NW HQ1
Mailstop 12-012
Washington, DC 20431
United States of America
g24@g24.org
www.g24.org