

South Centre Inputs on Draft Issues Note on Workstream II: Taxation of Services

11 July 2025

I. Background

The [South Centre](#) is the intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote their common interests in the international arena. The South Centre has [55 Member States](#) coming from the three developing country regions of Africa, Asia, and Latin America and the Caribbean. It was established by an [Intergovernmental Agreement](#) which came into force on 31 July 1995. Its headquarters are in Geneva, Switzerland.

The South Centre in 2016 launched the [South Centre Tax Initiative](#) (SCTI). This is the organization's flagship project for promoting South-South cooperation among developing countries in international tax matters.¹

II. Abstract

The protocol should be designed in such a way that it:

- 1) Provides a menu of options
- 2) can be taken forward by a coalition of the willing and not require universal adoption
- 3) extends the benefits of double tax relief only to the parties of the protocol, thus incentivizing countries to join and penalizing non-cooperative countries
- 4) addresses the barriers posed by existing tax treaties.

The scope of services covered should include at a minimum all digital services, particularly automated digital services. The scope of taxes covered should be restricted to income taxes.

III. General Comments

The South Centre congratulates the Intergovernmental Negotiating Committee (INC) for the progress achieved and welcomes the [Draft Issues Note on the Taxation of Services](#) prepared by Workstream II under the leadership of Chile.

¹ Queries may be addressed to taxcooperation@southcentre.int

IV. Specific Comments

i. Considerations in Developing Possible New Rules

The South Centre would like to suggest four key considerations when developing new rules on the taxation of services.

First, the rules must provide a menu of options suited to different countries and contexts, rather than trying to find a single one-size fits all solution for the whole world. Such an approach is more suited to the realities of developing countries and can better incorporate and standardize existing national measures such as Digital Service Taxes and Significant Economic Presence (SEP), which are used by many South Centre Member States as well as other developing and even developed countries.

Second, the rules must be designed in a way that they can be taken forward by a “coalition of the willing”, and need not require universal adoption in order to work. Such an approach is also consistent with the optional nature of the protocols.

Third, as a complement to the previous point, the rules must also incentivize countries to join the protocol. This can be particularly done through the provisions on elimination of double taxation. The provisions can be designed in such a manner that only parties to the protocol can enjoy double tax relief and those that stay out face double taxation. This can also address the problem of non-cooperative countries; if they choose to stay out, their companies would face double taxation. Conversely, if they join, their companies can enjoy the benefits of the protocol.

Fourth, the rules must find a way to address the fundamental barrier posed by existing tax treaties to the taxation of services, as highlighted by the Issues Note.

A 2024 report by the South Centre² analysed 183 imbalanced tax treaties between South Centre Member States, which are all developing countries, and OECD Members, which are mostly developed countries, and found that most of these treaties do not contain two key provisions for taxing services as contemplated in the UN Model Tax Convention’s Article 5(3)(b) [Services Permanent Establishment] and Article 12A [Fees for Technical Services]. Out of 183 treaties, 136 (74%) did not contain the service PE provision and 154 (84%) did not contain Article 12A.

² <https://www.southcentre.int/wp-content/uploads/2024/09/Graduate-Institute-South-Centre-Tax-Report-2024-1.pdf>

The South Centre has also begun quantifying revenue losses for its Member States owing to treaty restrictions on taxing services and found that South Centre Member States Nigeria lost USD 5.8 billion in revenues, Brazil USD 11 billion and Argentina USD 6.1 billion.³

One option could be to have the protocol override existing treaties. This can be done by using wording similar to Article 46 of the draft Amount A Multilateral Convention which states that

“In the event of a conflict between the provisions of this Convention and the provisions of any Existing Tax Agreement, the provisions of this Convention shall prevail to the extent of the conflict.”

A second option could be through the UN Fast Track Instrument (UN FTI). However, this is a long and difficult route as it requires the UN FTI to first be converted into a treaty and then it can only facilitate and accelerate what are essentially bilateral negotiations, though it has the possibility to also enable multilateral tax negotiations.

In any case, the protocol must find a solution to address the barrier posed by existing tax treaties.

ii. Scope

Regarding the scope of services and taxes covered, the protocol should have a broad scope and at a minimum cover all digital and digitally delivered services, especially including automated digital services as defined in Article 12B of the UN Model Tax Convention. The taxation of digital services is a key priority of the South Centre’s Member States, and the developing world at large, and this is where the main problem lies and a solution is urgently needed. The South Centre has produced extensive research on the revenue estimates from the taxation of digital services, with the most recent estimates being for the 85 combined Member States of the South Centre and the African Union.⁴

For the scope of taxes covered, the protocol should focus exclusively on income taxes. This is again because this is where the main problem lies. There is adequate guidance for indirect taxes such as VAT and GST and further these are not subject to disputes and controversy. Hence, the protocol should focus exclusively on income taxes.

³ <https://www.southcentre.int/research-paper-211-14-october-2024/>

⁴ <https://www.southcentre.int/research-paper-199-10-june-2024/>
https://www.southcentre.int/research-paper-199-10-june-2024