Developing Countries and the OECD/G20 Inclusive Framework on BEPS

OECD REPORT FOR THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

October 2021, Italy

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> *We reaffirm our engagement to support developing countries in strengthening the capacity to build sustainable tax revenue bases and ask the OECD to prepare a report on progress made through their participation at the G20/OECD Inclusive Framework on BEPS and identify possible areas where domestic resource mobilisation efforts could be further supported.*
>
> *Second Finance Ministers and Central Bank Governors Meeting Communiqué, 7 April 2021*

Executive summary

In June 2016, at the request of the G20, the OECD/G20 Inclusive Framework on BEPS (Inclusive Framework) was established in Kyoto, Japan with an initial membership of 89 countries and jurisdictions. The Inclusive Framework now includes 140 members, who, on an equal footing, monitor the implementation and contribute to the development of measures to combat Base Erosion and Profit Shifting (BEPS). With this approach, the Inclusive Framework successfully responds to the Addis Ababa Action Agenda on Financing for Development (AAAA) commitment to 'scale up international tax co-operation' and underlines 'the importance of inclusive cooperation and dialogue among national tax authorities on international tax matters'.[1]

It has now been five years since the establishment of the Inclusive Framework and 12 years since the G20 called on the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) to deliver the end of bank secrecy. These developments have taken place in a rapidly evolving international tax environment, which has become truly global, with previously unimaginable levels of tax co-operation and co-ordination both between the members of the Inclusive Framework and Global Forum, and among the wider range of international organisations, regional tax organisations, multilateral development banks, and other partners.

The recent agreement on solutions to tackle the tax challenges arising from the digitalisation of the economy and introduce a global minimum tax is a further step change.[2] In contrast to the development of the original BEPS package of 15 measures, developing countries have had a significant impact on the negotiation of these new rules which, over time, will directly support their domestic resource mobilisation (DRM) needs in the recovery phase of the pandemic. Of even greater significance, the agreement marks the beginning of a new era of international co-operation which acknowledges the need for simpler approaches to the rules and standards. The agreement is the first serious multilateral step in a paradigm shift relating to the global income allocation system.

These recent developments may go some way to address the perception[3] that the Inclusive Framework's agenda is not yet sufficiently balanced to reflect developing countries' interests.

Maintaining the G20's strong delivery focus has, however, necessitated a rapid pace of work at the Inclusive Framework, posing significant challenges for developing countries with limited capacities, particularly as they face multiple demands and competing priorities during the COVID-19 pandemic. Many are on a steep learning curve, having to adapt to new ways of intergovernmental co-operation.

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[1] Addis Ababa Action Agenda of the Third International Conference on Financing for Development, accessed at https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf.

[2] Statement available at: https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.htm.

[3] See Christensen, RC, Hearson, M and Randriamanalina, T, *At the Table, Off the Menu? Assessing the Participation of Lower-Income Countries in Global Tax Negotiations*, ICTD Working Paper 115, December 2020.

This report is intended to help the G20 ensure that the Inclusive Framework's strong coalition of countries continues to advance together and converge on the design and implementation of the global tax rules by paying particular attention to the needs of lower income/lower capacity countries in the Inclusive Framework.

As part of the process of developing the report, extensive consultation was undertaken with developing countries, including both members and non-members of the Inclusive Framework. Primarily, this consultation was conducted through a series of six regional events, held virtually in the period from May-July 2021, co-hosted by the OECD Secretariat and ten regional partners and involving participation from some 675 government officials from 155 jurisdictions. In addition to the formal consultation events, the Secretariat has also gathered input from developing countries and development partners through its bilateral capacity building and technical assistance programmes which are delivered in partnership with the African Tax Administration Forum (ATAF) and World Bank Group (WBG).

This report:

1. Takes stock of developing countries' progress in their participation in the Inclusive Framework.
2. Considers the existing international tax norms and guidance in relation to the capacities and priorities of developing countries, as well as their DRM needs. Given the critical importance of the taxation of natural resources, there is a cross-cutting focus on this topic.
3. Examines the support to developing countries aimed at boosting capacity.
4. Analyses the inclusivity of the Inclusive Framework, including its existing governance arrangements.
5. Sets out developing countries' views on the future of the Inclusive Framework in the context of their DRM priorities, whilst acknowledging the Inclusive Framework mandate is dedicated to BEPS.

There are a number of areas where there is scope for reflection and potential improvements to enable developing countries to integrate faster, and deeper, into the new international tax architecture. Building on empirical findings and feedback from consultation, the report includes a number of recommendations across a range of areas that could help unlock benefits to support DRM efforts in developing countries, and their commitment to the Inclusive Framework.

The overarching recommendation of this report is for further assessments on the progress of developing countries to be conducted on a regular basis. To help ensure political momentum to the process, it is recommended that this takes the form of an annual ministerial dialogue, including both developing countries and interested G20 members. The Minister of Finance of Jamaica, H.E. Nigel Clarke, has proposed to host a ministerial roundtable in late 2021 that could serve as the inaugural event.

The highest priority specific recommendations identified in this report are:

1. For all stakeholders, including Inclusive Framework members, to reflect on how Country-by-Country reporting could be made more accessible to developing countries while also protecting confidentiality of sensitive information.
2. For development partners, including the G20, to support a major Inclusive Framework initiative to be launched in early 2022, to provide capacity building support to ensure developing countries can adopt and implement the agreement on the taxation of the digitalising economy and a global minimum tax in an appropriate and timely fashion.

3. For all Inclusive Framework stakeholders to reflect on governance arrangements to ensure a broad and systematic inclusion of developing countries. This could include appropriate representation in the leadership of the Inclusive Framework and its subsidiary bodies.
4. For all Inclusive Framework stakeholders, to consider integrating Working Party No. 9 (WP9) into the scope of the Inclusive Framework. This recommendation is made in light of the growing importance of Value-Added Taxes (VAT)/ Goods and Services Taxes (GST) and the cross-overs between the work of the OECD Committee on Fiscal Affairs' WP9 on Consumption Taxes and the Inclusive Framework.

All recommendations are set out in Annex A.

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Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda on Financing for Development
Advisory Group	Advisory Group for Co-operation with Partner Economies
AEOI	Automatic Exchange of Information
APEC	Asia-Pacific Economic Cooperation
ATAF	African Tax Administration Forum
AU	African Union
AUC	African Union Commission
BEPS	Base Erosion and Profit Shifting
CARICOM	Caribbean Community
CATA	Commonwealth Association of Tax Administrators
CbC	Country-by-Country
CBT	ATAF Cross Border Taxation Technical Committee
CFA	Committee on Fiscal Affairs
CFC	Controlled Foreign Company
CIAT	Inter-American Center of Tax Administrations
CREDAF	Cercle de Réflexion et d'Échange des Dirigeants des Administrations Fiscales
DRM	Domestic Resource Mobilisation
EOI	Exchange of Information

FTA	Forum on Tax Administration
GDP	Gross Domestic Product
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
GloBe	Global Anti-Base Erosion
GST	Goods and Services Tax
GRP	Global Relations Programme
IGF	Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development
IMF	International Monetary Fund
KSP_{TA}	Knowledge Sharing Platform for Tax Administrations
MAAC	Convention on Mutual Administrative Assistance in Tax Matters
MAP	Mutual Agreement Procedure
MCAA	Multilateral Competent Authority Agreement
MCM	Mopani Copper Mines plc
MLI or Multilateral Instrument	Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting
MNE	Multinational Entreprise
MTC	Multilateral Tax Centre
MTRS	Medium-Term Revenue Strategy
PCT	Platform for Collaboration on Tax
PE	Permanent Establishment
SDGs	Sustainable Development Goals
STTR	Subject to Tax Rule
TIWB	Tax Inspectors Without Borders

UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
WBG	World Bank Group
WP	Working Party
ZRA	Zambia Revenue Authority

Introduction

International taxation issues are of critical importance to most developing countries since typically, they are more reliant on corporate income taxes and foreign direct investment, meaning they are disproportionately impacted by BEPS issues. As the COVID-19 pandemic impacts developing country finances, there will be further pressure on international taxation to deliver revenues. It is estimated that COVID-19 pushed an additional 100 million people into extreme poverty during 2020 alone.[4] The crisis has forced most countries to take on additional debt, and for low-income countries this may lead to a precarious fiscal position, particularly if interest rates are to rise. Developing countries already struggle with limited fiscal space; for example, the average tax-to-GDP ratio in African countries is 16.5%, as compared to the OECD average of 34.3%, and they have less scope for borrowing or quantitative easing.

Interest in tax and development has grown in recent years, creating a range of networks and partnerships. International tax has become increasingly prominent in the wider tax and development landscape, especially since the 2015 AAAA agreement. The AAAA committed countries to scaling up international co-operation on tax,[5] and increasing transparency and exchange of information. Members of the Addis Tax Initiative have gone further with additional commitments on funding and actions to support the implementation of the AAAA, including on international taxation. Beyond national governments, international organisations at both the global and regional level have been increasing their activities and co-operation on international taxation. The United Nations Committee of Experts on International Cooperation in Tax Matters has increased its activities since the agreement on the AAAA. The Platform for Collaboration on Tax (PCT) was established in 2016 to facilitate further collaboration, especially on international taxation, between the International Monetary Fund (IMF), OECD, the United Nations (UN), and the WBG. Regional tax organisations have expanded their activities on international taxation, facilitating regional dialogue and analysis, and developing practical tools. Regional economic communities, including the African Union (AU), the Asia-Pacific Economic Cooperation (APEC) forum, and the Caribbean Community (CARICOM) are paying increasing attention to tax issues, while multilateral development banks are also increasing their focus on tax, most recently through the Asian Development Bank's establishment of a hub on taxation issues. With each actor bringing different constituencies and expertise, a range of dynamic partnerships have evolved in the international tax landscape.

The Inclusive Framework is a key component of the architecture for international tax and development issues. The Inclusive Framework now includes 140 members[6] working on an equal

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[4] World Bank. 2020, *Poverty and Shared Prosperity 2020: Reversals of Fortune*, Washington, DC: World Bank. doi: 10.1596/978-1-4648-1602-4. License: Creative Commons Attribution CC BY 3.0 IGO.

[5] Addis Ababa Action Agenda of the Third International Conference on Financing for Development, accessed at https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf.

[6] As at 1 September 2021.

footing to monitor the implementation of measures to combat BEPS and the ongoing development of consensus-based, anti-BEPS solutions to strengthen the international tax system. At the request of the G20, it was established in Kyoto, Japan in June 2016 with an initial membership of 89 countries and jurisdictions. In addition to member jurisdictions, 15 international and regional organisations are now observers to the Inclusive Framework (see Annex B).

The Inclusive Framework reflects how global the participation in the international tax agenda has become,[7] in parallel with other measures. For instance, the Global Forum, established in 2009, now includes 163 members,[8] and the Convention on Mutual Administrative Assistance in Tax Matters (MAAC), open to all countries and jurisdictions since 2010, now includes 144 countries and jurisdictions. Over 100 jurisdictions negotiated the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (Multilateral Instrument, or MLI), which now has 95 signatories[9] and has amended over 1700 bilateral tax treaties. Almost all the major multinational enterprises (MNEs) are now required to prepare Country-by-Country (CbC) reports. More than 150 tax incentive regimes have been amended or abolished.

In July 2021, 134 members[10] of the Inclusive Framework reached an historic agreement for a two-pillar solution to address the tax challenges of the digitalisation of the economy and put a floor on tax competition. The agreement provides for fundamental tax reforms updating key elements of the century-old international tax system and will help countries protect their tax bases.

Importantly, developing country members of the Inclusive Framework have played a vital role in shaping the agreement, and have had significant influence on many of the essential components of the reforms. This demonstrates that the new international tax architecture provides not only a seat “at the table,” but also the potential for developing countries to have a strong voice in ensuring that international tax norms and standards reflect their priorities. Developing countries continue to be actively involved in the ongoing technical discussions that will flesh out the agreement and ultimately produce the legal instruments, model rules and guidance on implementation. It will be essential that developing countries are able to benefit from the new agreement and they will need capacity building support to effectively implement the new rules in a timely way.

While recent developments are encouraging, developing countries with limited capacities continue to face challenges to their active participation in the Inclusive Framework, particularly due to the pace of the work over multiple workstreams which have been progressed simultaneously. Many are on a steep learning curve, having to adapt to new ways of intergovernmental co-operation. There is also a view that the agenda is not sufficiently reflective of developing countries’ interests.

It is now in the direct interest of G20 countries to seek to consolidate the progress that has been made in establishing a new international architecture on tax. This requires checking that the Inclusive Framework’s strong but diverse membership continues to advance together and converge on the successful implementation of the global tax rules, paying particular attention to the needs of the group of approximately 50 lower-income/lower-capacity countries in the Inclusive Framework. The G20’s commitment to aligning its work with the 2030 Agenda for Sustainable Development, together with the high priority accorded to DRM in the context of the COVID-19 crisis, make it especially timely and necessary to take stock of progress made and consider potential improvements.

[7] See Annex B for details of Inclusive Framework members.

[8] As at 1 September 2021.

[9] As at 1 September 2021.

[10] As at 1 September 2021.

Encouragingly, all G20 members have responded by investing, many significantly, in support to lower capacity countries through a range of modalities including political dialogue, outreach and induction programmes, bilateral capacity building, and the Tax Inspectors Without Borders (TIWB) initiative. This support has had a significant impact, with many countries already able to benefit (or benefit more) from the new international tax architecture. Additional investments will be needed urgently to ensure lower-income countries are able to implement and benefit from the new two-pillar agreement.

Since 2016, and particularly in the recent negotiations towards the two-pillar agreement to address the tax challenges of the digitalisation of the economy, the OECD Secretariat has learned lessons and received valuable feedback from the increased engagement with developing countries, as well as from a number of independent reports. There are several areas where there is scope for reflection and potential improvements to enable developing countries to integrate faster and deeper into the new international tax architecture, should they wish to do so. Ensuring consistent application of the new two-pillar agreement will be essential.

This report focuses primarily on the approximately 50 members of the Inclusive Framework that are classified as low- or middle-income, are not considered financial centres, and are not OECD or G20 members. Whilst this grouping is not monolithic, it is possible to identify recommendations based on commonalities which should benefit the majority. These are included at various points in the report and catalogued in Annex A. The report has been directly informed by the findings of a consultation process held in mid-2021.[11] It is not the intention of this report to cover the work of the Global Forum except insofar as standards monitored by the Global Forum interact with the BEPS agenda.

[11] See Annex C for details of the consultation events held during mid-2021.

1 Stocktake on BEPS implementation by developing countries

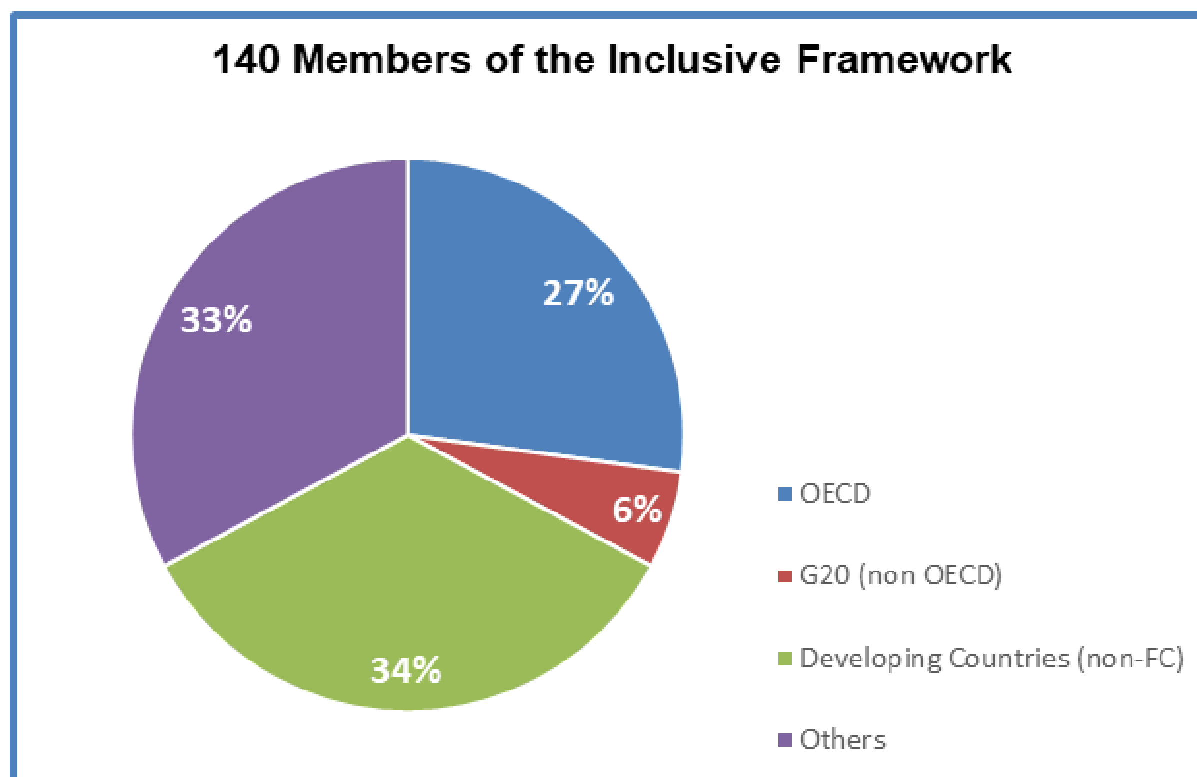
1.1. Introduction

The first chapter of this report provides a snapshot of the progress made through the participation of developing countries in the Inclusive Framework, starting with an overview of membership, followed by an examination of the extent to which developing country members of the Inclusive Framework have implemented the BEPS actions. It first examines progress on the BEPS minimum standards, then moves through each of the remaining BEPS Actions. The chapter also considers what this means for developing countries in terms of their ability to mobilise domestic resources and fight BEPS, and includes an examination of how developing countries' participation in the Inclusive Framework has influenced the international tax standards. This evaluation is essential to ensure that the advantages of multilateral inclusivity can be cemented into the system.

1.2. Developing countries and the Inclusive Framework on BEPS

Membership in the Inclusive Framework has grown rapidly since its establishment in 2016, following calls from the G20 to involve all interested countries, particularly developing countries, in the implementation of the BEPS agenda. Developing countries now make up around one-third of the Inclusive Framework's membership. Of the 140 members of the Inclusive Framework, 48 are low- or middle-income countries that are not members of the OECD or G20 and are not considered to be financial centres (see Figure 1.1.).

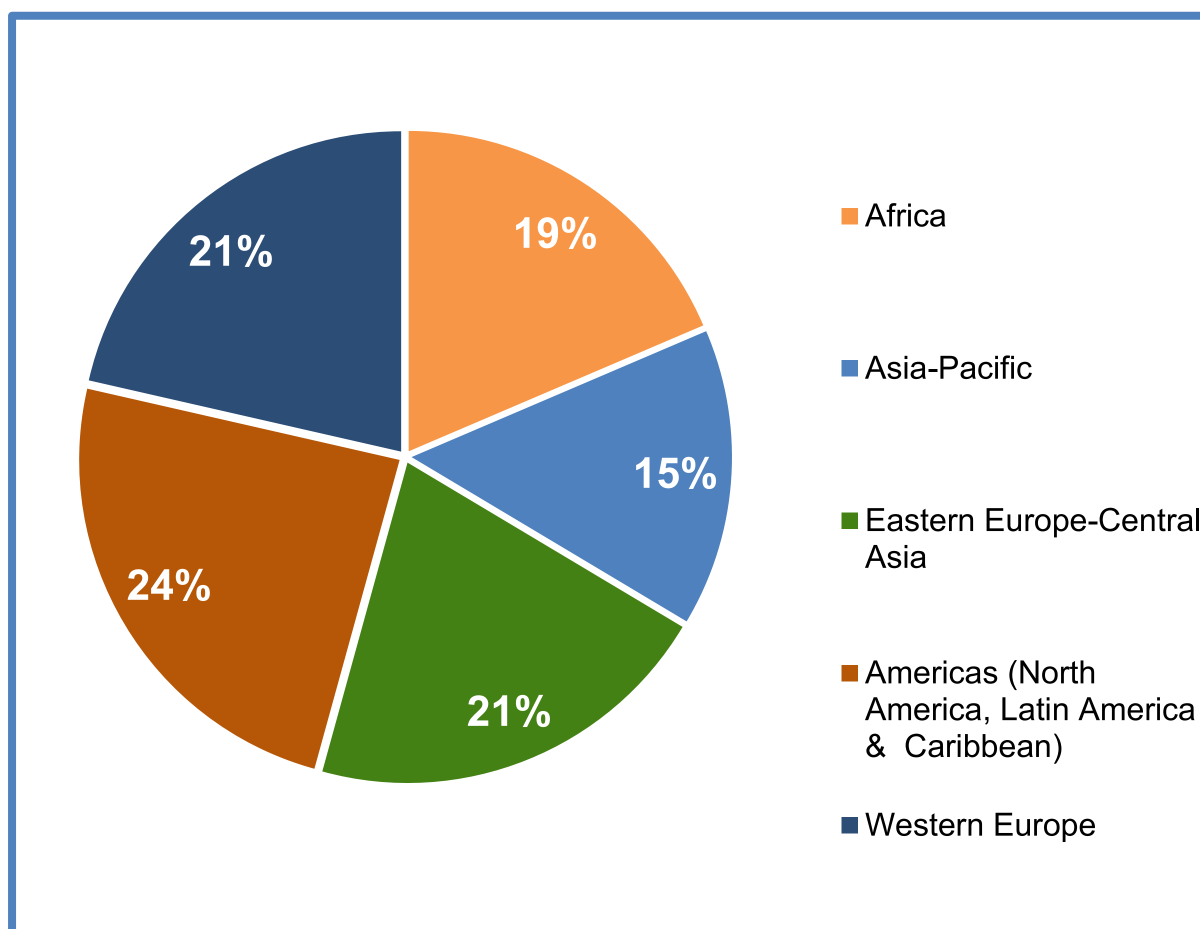
Figure 1.1. Members of the OECD/G20 Inclusive Framework on BEPS



Source: OECD, https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf.

The Inclusive Framework also reflects a strong regional balance, **with members from all geographic regions of the world** (see Figure 1.2). The Steering Group of the Inclusive Framework also reflects its regional balance, with Deputy Chairs from the People's Republic of China (China) and Nigeria, as well as other members from Brazil, India, Mongolia, Senegal, South Africa and Zambia. At the request of African members of the Inclusive Framework, and to augment the capacity of African members of the Steering Group, ATAF has attended Steering Group meetings since late 2019. Annex B provides a complete list of Inclusive Framework members, as well as the composition of the Steering Group.

Figure 1.2. Regional composition of the OECD/G20 Inclusive Framework on BEPS



Source: OECD, https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf

Feedback from developing countries indicates strong support for the BEPS agenda, although some have noted that the BEPS Actions may not reflect their highest priorities given that they were not able to participate fully in the process prior to the establishment of the Inclusive Framework. Others have expressed concern that the BEPS standards may be used for purposes for which they were not intended, especially where these may have negative impacts on developing countries, (e.g. listing).[12] Some countries, especially Small Island Developing States (SIDS) have also raised concerns over how international tax standards may impact their economic development models.[13]

[12] Feedback from panellists and other participants taking the floor at regional consultation meetings during round-table discussions and gathered through bilateral discussions with the OECD Secretariat.

[13] Although many SIDS are financial centres and thus not the primary focus of this report, many are nevertheless lower income jurisdictions. Their concerns were raised through the process of consultation for the report. Additional reflection on how to assist such jurisdictions transition to more sustainable models of economic development would likely be beneficial to the stability of the international tax system.

1.3. How have developing countries benefited from the BEPS minimum standards?[14]

Developing countries have played their part in strengthening the international tax system by ensuring their tax incentives regimes do not harm the tax bases of other jurisdictions under the Action 5 minimum standard. For many developing countries, tax incentives are used to encourage foreign direct investment. Compliant regimes are more likely to be effective at encouraging real investment, and limiting economic distortions.

The Action 5 minimum standard consists of three elements; the first relates to preferential tax regimes, the second requires jurisdictions to exchange relevant information relating to taxpayer-specific rulings and the third includes a review of the requirements for substantial activities in no or only nominal tax jurisdictions.

Box 1.1. BEPS Action 5: Harmful tax practices

Since the start of the BEPS project, developing countries accounted for:

- 37 of 162 (23%) regimes abolished/ amended.
- 79 of 295 (27%) reviewed regimes.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

A majority of developing countries now receive information on tax rulings issued abroad, better equipping them to conduct risk assessments and identify situations of double non-taxation or tax avoidance. On the other hand, only one developing country has provided tax ruling information to other countries under the transparency framework. This may be, in part, because developing countries are less likely to have legislation and administrative practices in place to issue tax rulings that are subject to the minimum standard, suggesting they pose fewer BEPS risks to other jurisdictions.

Developing countries are using the BEPS tools under Action 6 to protect their tax bases from treaty abuse, but progress is slow. BEPS Action 6 addresses treaty shopping and requires jurisdictions to amend their bilateral double tax agreements. The MLI is one way of efficiently updating bilateral agreements to close these loopholes, without the need to undergo resource-intensive bilateral negotiations. The effect of the MLI is starting to build, with the number of treaties covered increasing significantly in recent times. While many developing countries have signed the MLI (or are planning to sign the MLI), only limited numbers have ratified it so far. The consultation events that were undertaken for this report identified as a binding constraint the disconnect between the technical work of tax officials, and its translation into political action by other parts of government to proceed to ratification. This disconnect impacts on other

Box 1.2. BEPS Action 6: Prevention of tax treaty abuse

- Over 200 tax treaties where at least one treaty partner is a developing country have been made compliant with the Action 6 minimum standard via the MLI or via bilateral negotiations.
- 24 developing countries signed the MLI (51%) but only 11 have so far ratified the MLI (23%).[15]

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

[14] All figures quoted in sections 1.3 and 1.4 of this report are based on a stocktake of developing countries' progress as at 1 June 2021.

[15] At least one additional developing country is expected to sign the MLI in 2021.

areas too, including CbC reporting (see also section 3.3 and results of polling question 7 at Annex C), and points to a need for strengthening engagement at political levels.

Box 1.3. BEPS Action 13: CbC reporting

Feedback from consultation indicated that:

- Implementing domestic legislation requirements can be a significant hurdle.
- Meeting the AEOI confidentiality standard can be time-consuming and challenging.
- Many countries lack capacity to fully implement the requirements and are concerned that they could not make full use of CbC report information.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

Developing countries are making progress on the BEPS Action 13 CbC reporting minimum standard, thus helping BEPS risk assessment, but many consider the requirements under the standard to be onerous. The CbC reporting standard puts in place a mechanism to require large MNE groups to disclose information on their income, profit, taxes paid and economic activity on a country-by-country basis. The CbC report is filed centrally (typically by the ultimate parent company of the group) and then shared using treaty-based exchange mechanisms with tax administrations where the MNE group operates. The minimum standard calls for consistent application of CbC requirements, and uses the automatic exchange of information (AEOI) standard to help ensure confidentiality.

In spite of ongoing capacity building support, only three developing countries can currently receive CbC reports from abroad. This lack of access could, over time, erode confidence in the Action 13 standard and strengthen calls for public disclosure of CbC reports. Moreover, advocates for local (rather than centralised) filing of CbC reports, which would be inconsistent with the Action 13 minimum standard, are also growing increasingly vocal. Local filing would create additional compliance costs for MNEs, including to the extent that they differ from the standard CbC reporting template. Local filing could also result in an increased risk of double taxation, since access to CbC report information would not be contingent upon meeting the appropriate use standard.

Box 1.4. Developing country progress on CbC reporting under BEPS Action 13

- 15 developing countries (32%) have relevant domestic legislation. An additional 7 developing countries have introduced legislation but it has not yet been peer reviewed to assess its compliance with the CbC standard.
- 33 developing countries (70%) have signed and 24 (51%) have ratified the MAAC.
- 11 developing countries (23%) have signed the CbC MCAA; 5 (11%) have activated relationships; 3 have activated relationships on a reciprocal basis.
- 3 developing countries have passed the confidentiality assessment on a reciprocal basis.
- 3 developing countries have been assessed as having controls in place to ensure appropriate use of CbC reports.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

While all Inclusive Framework members are subject to the Action 14 minimum standard on improving dispute resolution, many lower capacity developing countries do not have significant numbers of Mutual Agreement Procedure (MAP) cases. As a result, they may be eligible to defer their Action 14 peer review. The BEPS Action 14 minimum standard seeks to improve dispute resolution processes. Such disputes typically arise as a result of compliance action (e.g. audits) in relation to transfer pricing or other profit allocation mechanisms. For developing countries which do not currently have large-scale compliance programmes that result in significant numbers of MAP cases, this action is likely to be a lower priority. It is important to note, however, that as domestic compliance programmes expand, having a well-functioning MAP process will become increasingly important to sound tax administration and investor confidence.

Box 1.5. BEPS Action 14: MAP

- 40 developing countries (85%)[16] have opted to defer their Action 14 peer review.
- 6 developing countries (13%) have MAP regulations in place.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

1.4. Other BEPS Actions[17]

Effectively taxing the digitalising economy (BEPS Action 1) is a key priority for developing countries. In the sphere of indirect taxes, some 60% are implementing or considering VAT/ GST measures on e-commerce activity. The OECD International VAT/GST Guidelines,[18] which are complemented by detailed technical and practical guidance,[19] promote effective and efficient VAT/GST solutions to address the challenges of digitalisation. These standards reflect a broad consensus, as they build heavily on the global dialogue and collaboration that is currently carried out through the Global Forum on VAT, which provides a platform for engagement with more than 100 jurisdictions, including many developing countries. The OECD and WBG, in partnership with regional organisations, have been promoting the implementation of these standards through the development of regional toolkits tailored to the needs of particular regions.

[16] Note that in total, 55 Inclusive Framework members have been granted a deferral of their Action 14 Peer Review. This includes a number of countries and jurisdictions that are financial centres, and so are not included in the definition of developing countries for the purposes of this report. In addition, developing countries that have joined the Inclusive Framework recently are expected to request a deferral of their Action 14 Peer Review in the near future.

[17] All figures quoted in sections 1.3 and 1.4 of this report are based on a stocktake of developing countries' progress as at 1 June 2021.

[18] Available at https://www.oecd.org/ctp/international-vat-gst-guidelines-9789264271401-en.htm.

[19] See *Mechanisms for the effective collection of VAT/GST where the supplier is not located in the jurisdiction of taxation*; *The role of digital platforms in the collection of VAT/GST on online sales*; and *The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration*.

More recently, in July 2021, 134 members of the Inclusive Framework,[20] **representing more than 90% of worldwide GDP, reached an historic agreement on a two-pillar solution** to address the tax challenges of digitalisation and introduce a global minimum tax on the profits of large MNEs.

The agreement demonstrates that developing countries can indeed play an active and influential role in international standard setting through their participation in the Inclusive Framework. This is not to say that the agreement reflects developing country preferences in all respects since all participants have recognised the need for compromise. Nevertheless, the level of inclusivity of discussions towards the two-pillar agreement stands in material contrast to those which took place on the original BEPS package which was developed prior to the active engagement of developing countries. A summary of some of the key aspects of the two-pillar agreement heavily influenced by developing country priorities can be seen in Table 1.1 below.

Box 1.6. BEPS Action 1: Measures to address the VAT/GST challenges of e-commerce

- 28 developing countries (60%) have enacted, proposed or are considering VAT/GST measures on e-commerce.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

Table 1.1. Key aspects of the two-pillar agreement heavily influenced by developing country priorities

Addressing the tax challenges arising from the digitalisation of the economy	
Pillar One	**Pillar Two**
• Broad scope of application • Exclusion for extractive industries • Commitment to lowering the scope revenue threshold, contingent on successful implementation and tax certainty • Very limited segmentation, creating simplification benefits • Lower nexus threshold (particularly for smaller economies), with no 'plus factors,' meaning that smaller developing countries are far more likely to benefit • Dispute prevention and resolution in a mandatory and binding manner for Amount A and issues related to Amount A, while consideration to be given to an elective binding dispute resolution mechanism for issues related to Amount A for certain developing countries	• Minimum effective tax rate of "at least 15%" welcomed by most developing countries • Jurisdictional, rather than global blending • Confirming importance of the Subject to Tax Rule (STTR), Inclusive Framework members that apply nominal corporate income tax rates below the STTR minimum rate to interest, royalties and a defined set of other payments, would implement the STTR into their bilateral treaties with developing country members when requested to do so • Confirming importance of substance-based carve-out, allowing developing countries to continue to offer incentives to attract real foreign direct investment • Substance carve-out that is mechanical rather than based on facts and circumstances

Source: OECD, based on analysis by the Secretariat.

[20] As at 1 September 2021.

The BEPS Actions on hybrid mismatch arrangements, controlled foreign corporations and mandatory disclosure (Actions 2, 3 and 12), do not appear to be high priority areas for most developing countries. Capacity constraints are likely to mean limitations in the utility of hybrid mismatch and mandatory disclosure regimes, while Controlled Foreign Company (CFC) rules may not be high priority for countries that are largely capital importers.

Addressing base eroding payments such as excessive interest (BEPS Action 4) is a key issue for most developing countries and a majority have domestic rules designed to limit interest deductions in some way. While some developing countries have moved towards the Action 4 best practice, many countries' rules have weaknesses. For instance, rather than a direct limitation on interest by reference to earnings, many countries' rules are instead based on thin capitalisation provisions which limit the amount of debt that can be carried by taxpayers. In order to be effective, these need to be set at an appropriate level and combined with effective transfer pricing rules or other limitations on interest rates. In some cases, effective enforcement of these rules can be complex and resource intensive. Moreover, many countries' rules cover only related-party debt (or interest on related-party debt), making them relatively simple for MNEs to circumvent. The rules may also use a narrow definition of interest, meaning that amounts that are economically equivalent to interest, such as guarantee fees or similar deductible expenses, which may pose similar risks, escape the measure.

Box 1.7. BEPS Action 4: Limitation on interest deductions

- 36 developing countries (77%) have some kind of interest limitation rules in place, of these:
  - 25 have thin cap based rules.
  - 22 have limitations only on related party debt (or only on shareholder debt).
- 5 developing countries have a cap on the allowable interest rate for inbound loans.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

Polling results from the series of regional consultation events confirmed that many developing countries consider their interest limitation rules could be improved. A significant number of participants also thought that additional guidance on other types of base eroding payments (particularly excessive royalties) is needed.[21]

Despite not being a minimum standard, Action 7 on preventing artificial avoidance of permanent establishment (PE) status is considered a priority by many developing countries. PE issues are considered by many source countries as a significant BEPS risk. Evidence for this can be seen in the results of polling during the regional consultation events,[22] and even more concretely, by the number of developing countries including Action 7 provisions in their MLI positions.

[21] See responses to polling questions 3 and 4 at Annex C.

[22] See responses to polling question 4 at Annex C.

Box 1.8. BEPS Action 7: Artificial avoidance of PE status

- Of 24 developing countries that have signed the MLI:
  - 22 have included at least one PE-related provision in their MLI position.
  - 16 have included all PE-related provisions.
  - PE provisions are matched in relation to 22 developing countries (about 300 treaties).
- Of 11 developing countries that have ratified the MLI:
  - 10 countries' PE provisions are matched, covering about 200 treaties.

Source: OECD, based on the review of the implementation of the BEPS package as at 1 June 2021.

Transfer pricing (addressed in BEPS Actions 8-10) is a significant BEPS risk and is considered by most developing countries to be amongst their highest priorities. There is close to universal acceptance of the international standard on transfer pricing, with the *OECD Transfer Pricing Guidelines* being regarded as highly influential across the globe for MNEs, tax officials and judiciaries.

Developing countries have also made significant progress in strengthening their rules and in building capacity in transfer pricing, backed by long-standing support programmes. Nevertheless, many developing countries continue to call for greater use of simplification measures or other means of streamlining the often complex application of the arm's length principle. Note that in this respect, developing countries have been strongly supportive of the Amount B element of the two-pillar solution to address the tax challenges of the digitalising economy, which would apply to certain marketing and distribution activities.

While the impact of developing country participation in the recent two-pillar agreement is encouraging, the picture painted by the empirical data on lower-income countries' progress in relation to the original BEPS Actions is more mixed. This reflects the steep learning curve many lower-capacity countries are on, as well as the fact that they were not active participants in the original BEPS agenda. While it is clear that lower-income countries are contributing to securing the integrity of the global tax system (e.g. by abolishing or amending harmful tax incentives regimes), in many cases they are yet to fully benefit from the advances made in countering BEPS, as can be seen from the challenges on CbC reporting. In addition, some of the BEPS Actions may not align closely with developing countries' highest priorities.

In order to ensure that the Inclusive Framework coalition remains strong and united, it will be important for the G20 to monitor and support progress of developing country members in implementing their priority BEPS Actions, as well as ensuring their active engagement in the Inclusive Framework workstreams going forward.

Overarching recommendation

In order to ensure the Inclusive Framework coalition remains strong and meets the needs of all of its members, further assessments on the progress of developing countries should be conducted on a regular basis. An annual assessment could take the form of a ministerial dialogue with developing countries and interested G20 members of the Inclusive Framework on issues such as:

- ***Their progress in implementing measures to combat BEPS, including on the two-pillar agreement and areas that have been particularly challenging for developing countries such as Country-by-Country reporting;***
- ***Their views on the work and priorities of the Inclusive Framework and its associated standards. This could include wider strategic issues such as the use of Inclusive Framework standards and the broader macro-economic impact of the two-pillar solution, including on Small Island Developing States.***

2 International norms and guidance: Making the BEPS agenda more effective for developing countries

2.1. Unlocking the benefits of implementing BEPS for developing countries

The stocktake in Chapter 1 showed that developing countries are making progress in implementing the BEPS Actions. It is also clear that despite capacity constraints, developing countries are playing their part in strengthening the international tax system. However, the stocktake also illustrated the challenges that must be overcome in order for developing countries to more fully benefit from the BEPS Actions. In addition to ongoing technical assistance and capacity building support, further guidance in a number of areas could make a difference to DRM efforts in developing countries, supporting their work to level the playing field and strengthening their commitment to multilateralism and the Inclusive Framework.

Country-by-Country Reporting

Although efforts are ongoing to support developing countries in meeting the CbC reporting requirements, consideration is needed on how to quicken the pace of progress and unlock benefits for a significant number of countries, while maintaining appropriate safeguards around confidentiality, consistency and appropriate use. This should ensure that lower-income countries join G20 countries in reaping the benefits of CbC reports, and do so within the consensus-based Inclusive Framework. As the Chapter 1 stocktake showed, only three non-OECD/G20 lower-income countries have so far been able to fully meet all the requirements of the standard and are currently able to receive CbC reports from abroad, despite CbC's flagship status in the BEPS package. Developing countries almost universally claim that transfer pricing is amongst their highest BEPS priorities, so their inability to access a key transfer pricing risk assessment tool is an important deficiency. Action may be needed if the pressure for local filing is to be resisted.

Feedback from developing countries suggests that the multiplicity of requirements to be fulfilled before CbC reports can be received from treaty partners is a significant impediment (see Box 2.1). Smaller developing countries which have no MNE groups meeting the CbC reporting threshold headquartered in their jurisdiction report that the obligation to enact domestic legislation on CbC reporting is a significant burden. [23]

[23] Feedback from the OECD Secretariat's bilateral discussions with countries and results of polling question 2 in Annex C.

Meeting the confidentiality requirements under the AEOI Standard, as well as challenges associated with putting in place and implementing the requirements associated with exchange networks also pose challenges for many developing countries, particularly in terms of timeliness. While the importance of maintaining the confidentiality of taxpayer information received from treaty partners is not in question, some developing countries do raise doubts as to whether the current requirements are the best suited to CbC reports. For instance, where treaty-based exchange mechanisms are in place, consideration could be given to the selective use of spontaneous or on request exchange mechanisms to allow for the transmission of CbC reports, while safeguarding confidentiality and the other requirements of the Action 13 minimum standard. Proposals to make certain CbC reporting requirements public (as in the European Union and more recently, the US Congress), as well as the voluntary publication of CbC-style reports by some MNEs themselves, add to the constant pressure in some quarters to impose local filing requirements.

Box 2.1. Elements of the CbC reporting minimum standard

In order to receive CbC reports from abroad, a jurisdiction must have:

- Domestic legislation requiring local MNEs that meet the CbC threshold to file a CbC report.
- A signed and ratified treaty instrument which provides for exchange (e.g. MAAC).
- A concluded CbC competent authority agreement (e.g. the CbC MCAA) with activated relationships, on a reciprocal basis.
- Passed the confidentiality assessment on a reciprocal basis (based on the AEOI standard).
- Been assessed as having controls in place to ensure appropriate use of CbC reports.

Efforts to reduce barriers to implementation would need to include upgraded capacity building and technical assistance. This would be particularly important as regards to putting in place legal mechanisms to receive CbC reports from abroad, and appropriately and effectively using CbC report information once received. Further, although the adoption by developing countries of the Multilateral Convention on Mutual Administrative Assistance has been relatively strong, additional support could be helpful given that joining the Convention is a highly efficient way to increase a country's exchange network.[24] Moreover, additional political engagement to ensure necessary elements receive sufficient impetus should also be a priority (see also Chapter 3 and Recommendation 8). Based on experience thus far, capacity building would need to be increased by several orders of magnitude to enable progress to be meaningfully accelerated.

Recommendation 1

As a priority, all stakeholders, including Inclusive Framework members, should reflect on how Country-by-Country reporting could be made more accessible to developing countries, while also protecting confidentiality of sensitive information.

[24] See results to polling question 2 in Annex C. Difficulties associated with limitations in exchange of information networks or signing / ratifying the MAAC accounted for 20% of responses.

2.2. Tackling base eroding payments such as excessive interest, royalties, etc.

Many developing countries do not have robust, effective rules to limit excessive interest deductions and would welcome additional guidance on limiting other types of base eroding payments such as excessive royalties.[25] Base eroding payments were identified in the 2014 OECD report[26] to the Development Working Group of the G20 as a key DRM issue for lower-income countries. While BEPS Action 4 set out international best practices on limiting excessive interest deductions, the rules in many developing countries fall short of these best practices. Other kinds of base eroding payments are also problematic for many lower-income countries, and may be a particular concern in the natural resources sector.

Transfer pricing rules are generally available to help ensure deductible payments such as those relating to royalties, management or service fees, are not base eroding. However, many lower-capacity countries struggle to effectively ensure compliance with the arm's length principle and advise that simplification and/or anti-avoidance measures against these kinds of base eroding payments would be welcomed.

Against this background, the development of adapted guidance and tools tailored to the needs and capacities of lower-income countries could be beneficial: a toolkit approach which sets out policy choices and options may be particularly useful.[27] Guidance on base eroding payments is part of the PCT toolkit work plan, but has not (yet) been undertaken. Developing such guidance and tools in consultation with the Inclusive Framework could have material advantages, including reducing the risk of double taxation, and helping developing countries ensure that they are able to implement robust, internationally agreed rules that meet their policy requirements and priorities.

Recommendation 2

Assistance providers should develop additional guidance and other tools, adapted to the needs and priorities of developing countries for dealing with base eroding payments such as excessive interest and royalties, to provide additional pathways to strengthening their tax systems.

2.3. Implementing consensus-based solutions to the tax challenges of the digitalisation of the economy

The 1 July 2021 agreement reached on a two-pillar solution to address the tax challenges of digitalisation of the world economy represents a step change in the international tax system and demonstrates the effectiveness of more recent developing country participation in the Inclusive Framework. As the members of the Inclusive Framework advance discussions to develop detailed rules for implementing the high-level agreement, it will be essential that the voices of lower-capacity

[25] See results of polling question 4 in Annex C.

[26] Available at https://www.oecd.org/tax/tax-global/report-to-g20-dwg-on-the-impact-of-beps-in-low-income-countries.pdf.

[27] For example, ATAF has published a range of guidance including a Suggested Approach to Drafting Interest Deductibility Legislation, available at https://events.ataftax.org/index.php?page=documents&func=view&document_id=21#.

countries continue to be heard, and that their priorities and needs are reflected in the rules. In particular, it will be important to prioritise simplification and streamlining wherever possible, and to ensure adequate technical assistance and capacity building support are available so developing countries can implement the new rules in a consistent and timely way. See Chapter 3.

2.4. Taxation in the natural resources sector

Many developing countries are natural resource-rich, and BEPS is often a significant risk to revenue in these sectors, particularly where there are large economic rents. The natural resources industries have potential to drive economic growth, provide employment, contribute to DRM goals and transfer real economic wealth to local communities. The magnitude of the sector cannot be understated, accounting for more than 20% of GDP for 41 developing countries, and more than 10% of GDP for a further 13 developing countries in 2019.[28] Non-renewable or extractives resource deposits are immobile and thereby provide a unique opportunity for resource-rich developing countries to benefit from their exploitation. However, being able to capitalise on such opportunities is not a given, and government revenues from these sectors are often low or highly volatile (see Box 2.2).

Box 2.2. Resource-rich governments face challenges in converting resource wealth into fiscal realities

For resource-rich developing countries, there will be few areas of economic policy in the coming decade that will be more important than ensuring the effective taxation of the natural resources sector. For many developing countries natural resources have, in the past, failed to deliver on expected fiscal benefits to governments and citizens. Indeed, OECD data has shown that government fiscal revenues from the extractives sector has shown a marked decline from 2013 to 2018 in the LAC and African regions,[29] which is not fully explained by commodity price fluctuations.

There are several reasons for this, including:

- A disparate and often incoherent fiscal framework due to legacy policy decisions and outdated laws.
- Unlike other segments of the economy, the application of tax laws in the extractives sector often lacks tax neutrality between taxpayers due to overly generous tax incentives or inappropriate fiscal stabilisations granted to individual projects or taxpayers.
- Aggressive BEPS strategies employed by MNEs, particularly in the area of transfer pricing.[30]
- Corruption and state/regulatory capture which hinders the progress of legal reforms and tax administration initiatives.

[28] World Bank Group and World Mining Data.

[29] OECD Global Revenue Statistics Database, 2021: https://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm.

[30] See for example, https://www.oecd.org/tax/mongolian-tax-administration-partners-with-international-organisations-and-issues-first-transfer-pricing-tax-assessment-for-usd-228-million.htm, and Her Majesty the Queen v. Cameco Corporation, 2020 FCA 112 [Cameco]; and Commissioner of Taxation v Glencore Investment Pty Ltd [2020] FCAFC 187.

For many resource-rich developing countries, the intra-group pricing of natural resource commodities and related activities remains an ongoing challenge. Whilst the *OECD Transfer Pricing Guidelines* provide guidance on pricing of commodities, particularly by reference to quoted prices, difficulties remain in cases involving vertically integrated MNEs where an intermediate product not normally traded between unrelated parties is sold. In response to this, as part of the toolkit for addressing difficulties in accessing comparables data for transfer pricing analyses, the PCT developed a supplementary report[31] that set out policy guidelines to address challenges associated with mineral pricing. The OECD and its partner, the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) will further advance the work by developing a toolkit that will focus on identifying the appropriate commodity indices for hard-to-value minerals, and expand on the practical application of pricing adjustments (e.g. based on physical characteristics of a mineral, delivery terms, and other economically significant factors).

Difficulties in determining prices in relation to transactions for natural resources can also arise where the related buyer and seller perform activities that differ from those typically undertaken by independent parties in the market. For instance, MNEs commonly use "marketing hubs" for commodity products in which the activities undertaken by each side differ from arrangements generally seen between independent parties. Such hubs often claim to assume significant risks in relation to the purchase, marketing and sale of the products, claims which many developing countries find difficult to test and challenge. While the *OECD Transfer Pricing Guidelines* were updated as part of the BEPS Action 9 to more comprehensively deal with risk allocation between related parties, the application of the guidance is fact-intensive and may be particularly challenging for lower capacity developing countries. Additional guidance on how the risk analysis framework and other aspects of the transfer pricing rules apply in the context of commodities marketing hubs will be useful. (See also section 3.3 on capacity building and the efficient and effective taxation of natural resources.)

Building on PCT guidance on the taxation of offshore indirect transfers of interests,[32] **further work applied to the extractive industries is needed**. This work would elaborate on the regulatory and administrative considerations related to transfers of interests, such as different approaches to the valuation of mining licences, consideration of relevant administrative thresholds, and sector-specific information requirements.

In addition to the taxation of profits from the sale of the natural resources themselves, some resource-rich OECD countries include in their bilateral double tax agreements, an extended definition of a PE in relation to enterprises engaged in the exploitation or extraction of finite natural resources. The extended PE definition generally relates to the provision of onsite services: potentially an important source of value creation taking place within their territories. Such measures could also be of benefit to resource-rich developing countries. The future of this topic has not yet found consensus; discussion on the possibility of generalising these kinds of approaches is ongoing.

[31] Toolkit for Addressing Difficulties in Accessing Comparables Data for Transfer Pricing Analyses (PCT, 2017): http://www.tax-platform.org/sites/pct/files/publications/116573-REVISED-PUBLIC-toolkit-on-comparability-and-mineral-pricing.pdf.

[32] Produced in response to the 2014 report to the Development Working Group. See https://www.tax-platform.org/sites/pct/files/publications/PCT_Toolkit_The_Taxation_of_Offshore_Indirect_Transfers.pdf.

Recommendation 3

In light of the importance of natural resources to a significant number of developing countries' domestic resource mobilisation efforts, the OECD Secretariat, together with relevant partners including the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) should develop practical tools and guidance on:

- ***Mineral pricing to help developing countries ensure that they are able to effectively raise government revenues from non-renewable resources;***
- ***Transfer pricing and profit allocation issues related to commodities marketing hubs, which many developing countries report as posing significant BEPS risks; and***
- ***The taxation of offshore indirect transfers in the natural resources industries. This guidance would build on the toolkit developed by the PCT, which identified these issues as particularly significant in the natural resources sectors.***

2.5. Simplification measures for transfer pricing

Generalising the use of simplification or streamlining measures relating to the application of the transfer pricing rules would benefit lower income-countries while maintaining the general application of the arm's length principle. For lower-capacity countries, a lack of data on (local) comparables contributes significantly to the challenges of applying the transfer pricing rules. In response, simplification measures, including the use of fixed margins or other prescriptive approaches were recommended by the PCT in its toolkit on addressing a lack of access to comparables.[33]

Developing countries have voiced strong support for the development of streamlined and simplified approaches for commonly-encountered marketing and distribution activities, as have been included as part of the two-pillar solution ("Amount B"). It will be essential that developing countries continue to have a strong voice in this ongoing work and that it is developed in a timely fashion taking into account their priorities and capacity constraints (see also section 3.2).

[33] The toolkit was developed in response to the 2014 report to the Development Working Group and is available at https://www.tax-platform.org/sites/pct/files/publications/116573-REVISED-PUBLIC-toolkit-on-comparability-and-mineral-pricing.pdf.

3 Supporting developing countries' domestic resource mobilisation efforts through technical assistance and capacity building

3.1. Introduction

Capacity building has been vital in supporting the implementation of international tax standards. Capacity building programmes will need significant investment to support developing country involvement in the completion of the two-pillar agreement to address the tax challenges of digitalisation (e.g. in negotiating a multilateral convention and finalisation model legislation), as well as successfully implementing the agreement against an ambitious timeline.

A range of development partners are involved in these capacity building efforts, often working in close partnership, including the members of the PCT, regional tax organisations and government-led bilateral programmes. This chapter focuses on those programmes operating under a framework set by the OECD Secretariat to support developing countries in the implementation of BEPS Actions and in their integration into the Inclusive Framework.[34] OECD capacity building in international tax has evolved from a multilateral outreach and training programme established over thirty years ago to a comprehensive range of initiatives including e-learning, bespoke country programmes, and hands-on, peer-to-peer learning through the TIWB initiative. Countries are able to combine different programmes to meet their specific needs (see Box 3.1 for an overview of the various types of capacity building programmes conducted or supported by the OECD Secretariat and partners).

[34] See - https://www.tax-platform.org/medium-term-revenue-strategy.

Box 3.1. Capacity building programmes conducted by the OECD and partners

Inclusive Framework Induction Programmes

- Lower-capacity members of the Inclusive Framework can request an induction programme to support their introduction to the Inclusive Framework and implementation of the BEPS actions. Induction programmes are generally launched with high-level meetings to secure political commitment and confirm the country's priorities. This is followed by the development of a country-owned action plan to identify the steps needed to implement the corresponding BEPS Actions.
- 43 members of the Inclusive Framework have induction programmes.

Bespoke Country Programmes on Transfer Pricing and BEPS

- Developing countries (including non-members of the Inclusive Framework) which are highly committed to implementing international standards on transfer pricing and/or other BEPS Actions, and require intensive support, can request a bespoke country programme. These programmes run over multiple years and are tailored to the specific country requirements; this can include legislative change, organisational restructuring and training staff, or all three.
- Since 2012, 42 countries have benefitted from a bespoke country programme.
- Some of these programmes are run in partnership with other organisations, including ATAF and the WBG.

"Deep Dive" Bespoke Country Programmes for Mineral-Rich Countries

- Since 2019, a new country programme for mineral-rich countries has been piloted, providing sector-specific capacity building to address taxation of natural resources.
- Five pilot programmes are currently running.
- These programmes are run in partnership with the IGF and ATAF.

Tax Inspectors Without Borders

- Since 2015, TIWB has provided hands-on assistance to build audit and related skills, through working on live cases.
- TIWB programmes have been completed, or are currently running in 51 countries, with programmes in a further 10 countries in the pipeline.
- More than USD 1.4 billion in additional revenues has been raised through TIWB programmes and the linked audit support programmes run by the OECD, ATAF and WBG. Further, nearly USD 3.9 billion in additional tax has been assessed.
- The initiative is a joint project of the OECD and United Nations Development Programme (UNDP); TIWB works in partnership with organisations including ATAF, the *Centro Interamericano de Administraciones Tributarias* (CIAT) and WBG.
- The TIWB model is being expanded beyond the audit of MNEs into new areas including criminal tax investigations and the effective use of information received through AEOI.

Global Relations Programme on Taxation (GRP) Training

- The GRP has been providing training on international tax standards since 1992. Until recently training was delivered solely through face-to-face workshops, mainly hosted by a number of

multilateral tax centres around the world. In recent years the offering has expanded to e-learning courses, while virtual workshops have been introduced in response to the COVID-19 pandemic.

- Around 30 000 tax officials took part in GRP training in 2020.
- The Knowledge Sharing Platform for Tax Administrations (KSP_{TA}) is a new online resource for sharing knowledge and expertise in tax administration and acts as the gateway to the GRP.

Platform for Collaboration on Tax (PCT) Toolkits

- One of the key activities of the PCT is to 'develop appropriate tools for developing countries in the taxation of MNEs, including in relation to the new measures from the BEPS reports.'[35]
- In this context the G20 mandated the Platform Partners (IMF, OECD, UN, WBG) to prepare a series of toolkits on international tax challenges that had been identified as high priority for low income countries.
- Five toolkits have been produced, they provide guidance on tax incentives, tax treaty negotiations, offshore indirect transfers, lack of access to transfer pricing comparables, and transfer pricing documentation.
- The toolkits have been integrated into other capacity building programmes, including the GRP.

Evidence shows that consistent, co-ordinated support over the medium to long-term provides significant benefits to developing countries including stronger rules, greater capacity, and increased tax revenues. While there are a number of challenges to monitoring and measuring the impact of capacity building programmes, not least the timescales involved, there is growing evidence that shows the concrete, positive results of capacity building efforts. Most directly, TIWB programmes are able to track their revenue impacts, with more than USD 1.4 billion in additional revenues raised through TIWB programmes and the linked audit support programmes run by the OECD, in partnership with ATAF, IGF and WBG. Furthermore, nearly USD 3.9 billion in additional tax has been assessed, indicating the potential scale of further revenues in the pipeline. More broadly, the cumulative impact of prolonged capacity building can be observed in a number of countries, which through a combination of legislative and organisational reforms, and skills building, are increasingly able to effectively enforce international standards. For example, the experience in Zambia (see Box 3.2) demonstrates the importance of a long-term perspective, with substantial positive results built through systemic engagement over a period of seven years. The experience in Mongolia (see Box 3.3) emphasises the scale of existing BEPS issues and the potential benefits of effective capacity building in addressing them.

[35] See PCT concept note - https://www.tax-platform.org/sites/pct/files/publications/104902-SECOND-REVISION-concept-note-platform-for-collaboration-on-tax.pdf.

Box 3.2. Zambia – Victory in the Supreme Court

Since 2013, Zambia has been supported by a long-term ATAF/OECD/WBG technical assistance programme. Over the years, this programme has evolved to respond to different issues arising in Zambia's particular circumstances, including the addition of a TIWB programme, an ATAF/ IGF/ OECD 'deep-dive' programme focussed on the mining sector, and a Global Forum programme on transparency and EOI.

Over this period Zambia has reformed its legislation and regulations and has reorganised the Zambia Revenue Authority (ZRA) to enable it to more effectively tax the MNEs operating in Zambia. Key milestones include:

- Setting up of a transfer pricing unit in March 2016.
- Extensive international tax reform in 2018-19 strengthening ZRAs powers to address non-compliance, and provide increased certainty:
  - New transfer pricing (and TP documentation) regulations (BEPS Actions 8-10);
  - New interest limitation legislation (BEPS Action 4);
  - New transfer pricing Practice Note;
  - Revised transfer pricing legislation on the pricing of copper and other metals;
  - New transfer pricing Audit Manual for ZRA officials.[36]

In total, USD 111 million of additional tax has been collected since 2015. This includes USD 13 million following ZRA's May 2020 victory in the Supreme Court which ruled against Mopani Copper Mines plc (MCM). The Mopani case related to the prices used by MCM for copper sold to its shareholder company in Switzerland. Enhancing the ZRA's capacity to pursue the Mopani case was a high priority for ATAF/IGF/OECD, the case being one of Zambia's first very large transfer pricing cases. Utilising the advice and training received through the technical assistance programme, the ZRA was able to build its case, contending that Mopani under-priced the copper sold to its shareholder.

The Supreme Court victory shows the impact that focussed transfer pricing work can have in developing countries, even where resources in the tax administration are limited.

Source: OECD (2021), *Building capacity to prevent profit shifting by large companies in Zambia*, OECD, Paris, https://www.oecd.org/countries/zambia/building-capacity-to-prevent-profit-shifting-by-large-companies-in-zambia.pdf.

The value of OECD capacity building programmes has been recognised by a range of third-party stakeholders. For example:

- Independent evaluation of OECD tax training programmes in 2019 found 94% of participants were satisfied with the event, and 84% of participants anticipated the training would have a high impact in their tax administration.
- The UK Independent Commission for Aid Impact highlighted the positive results of OECD capacity building (while also stressing the need to ensure sustainability of programmes).
- ATAF recognised the OECD with a 'Valued Partner Award' in 2019 in recognition of the impact of OECD support and expertise in building the capacity of both ATAF and African tax administrations.

[36] The Transfer Pricing Practice Note and Audit Manual were developed based on Suggested Approaches published by ATAF.

- The UK Foreign, Commonwealth and Development Office (previously Department for International Development) has consistently scored OECD tax technical assistance 'A'.

Box 3.3. Mongolian Tax Administration issues first transfer pricing tax assessment for USD 228 million

Since 2019, the OECD, TIWB and IGF have been working with the Mongolian Tax Administration to strengthen revenue collection from the extractives sector, which contributed more than 80 percent of Mongolia's exports and 24% of fiscal revenues in 2019. As a result of the mining tax audit capacity building initiatives, the Mongolian Tax Administration issued its first transfer pricing tax assessment in late 2020 for approximately USD 228 million and a denial of USD 1.5 billion in carried forward losses. The Tax Act ("tax assessment") was reported by the taxpayer's parent entity on 23 December 2020 and although the matter currently remains under dispute, this represents a significant milestone and step forward for the Mongolian Tax Administration in executing its strategy to combat BEPS in the mining sector. The recent tax assessment builds upon focussed efforts by the Mongolian Tax Administration and the Ministry of Finance to align the country's tax rules and practices with international best practices. Having joined the OECD's BEPS Project and the Global Forum, Mongolia is successfully implementing the BEPS measures by introducing a number of international taxation provisions.

Source: Mongolian Tax Administration partners with international organisations and issues first transfer pricing tax assessment for USD 228 million, 2021, https://www.oecd.org/tax/mongolian-tax-administration-partners-with-international-organisations-and-issues-first-transfer-pricing-tax-assessment-for-usd-228-million.htm.

Effective capacity building requires contributions from a wide range of partners, especially G20 members. The scale and range of resources and expertise required to deliver effective capacity building is beyond the capabilities of any one country or institution. Many capacity building programmes are partnerships bringing together various actors including national governments, regional tax organisations and international organisations. G20 members are especially valuable partners due to their combined political, economic and technical resources which can support developing countries. G20 members have been strong supporters of a range of OECD international tax capacity building efforts in developing countries, as can be seen in Figure 3.1 below.

Figure 3.1. G20 contributions to OECD capacity building on international tax matters

G20 Contributions to OECD Capacity Building on International Tax Matters	
Argentina	Provides experts to the GRP; hosts a Tax and Crime Academy.
Australia	Provides experts and funding to the GRP; partner in an OECD twinning programme to support the implementation of BEPS measures in Papua New Guinea. Provides funding for exchange of information capacity building.
Brazil	Hosts GRP events for officials from Brazil and other countries in the region.
Canada	Developed the KSP_{TA} and runs the yearly independent GRP evaluation; provides experts to the GRP and to TIWB; provides support to Jamaica through an OECD twinning programme. Co-chairs the Forum on Tax Administration's (FTA) Capacity Building Network. The Canada Revenue Agency Commissioner is a TIWB Governing Board member.
China	Hosts six GRP events per year through its Multilateral Tax Centre (MTC) in Yangzhou. Co-chairs FTA Capacity Building Network.
France	Provides experts to the GRP and to nine TIWB programmes; provides funding for exchange of information capacity building.
Germany	Provides experts to the GRP and to one TIWB programme; provides funding for BEPS capacity building and Africa Tax and Crime Academy.
India	Hosts two GRP events per year; provides experts to the GRP and to five TIWB programmes.
Indonesia	Hosts three GRP events per year; provides experts to the GRP; is an official TIWB Partner Administration.
Italy	Provides funding and experts to the GRP; provides experts to three TIWB programmes; hosts a Tax and Crime Academy.
Japan	Provides experts and funding to the GRP; hosts GRP events and a Tax and Crime Academy; provides funding to all OECD tax capacity building programmes.
The Republic of Korea	Hosts six GRP events per year through its MTC in Korea; funds countries in the region to participate in the GRP.
Mexico	Hosts three GRP events per year through its MTC in Mexico; provides experts to the GRP, and to three TIWB programmes.
Russia	Provides experts to regional BEPS capacity building events.
Saudi Arabia	Hosted tax and development dialogue events, including the G20 Ministerial Symposium on International Taxation in 2020 and the International Zakat and Tax Conference organised by the General Authority of Zakat and Tax in 2019.
South Africa	Hosts two GRP events per year; provides experts to the GRP, and to three TIWB programmes.
Turkey	Hosts six GRP events per year through its MTC in Ankara; provides experts to the GRP.
United Kingdom	Provides funding and experts to the GRP, and to seven TIWB programmes, Provides funding to all OECD capacity building programmes.
United States	Provides experts to the GRP and to two TIWB programmes.
European Union	Provides funding for exchange of information capacity building, Revenue Statistics in Africa, and country/regional programmes on international tax in Tunisia, Egypt and ECOWAS.

3.2. Technical assistance and capacity building support to implement the two-pillar agreement on digitalisation

The two-pillar agreement on addressing the tax challenges of digitalisation will increase the demand for capacity building in the coming years. While most developing country members of the Inclusive Framework have endorsed the recent two-pillar agreement, many have noted that the novelty and complexity of the reforms will mean an increased need for technical assistance and capacity building, in order to implement the measures in an effective and timely fashion. Moreover, although they have joined the agreement, many developing countries have expressed concerns relating to aspects of the agreement, such as those relating to enhanced tax certainty, the effects on tax incentives regimes and the need to abolish digital services taxes. As the two-pillar agreement will co-exist with current international tax rules such as those governing transfer pricing, the capacity building requirements will be additional to the existing demand for implementation of transfer pricing and the other original BEPS Actions.

Development partners, including G20 members, can support a major new capacity building programme led by the Inclusive Framework to ensure effective and timely global implementation of the two-pillar agreement and to maintain the unity of the Inclusive Framework coalition. A failure to respond to the need for capacity building would delay global implementation of the new standards, and risk undermining the commitment of low-capacity developing countries to implementation, and to the Inclusive Framework more generally. Substantial additional resources will be required both in the form of financial resources and through making expertise available. As with the implementation of the 2015 BEPS Actions, ensuring this capacity building is under the supervision of the Inclusive Framework will be vital to enable access to the expertise in the Inclusive Framework and for feedback to flow easily between developing countries and other members of the Inclusive Framework. Examples of the support needed are listed in the Box 3.4 below. As with existing capacity building programmes, this new initiative will also benefit from the expertise of other assistance providers, and a range of partnerships will be needed.

The implementation of Amount B, strongly favoured by many developing countries, may help reduce the need for capacity building in some areas, and so should be prioritised. Amount B of Pillar One is designed to reduce the complexity of transfer pricing for certain marketing and distribution activities that, while routine, account for a disproportionate number of disputes. As such, the effective introduction of Amount B may play a role in reducing the demands on, and capacity building needs of, tax administrations in this aspect of transfer pricing. Given the increased demands being made on developing countries for the implementation of other aspects of the agreement, ensuring that the simplification offered by Amount B can be realised as soon as possible is essential.

Box 3.4. Examples of support to be provided to developing countries on the two-pillar agreement

Pillar One

- Assist developing country Inclusive Framework members at each stage of the implementation process relating to enacting domestic legislation or other international public law instruments, including:
    - Support on the development of domestic legislation;
    - Support relating to the negotiation of a multilateral convention or bilateral conventions (depending on the nature of the final agreement);
    - Assistance on the processes relating to signature and ratification of such conventions.
- Support developing country Inclusive Framework members in administering Amount A, and reviewing related tax returns (e.g., revenue sourcing rules, book-to-tax adjustments, segmentation), including by participating effectively in the centralised administration system.
- Support developing country Inclusive Framework members to participate effectively in the tax certainty panel process for Amount A, as well as in other agreed tax certainty processes as required.
- Help developing country Inclusive Framework members understand the new international tax environment under Pillar One and the implications for other areas of domestic tax policy design.
- Support developing country Inclusive Framework members to participate actively in the development and implementation of Amount B.

Pillar Two

- Support developing country Inclusive Framework members with implementing the subject to tax rule (STTR), including through participation in a multilateral instrument (depending on the nature of the final agreement).
- Assist developing country Inclusive Framework members in implementing the Global Anti-Base Erosion (GloBE) rules (i.e. the Income Inclusion Rule and the Undertaxed Payments Rule), including as they relate to legislative / regulatory reforms.
- Support developing country Inclusive Framework members wishing to participate in any multilateral process that is developed to facilitate co-ordination of the GloBE / STTR rules. This may include identifying countries with GloBE rules that are considered to be examples of best practice.
- Assist developing country tax administrations to put in place the necessary compliance processes to facilitate administration and compliance with the STTR and the GloBE rules, as well as building capacity within their administrations to enforce the rules.
- Support developing country tax administrations to effectively administer the GloBE rules including development of additional guidance, technical assistance and capacity building.
- Help developing country Inclusive Framework members understand the new international tax environment under Pillar Two and the implications for other areas of domestic tax policy design.

Pillar Two and its relationship to tax incentives regimes

Significant numbers of developing countries consider tax incentives as an important tool to encourage foreign direct investment. A substance-based carve-out has been incorporated into the Pillar Two

agreement as a result. Developing countries may require support in relation to adjusting existing incentives regimes, in particular, there may be specific legal and practical issues associated with incentives granted via individual contracts (especially where guaranteed for a specific period) or arising from interactions between Pillar Two measures or changes to tax incentives and bilateral investment treaties. More generally, a structured understanding of how tax incentive regimes apply across the world and how they interact with Pillar Two will be needed to support countries through the implementation phase.

Recommendation 4

Development partners, including G20 members, should, as a priority, support a major Inclusive Framework initiative, to be launched in early 2022, to provide capacity building support and technical assistance to ensure developing countries can adopt and implement the Pillar One and Pillar Two measures in an appropriate and timely fashion.

3.3. Enhancing technical assistance and capacity building efforts

There is a clear need for further expansion in capacity building in addition to support on the two-pillar agreement, including sector-specific support. Feedback from developing countries reveals significant unmet demand for further capacity building on international taxation. Regional consultation events identified that tax treaties, dispute prevention and avoidance, and tax administration were the highest priorities for further assistance.[37] There is also demand for more dedicated support for the effective taxation of specific sectors. While natural resources is an obvious priority in resource-rich countries (see section 3.5), there is also a need for support in other highly specialised sectors such as financial services and telecommunications (see Box 3.5).

[37] See results of polling question 6 in Annex C.

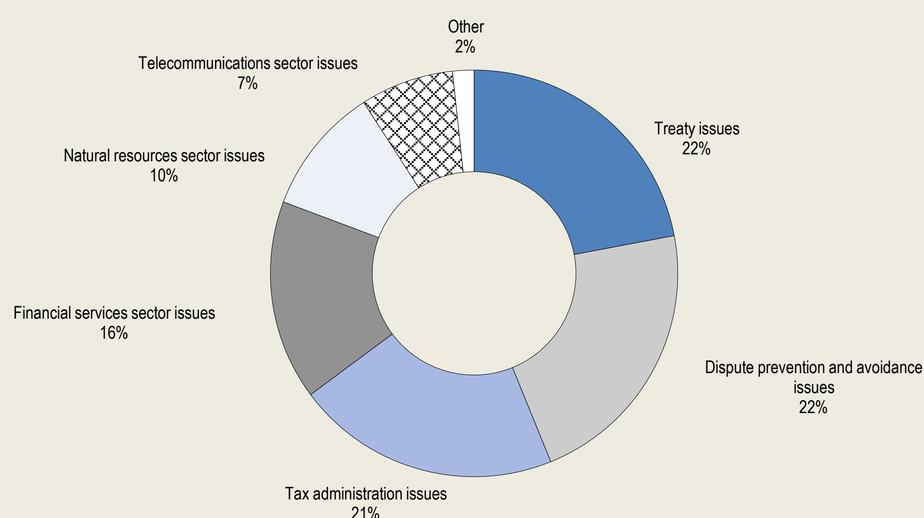
Box 3.5. Priority areas for capacity building assistance

Polling results and the outcomes of panel discussions in the series of regional consultation events show a high demand across all regions for practical support programmes in the following areas:

- tax treaties,
- dispute prevention and avoidance (including through use of the MAP) and,
- tax administration.

Aggregating the polling results from all meetings, each of these three areas recorded around 20% of responses. The strong response for dispute prevention and avoidance demonstrates the importance of the issue to the subset of countries that have significant international compliance programmes.

Polling Question: What areas should be a priority for practical support programmes?



Regarding support programmes focussed on specific industries, the results from the meetings show stronger regional differences. For instance, one region identified financial services sector issues as highest priority for capacity building assistance, whereas another region ranked natural resources sector issues including commodities hubs as highest priority alongside with telecommunication sector issues. The particular focus on natural resource taxation in this report reflects the “make-or-break” nature of the sector for resource-rich developing countries.

Source: Answers gathered during the Regional consultations that took place between 31 May and 9 July 2021.

Practical, peer-to-peer support is highly valued, and should continue to expand. The TIWB model of hands-on peer-to-peer support is highly effective and demand for it continues to increase, including for support from sector-specific experts. The principal limiting factor for TIWB expansion is the availability of experts, and further efforts should be made to encourage administrations with appropriate experts, especially those with relevant language skills, to participate in the programme. In addition, polling results from regional consultation events indicate that many developing countries consider peer-based regional co-operation and co-ordination to be extremely effective both in terms of building technical capacity and in encouraging greater engagement with policymakers. Most existing capacity

building programmes are undertaken in partnership or co-ordination with regional partners, and this should continue to be encouraged.

Demand for capacity building extends throughout government, requiring whole-of-government approaches covering technical, administrative and political aspects. Tax reform does not exist in a vacuum and requires a range of skills and capabilities across government; from technical analytical skills to policy design, through translating technical policy into appropriate legislative measures to be passed by politicians (which itself often requires effective communication materials to ensure that the measure receives appropriate priority and can withstand competing pressures), to effective administration for implementation. Weaknesses in any stage can delay and/or weaken reforms. Capacity building efforts should therefore seek to extend beyond the current focus on tax administration to include strong engagement with policy makers responsible for legislative and regulatory reforms. This may require new partnerships to be established.

International taxation reform is one of several reform priorities for countries and can benefit from inclusion in broader tax system reform plans. A Medium Term Revenue Strategy (MTRS) approach, as set out by the PCT, is one framework countries may adopt to support broad tax system reform over a four to six year timeframe. An MTRS combines political commitment with tax reform objectives linked to revenue goals, and encourages development partners to align support to the strategy.[38]

Leveraging technological solutions to enhancing capacity in tax administration

In addition to the above, there are opportunities to leverage technological solutions to support enhancing the effectiveness and efficiency of tax administration in international taxation. For example, digitalisation and automation of processes has become best practice in many areas of tax administration, from data analysis for risk assessment, to technological solutions for compliance enforcement. Effective digitalisation is likely to be a key component in enabling countries to make the most of the international standards established by the Inclusive Framework and on exchange of information. For example e-administration can improve security and help accelerate progress towards meeting AEOI confidentiality standards, which in turn, would provide a pathway to receipt of CbC reports and other information to combat tax avoidance and evasion. As many countries, especially the 53 members of the FTA, have made significant advances in digitalisation of tax administration, there is significant best practice to draw on to establish new capacity building initiatives. Unlocking this experience and expertise held within FTA tax administrations is therefore vital, and should be encouraged, including through the activities of the FTA Capacity Building Network. The digitalisation of tax administration is not limited to international tax dimensions however, and will often be best considered as part of a system-wide reform process; this is discussed in further detail in Chapter 5.

Efficient and effective fiscal frameworks for natural resources

Given the importance of natural resources to many developing countries, an expansion of the "Deep Dive" programmes with mineral-rich developing countries is warranted. These holistic programmes, conducted by the OECD Secretariat, the IGF and regional development partners, will complement the additional guidance discussed in section 2.4 in supporting DRM efforts. The focus on fiscal frameworks for mineral resources is also well aligned with the clean energy agenda which will drive significant demand for critical minerals such as copper, nickel, silicon, zinc, manganese, lithium

[38] See - https://www.tax-platform.org/medium-term-revenue-strategy.

and rare earth elements,[39] while creating risks of declining demand and stranded assets in fossil fuels sectors such as oil and gas. In the natural resources sector in particular, a range of inter-linked policy and governance issues mean it is essential to ensure capacity building support is considered on a whole-of-government basis (see also Box 2.2).

Recommendation 5

Development partners and assistance providers, including G20 members, should deliver expertise and financing to:

- ***Intensify and continue the current tailor-made technical assistance and capacity building initiatives which have been shown to provide significant benefits over the medium to long term and expand the work to support capacity building on tax treaty related matters including the prevention and resolution of tax disputes through effective use of the Mutual Agreement Procedure (MAP) where the consultation process exposed needs;.***
- ***Further strengthen Tax Inspectors Without Borders (TIWB) and similar peer-based tax compliance initiatives, with a focus on strategic industries and issues, including natural resources, the financial services and telecommunications sectors; and issues such as improving tax administration;***
- ***Expand the "Deep Dive" capacity building programmes, conducted by the OECD Secretariat with the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) and other partners, to support developing countries capitalise on their mineral resources.***

Recommendation 6

All Inclusive Framework stakeholders should encourage and support greater political awareness and buy-in on the need for legislative and administrative reform, including by engaging with parliaments and other policy makers at the highest levels.

Encouraging voluntary compliance and increased tax morale is an integral part of building an efficient international tax system, and requires a constructive dialogue with business stakeholders. All tax systems rely on high levels of voluntary compliance; this is especially important for capacity-constrained administrations, as it preserves scarce resources for the most consequential risks and worst offenders. Building voluntary compliance is challenging, and cannot be undertaken by tax administrations alone, it requires actions by taxpayers too, both through working with tax administrations to improve the design of compliance processes, and through working internally, and with other taxpayers to build high standards of compliance and tax morale. Ongoing research by the OECD has been investigating how large taxpayers and tax administrations perceive each other, and

[39] IEA (2021), The Role of Critical Minerals in Clean Energy Transitions, IEA, Paris https://www.iea.org/reports/the-role-of-critical-minerals-in-clean-energy-transitions.

has identified a number of challenges, especially in trust and communications. There is significant scope for more work in this area, including improving business voluntary principles on tax and exploring the potential of co-operative compliance in capacity constrained contexts.

4 Inclusivity and governance of the Inclusive Framework

4.1. Introduction

The establishment of the Inclusive Framework in 2016 under a mandate[40] from the G20 has brought about a huge increase in the inclusivity of the international tax architecture. As was noted in Chapter 1, developing countries now make up around one-third of the membership of the Inclusive Framework.[41] This has resulted in a significant transformation of international tax policymaking, with decisions no longer made by OECD members only, but through a truly inclusive body comprising countries from all regions and levels of development. However, effective participation and full integration into this new architecture by lower-capacity countries continue to be a challenge, in spite of the support of many development partners.

The recent two-pillar agreement demonstrates that the new international tax architecture can work for developing countries, but some struggle to effectively participate in practice. For instance, lower-capacity countries find it challenging to keep pace with multiple technical workstreams, particularly where they may have only a handful of technical staff responsible for all aspects of international taxation. Lower-capacity countries may face challenges in analysing the impact of various proposals on their economies or their tax revenues. They may also not have built up long-term institutional knowledge and negotiation skills relating to complex multilateral discussions. Further, only a limited number of developing countries consistently attend technical level meetings, due to the associated travel costs (for face-to-face meetings), as well as competing priorities.[42] This is exacerbated for some by the fact that highly technical discussions take place in a foreign language.[43]

Limited lower-capacity country representation and participation, as well as scarce opportunities for collaboration among these countries to articulate common positions, have meant that developing countries have typically had less influence on setting the Inclusive Framework agenda, establishing priorities and putting forward proposals, often limiting themselves to reacting to other countries' positions. To some

[40] See Communiqué, Meeting of G20 Finance Ministers and Central Bank Governors, Cairns, September 21, 2014.

[41] For further information on the Inclusive Framework, its work and governance, as well as on how decisions are taken and relevant stakeholders involved, consult the OECD's BEPS website and the frequently asked questions available at https://www.oecd.org/tax/beps/faq/. The list of members of the Inclusive Framework is available at https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf.

[42] See Christensen, RC, Hearson, M and Randriamanalina, T (2020), *op cit*. The paper reports that "*in 2019, only 5.4 per cent of working party attendees represented lower-income countries. The same goes for working party bureaux, where participation by lower-income countries is almost non-existent* […] *As a whole, non-OECD countries represent less than 25 per cent of working party attendees, despite making up almost 75 per cent of IF membership*" (page 12).

[43] Idem. The paper notes that "*a high barrier in terms of technical knowledge*" and "*the speed of policymaking*" are major concerns, in many cases combined with "*the demands of working in a foreign language*" (page 14).

extent, changes are starting to be seen in this regard, particularly in the recent two-pillar agreement, as developing countries become familiar with Inclusive Framework processes.

This chapter sets out a number of concrete proposals to help lower-income countries capitalise on recent progress, continue to lower existing barriers and effectively engage in the Inclusive Framework. These include improvements to existing structural frameworks and governance arrangements, as well as complementary practical measures to support lower-capacity countries to effectively participate in key meetings.

4.2. Governance arrangements and structure

Recognising the diverse membership of the Inclusive Framework, which includes different types of non-OECD economies, current chairing arrangements could evolve to comprise two co-chairs, including one from a non-OECD/non-G20 economy. Feedback from regional consultation events on practical ways to enhance inclusivity indicated strong support for greater representation by developing countries in the leadership of the Inclusive Framework and its subsidiary bodies.[44] Similar co-chairing arrangements could be considered for the Working Parties and other subsidiary bodies. In addition, consideration could be given to the revision of the memberships of the bureaux or steering groups of the subsidiary bodies, to ensure that they more systemically include representatives from a range of non-OECD economies, including lower-capacity countries.

The role of the Advisory Group for Co-operation with Partner Economies (Advisory Group) could be updated to provide an effective platform for officials from developing countries to exchange views, articulate positions and contribute inputs into the work of the OECD Committee on Fiscal Affairs (CFA) in its Inclusive Framework format. The Advisory Group [45] has traditionally focused on capacity building, but it could play a role in amplifying developing country participation in the work of the Inclusive Framework, helping to ensure that their perspectives are reflected in the agenda and priorities of the Inclusive Framework as well as the development of standards and guidance. With the appointment of a developing country Co-Chair (Ms Marlene Parker, Jamaica), the evolution of the Advisory Group towards such a role is already well prepared.

Finally, while information on the Inclusive Framework and its work is available,[46] opportunities exist to build on these communication tools to promote greater transparency and foster trust and confidence in Inclusive Framework-related processes. For instance, information could be provided publicly on developing country participation in Inclusive Framework and subsidiary body leadership groups and meetings.

Recommendation 7

The Inclusive Framework stakeholders should, as a priority, reflect on governance arrangements to ensure a broad and systematic inclusion of developing countries. This could include consideration of representation in the leadership of the Inclusive Framework and its subsidiary bodies, and updating the mandate of the Advisory Group for Co-operation with Partner Economies.

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[44] See results of polling question 7, at Annex C.

[45] For further information on the Advisory Group for Co-operation with Partner Economies, consult the OECD's website at http://www.oecd.org/tax/tax-global/advisory-group-for-co-operation-with-partner-economies.htm.

[46] Base erosion and profit shifting - OECD BEPS; Frequently Asked Question OECD BEPS.

Working Party No. 9 on Consumption Taxes and the Inclusive Framework

In light of the growing importance of VAT/GST to DRM efforts in developing countries, there may be advantages to bringing WP9 under the scope of the Inclusive Framework. WP9 is responsible for the development of international standards including the *OECD International VAT/GST Guidelines* and associated implementation guidance.[47] It has been working to address issues identified in the BEPS Action 1 Report on the effects of digitalisation on VAT/GST policy and administration. Incorporating WP9 into the Inclusive Framework could reinforce the global dialogue on international VAT/GST standards, which is currently carried out through the Global Forum on VAT that provides a platform for engagement with more than 100 jurisdictions. Developing countries have also noted the potential advantages of bringing VAT matters under the umbrella of the Inclusive Framework (see Chapter 5).

Recommendation 8

In light of the growing importance of VAT/GST and the cross-overs between the work of Working Party No. 9 on Consumption Taxes (WP9) and the Inclusive Framework, the Inclusive Framework stakeholders should consider, as a priority, integrating WP9 into the scope of the Inclusive Framework.

4.3. Practical support for effective participation by lower-capacity countries

Financial and human resource constraints faced by developing countries significantly affect their capacity to attend and actively engage in Inclusive Framework discussions. Judicious use of virtual meetings, combined with providing funding in exceptional circumstances for developing country representatives to travel to face-to-face meetings, could help to overcome these barriers**.** The shift to online meetings in 2020 due to the COVID-19 pandemic allowed more officials from developing countries to participate.[48] However, virtual meetings also present disadvantages that impact on the effectiveness of the discussions, particularly for more intense and complex negotiations. Less experienced participants may find it even more difficult to engage, and there is limited room for informal interactions that can help build understanding and trust. Time differences between different geographic locations set limits on virtual meetings, exacerbating the challenges in terms of speed and intensity of the discussions. In the future, a hybrid approach to meetings, using virtual meetings for less complex or preliminary discussions and

[47] See report on "*Mechanisms for the effective collection of VAT/GST where the supplier is not located in the jurisdiction of taxation*" and report on "*The role of digital platforms in the collection of VAT/GST on online sales.*"

[48] More than 60 lower-income members participated in each Inclusive Framework plenary session held virtually in 2020 (though this number includes some jurisdictions which are OECD or G20 members, or are considered to be a financial centre), while less than 40 attended in-person meetings held in 2019. In 2020, developing country participation in virtual meetings of some Inclusive Framework working groups also increased compared to participation in face-to-face meetings held in 2019, but to a much lesser extent. For instance, developing country participants in the Task Force on the Digital Economy went up from 34% of the total attendees in 2019 to 38% in 2020. A similar limited increase in percentage was observed for some Working Parties, e.g. WP6 and WP11, while WP1 has actually saw a drop in developing country participation in 2020. This shows that – at the level of working groups – the issue of developing country engagement goes beyond travel-related costs. See infra.

providing support to developing countries to attend face-to-face meetings held at critical decision points, may be beneficial.

Timely availability of translated documents and interpretation of meetings were also cited by certain countries as critical to their active engagement.[49] Additional resources to support the timely production of translated documents and availability of interpretation services would clearly benefit developing countries where English is not a commonly used language.

Additional direct support could be provided to lower capacity countries participating in the Inclusive Framework to strengthen their officials' expertise[50] (including representatives from tax administrations and policy areas), for instance through pre-meeting briefings and tailored workshops, at regional and/or national levels, facilitated by the OECD Secretariat and (or in collaboration with) relevant RTOs or other partners. Investing in technical knowledge, negotiation and diplomatic skills of developing country officials is important to ensuring effective engagement and influence on Inclusive Framework policymaking.[51] Feedback from consultation events shows that participants particularly value regional events as an effective way of building expertise and confidence through engagement with peers.

Further enhancing collaboration of lower capacity countries with their peers and regional partners could enable a more effective representation of their interests and positions. [52] This could be facilitated through dedicated meetings organised with the support of regional tax organisations and other regional bodies that have already successfully facilitated similar endeavours (e.g. ATAF, *Cercle de Réflexion et d'Échange des Dirigeants des Administrations Fiscales* (CREDAF), CIAT, the Commonwealth Association of Tax Administrators (CATA), the Study Group of Asian Tax Administration and Research (SGATAR)). Feedback from regional consultations indicated strong support across the board for more peer-to-peer, regionally organised dialogue/workshops, as a means to both build capacity and engage with policy-makers. The Cross Border Taxation Technical Committee (CBT) of ATAF is an example of how regional, peer-based groupings can help to strengthen and amplify developing countries' influence in Inclusive Framework processes. See Box 4.1, below.

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[49] See polling results of question 7 at Annex C and *At the Table, Off the Menu? Assessing the Participation of Lower-Income Countries in Global Tax Negotiations*, cit., page 14.

[50] See results of polling question 7, at Annex C.

[51] See *At the Table, Off the Menu? Assessing the Participation of Lower-Income Countries in Global Tax Negotiations*, cit. The paper notes that "*a long-term perspective is needed to build a cohort of people with deep knowledge, experience and networks"* and that *"there is no substitute for investment in skilled and experienced representatives*" (page 29).

[52] Idem, page 23-25. The paper highlights that "*if lower-income countries work together, and with other countries with common interests, they should draw considerable influence form combined economic size and diplomatic force.*" It also notes that "*the outstanding vehicles for collaboration in the Inclusive Framework have been the G24 and ATAF.* […] *Although new to global tax standard setting, the G24 benefits from political backing, directly drawing from high-level diplomats in ministries of foreign affairs and finance*. […] *ATAF, in contrast, relies less on political support and engagement and more on technical interventions.* […] *ATAF's key resource is technical collaboration, which allows African States to overcome their individual capacity constraints.*"

Box 4.1. ATAF Cross Border Taxation Technical Committee: A model for regional co-operation with the Inclusive Framework

In 2014, ATAF established the CBT with the objective of influencing the global standard setting process to ensure new international tax rules are fit for purpose in Africa. The CBT comprises international tax experts from ATAF member countries supported by international tax advisers in the ATAF Secretariat. Through the CBT, ATAF has made numerous written comments and interventions at meetings of the Inclusive Framework and its subsidiary bodies recommending revisions to the Pillar One and Pillar Two rules. This culminated in the ATAF Pillar One proposal[53] that was submitted to the Inclusive Framework in May 2021. Much of that proposal has been included in the July statement agreed by 134 Inclusive Framework members including a comprehensive scope for Pillar One, the exclusion of the extractives sector and a reduction in the nexus threshold from EUR 5 million to EUR 1 million and a lower threshold of EUR 250 000 for small economies.

International Organisations can also support developing countries in their engagement on the BEPS agenda. The PCT mandate, for example, indicates the PCT will 'support interested developing countries to participate in the implementation of the BEPS package and input into future global standard setting on international taxation'.[54]

Recommendation 9

Inclusive Framework stakeholders should put in place practical measures to enhance developing country engagement and participation such as:

- ***Making Inclusive Framework related meetings more accessible by funding travel where appropriate, making interpretation/translation services widely available and organising pre-meeting briefings and bespoke workshops;***
- ***Supporting assistance providers in the provision of training and mentorship programmes to strengthen the technical, negotiation and diplomatic skills of developing country officials; and***
- ***Promoting greater collaboration among developing countries, including at regional level together with regional tax organisations, to effectively articulate and represent common interests and positions in the Inclusive Framework.***

[53] See https://www.ataftax.org/ataf-sends-revised-pillar-one-proposals-to-the-inclusive-framework.

[54] See - https://www.tax-platform.org/sites/pct/files/publications/104902-SECOND-REVISION-concept-note-platform-for-collaboration-on-tax.pdf.

5 Domestic resource mobilisation and future priorities for the Inclusive Framework

In the last ten years, international tax co-operation has changed dramatically, reflecting the growing need, and appetite, for multilateral action to address the challenges posed by rapid globalisation and digitalisation. The establishment and growth of the Global Forum and Inclusive Framework are the most obvious illustrations of the change in approach on international tax co-operation. They demonstrate that governments have recognised that co-ordination and co-operation are vital, and can help preserve, rather than hinder, tax sovereignty.

The range of transnational taxation challenges governments are facing continues to grow, driven by the policies needed to confront accelerating climate change and the impact of the pandemic. While base erosion and profit shifting challenges are the most obvious issues requiring multilateral tax co-operation, there is a range of challenges that have tax dimensions that lie beyond any one country's borders and require a co-ordinated international response. As a result of the pandemic and ensuing economic crisis, the fiscal situation in developing countries has deteriorated and many are reconsidering their tax policy frameworks, both to support recovery; and in the longer term, to restore sustainable public finances. This need to focus on DRM is particularly acute in countries where tax revenues were already low as a share of GDP prior to the crisis.

The mandate of the Inclusive Framework is dedicated to the BEPS agenda, and the current Pillar One/ Pillar Two agenda will be the priority for the Inclusive Framework in the short to medium term. Developing countries are, however, raising topics where they would benefit from further multilateral dialogue in the future. The Inclusive Framework format may have value as a forum or a model for addressing other taxation issues. Discussions with developing countries, including through the consultation process for this report, highlighted a range of other pressing DRM issues facing developing countries, summarised in the rest of this chapter.

5.1. Tackling climate change through tax policy action

Developing countries are increasingly vocal that greening the tax system and addressing the challenges posed by climate change are a priority for future global tax policy discussions, as countries seek to achieve the ambitious goals set out in the Paris Agreement and to reduce the pace of climate change**.** There is increasing agreement that fiscal instruments will be important tools in efforts to combat climate change, illustrated for example by the establishment of the Coalition of Finance Ministers for Climate Action[55] whose principles include working towards measures that result in effective carbon

[55] The Coalition is a global Finance Minister-led initiative to accelerate climate action comprising members from 62 countries from all regions and levels of economic development.

pricing and green budgeting. The need to establish standards and share best practice on environmental taxation was also raised in the consultations for this report.

Moreover, developing countries that are reliant on fossil fuels will need to urgently design strategic policies to navigate the energy transition and to intensify investments into economic sectors and/or sovereign wealth funds that will deliver sustainable economic growth and government revenue; eliminate wasteful fossil fuel subsidies and tackle the issue of stranded extractive assets.[56]

Increasing environmentally related taxes or reducing fossil fuel subsidies needs to be accompanied by policies to ensure energy affordability. For example, the cost of energy and energy-intensive products rises when taxes on energy use are aligned with environment and climate impacts. Transparent measures to avoid undue adverse effects on living standards can be funded by assigning a portion of the revenue raised through tax increases to this end. The choice of transfer mechanism depends on the social expenditure system, in exceptional circumstances, where institutions and systems are weak, it may be necessary to keep prices of some fuels low to avoid rising energy poverty or substitution towards informal market fuels.

Carbon pricing will play a key role in translating the high-level policy objectives set out in both the Paris Agreement and the Sustainable Development Goals (SDGs) into concrete action. Explicit carbon pricing, through carbon taxes or emissions trading systems will attract attention from policymakers seeking to build back public finances after the COVID-19 crisis. Recent OECD research, based on a diverse a group of 15 developing countries, suggests that explicitly pricing carbon could make a sizable contribution to mobilising domestic resources, contributing an additional one percent of GDP to government revenues, on average, but with significant differences across countries.[57] Countries' policy mix for reducing greenhouse gases will, however, depend on local circumstances, and may include regulatory policies resulting in implicit carbon prices. In addition, the use of explicit carbon prices should be considered in tandem with the reform of fuel excise taxes and fossil fuel subsidies, both of which affect implicit carbon prices.

Tax policy can also play a broader role in the pursuit of climate goals by aligning the overall tax system with climate objectives. Such alignment can include addressing the emissions of other greenhouse gases, and requires removing inadvertent hurdles to emissions abatement or adaptation efforts. This can be achieved by, for example, reconsidering preferential tax treatment of carbon-intensive technologies or consumption patterns, and through implementing incentives for low-carbon choices where market failures would otherwise tend to disadvantage them.

As the use and scope of environmentally related taxes expand, the need for standards to address the international dimensions, and the benefits from dialogue and co-operation on domestic policy, will also expand. The ongoing discussions on possible carbon border adjustments, seek to address the potential cross-border spillovers of strong differences in the pricing of carbon emissions across countries; however carbon border adjustments in themselves result in spillovers and can affect trade relations. International co-operation will be needed to manage these spillovers.

[56] Inter-American Development Bank, Extractive Industries Sector Framework Document, Fiscal Management Division, (2021) https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1695735402-49.

[57] Taxing Energy Use for Sustainable Development (OECD, 2021) - https://www.oecd.org/tax/tax-policy/taxing-energy-use-for-sustainable-development.htm.

5.2. Safeguarding VAT/GST revenues in the face of growing digitalisation and e-commerce

There is high demand from developing countries for further action on VAT/GST, as VAT/GST revenues need to be safeguarded in an increasingly digitalised and global economy. The consultation process showed strong support for an increased focus on VAT/GST, it was the second most popular option, behind tax administration issues[58] (see section 5.5). VAT/GST are typically the largest source of tax revenue in developing countries, accounting for an average of 30% of total tax revenues in Africa, 28% in Latin America and the Caribbean, and 23% in Asian and Pacific economies. They also represent more than one-third of total revenues in 23 developing countries, and have contributed strongly to the growth in developing country DRM over the last decade. Given the scale of the revenues at stake, ensuring the sustainability of these revenues is a key priority for many developing countries.

The rapid growth of e-commerce, accelerated by the COVID-19 pandemic, poses significant challenges for domestic VAT/GST systems. Firstly, volumes of online sales of services and digital products (such as accommodation services, music and television streaming, and ride-hailing, as well as in-app purchases) to private customers are increasing. In the absence of effective VAT/GST provisions on supplies of services and digital products under traditional rules, these sales often attract no or very little VAT/GST. Secondly, the volume of imports of low-value goods from online sales is also growing strongly. Traditional customs procedures often fail to collect VAT/GST (and indeed other indirect taxes) effectively on these purchases, allowing them to enter jurisdictions without VAT/GST being paid. As the volume of these imports increases, so do VAT/GST revenue losses, and pressure is placed on domestic “brick-and-mortar” businesses, which are unable to compete with the rising volumes of effectively VAT/GST-free online retail sales.

The implementation of multilateral standards and enhanced international co-operation will be critical in protecting VAT/GST revenues from increasing digitalisation and e-commerce. Globally, governments have recognised that international co-operation is important in effectively addressing the VAT/GST challenges of the digital economy, with the goals of raising compliance levels at the lowest possible cost, minimising risks of trade distortion, and supporting effective international co-operation in tax administration and enforcement. The *OECD International VAT/GST Guidelines* and subsequent detailed technical and practical guidance reflect a broad consensus on effective and efficient VAT/GST solutions to increasing e-commerce activity. To date, these standards and recommendations have been implemented in over 70 jurisdictions, with strongly positive results in terms of increasing VAT/GST revenues and compliance levels, while reducing competitive distortions between domestic and online vendors. To further the implementation of these standards, the OECD and WBG, in partnership with regional organisations, are developing regional toolkits that will provide detailed guidance on the design, implementation, and operation of a comprehensive VAT/GST strategy to address the challenges of digital trade.

Continued development and implementation of these standards and regional toolkits via ongoing international co-operation will be critical to equip VAT/GST systems to meet the challenge of rapid digitalisation and to allow developing countries to implement these standards effectively. The Inclusive Framework offers a potential home for furthering policy discussions on securing VAT/GST revenues from e-commerce and on the implementation of these standards. Many developing countries are already engaged through the Global Forum on VAT, and as noted in section 4.2, there could be potential benefits to integrating WP9 into the Inclusive Framework.

[58] See results of polling question 8 in Annex C.

5.3. Ensuring effective taxation of personal income and property through improved tax policy design and AEOI

Many developing countries are seeking support in the design and implementation of better personal income and property taxation, driven in part by growing inequalities, exacerbated by the COVID-19 pandemic, combined with deteriorating fiscal positions. The crisis has significantly affected the fiscal positions of many developing countries due to its impact on economies and government responses in the form of support measures for households and businesses. Government expenditures have increased while tax revenues have decreased, in some cases dramatically worsening countries' debt burdens and increasing the need for DRM once the crisis has passed. At the same time, preliminary evidence suggests that the pandemic has reinforced existing inequalities in many countries. Low-income workers, particularly in sectors affected by lockdown or social distancing measures, have been strongly affected, whereas higher income workers have been more likely to telework and have in general, seen an increase in their savings. Wealthy households have also benefitted from increases in asset prices since the start of the pandemic. Governments in many developing countries are therefore faced with the twin challenges of raising much needed domestic revenues while addressing these inequalities, reducing unemployment, and providing social protection. This is resulting in greater consideration of personal income (including personal capital income) and property taxation by some developing countries, accompanied by growing requests for guidance and assistance in design and implementation.

Broadening the base of personal income taxes and strengthening the overall progressivity of these taxes will be an important part of the tax policy debate in developing countries over the next few years. While VAT/GST is high as a share of total tax revenues in developing countries, personal income taxes represent a considerably lower source of revenues due to narrow tax bases, extensive tax preferences, and low progressivity. A key part of strengthening personal income taxation will be increasing the effective taxation of capital income and of top earners. Similarly, increasing the taxation of property, in particular via well-designed taxes on immovable property, can play a key role. Additional tools such as net wealth taxes, inheritance and capital gains taxes that are attracting increasing attention could also be explored. A number of countries have begun to strengthen personal income and property taxes in light of the COVID-19 pandemic, but they remain underdeveloped in many countries.

The potential for a more effective taxation of capital incomes in developing countries has been enhanced by the implementation of AEOI. AEOI has reduced the opportunities for taxpayers to avoid taxes on capital income by concealing assets abroad (O'Reilly, Parra Ramirez and Stemmer, 2019[2]). As more developing countries successfully implement the standard on AEOI, providing access to valuable new sources of information, demand for support in using the information received effectively will increase. TIWB is already responding to this demand through the establishment of a pilot programme on effective use of AEOI data, complementing assistance programmes developed by the Global Forum.

Increased co-ordination at the international level will be important to ensure that capital income is taxed as effectively as possible, and to resolve cross-border issues that arise in the exchange of information between jurisdictions. The well-established architecture of the Inclusive Framework could potentially allow the facilitation of peer learning and discussions on the effective taxation of personal income and wealth, provide a forum to discuss and implement best practices, and equip administrations with the necessary legal, administrative and IT tools to benefit from AEOI.

5.4. Improving tax policy design to support the Sustainable Development Goals

As the largest and most stable source of domestic revenues in almost all developing countries, tax has an important role in financing the SDGs. Improving tax policy to align to SDG-financing strategies is an increasing priority for many countries. Improving the financing of vital public goods is

essential for the realisation of the SDGs, and as the AAAA underlines, tax revenues are the only viable source for the vast majority of that financing. Many developing countries are developing medium or longer-term strategies for financing the SDGs,[59] with an emphasis on taxation. Designing tax policies to realise SDG-financing goals is challenging, however, and requires careful consideration of a wide range of factors including rates, base and behavioural changes, as well as economic and distributional impacts; many countries are therefore seeking support as they develop their SDG-aligned tax policies.

COVID-19 has thrown into sharp relief the need for tax systems to support the financing of robust and responsive health systems, particularly in times of crisis. Health financing presents a range of challenges, including the design and use of social security contributions and the role of taxation to encourage healthier behaviour. In many developing countries, public expenditure on health is comparatively low as a share of GDP, necessitating a high share of private expenditures on health-care, which can be both regressive and inequitable. Restricted public financing also limits the ability of the health system to develop capacity to respond to increasing healthcare needs in the community. Improving health financing through the tax system requires careful consideration of the design and use of social security contributions, through broadening the contribution base, ensuring that rates are adequate, and promoting formal labour force participation. Further, improving the design of taxes with strong links to the health sector can also contribute, such as those on products harmful to health. For instance, taxes on tobacco and alcohol consumption, as well as environmentally related taxes that help reduce pollution, can play an important role in boosting public revenues, as well as reducing harmful product consumption; and other health-related taxes, such as taxes on sugar, are increasingly being considered.

In designing tax systems to finance the SDGs, peer learning and multilateral solutions will be critical, building on successes and lessons learned in other jurisdictions and the expertise of international and regional organisations. While there are a number of institutions providing support in the development of SDG-aligned tax systems, there is currently no global forum to facilitate peer-exchange and dialogue.

5.5. Supporting tax administration development

Tax administration issues are consistently raised as a priority for further international dialogue and support. Throughout the consultation process, tax administration issues were consistently identified as the highest priority area for further action, demonstrating that there is significant demand from developing countries for further international dialogue and guidance on tax administration development. [60]

The needs for tax administration support go beyond implementing the BEPS agenda. As identified in Chapter 3, there are a number of areas where support and guidance is needed for the administration of international tax standards, including in meeting confidentiality standards, and making best use of the data received through CbC report exchanges or AEOI. In addition, the implementation of the two-pillar solution will create a new series of demands on tax administrations. In many cases, especially where digitalisation and the use of big data are involved, tax administration reforms to implement international standards will be most effective when undertaken as part of broader tax administration reforms/digitalisation, enabling best practices, economies of scale, and senior management commitment to be spread across the whole administration. The support offered on tax administration challenges of international standards should therefore seek to integrate with broader guidance and support.

Building efficient and effective tax administrations, including through making best use of appropriate digital technologies is a key challenge for developing countries. All tax policies rely on

[59] Including through Integrated National Financing Frameworks and Medium Term Revenue Strategies.

[60] See responses to polling question 8 in Annex C.

the availability of an effective administration for implementation. While there are many dimensions to building tax administrations, a key issue currently is digitalisation and automation. The potential for digital technology to improve the efficiency of tax administration, while also providing the ease of compliance increasingly demanded by taxpayers, is clear, but the implementation of digitalisation processes can be challenging.

There is untapped potential to share experiences and expertise in digital transformation of tax administration. The most advanced tax administrations (the 53 members of the FTA) have been rapidly digitising their legacy paper-based and semi-manual processes. This shift to e-administration has enabled both the development of increasingly taxpayer-centric systems to provide better customer service, and more sophisticated data analysis within the tax administration to analyse risk and focus enforcement efforts. To date, this rich experience, both successes and pitfalls, has not been available to lower capacity countries. Accessing this experience would help the transition to e-administration, especially when combined with support from other partners to supply the further technical and financial resources needed (WBG and IMF, for example). With the commitment of additional resources, a range of tools could be made available to developing countries to support the various stages of digital transformation, combined with knowledge sharing and peer-to-peer support on e-administration solutions.

In conclusion, there is clear demand for a multilateral tax agenda that goes beyond BEPS. Many developing countries are keen to see an inclusive, global, multilateral process to help address a range of DRM challenges. These issues go beyond the mandate of the Inclusive Framework. Discussions will be needed with all Inclusive Framework members on the scope for further multilateral action on taxation, and the role, if any, for the Inclusive Framework, alongside other institutions, in delivering it.

Recommendation 10

The Inclusive Framework should consider developing countries' priorities for multilateral dialogue to address issues beyond BEPS, such as environmental taxation, indirect taxation on e-commerce, and tax administration issues, which could benefit from the multilateral approach facilitated by the Inclusive Framework.

Annex A. Recommendations

Overarching recommendation:

In order to ensure the Inclusive Framework coalition remains strong and meets the needs of all of its members, further assessments on the progress of developing countries should be conducted on a regular basis. This could take the form of an annual ministerial dialogue with developing countries and interested G20 members of the Inclusive Framework on issues such as:

- Their progress in implementing measures to combat BEPS, including on the two-pillar agreement and areas that have been particularly challenging for developing countries such as Country-by-Country reporting;
- Their views on the work and priorities of the Inclusive Framework and its associated standards. This could include wider strategic issues such as the use of Inclusive Framework standards and the broader macro-economic impact of the two-pillar solution, including on Small Island Developing States.

Recommendations on international norms and related guidance

1. As a priority, all stakeholders, including Inclusive Framework members, should reflect on how Country-by-Country reporting could be made more accessible to developing countries while, also protecting confidentiality of sensitive information.

2. Assistance providers should develop additional guidance and other tools, adapted to the needs and priorities of developing countries, for dealing with base eroding payments such as excessive interest and royalties, to provide additional pathways to strengthening their tax systems.

Recommendations to support effective and efficient taxation of natural resources

3. In light of the importance of natural resources to a significant number of developing countries' domestic resource mobilisation efforts, the OECD Secretariat, together with relevant partners including the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), should develop practical tools and guidance on mineral pricing, commodities marketing hubs and the taxation of offshore indirect transfers of interests in natural resources industries. These areas have been identified as posing significant BEPS risks for many resource-rich developing countries.

Recommendations on capacity building and technical assistance

4. Development partners, including G20 members, should, as a priority, support a major Inclusive Framework initiative, to be launched in early 2022, to provide capacity building support and technical assistance to ensure developing countries can adopt and implement the Pillar One and Pillar Two measures in an appropriate and timely fashion.

5. Development partners and assistance providers, including G20 members, should deliver expertise and financing to:
    - Intensify and continue the current tailor-made technical assistance and capacity building initiatives which have been shown to provide significant benefits over the medium to long term and expand the work to support capacity building on tax treaty related matters including the prevention and resolution of tax disputes through effective use of the Mutual Agreement Procedure (MAP), areas where the consultation process exposed needs;
    - Further strengthen Tax Inspectors Without Borders (TIWB) and similar peer-based tax compliance initiatives, with a focus on strategic industries and issues, including natural resources, the financial services and telecommunications sectors; and issues such as improving tax administration;
    - Expand the "Deep Dive" capacity building programmes, conducted by the OECD Secretariat with the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) and other partners, to support developing countries capitalise on their mineral resources.

6. All Inclusive Framework stakeholders should encourage and support greater political awareness and buy-in on the need for legislative and administrative reform, including by engaging with parliaments and other policy makers at the highest levels.

Recommendations on governance, participation and practicalities of the Inclusive Framework

The Inclusive Framework stakeholders should:

7. As a priority, reflect on governance arrangements within the Inclusive Framework to ensure a broad and systematic inclusion of developing countries. This could include consideration of representation in the leadership of the Inclusive Framework and its subsidiary bodies, and updating of the mandate of the Advisory Group for Co-operation with Partner Economies.

8. In light of the growing importance of VAT/GST and the cross-overs between the work of Working Party No. 9 on Consumption Taxes (WP9) and the Inclusive Framework, consider, as a priority, integrating WP9 into the scope of the Inclusive Framework.

9. Put in place practical measures to enhance developing country engagement and participation such as:
    - Making Inclusive Framework related meetings more accessible by funding travel where appropriate, making interpretation/translation services widely available and organising pre-meeting briefings and bespoke workshops;
    - Supporting assistance providers in the provision of training and mentorship programmes to strengthen the technical, negotiation and diplomatic skills of developing country officials; and
    - Promoting greater collaboration among developing countries, including at regional level together with regional tax organisations, to effectively articulate and represent common interests and positions in the Inclusive Framework.

Recommendations on the future of the Inclusive Framework

10. The Inclusive Framework should consider developing countries' priorities for multilateral dialogue to address issues beyond BEPS, such as environmental taxation, indirect taxation on e-commerce, and tax administration issues, which could benefit from the multilateral approach facilitated by the Inclusive Framework.

Annex B. List of Inclusive Framework members, Steering Group members and Observers

Table B.1. List of Inclusive Framework members[61]

Albania	Cayman Islands	Greece	Malaysia	Saint Lucia
Andorra	Chile	Greenland	Maldives	Saint Vincent and the Grenadines
Angola	China (People's Republic of)	Grenada	Malta	Samoa
Anguilla	Colombia	Guernsey	Mauritius	San Marino
Antigua and Barbuda	Congo	Haiti	Mexico	Saudi Arabia
Argentina	Cook Islands	Honduras	Monaco	Senegal
Armenia	Costa Rica	Hong Kong, China	Mongolia	Serbia
Aruba	Côte d'Ivoire	Hungary	Montenegro	Seychelles
Australia	Croatia	Iceland	Montserrat	Sierra Leone
Austria	Curaçao	India	Morocco	Singapore
The Bahamas	Czech Republic	Indonesia	Namibia	Slovak Republic
Bahrain	Democratic Republic of the Congo	Ireland	Netherlands	Slovenia
Barbados	Denmark	Isle of Man	New Zealand	South Africa
Belarus	Djibouti	Israel	Nigeria	Sri Lanka
Belgium	Dominica	Italy	North Macedonia	Spain
Belize	Dominican Republic	Jamaica	Norway	Sweden
Benin	Egypt	Japan	Oman	Switzerland
Bermuda	Estonia	Jersey	Pakistan	Thailand
Bosnia and Herzegovina	Eswatini	Jordan	Panama	Trinidad and Tobago
Botswana	Faroe Islands	Kazakhstan	Papua New Guinea	Togo
Brazil	Finland	Kenya	Paraguay	Tunisia
British Virgin Islands	France	Korea	Peru	Turks and Caicos Islands
Brunei Darussalam	Gabon	Latvia	Poland	Turkey
Bulgaria	Georgia	Liberia	Portugal	Ukraine
Burkina Faso	Germany	Liechtenstein	Qatar	United Arab Emirates
Cabo Verde	Gibraltar	Lithuania	Romania	United Kingdom
Cameroon		Luxembourg	Russian Federation	United States
Canada		Macau, China	Saint Kitts and Nevis	Uruguay
				Viet Nam
				Zambia

[61] As at 1 September 2021.

Table B.2. Composition of the Steering Group of the OECD/G20 Inclusive Framework on BEPS[62]

Chair	
Martin KREIENBAUM	Germany
Deputy chairs	
Jianfan WANG	China
Mathew Olusanya GBONJUBOLA	Nigeria
BEPS Associates	
Carlos Eduardo PROTTO	Argentina
Stephen COAKLEY WELLS	The Bahamas
Flavio Antonio ARAUJO	Brazil
Rasmi DAS	India
Telmuun BYAMBARAGCHAA	Mongolia
Mohannad BASODAN	Saudi Arabia
Amadou BADIANE	Senegal
Huey Min CHIA-TERN	Singapore
Yanga MPUTA	South Africa
Joseph NONDE	Zambia
CFA Bureau members	
Maryanne MRAKOVCIC	Australia
Gunter MAYR	Austria
Claudia VARGAS	Colombia
Gael PERRAUD	France
Fabrizia LAPECORELLA	Italy
Isaya MUTO	Japan
Kwang-Hyo KO	Korea
Filip MAJDOWSKI	Poland
Linda HAGGREN	Sweden
Mike WILLIAMS	United Kingdom
Itai GRINBERG	United States

[62] As at 29 August 2021.

Table B.3. List of observer organisations to the Inclusive Framework (as at August 2021)

1. African Development Bank (AfDB)
2. African Tax Administration Forum (ATAF)
3. African Union (AU)
4. Asian Development Bank (ADB)
5. Commonwealth Association of Tax Administrators (CATA)
6. *Centro Interamericano de Administraciones Tributarias* (CIAT)
7. *Cercle de Réflexion et d'Échange des Dirigeants des Administrations Fiscales* (CREDAF)
8. European Bank for Reconstruction and Development (EBRD)
9. Inter-American Development Bank (IADB)
10. International Monetary Fund (IMF)
11. Intra-European Organisation of Tax Administrations (IOTA)
12. Pacific Islands Tax Administrators Association (PITAA)
13. United Nations (UN)
14. World Bank Group (WBG)
15. World Customs Organization (WCO)

Annex C. Regional consultation events May-July 2021

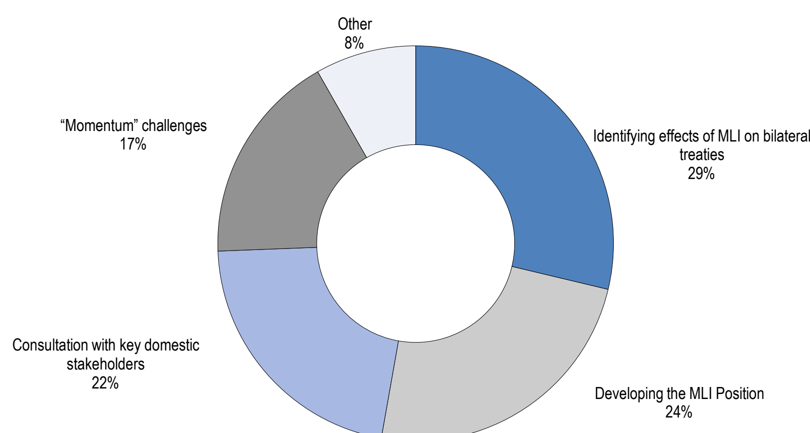
Between May and July 2021, the OECD Secretariat, together with regional partners, conducted a series of six regional consultation events to gather input from developing countries on their experiences with the Inclusive Framework, as well as their DRM priorities and perspectives. Conducted in a virtual format, the events were held in three languages (English, French and Spanish) and brought together a total of some 675 participants from 155 jurisdictions. The events included interactive sessions with polling questions (the aggregated results of which follow), together with panel discussions featuring international tax policy and tax administration experts from developing countries. Feedback from the floor was also encouraged.

Discussions were also held with the PCT and development partners to share the outline and preliminary thinking for the report.

Polling questions

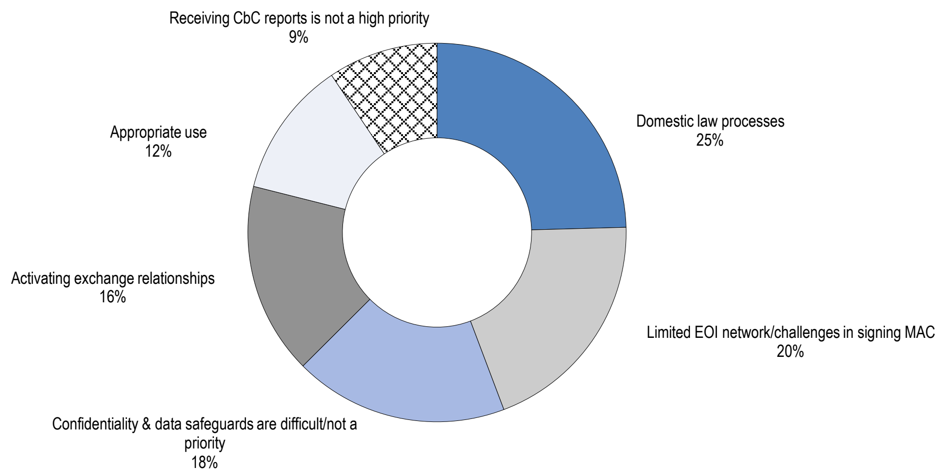
The following figures set out the aggregated results of the polling questions asked at the six regional meetings.

Figure C.1. Question 1: What are the main challenges in relation to the MLI for developing countries? (Select all that apply)



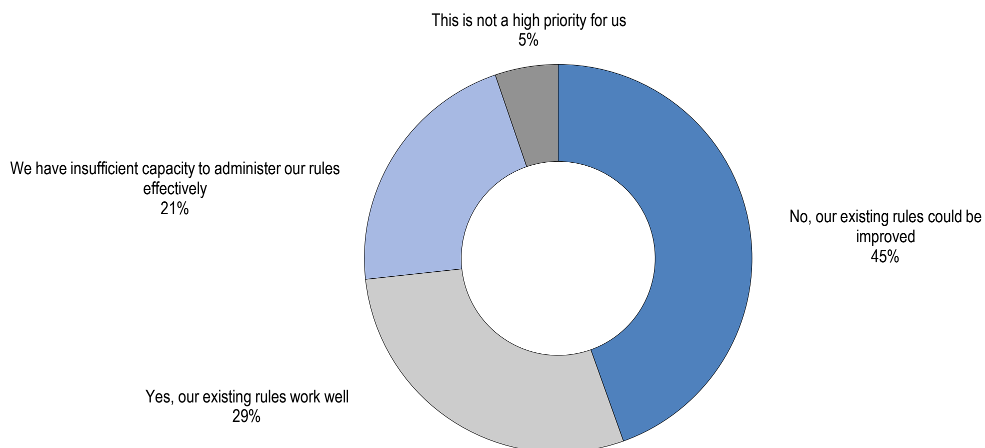
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.2. Question 2: What are the main barriers to accessing CbC reports for developing countries? (Select all that apply)



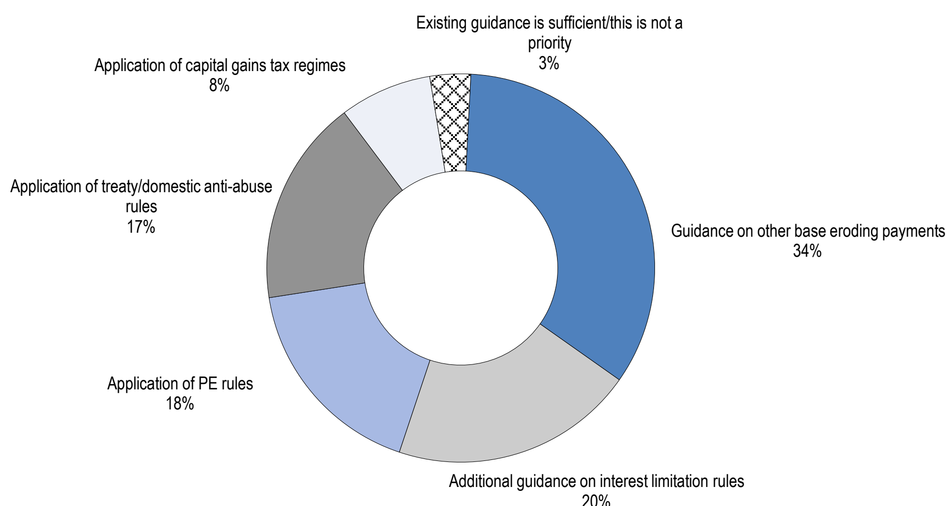
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.3. Question 3: Have you found your current measures on limiting excess interest deductions to be effective? (Select one only)



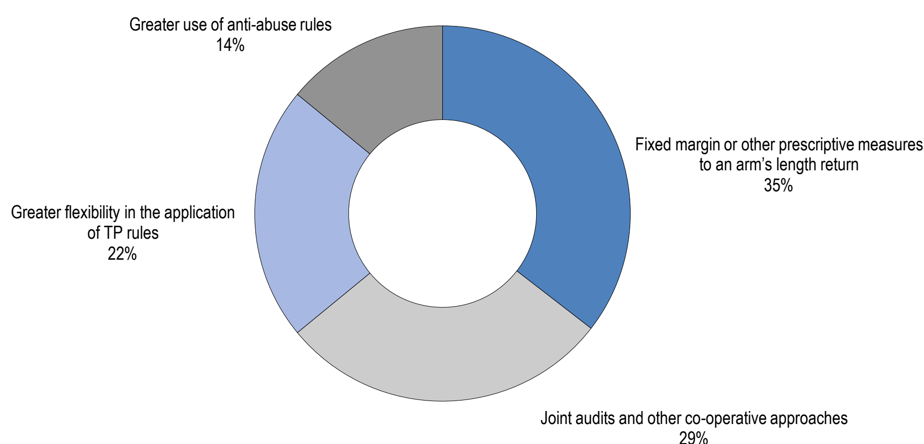
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.4. Question 4: Where is additional guidance needed to help you deal with base eroding payments? (Select up to 2)



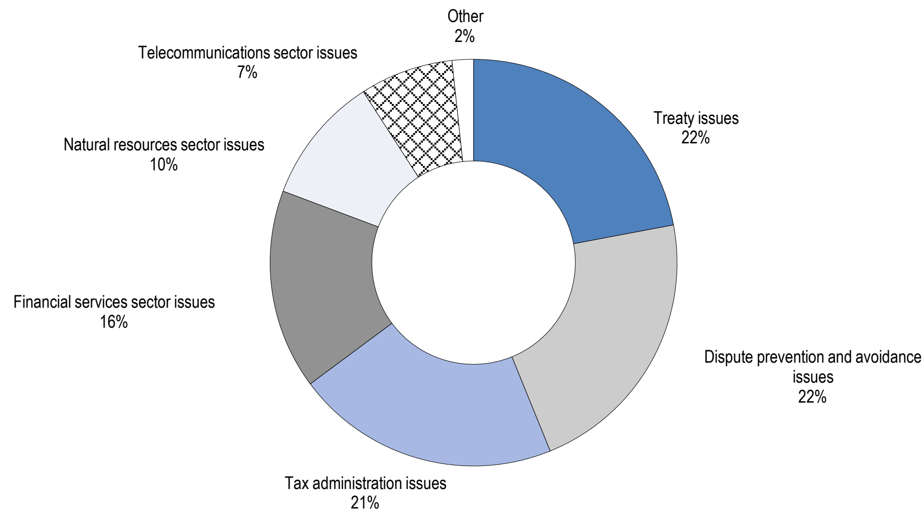
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.5. Question 5: How could the complexity of the transfer pricing rules be addressed? (Select up to 2)



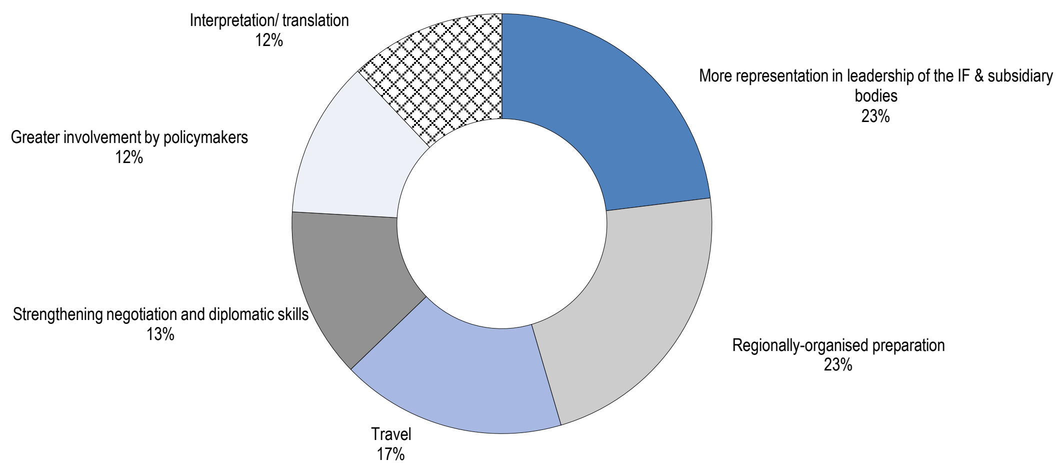
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.6. Question 6: What areas do you think should be a priority for practical support programmes? (Select up to 2)



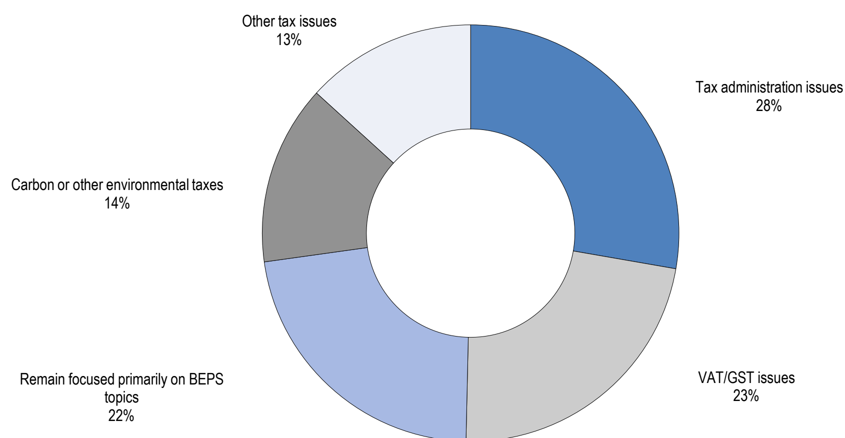
Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.7. Question 7: What would be the most efficient actions to increase developing countries' effective participation in the Inclusive Framework? (Select up to 2)



Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Figure C.8. Question 8: I think the Inclusive Framework could discuss: (Select all that apply)



Source: Answers gathered during the regional consultations that took place between 31 May and 9 July 2021.

Developing Countries and the OECD/G20 Inclusive Framework on BEPS

OECD REPORT FOR THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, OCTOBER 2021, ITALY

This report takes stock of the progress made by developing countries through their participation in the OECD/G20 Inclusive Framework on BEPS. It considers the priorities and capacities of developing countries and examines how domestic resource mobilisation efforts could be further supported.

For more information:

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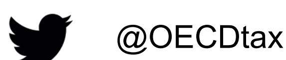
https://oe.cd/beps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