

Saudi Arabia's Input on the Ad Hoc Committee to Draft Terms of Reference for a United Nations Framework Convention on International Tax Cooperation

This paper is submitted in response to the call for inputs request from the Secretariat of the Ad Hoc Committee to Draft Terms of Reference for a United Nations Framework Convention on International Tax Cooperation.

Saudi Arabia views the initiative to establish a global tax convention as a pivotal opportunity for enhancing international tax cooperation. This effort reflects a collective commitment to addressing the tax challenges posed by the evolving global economy. We believe that through collaborative dialogue and shared objectives, we can construct a framework that not only navigates these complexities but also promotes equitable growth across nations. Saudi Arabia is prepared to contribute to this process, advocating for a process that respects the diverse needs and circumstances of all countries, particularly those in development and transition.

Procedural elements

1. Leveraging Work in Other International organizations:

Recognizing the significant contributions of various international forums to international taxation, Saudi Arabia encourages to seek alignment and synergy with these efforts. By integrating the work already achieved by other international organizations, the convention could ensure a unified approach to addressing the complexities of international taxation. This collaboration would help to streamline global tax practices, reducing redundancies and fostering a more coherent tax environment. Saudi Arabia suggests the establishment of formal channels for dialogue and information exchange between these forums and the UN process, maximizing the impact of international tax policy development, as well as minimizing duplication of efforts. That being said, the G20, with its diverse membership, can serve as the forum that ensures collaboration among these efforts.

2. Establishing a Clear and Inclusive Decision-Making Process:

A foundational aspect of the success of the work lies in establishing a decision-making process that is both transparent and inclusive, ensuring that all member countries, regardless of their size or economic power, have an equitable say in the convention's development and implementation. Saudi Arabia acknowledges that many countries, particularly those with less experience in international negotiations, may not be fully familiar with the complexities of UN procedural norms. Therefore, we propose several measures to foster a more accessible and understandable process:

- A. **Clear Documentation and Communication:** the dissemination of clear, concise documentation on its objectives, procedures, and progress should be prioritized. This includes creating resources that explain the decision-making process in accessible language, ensuring that all countries can participate meaningfully in the dialogue.
- B. **Training and Capacity Building:** Offering training sessions and capacity-building workshops on UN negotiation processes can empower countries to engage more effectively in the convention's development.
- C. **Inclusive Consultation Mechanisms:** Implementing structured consultation mechanisms that ensure the voices of all nations are heard and considered in the decision-making process is essential. This could involve rotating representation, establishing working groups with diverse country participation, and using digital platforms to facilitate wider engagement.
- D. **Streamlined Decision-Making:** To accommodate the diverse participation of UN member states, the convention could adopt a streamlined decision-making process that emphasizes consensus-building and accommodates differing viewpoints. Where consensus is not possible, transparent procedures should be sought, with clear criteria and thresholds for decision-making.

3. Navigating the Logistical Challenges:

We understand that the meetings will be conducted in the UN HQ in New York, recognizing the importance of the participation of countries that represent in the Ad Hoc committee and in other committees that will be working on this subject, the venue for the convention's meetings could pose logistical challenges for many countries, particularly those from distant regions or with limited resources. To ensure inclusive participation, Saudi Arabia suggests leveraging technology to facilitate virtual participation, which can help overcome the barriers posed by distance, however the time zones might still limit participation, therefore, holding such meetings in a more neutral time zone can also be explored (for example, the United Nations Office at Geneva).

Substantive Elements

1. Emphasizing the Need for a Holistic Approach to Tax Governance:

In the face of rapid global economic changes, adopting a holistic approach to international tax governance has never been more crucial. Such an approach would recognize the interconnectedness of nations and the importance of aligning tax policies with broader economic and social objectives. Saudi Arabia suggests that the convention could serve as a foundational platform for establishing comprehensive tax cooperation mechanisms. These mechanisms should be robust yet adaptable, capable of responding to emerging challenges and fostering a more inclusive economic environment. By prioritizing the integration of diverse economic

perspectives and the nuances of developmental stages, the convention can ensure that global tax governance evolves in a manner that is fair and beneficial for all stakeholders.

2. Digital Economy: Towards Fair Solutions

The digital economy's exponential growth presents unprecedented challenges and opportunities in the realm of international taxation. Traditional tax framework falls short in addressing the complexities associated with digital transactions, leading to significant gaps in tax collection and equity. Saudi Arabia advocates the exploration of innovative tax solutions that reflect the unique nature of digital economic activities. This could include mechanisms for the fair distribution of tax revenues derived from digital services, ensuring that countries, from which value is created, receive fair share. Moreover, the convention might consider recommendations for harmonizing tax rules related to digital services, aiming to reduce disputes and enhance compliance. Such efforts should be built on work that has been achieved so far in other international organizations provided such work can be implemented in a timely manner.

3. Balanced Approach to Address International Taxation Challenges:

In addressing taxation concerns, it's crucial to maintain a balanced approach. While we aim to rectify issues related to the taxation of some business models that are not currently or fairly taxed, it is equally important not to disturb the existing fair taxation rules for other industries. The focus should be on mitigating challenges where certain businesses may currently evade taxation, without inadvertently disrupting the established tax frameworks that are working effectively for other sectors. This approach allows us to target specific concerns without causing unnecessary upheaval in the broader tax landscape.

4. Reinforcing Against Tax Evasion and Profit Shifting

The detrimental effects of tax evasion, profit shifting, and illicit financial flows cannot be underestimated, especially for economies that rely heavily on tax. Saudi Arabia believes the convention could further improve the current frameworks that facilitate the exchange of information and mutual assistance among tax authorities globally. Such improvement would significantly enhance the ability of countries to track and tax profits accurately, deterring tax evasion and avoidance. Additionally, the convention might advocate for the development of shared intelligence mechanisms and collaborative enforcement strategies, enabling countries to respond more effectively to sophisticated tax evasion schemes.

5. Advancing Support for Developing Countries

For the convention to be truly transformative, it must address the specific challenges faced by developing countries in the international tax arena. Saudi Arabia proposes that the convention includes provisions for comprehensive technical assistance, capacity building, and technology transfer to help these countries enhance their tax administration and compliance capabilities. By ensuring that these countries can effectively participate in and benefit from global tax cooperation and better counter tax evasion, the convention would make a significant contribution to global economic fairness and stability.

6. Encouraging Responsible Tax Competition

While tax competition is a reality in the global economy, Saudi Arabia believes the convention could play a role in promoting responsible practices that do not undermine the fiscal stability of countries or the fairness of the international tax system. By establishing guidelines for healthy tax competition, the convention would help ensure that countries' efforts to attract investment do not come at the expense of necessary public revenues or economic equality. Saudi Arabia recommends the development of a framework for evaluating tax incentives and policies, ensuring they align with broader economic goals and international cooperation commitments. This should not be done in isolation of any other regime being adopted by countries internationally.

7. More Efficient Tax Dispute Resolution Mechanism

The convention should delve into enhancing the efficiency of existing tax dispute resolution mechanisms globally. Tax authorities invest substantial time and resources into dispute resolution, particularly burdening developing economies with limited resources. Therefore, the convention should explore innovative methods to streamline current procedures or introduce new approaches.

In conclusion, Saudi Arabia reiterates its strong support for multilateral work especially when it comes to international taxation. The UN's initiative to develop a global tax convention should embody the principles of inclusivity, fairness, and efficiency. We strongly recommend collaboration between international organizations that are working on this important topic, we have seen successful initiatives of collaborative work in taxation such as the Tax Inspectors Without Borders and The Platform for Collaboration on Tax initiative. Finally, we are committed to engage actively in the drafting process, sharing our insights, and working collaboratively with international partners.