The Platform for Collaboration on Tax

Toolkit for Addressing the Taxation of Offshore Indirect Transfers (OITs)

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Overview of the OIT Toolkit

Toolkit’s structure:

I. INTRODUCTION
II. ANALYSING OFFSHORE INDIRECT TRANSFERS
III. THREE ILLUSTRATIVE CASES
IV. TAX TREATIES AND OFFSHORE INDIRECT TRANSFERS
V. IMPLEMENTATION CHALLENGES AND OPTIONS
VI. CONCLUSIONS

APPENDICES A, B, C, D
PCT Toolkit: OITs

- Addresses a critical issue for resource-rich low-income countries.
- Adopts current thinking on treatment of “immovable property” (see OECD and UN MTCs), with discussion of possible expansion to additional “location-specific rents” (e.g., telecom licenses granted by government).
- Demonstrates “standard setting feedback loop”: PCT identifies problem faced by developing countries; a standard setter (here, the OECD) facilitates an approach to target the problem (see MLI).
- Provides proposed language and methods to adopt such source country taxation under two different models.
OIT Toolkit – Main features

• Focus of the OIT toolkit is on...
  • ...the country where the asset is located – the ‘source’ country
  • ...capital gains on the transfer of ‘immovable property’
  • ...practicable options, rather than single approach

Key issues addressed
• Should capital gains on OITs be taxed in the location country?
  • Toolkit offers policy guidance
• What are the implementation challenges?
  • Toolkit provides policy guidance and legal drafting suggestions
• What to do with tax treaties?
  • Toolkit discusses Article 13(4) in MTCs
Implementation approaches

• **Tax liability rules** – toolkit offers guidance and drafting samples:
  • Model 1 – taxation of a deemed direct sale by a resident
  • Model 2 (mostly used) – taxation of the non-resident seller
  • Both models – critical how wide to define ‘immovable property’ (example)

• **Enforcement/collection issues** – toolkit offers practical examples:
  • Detect – notification/reporting requirements
  • Collect – withholding; imposing tax payment obligation
  • Enforce – legal protections
Overview of Model 1

- Taxes the local asset owner on the basis that the asset it holds has undergone a change of control because of an offshore sale of an entity that owns the local asset owner, directly or indirectly.

- The tax liability with respect to the gain triggered for the local resident asset-owning entity (deemed disposal).

- Achieve through domestic legislative provisions, without primary reliance on the international source of income or broader international taxation rules (such as tax treaty allocation rules).

- This approach has been adopted in a number of source countries, such as Mongolia, Nepal, Ghana and Tanzania.
Overview of Model 2

- Seeks to impose tax on the non-resident seller on the basis that the transfer gives rise to a gain with a local source.
- Model more commonly adopted.
- Source rules become critical for triggering the tax liability in the location country.
- Non-resident ordinarily only subject to taxation on income derived from sources in the particular location country.
- Source rule may be combined with a taxable asset rule (e.g. full and pro rata taxation).
- Taxing right can be limited by tax treaty (e.g. absence of Article 13(4)).
Key takeaways and next steps

- Toolkit assists developing countries decide whether they wish to tax offshore indirect transfers relating to immovable property.

- Enables a coherent policy making framework to be in place to avoid the need to make last minute decisions when faced with exigent circumstances.

- Focuses on two common domestic legislative approaches to improve consistency for greater tax certainty.

- New policy decisions should be implemented prospectively.

- Enables broader thinking about expansion of immovable property to additional location specific rents (returns exceeding the minimum required by investors), especially post-COVID-19.