

# Tax Facts

A knowledge-based series by the  
Tax and Transfer Policy Institute

## What is International Tax?

'International tax' or the 'international tax system' are often referred to when discussing issues such as the taxation of digital companies, other multinationals, or the tax arrangements of high wealth individuals using exotic tropical islands. But what is international tax?

It may be more useful to start with what international tax *is not*. There is no such thing as an 'international tax' in the same way that there is, for example, a tax on wages or a tax on goods and services. Rather, international tax can best be thought of as a framework of principles, forums, bilateral and multilateral agreements, and domestic laws that exist to support international collaboration on taxation issues.

### Why do countries need to collaborate on tax?

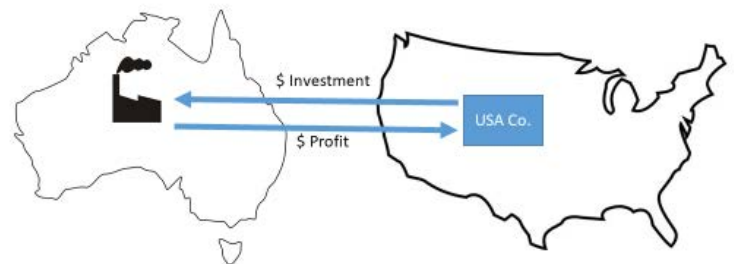
Globalisation has resulted in the increased movement of goods, services, people and money across jurisdictions. This has the potential to bring into conflict the rules and practices of countries with respect to tax and other policy areas. In many areas of international economic engagement, countries have recognised the benefits of coming together to agree a common set of 'rules of the game', whether this be harmonizing rules or in agreeing mechanisms of how conflicts between national regimes will be resolved. International trade, and the extensive architecture built around the World Trade Organisation (WTO) is an example of this.

Following World War I, nations recognised the value of collaboration on taxation issues. This early collaboration, drawing on the convening power of the League of Nations, was mainly concerned with limiting 'double taxation'. Double taxation refers to two countries seeking to tax the same income, potentially stifling economic activity. **Figure 1** illustrates a simple example. USA Co, a US Company that manufactures widgets in the USA, wants to expand and sell their widgets in Australia.

USA Co makes a significant investment in the Australian market and begins making a profit which they bring back to the US. But which country taxes the profit? The US might feel justified in taxing the profits – after all it is *their company* and that company's capital that enabled the investment to be made. On the other hand, Australia might feel justified in taxing the profits given that they were earned in Australia as a result of selling widgets to Australians.

To avoid both countries taxing the same income (and USA Co. reconsiders its investment) a series of international tax principles have evolved to determine which country has taxing rights in which circumstances. These principles, including the challenges that they face, will be covered in a separate Tax Fact.

Figure 1: A simple cross-border investment



## What are the key forums that facilitate collaboration on tax?

There is no WTO equivalent for international tax – that is, there is no international body that has enforcement powers over a common set of rules. Rather, the international tax system has been developed and supported by a number of forums that have facilitated collaboration between countries. Some of the key ones are:



**The Organisation for Economic Cooperation and Development (OECD):** is the most significant organisation involved in facilitating collaboration on international tax issues.

Through its Committee of Fiscal Affairs and its various working groups, the OECD provides a forum for its members to agree on rules for international co-operation. This includes the development of standards and models including the OECD model tax treaty (see below) [1]. Whilst OECD membership is limited to 37 mostly advanced economies, the tax work of the OECD has increasingly expanded to include involvement of a broader range of countries. This is in part a result of the role that the G20 has come to play in international tax standard setting.



**The G20:** is the leading international forum for international economic cooperation [2]. Its 19 members: states plus the European Union collectively account for 85 per cent of the world economy. The rotating chair facilitates an annual meeting of G20 leaders as well as regular meetings of finance ministers and central bank governors throughout the year. Since the

Global Financial Crisis, international tax has been a key part of the G20 agenda with G20 countries supporting the work of the OECD on addressing profit shifting and promoting greater international tax transparency.



**The United Nations:** The UN has a far more limited role on international tax relative to the OECD. The UN's work on international tax is focused on the UN Tax Committee of Experts which includes representatives from a broad range of countries. Its key product is the UN model tax treaty [3], an alternative to the OECD model and tailored more to developing country circumstances.

## Examples of collaboration

Some key examples of collaboration on international tax issues include:

**Bilateral tax treaties:** also known as 'Double Tax Agreements', are agreements between two countries that seek to reduce the potential for double tax by providing a clear allocation of taxing rights. More recently, tax treaties have had an increasing role in supporting collaboration on fighting tax evasion and avoidance including facilitating the sharing of information between countries. As noted above, both the OECD and UN have developed and maintain model tax treaties. Australia has tax treaties with over 40 countries.

**Multilateral agreements:** In some areas, multilateral agreements have been established to facilitate international cooperation. For example, The Multilateral Convention on Mutual Administrative Assistance in Tax Matters provides the international legal basis for collaboration on tax administration issues, ranging from the sharing of information to assistance in collecting tax debts.

**Monitoring of compliance with international tax standards:** The G20 has played a role in promoting the broader adoption of international tax standards, for example, standards around 'tax transparency' – that is, standards to guide the sharing of information between jurisdictions to better address tax evasion and avoidance. Since these standards are only effective to the extent that all countries adopt them, mechanisms have been developed to monitor their adoption. The Global Forum on Transparency and Exchange of Information plays an important role in reviewing and reporting on the extent to which jurisdictions have implemented standards for the sharing of tax information.

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[1] See <https://www.oecd.org/ctp/treaties/model-tax-convention-on-income-and-on-capital-condensed-version-20745419.htm>

[2] See <https://www.dfat.gov.au/trade/organisations/g20/Pages/g20> for further information on the G20

[3] See [https://www.un.org/esa/ffd/wp-content/uploads/2018/05/MDT\\_2017.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2018/05/MDT_2017.pdf)

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### More information

Contact the director at [robert.breunig@anu.edu.au](mailto:robert.breunig@anu.edu.au) | Contact us at [tax.policy@anu.edu.au](mailto:tax.policy@anu.edu.au)

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