



Ministry of Foreign Affairs

Legislation

# Taxes crucial to development

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Developing countries will be able to achieve internationally agreed development goals more quickly if they put their government finances in order. More efficient tax collection is a key challenge. The Netherlands helps countries meet this challenge. The private sector also benefits from a transparent and predictable tax system.

*'Companies in developing countries have huge growth potential. If we link trade and sustainable investment to better fiscal policy and tax collection, countries themselves will be able to contribute more to their own development.'*

*(Lilianne Ploumen, Minister for Foreign Trade and Development Cooperation)*

## Tackling tax avoidance

Companies must pay a realistic amount of tax in countries where they operate. Governments lose revenue due to tax avoidance. In 2015 the Ministry of Foreign Affairs hosted an international conference on this issue, on the theme of 'Pay your taxes where you add the value'.

Multinationals are able to reduce the amount of tax they pay by exploiting the differences between national tax systems. Measures are now being taken to curb this at international level, including through the OECD/G20 BEPS (Base Erosion and Profit Shifting) project. This should drastically reduce the potential to avoid tax through artificial constructs.

## Curbing misuse of tax treaties

Bilateral tax treaties can be misused for tax avoidance. The purpose of such treaties is to encourage investment by preventing double taxation of company profits. They also clarify tax collection rights, and strengthen collaboration between authorities thanks to arrangements for the exchange of fiscal data and administrative support.

Companies from countries other than those that are party to the treaty can use an artificial construct to benefit from the advantages it offers. They can for example arrange for lower taxation at source on payments of dividends, interest and royalties, a facility that is not intended for them. Anti-abuse clauses in tax treaties can help prevent this. The BEPS project has resulted in international agreements on this issue.

## Anti-abuse clauses

The Netherlands has started amending its bilateral tax treaties with 23 countries, proposing the inclusion of anti-abuse clauses. It has already reached agreement with Ethiopia, Ghana, Kenya, Malawi and Zambia, and is negotiating similar arrangements with other countries. The Netherlands is among the first countries to amend its bilateral tax treaties with developing countries.



### Addis Tax Initiative

More than 35 countries and international organisations are working to improve tax services in developing countries. The Netherlands was one of the prime movers behind the Addis Tax Initiative that was launched at the Financing for Development Conference in July 2015. There are three parts to the initiative. Donor countries will double their current efforts to build the capacity of tax departments in low- and middle-income countries by 2020. Partner countries will introduce fiscal reforms and undertake to use the extra revenue generated to fund their development agenda. And donor countries, in turn, will undertake to prevent their own tax policies from hampering the generation of tax revenue in developing countries.

The Netherlands is adapting its tax laws to the agreements reached internationally, and we are helping developing countries do the same. We contribute the necessary expertise, and help them take part in multilateral talks.

### Technical assistance

Many tax departments in low- and middle-income countries have a shortage of technical resources and trained staff. As a result, they are unable to maximise tax collection and benefit fully from the new international agreements under the BEPS project. Dutch support for developing countries, in Africa in particular, focuses on enhancing the quality of local tax department staff. In some countries, we also help train staff at the Ministry of Finance and the customs service. The Netherlands does not fund any hardware.

The Netherlands currently provides technical assistance to Ethiopia, Ghana, Kenya, Malawi, the Palestinian Territories, Rwanda, Tanzania, Uganda, Ukraine and Zambia. For example, Dutch tax inspectors are teaching their counterparts in Rwanda and Ghana how to examine the financial records of companies and assess and manage risk. This is important when deciding which companies require further investigation. In Ghana, tax inspectors are receiving on-the-job training as part of the OECD/UNDP Tax Inspectors Without Borders programme.

### Strengthen tax policy

We also work with the International Bureau of Fiscal Documentation (IBFD) in Amsterdam, which teaches officials in several African countries how to keep tax treaties up-to-date and screen the fiscal planning of multinationals. The Netherlands also supports activities by international organisations like the IMF, OECD, ATAF and the UN designed to strengthen tax policy and tax collection in developing countries.

Fiscal facilities play an important and necessary role in creating an attractive climate for international companies, including in the Netherlands. The Ministry of Foreign Affairs works to ensure they fulfil this role, within the internationally agreed frameworks.

### A better business climate

The Netherlands is keen to contribute to a better business climate in low- and middle-income countries so that they can take advantage of economic opportunities. Legal certainty and less administrative pressure for both local businesses and investors are key factors. The success of Dutch contributions will be measured using indicators like a higher ranking on the Ease of Doing Business index in 2018 (compared with 2013) and an increase in Dutch private investments, in terms of both quantity and volume.

We are working with UNCTAD on a programme designed to improve the registration of companies and investment policy in our partner countries Bangladesh, Benin and Kenya. We also support programmes by the International Finance Cooperation (IFC) and Investment Climate Facility (ICF) for better legislation and the strengthening of economic institutions that are responsible for enforcing those regulations. In Kenya, for example, the IFC programme recently facilitated the adoption of four key investment laws. We also promote policy reforms and specific projects to improve the business climate through the African Center for Economic Transformation (ACET).

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