

Some Key Elements of the UN Framework Convention on International Tax Cooperation



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Introduction

The UN Framework Convention on International Tax Cooperation (UN Tax Convention) is a historic opportunity to fix the broken global tax system which is neither inclusive nor efficient. This process, which will have negotiations run from 2025 to 2027 will tackle key issues championed by the global tax justice movement and has wide-ranging implications from climate to gender. Three key issues will be outlined below: ensuring a fair allocation of taxing rights, transcending the arm's length principle, and moving past bilateral tax treaties.

1. Ensuring a Fair Allocation of Taxing Rights

Restoring Equity in Global Taxation

One of the core objectives of the UN Framework Convention is to address the long-standing imbalance in how taxing rights are distributed between countries. Under existing international tax rules, most taxing rights accrue to the residence country—where multinational corporations are headquartered—rather than the source country—where their profits are generated.

This bias, established under the League of Nations and reinforced by the OECD, has favoured high-income, capital-exporting nations while constraining the fiscal space of developing, capital-importing countries. As a result, many countries in the Global South have been unable to collect adequate revenues from multinational enterprises operating within their borders, particularly in sectors such as extractives, manufacturing, and digital services.

The fiscal consequences are significant. Limited corporate tax collection forces developing countries to rely on indirect taxes such as value-added or excise taxes, which tend to be regressive. Over time, this weakens public investment in essential care services and deepens inequality.

Bilateral tax treaties have compounded the problem by restricting countries' ability to tax at source, often reducing or eliminating withholding taxes on cross-border income flows. This has narrowed domestic revenue bases and constrained fiscal sovereignty.

A fair allocation of taxing rights—allowing countries to tax profits where real economic activity occurs—is essential to rebuild equity in the global system. The UN Framework Convention provides an opportunity to achieve this by rebalancing taxing rights in favour of source countries, strengthening domestic resource mobilization, and aligning international taxation with the principles of fairness and sustainable development.

2. Transcending the Arm's Length Principle – Move Towards Unitary Taxation

Aligning Tax Rules with Modern Business Realities

The arm's length principle has been the cornerstone of the international tax regime for nearly a century. It assumes that transactions between related entities within a multinational group can be priced as if they were conducted between independent parties. In practice, this assumption is blatantly fictional.

Multinational corporations operate as integrated global entities, engaging in complex intra-group transactions—such as transfers of intellectual property, data, or services—that have no true market equivalents. This makes arm's-length pricing inherently subjective and open to manipulation. The idea that this can be overcome through the “storage of comparable data” is a pipe dream.

Corporations organise their global operations in ways that enable them to exploit the OECD's fictional guidelines to shift profits to low- or no-tax jurisdictions. Moreover, implementing and enforcing the arm's length principle demands extensive documentation and complex economic analysis—capacities that most developing countries currently lack.¹

The principle thus favours residence jurisdictions—essentially those in the Global North—while eroding the tax base of source countries. It fails to reflect where real economic activity takes place, particularly within global supply chains and digital platforms, where local labour, infrastructure, and markets contribute substantially to corporate profits.

To address this imbalance, there is growing support for unitary taxation with formulary apportionment, which treats multinational enterprises as single global entities and allocates their profits among countries based on objective factors such as sales, assets, and employment. This approach more accurately reflects economic substance and offers a simpler, fairer, and more transparent alternative—particularly beneficial for developing countries striving to claim their fair share of global tax revenues.

The UN Framework Convention provides an opportunity to promote such reforms, ensuring that international tax norms better reflect the realities of global business and the needs of all countries.

¹ Favourate, Sebele-Mpofu, Eukeria Mashiri, and Samantha Chantelle Schwartz. “An Exposition of Transfer Pricing Motives, Strategies and Their Implementation in Tax Avoidance by MNEs in Developing Countries.” *Cogent Business & Management* 8 no. 1 (2021). <https://doi.org/10.1080/23311975.2021.1944007>

3. Moving Beyond Bilateral Tax Treaties

Toward a Coherent and Inclusive Multilateral Framework

The current international tax regime is built upon more than 3,000 bilateral tax treaties, which were originally intended to prevent double taxation and encourage cross-border investment. In practice, this complex network of treaties has produced fragmented and inequitable outcomes, particularly for developing countries.

Most treaties are based on the OECD Model Tax Convention, designed to safeguard the interests of capital-exporting countries. Developing countries, often negotiating from weaker positions, have signed agreements that limit their ability to tax income generated within their territories. These treaties typically cap withholding taxes on dividends, interest, and royalties—key revenue sources for source countries.²

This system has led to widespread base erosion and profit shifting, as multinational corporations use treaty shopping and hybrid structures to route investments through low-tax jurisdictions. The result is a pattern of “double non-taxation,” where profits escape taxation altogether.

Beyond fiscal impacts, the bilateral treaty system suffers from fragmentation, complexity, and opacity:

- Each treaty contains distinct provisions, creating inconsistencies and administrative burdens.
- Negotiations often occur behind closed doors, with minimal transparency or parliamentary oversight.
- Once signed, treaties are difficult to revise, locking countries into long-term fiscal disadvantages³.

For many developing countries, these treaties have constrained domestic policy space and limited efforts to reform tax systems in line with national development priorities.

² Martin Hearson, *Imposing Standards: The North-South Dimension to Global Tax Politics*. (Cornell University Press, 2021).

³ *Mistreated The tax treaties that are depriving the world's poorest countries of vital revenue*, ActionAid, 2016

https://actionaid.org/sites/default/files/actionaid_-_mistreated_tax_treaties_report_-_feb_2016.pdf

The proposed UN Framework Convention on International Tax Cooperation offers a pathway to address the problems created by today's fragmented system. A coherent, transparent, and universal framework can establish consistent standards, robust anti-abuse provisions, and a fairer allocation of taxing rights across jurisdictions — providing a common foundation to guide bilateral agreements where necessary.

By establishing common principles under UN auspices, the Convention can:

- Render the international tax architecture democratic and transparent
- Curb tax abuse and treaty shopping and the role of secrecy jurisdictions in facilitating these abuses
- Ensure equal participation of all countries in standard-setting
- Promote cooperation in tackling tax avoidance, evasion, and illicit financial flows

Such a shift would transform the governance of global taxation—from a patchwork of bilateral arrangements to a rules-based, inclusive system aligned with the principles of fairness, transparency, and shared prosperity.

Conclusion

The UN Framework Convention on International Tax Cooperation seeks to address the structural weaknesses of the century-old international tax system. By focusing on three key elements—fair allocation of taxing rights, reform of the arm's length principle, and replacement of fragmented bilateral treaties with a coherent multilateral framework—it aims to create a modern, inclusive, and equitable foundation for global tax governance.

Through this Convention, countries can work collectively to ensure that profits are taxed where real economic activity takes place, that multinational enterprises contribute their share, and that international cooperation serves the fiscal and developmental needs of all countries.



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About GATJ

The Global Alliance for Tax Justice (GATJ) is a South-led global coalition uniting the tax justice movement. GATJ works for a world where progressive and redistributive tax policies counteract inequalities within and between countries, and generate the public funding needed for quality public services and human rights.

Created in 2013, GATJ comprises regional tax justice networks in Asia (Tax & Fiscal Justice Asia), Africa (Tax Justice Network Africa), Latin America (Red de Justicia Fiscal de América Latina y el Caribe), Europe (Tax Justice-Europe) and North America (Canadians for Tax Fairness & FACT Coalition), collectively representing hundreds of organisations. GATJ co-coordinates the Tax Justice Workstream of the Civil Society Financing for Development Mechanism.

For further information, please contact info@globaltaxjustice.org.