Double Taxation Avoidances Treaty Challenge on Tax Revenue Collection

The Case of; Large Taxpayer Offices, Ministry of Revenue

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Master's Degree in Public Administration and Development Management (MADM).

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December / 2021

Addis Ababa Ethiopia

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Double Taxation Avoidances Treaty on Tax Revenue Collection; the Case Large Taxpayer Offices, Ministry of Revenue

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Declaration

I, Dereje Fana, declare that this project work entitled "The Double Taxation Avoidances Treaty and Its Challenge on Tax Revenue Collection: The Case Ministry of Revenue Large Taxpayer Offices (LTO)" is my own original work. I have carried out it independently with the guidance and suggestions of the research advisor Elias Berhanu (PhD). And the study has not been submitted for award of any Degree or Diploma Program in this or any other Institution.

Dereje Fana

December, 2021 Signature ____________________

AAU Date ____________________

Acknowledgment

First I would like to praise the Almighty GOD for helping me in all matters.

I am very much indebted to my Advisor Elias Berhanu (PhD) for his invaluable comments and suggestions.

My special thanks go to Ministry of revenue large tax payer offices management, staff for their cooperation at the time of data collection.

My greatest appreciation shall go to my family and wife, who had remarkable roles in the whole course of my study and the preparation of this particular thesis. My families and friends who backed me up to this success merit my gratitude.

Thank you God bless you all.

Letter of Certification

This is to certify that Dereje Fana carried out his project on the topic entitled "The Double Taxation Avoidances Treaty and Its Challenge on Tax Revenue Collection: The Case Ministry of Revenue Large Taxpayer Offices (LTO)". This work is original in nature and is suitable for submission for the award of Master Art in Development Management.

Elias Berhanu (PhD) ----------------------------------

(The Research Advisor)

LIST OF ACRONYMS

BITs - Bilateral investment treaties

DTAA- Double Tax Avoidance Agreement

EAL - Ethiopian Air line

EEP- Ethiopian Electric Power

ERC- Ethiopian Road Authority

ETC- Ethio-telecom

FDI- Foreign direct investment

GDP- Gross domestic product

GTP- Growth and transformation plan

GATT - General Agreement on Tariffs and Trade

HPR- House of Peoples Representatives

MNE- Multinational Corporation

BEPS- Base erosion and Profit shifting

IIAs- International investment agreements

ECA- Economic commission for Africa

WTO-World Trade Organization

MAP- Mutual Agreement Procedure

PAIC- Pan-African Investment Code

ACFTA- African country Free Trade Area

TIEAs-Tax Information Exchange Agreements

BRICS- Brazil, Russia, India and China

(ODA)-Official Development Assistance

(CAN)-Andean Community of Nations

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ABSTRACT

The purpose of this study was to identify the challenges of double taxation avoidances agreement on tax revenue collection and its impact on the current capability of minister of revenue. The study specifically aimed at assessing lack of capacity and the technical problems which are critical for efficient tax revenue performances. The study used a closed ended questionnaire and open-ended interview to collect primary data. Descriptive statistics was used to analyze frequencies, and percentages. Data analysis was conducted using Statistical Package for Social Sciences (SPSS). The study findings were presented using tables and figures. The findings revealed that The complexity of accounting resources, the technical problem with permanent establishment, lack of joint effort, the complexity in substantive provision of the treaties, treaty shopping, lack of proper capacity and experiences can cause the tax collected become very low from what expected from the potential of the economy currently (the tax to GDP ratio is around 10%) which is very far from most African country. modern tax administration expected to be efficient in many perspective while the joint effort between stockholders is not sufficient to tackling treaty related difficulties (outdate treaties) in such a way it can affect the tax sovereignty and make the tax revenue collection difficult finally, the government especially (Ministry of revenue) needs to give emphasis on building its tax training center, change the compliances level of taxpayers to improve its tax performances and create ease of doing business for taxpayers. The study concluded that based on the findings and suggest recommendation based on the conclusions made.

Keywords: DTAA, double taxation avoidances agreement

CHAPTER ONE

1. Background of the Study

Economic development is one of the macroeconomic goals of each country in the world especially, in most developing economies the issue of economic development is still to be answered, while most developing countries are resource blessed they still face a problem of fiscal deficit, which make them dependent on foreign assistance to finance development program, Therefore, better mobilization of internal resources could help to reduce the fiscal deficit and better control the tax revenue performances process of economy. In less developed countries, efficient utilization of resources remains inefficient so far and the governments in these economies play a big role in the stabilization of the economy through various policy measures such as fiscal policy. The availability of economic resources to society is limited so; an increase in government expenditure normally means a fall in private spending. Hence, implementation of fiscal policy, i.e. raising tax revenue is one means of transferring resources from the private to the public sector. Governments often use different methods of raising resources like borrowing, receipt of aid, the printing of money, and taxation but taxation is undoubtedly the most important source of government revenue. (Chaudhry,I.S.&Munir,F.2010)

Most governments in developing countries are aiming at stimulating and guiding their economic and social development, the implementation of an effective tax policy is an important tool by which resources are better mobilized. Most aid-dependent countries need an efficient internal resource mobilization system, for their matter over the last years; many developing countries had taken various reform programs like the introduction of value-added tax (VAT) to increase the tax revenue of the countries. While the tax revenue performances measure in the economy to finance government expenditure in most developing countries and its level of taxation has remained weak to enhance economic growth, developing countries ought to increasingly mobilize their internal resources which can be achieved through the tax revenue generated. The fiscal imbalance remains the problem of most developing countries for the past several decades; the rapid ever expansion of government expenditure and low tax revenue collection (Ansari, 1982). While trying to improve efforts to boost their fiscal revenue by establishing an efficient tax system, developing countries,

especially SSA countries are greatly challenged by factors like; economic structure, institutional capacity, political setup, low economic development level (Dioda, 1990-2009.) .

Africa continues account low global share of foreign direct investment (FDI) which is less than 5% Moreover; following its peak period in FDI in 2015, the inflows had been more subdued and reached $46 billion in 2018. (UN, 2019) , Improved macroeconomic conditions, sound growth performance, a growing consumer market, and middle-class society, relatively high rates of return on investment, existing natural resources, and recent discoveries of minerals, gas, and oil have all contributed to stronger investment inflows. According to the ministry of finances, Ethiopia does not have a dedicated tax policy document over the past decades, but according to the existing legislation, the major current tax types and rates of the country are summarized in the tax administration proclamation 983/2016 and federal income tax proclamation 979/2016, the tax policy aimed and implemented to support government revenues collection, expenditures, and budget deficits. Thus, the main objectives of the fiscal policy are to increase government revenues, government expenditures on social and economic sectors that support economic growth and alleviate poverty, and ensure sustainable, equitable, and inclusive economic growth and macroeconomic stability. Over the years, some tax policies and reforms have been made to increase domestic tax revenue. Apart from generating income, the tax policies are also expected to encourage foreign and domestic investment. A total of 287.5 billion birrs was collected from domestic and foreign aid in the 2010 Ethiopian budget year, which is 87.5% of the target for the fiscal year. (MOFED, 2018) The Domestic tax revenue collected during the fiscal year had an increase of 4.6 % compared to the previous fiscal year and account for 93.8% of total government revenue. While in the 2011 Ethiopian budget year the tax revenue collected was 198.2 billion birrs which has an increase of 22.11 billion birrs from the previous year's domestic tax revenue. (MOR, 2019) Even if the tax revenue performances show an increasing trend in the past few years the problems related to lack of proper capacity and skill, having multiple accounting resources used by local and international taxpayers create complex up on auditors in conducting an audit on international transactions, in addition the difficulties in interpretation and implementation of the substantive provisions of the double taxation avoidance treaties related to the multinational companies, the tax revenue collection of the country is not changed to much for several years this

trend will push to ask what are the real challenges of the tax revenue collection specially, in relation to multinational companies and what challenge this treaty had which directly impact LDC (least developing country). Economic growth and development has it is mentioned by school of Dependencia in 1960, due to the historical spread process of capitalism that resulted under-development of the 'periphery' by the nation of the 'core' and enforced a system of inequitable domination on the periphery since the advent of capitalism in the late 15th and early 16th centuries.

1.1 Statement of the problem

In Ethiopia, the tax revenue performance as a percentage of GDP is very low compared to the potential economy. According to (IMF, Ethiopian country report for 2020) , Even it experienced strong broad-based growth averaging 9.4% a year from 2010/11 to 2019/20, the real gross domestic product (GDP) growth slowed down to 6.1% in 2019/20 due to COVID-19 (coronavirus pandemic) Industry, mainly construction, and services accounted for most of the growth while agriculture was not affected by the COVID-19 pandemic and its contribution to growth slightly improved in 2019/20 compared to the previous year. Private consumption and public investment explain demand-side growth, the latter assuming an increasingly important role, the consistent higher economic growth brought with it positive trends in poverty reduction in both urban and rural areas. The government has launched a new 10-year perspective plan which will run from 2020/21 to 2029/30; the plan aims to sustain remarkable economic growth to be achieved under the Growth and Transformation Plans while putting more emphasis on the private sector (IMF, IMF country report 20/150, 2020) . Ethiopia's main challenges are sustaining its positive economic growth and accelerating poverty reduction, which both requires significant progress in job creation, as well as improved governance, the government is devoting a high share of its budget to pro-poor programs and investments, while the key challenges are related to like the rest of the world,

The economic impact of COVID-19 which includes the increased price of basic foods, rising unemployment, slowdown in growth, and increase in poverty, political disruption, associated with social unrest can negatively impact growth causing a decrease in foreign direct investment, tourism, and exports, underdeveloped private sector, which would limit the country's trade competitiveness and resilience to shocks (IMF, country report, May 2021).

Global economic crisis coupled with uncertainty and instability of aid flows had given due attention for governments to look for stable and sustainable modes of development finance. In addition, excessive reliance on foreign financing may, in the long run, lead to problems of debt sustainability, which together insist on LDCs to rely substantially on domestic revenue mobilization (Ayenew W.2016) one way of mobilizing domestic resource is achieved through rising of revenue from taxation. In Ethiopia, various efforts aimed at obtaining optimal fiscal policies with emphasis on the role of taxation as an instrument of economic development have been implemented. The role of tax revenue is imperative in bringing economic development, where its working or efficiency is determined by different socio-economic and political factors. Furthermore, the ability to generate adequate fiscal revenue is determined by different socio-economic and political factors, which may have different effects on tax revenue either negatively or positively. Therefore, to find out the obstacles of DTAA on tax revenue performance depends on identifying the challenges that affect tax revenue collection. Therefore, understanding the rationale for a low level of tax revenue performances would demand remedial mechanisms to correct the prevailing problems of tax revenue performances. It is infrequent to find country-specific studies on the issue as most empirical studies performed to investigate the determinants of tax revenue rely largely on cross-sectional and panel data set (Neog,(2020); MOSSIE, (2015))

In panel data set, it is not easy to distinguish country-specific behavior of tax revenue performances determinants and hence the country-level analysis is more appealing Moreover, studies pointed that factors affecting tax revenue variation across countries necessitate the need for country-level analysis of tax revenue. Few studies in the literature attempted to investigate the tax performance of Ethiopia However; the tax performance of Ethiopia across regimes it did not try to show what challenging factors contribute to the tax revenue collection of Ethiopia.(Ayenew (2016) On the other hand, other study investigated the determinants of tax buoyancy (the ratio of the percentage change of tax revenue in percentage change of GDP), it did not attempt to search for determinants that would impact tax revenue collection in Ethiopia so, in this study the researcher intend to find out the challenges of the double taxation avoidance treaty on tax revenue collection in Ethiopia by focusing on large taxpayer offices, Even if the tax revenue performances increased in past years those problems related to lack of proper capacity and skill, the availability of multiple accounting

resources used by taxpayers which sometimes create complex on auditors in conducting audit of international transactions, in addition the difficulties in substantive provisions of the double taxation avoidances treaties also had its own problem according to the Revenue statistics in Africa 2018 in Ethiopia the tax to GDP ratio is 12.8% , while it is 10.2 % in 2019 which is far from the average tax to GDP ratio for 21 African country is which below the average of sub Saharan Africa (18.2%) so, lack of modernization and human capacity in the tax administration challenge the tax revenue collection of the country and made the Tax /GDP ratio below the regional average (Modica,2018)).

1.2 General Objective of the study

The general objective of the study is to find out the challenge in the double tax avoidances treaty on tax revenue collection the case of the Ministry of Revenue: large taxpayer offices.

1.3 Specific Objective of the study

- To find the technical challenges in making a tax decision that influences the day to day activities of tax revenue collection.
- To find the gaps that influences the implementation efficiency of double tax avoidance agreement administration.
- To forward key strategic gaps to address the problems of double taxation avoidances on tax revenue collection.

1.4 Basic Research Question

Developed countries economy is always in an advantageous position than developing countries because of policy weakness and challenges that systematically imposed in connection with the flow of capital from a developed nation so, the basic research question to be answered in this study are as follows,

1-what are those policy-related problems in double taxation avoidances agreement?

2- What major technical and capacity-related problems exist in the tax administration?

1.5 Scope of the study

The study tries to find out the challenges of the double taxation avoidances treaty on government tax revenue collection, even though the Covid-19 pandemic situation is a limiting factory to contact respondents and DTAA has broad legal and economic dimension the study didn`t search for the potential problems within treaty negotiation and ratification process it only focuses on Ethiopian Ministry of revenue Specific to Addis Abeba Federal Large taxpayer offices about government tax revenue collection performances from fiscal year 2007 E.C up to 2011 E.C to find out its performances challenge by using quantitative and qualitative data.

1.6 Significance of the Study

The study will help to indicate the challenge and gap for tax expert's and managers for further research and it also help the tax authority to develop policy alternatives, improve government tax revenue collection by providing a possible solution to the challenge.

1.7 Limitations of the study

The main limitations of the study were higher officials become reluctant to give relevant data due to poor data management system and unwillingness to cooperate with the researcher. Some respondents perceived the questionnaire as politically-oriented, which made them uncomfortable to be open and honest on their answers concerning government support services. Besides, Lack of sufficient literature also other limitation of the study which is the factors that can compromise the quality of the research findings.

1.8 Organizations of the thesis

This research thesis is organized as follows. Chapter one covers background of the study, statement of the problem, objectives of the study, significance and limitations of the study. Chapter two covers literature review. The third chapter deals with methodology and design, source of data and data collection method. Chapter four discusses the findings of the result; chapter five dis-cusses conclusions and recommendation of the research.

CHAPTER TWO

1 Review of related literature

2.1 Introduction

This section briefly describes the historical trend of taxation and its administration, the implementation of international tax and investment treaties specially, the double taxation avoidances agreement and its challenges on government tax revenue collection through different direct and indirect tax and the international model by UN and OECD approaches.

2.2Taxation in history

Taxation is by no means a modern phenomenon taxes,, it would seem, were present at the dawn of recorded history. Some of the earliest written documents in existence, cuneiform clay tablets from Sumerian in southern Mesopotamia (modern-day Iraq) dating from around 3300 BC, take the form of tax records: lists of gold, animals, and slaves received by the temples which formed the core of social organization in the Sumerian city-states. The need to record tax payments was one of the earliest reasons to develop some form of written record-keeping; and so it might be argued that taxation played a part in the development.

The earliest taxes, in Mesopotamia, ancient Egypt, and elsewhere, took the form of shares or tithes of crops or other items of production, and also obligations to provide labour services, in the form of military service or work on construction projects. Money currency did not develop until considerably later, and so taxes were paid in kind. Tax collection became a major activity of the government, requiring a significant bureaucracy to assess and enforce the payment of taxes due. In ancient Mesopotamia, according to a contemporary proverb, the person you should fear the most was the tax collector. In ancient Greece and Rome, too, a large part of taxation took the form of levies in kind. But taxes of a more recognizably modern form started to appear, in the form of cash levies triggered by certain kinds of transaction, such as the importing of goods or the sale of land

and slaves. During the time of the Roman Republic, extensive use was made of tax farmers, publican to whom the right to collect taxes for a fixed period of years would be auctioned, giving the Republic a guaranteed steady revenue, while leaving the dirty work of tax collection in the hands of contractors.

The writings from this period give plenty of evidence that this was a corrupt and arbitrary system that allowed many publicans to enrich themselves greatly, while placing harsh pressures on ordinary taxpayers, Towards the end of the 1st century BC, Roman Emperor Augustus implemented a radical overhaul of the system of taxation, replacing the existing taxes by a fixed property levy together with a head tax (poll tax) to be levied on the provinces. The censuses that were undertaken to initiate these taxes are familiar from the start of St Luke's Gospel: 'And it came to pass in those days, that (p.7) (Cassidy, 2015) Gallo Roman relief from the 1st century BC showing taxes being paid, from Sainte's (France) there went out a decree from Caesar Augustus, that all the world should be taxed and all went to be taxed, every one into his city', Luke 2:1, 3 (Authorized Version). Likewise, detailed land registers were instituted, recording the ownership of land and its potential productivity. City councils, rather than the public, now played the primary role in tax collection and the more predictable and rule-based tax regime catalysed a period of growth and prosperity.

The role of taxation in the subsequent decline and fall of the Roman Empire is heavily disputed. Over many years the fiscal viability of the Roman Empire began to be eroded caught between the twin blades of rising military costs and a declining yield from taxation, as the provinces that were the main revenue contributors proved unable or unwilling to maintain their massive fiscal transfers to the centre of the Empire. By the 3rd century BC, it had become necessary to restrict individual mobility, both geographical and social, to ensure that people did not escape the tax obligations they owed by their occupation or the land that they farmed. The measures which were taken to extract additional revenues almost certainly hastened the economic decline of the Empire, weakening it still further its revenue-raising capacity. Taxes have waxed and waned over the centuries. In Western Europe, the centuries that followed the end of the Roman Empire were marked by a reversion to more rudimentary systems of revenue generation tithes and the supply of forced labour under the feudal system that inhibited both economic development and effective government.

Taxes of the modern sort, stable and regular levies based on transactions or property gradually began to reappear although monarchs frequently resorted to heavy and arbitrary levies when in need of revenue to finance wars or other undertakings. In the early modern period in Europe, social and economic changes began to generate pressures to end arbitrary taxation, rebellions in several European countries started to constrain the power of monarchs to impose taxation at will. (Smith S. (2015) Democratic legitimacy in tax policy began to take shape rapid industrialization and democratization in the 19th and 20th centuries have however, been associated with dramatic growth in the sophistication of taxation and in the scale of tax revenues in all industrialized countries, at the end of the 19th-century tax revenue was less than 10 % of national income in both the UK and France and only about 7% of national income in the United States, during the 20th century, each of these countries then saw substantial growth in the size of the public sector and the burden of taxation, with the share of taxation in overall economic activity increasing roughly by a factor of four, both world wars appear to have provided significant impetus to the growth of government and the scale of taxation. In the UK, for example, the two world wars were accompanied by a permanent upward jump in the level of taxation, each time of the order of 10% of national income or so, over this period of almost fifty years, different countries have experienced rather different amounts of growth in government spending and taxation.

Over the OECD area, taxation accounted for 25% of GDP in 1965, and 34% in 2012, a growth of 9% points. In the UK, growth was only around half this, and the overall burden of taxation in the UK in 2012 was at 35% of GDP, very close to the OECD average, despite having been substantially higher than the average fifty years earlier. The United States experienced no growth at all in taxation as a percentage of GDP over this period, and by 2012 had the lowest level of taxation, as a percentage of GDP, in any of the countries shown. By contrast, public spending and taxation continued to grow rapidly in some European countries. The level of taxation in France reached 45% of GDP in 2012, a rise of 11 percentage points, and there was an increase of almost twenty points in Italy and Spain. The highest levels of public spending and taxation are almost all in European countries; taxation takes less than 30 per cent of GDP in Japan, Korea, and Australia as well as in the USA.

2.3Introduction to tax treaties

Tax treaties represent an important aspect of the international tax rules of many countries Over 3,000 bilateral income tax treaties are currently in effect, and the number is growing. The overwhelming majority of these treaties are based on the United Nations Model Double Taxation Convention between Developed and Developing Countries (United Nations Model Convention) and the Organization for Economic Co-operation and Development Model Tax Convention on Income and Capital (OECD Model). These model treaties are available on the OECD and United Nations websites; their focus is on issues such as the types of treaties dealing with tax matters, as well as the legal nature, purposes, and interpretation of treaties, rather than on their substantive provisions (UN model, (1980)).

2.4Legal nature and effect of tax treaties

Treaties are agreements between sovereign nations Article 2 of the Vienna Convention on the Law of Treaties, which applies to all treaties provides: a treaty is an international agreement (in one or more instruments, whatever called) concluded between States and governed by international law. Tax treaties are often called either "agreements" or "conventions." As Article 2 of the Vienna Convention indicates, the name used is not important; bilateral tax treaties confer rights, and impose obligations on the two contracting States. But not on third parties such as taxpayers; however, tax treaties are intended to benefit taxpayers of the contracting States. Whether treaties do so or not depends on the domestic law of each state, in some States, treaties are self-executing: that is, once the treaty is concluded, it confers rights on the residents of the contracting States In other States, some additional action is necessary (for example, the provisions of the treaty must be enacted into domestic law) before benefits under a treaty can be given to residents of the contracting States,

Under Article 26 of the Vienna Convention, treaties are binding on the contracting States and must be performed by them in good faith, this is the ‘’pactasunt servanda’’ principle, if a country does not respect its tax treaties, other countries may have no interest in entering into tax treaties with it, most tax treaties are bilateral there are very few multilateral income tax treaties (for example, the Multilateral Convention on Mutual Administrative Assistance in Tax Matters), although the possibility of a multilateral treaty has been promoted by tax scholars for many years and is currently

on the agenda of the OECD Base Erosion and Profit Shifting (BEPS) project, although the precise scope of the multilateral treaty is not yet clear, reciprocity is a fundamental underlying principle of tax treaties, although its precise meaning is unclear, the provisions of almost all bilateral tax treaties are reciprocal.

For example, if Article 10 (Dividends) provides for a maximum rate of source country withholding tax on dividends paid by a resident company to shareholders resident in the other contracting state, that maximum rate of tax will apply equally to both contracting States, this reciprocal obligation applies to both States irrespective of the cross border flows of dividends; in other words, Article 10 (and the other distributive provisions of the treaty) applies equally to both States, even where the treaty is between a developed and a developing country so that significantly more dividends are paid by companies resident in the developing country to shareholders resident in the developed country than vice versa. Similarly, the administrative provisions of tax treaties, such as the exchange of information and assistance in the collection of taxes, are intended to apply reciprocally.

2.5Types of treaties

The deal with income tax treaties, however, several other types of treaties deal with tax issues. For example, countries that impose estate or inheritance taxes may have treaties to eliminate double taxation; Also, many countries have signed the Multilateral Convention on Mutual Assistance in Tax Matters, this Convention deals with administrative tax issues, such as exchange of information, assistance in the collection of taxes and dispute resolution, Besides, many types of treaties deal primarily with non-tax matters but include tax provisions, these non-tax treaties include air transportation agreements and trade and investment treaties, such as the agreement governing the World Trade Organization, these agreements often contain carve out provisions indicating that any income tax issues will be dealt with exclusively under the income tax treaty between the countries. One important recent development is the proliferation of Tax Information Exchange Agreements (TIEAs) typically; these agreements are entered into by high tax countries with low or no tax countries which they would not otherwise have a tax treaty. In general, it requires low or no tax countries to exchange information on the same basis as provided in Article 26 of the United Nations and OECD Model Conventions.

2.6The process of negotiating tax treaties

The process of negotiating a tax treaty typically begins with initial contacts between the countries in deciding whether to enter into tax treaty negotiations with other countries, a country will consider many factors, the most important of which is the level of trade and investment between the countries, once the countries have decided to negotiate, they will exchange their model treaties (or their most recent tax treaties, if they do not have a model treaty) schedule face to face negotiations typically, treaties are negotiated in two rounds, one in each country, during the first round of negotiations, the negotiating teams will agree on a particular text usually one of the countries' model treaties to use as the basis for the negotiations after presentations by both sides about their domestic tax systems, the negotiations proceed on an article by article basis aspects of the text that cannot be agreed on are usually placed in square brackets, to be dealt with later, once the wording of the treaty is agreed on, the parties initial it after such agreement has been reached, arrangements will be made for the treaty to be signed by an authorized official (often an ambassador or government official).

After signature, each state must ratify the treaty by its own ratification procedures, the treaty is generally concluded when the countries exchange instruments of ratification the treaty enters into force by the specific rules in the treaty (Article 29 (Entry into force) of the United Nations Model Convention) Thus, entering into a tax treaty involves several separate steps or stages: signature, ratification, conclusion and entry into force, each of these steps has a special meaning and particular consequences, once a treaty has been adopted, it may be modified in minor or major ways by the mutual consent of the contracting States, it is commonplace for them to amend a tax treaty by entering into a Protocol to the treaty Under international law, an agreement designated as a Protocol is simply a treaty under a different name thus, as described above, it must be ratified under the rules applicable to treaties before it becomes effective, domestic tax law must be amended and interpreted frequently to respond to new circumstances, tax treaties are no different from domestic tax law in this regard.

In theory, the proper remedy for a defective treaty provision is the bilateral adoption of an appropriate amendment to the treaty, in practice, the amendment process is often exceedingly slow

and difficult it is not uncommon for a Protocol to take as long to negotiate as a treaty often, once one aspect of a treaty is opened up for renegotiation, other aspects of the treaty become negotiable, to a limited degree, tax treaties may be updated without a formal amendment procedure through the interpretative process, for example, the agreement procedure (MAP) in most treaties authorizes the competent authorities of the two States to resolve issues of interpretation.

2.7Tax treaties and domestic law

The relationship between tax treaties and domestic tax legislation is a complex one in many countries the basic principle is that the treaty should prevail in the event of a conflict between the provisions of domestic law and a treaty, in some countries France is an example of this principle has constitutional status. In many other countries, the government has the authority under domestic law to override the provisions of a tax treaty, for example, legislative supremacy is a fundamental rule of law in many parliamentary democracies, as a result, it is clear in these countries that domestic tax legislation may override their tax treaties, however, the courts in these countries may require that the legislature explicitly indicate its intention to override a treaty before giving effect to a conflicting domestic law, courts may also strain to find some ground for reconciling an apparent conflict between a treaty and domestic legislation, in general, tax treaties apply to all income and capital taxes imposed by the contracting States, including taxes imposed by provincial (state), local, and other subnational governments.

In some federal States, however, the central government is constrained by a constitutional mandate or established tradition from entering into tax treaties that limit the taxing powers of their subnational governments. Accordingly, the tax treaties of such federal States apply only to national taxes this is the situation for both Canada and the United States of America; in such circumstances a subnational government may impose taxes in a manner that would not be permitted for its central government in general, tax treaties do not impose the tax.

Tax is imposed by domestic law; therefore, tax treaties limit the taxes otherwise imposed by a state in effect, tax treaties are primarily relieving in nature similarly, tax treaties do not allocate taxing rights, although it is often claimed that they do in light of this fundamental principle, it is usually appropriate before applying the provisions of a tax treaty to determine whether the amount in

question is subject to domestic tax, if the amount is not subject to tax under domestic law, it is unnecessary to consider the treaty for example, assume that under a treaty between country A and country B, interest paid by a resident of one state to a resident of the other state is subject to a maximum rate of withholding tax of 15 per cent.

If, under the law of country A, interest paid by a corporation resident in that country to an arm's length lender resident in country B is exempt from tax by country A, the treaty does not give country A the right to impose 15% withholding tax on the interest however, whether tax treaties give a right to tax independent of domestic law is a question of domestic law, the internal law of a few countries like France is an example it provides that they have the right to tax under domestic law any amount that they are not prevented from taxing under the terms of the treaty, the provisions of tax treaties do not displace the provisions of domestic law entirely Consider, for example, a situation in which a person is considered a resident of country A under its domestic law and is also considered to be a resident of country B under its domestic law.

If the person is deemed to be a resident of country an under the tie breaker rule in the treaty between country A and country B (Article 4 (2) (Resident) of both the United Nations and OECD Model Conventions provides a series of rules to make a resident person in both countries a resident of only one country for purposes of the treaty), the person is a resident of country A for purposes of the treaty but remains a resident of country B for purposes of its domestic law for all purposes not affected by the treaty thus, for example, if the person makes payments of dividends, interest or royalties to non-residents of country B, the person will be subject to any withholding obligations imposed by country B on such payments because the person remains a resident of country B, occasionally, some countries have passed legislation to modify or overturn the interpretation of a tax treaty given by a domestic court such legislation, adopted in good faith, may not violate a country's obligations under its tax treaties often the country overriding its tax treaties in this way will consult with its treaty partners to demonstrate good faith and to prevent misunderstandings some countries may seek to prevent court challenges to certain domestic tax legislation based on the country's tax treaties by provided the new legislation prevails over any conflicting provisions of a tax treaty.

The most well-known and controversial treaty overrides are probably those adopted by the United States; however, other countries have also done so on occasion, treaties are solemn obligations that should not be disregarded except in extraordinary circumstances at the same time, countries must be able to amend the provisions of their domestic tax legislation to keep it current and to clarify interpretative difficulties many of the provisions of tax treaties do not operate independently of domestic law because they include explicit references to the meaning of terms under domestic law for example, under Article 6 (Income from immovable property) located in a country is taxable by that country for this purpose the term “immovable property” has the meaning that it has under the domestic law of the country in which the property is located also, Article 3 (2) (General definitions), which provides that any undefined terms in the treaty should be interpreted to mean what they mean under the law of the country applying the treaty conversely, in some countries where domestic law uses terms that are also used in the treaty, the meaning of those terms for purposes of domestic law may be interpreted by the meaning of the terms for purposes of the treaty.

2.8Objectives of tax treaties

The objective of a tax treaty, broadly stated, is to facilitate cross border trade and investment by eliminating the tax impediments to these cross border flows this broad objective is supplemented by several more specific, operational objectives the most important operational objective of bilateral tax treaties is the elimination of double taxation of income from cross border trade and investment is taxed by two or more countries without any relief, such double taxation would obviously discourage trade and investment many of the substantive provisions of the typical bilateral tax treaty are directed at achieving this goal for example, Article 4 (2) (Resident) of the United Nations Model Convention contains tie breaker rules to make a taxpayer who is otherwise considered to be resident in both countries to be a resident in only one of the countries for purposes of the treaty they also limit or eliminate the source-country tax on certain types of income and require residence countries to provide relief for source-country taxes either by way of a foreign tax credit or an exemption for the foreign source income Originally.

The focus of tax treaties was almost exclusively on solving the problem of double taxation Multinational enterprises were facing risks of substantial double taxation, few countries provided unilateral relief for double taxation and treaty networks were just being developed treaty solutions to most of the major double tax problems were worked out in the mid twentieth century however, they are now routinely accepted by States when they enter into tax treaties the major exception is the double tax problem arising from inconsistent applications by countries of the arm's length method for establishing transfer prices in transactions between related persons.

The historical emphasis on the elimination of double taxation should not obscure the fact that most tax treaties have another equally important operational objective the prevention of tax evasion and avoidance or double non-taxation in other words; the fundamental principle is that treaties should apply to ensure that income is taxed once, and only once this objective counter balances the elimination of double taxation just as double taxation imposes an inappropriate barrier to international commerce, the tolerance of fiscal evasion and avoidance offers an inappropriate incentive to such commerce although the elimination of tax evasion and avoidance is an objective of most tax treaties recognized by both the United Nations and the OECD, there are few provisions in typical tax treaties that are designed to achieve it in addition to the two principal operational objectives of tax treaties, there are several ancillary objectives one ancillary objective is the elimination of discrimination against foreign nationals and non-residents any country entering into a treaty wants to ensure that its residents who carry on business in the other contracting state are treated the same as the residents of that other state who carry on similar activities,

A second ancillary objective is to facilitate administrative cooperation between the contracting States, this administrative cooperation has three main dimensions: exchange of information, assistance in the collection of taxes and dispute resolution the exchange of information in the typical tax treaty can be an important tool in combating tax evasion and avoidance and to ensure that taxpayers receive treaty benefits the United Nations and OECD Model Conventions both provide that each contracting state will let assistance in the collection of tax assessed by the other state as if the tax were its own Finally, most treaties provide a mechanism in their treaties the agreement procedure for resolving disputes concerning the application of the treaty this procedure is

often used to resolve transfer pricing disputes one of the most important effects of tax treaties is to provide certainty for taxpayers certainty concerning the tax consequences of cross border investment is an important factor in facilitating such investment, tax treaties have an average life of approximately 15 years As a result, non-resident investors know that, despite changes in the tax laws of the source country.

The basic limitations in the treaty on the source country's right to tax will continue to prevail for example, if company A, a resident of country A, licenses residents of country B to use intangible property developed by company A, company A will know for example that the rate of withholding tax on royalties provided in the treaty between it and country B will continue to apply even if country B increases that rate under its domestic law although it may not be an objective of a tax treaty, the allocation of tax revenues from cross-border activity between the two contracting States is certainly an effect of the treaty as a result, the treaty negotiators should be acutely aware that the provisions of the treaties they are entering into will determine how much tax revenue will be subject to domestic tax for example, if a country agrees to a 5% rate of tax on interest under Article 11 (Interest), its tax on interest paid by residents of the country to lenders resident in the other country will be limited to 5 per cent of the total interest paid and the other country's tax revenues will be whatever its tax rate on its residents is less the 5% tax paid to the source country.

2.9Interpretation of tax treaties

The interpretation of tax treaties is a task that must be undertaken by taxpayers, tax authorities, and domestic courts from a simplistic perspective, tax treaties can be interpreted broadly to give effect to their perceived purposes or narrowly to adhere strictly to their literal wording the interpretation of tax treaties bears certain similarities to that of domestic tax legislation, For example, the meaning of the words, the context in which they are used, and the purpose of the provision are generally important in interpreting both treaties and domestic tax legislation there may be a tendency for tax authorities and courts to interpret tax treaties in the same way as domestic tax legislation there are, however, several important differences between tax treaties and domestic tax legislation:

- Because two contracting States are involved in every treaty, questions of interpretation should be resolved by reference to the mutual intentions and expectations of both of them;
- Tax treaties are addressed to a broader audience than domestic legislation, namely, to both the governments and taxpayers of each country;
- Tax treaties are often not drafted using the same terms as domestic legislation; for example; the United Nations Model Convention uses the term "enterprise," which is not used in the domestic legislation of many countries;
- Tax treaties are primarily relieving in nature, as discussed above; they do not impose a tax;
- The United Nations and OECD Model Conventions and Commentaries thereon have no counterparts in the context of domestic tax legislation given these differences.

The question is whether another interpretive approach is appropriate for tax treaties as tax treaties are treaties, their interpretation is governed by the Vienna Convention on the Law of Treaties10 (Vienna Convention), which applies to all treaties, not just tax treaties many countries have signed it and are bound by its terms however, even countries that have not done so may be bound by its provisions because they represent a codification of customary international law, which is binding on all nations the basic rule of interpretation in Article 31 (1) of the Vienna Convention provides as follows: a treaty shall be interpreted in good faith by the ordinary meaning to be given to the terms of the treaty in their context and in light of its object and purpose, the context under Article 31 (2) includes the text of the treaty and any agreements between the parties made about the conclusion of the treaty and any instrument made by one of the parties and accepted by the other party.

For example, the United States produces a technical explanation for each of its tax treaties, and Canada publicly announced its acceptance of the United States technical explanation of the United States-Canada treaty also, under Article 31 (3), subsequent agreements between the parties and subsequent practice with respect to the interpretation of the treaty and any applicable rules of international law must be considered together with the context therefore, for example, if the competent authorities of the two States enter into an agreement concerning the interpretation of the treaty, the agreement should be considered for purposes of interpreting the treaties in the same way as if it were included in the treaty itself the approach to interpretation in Article 31 (1) of the Vienna

Convention makes intuitive sense obviously, it makes sense as the first step in the interpretive process to consider the ordinary meaning of the words of the treaty but those words must be read in the context of the treaty because the meaning of words is always dependent on the context in which they are used.

Finally, it also makes sense to interpret the terms of a treaty in light of its purpose because obviously, the contracting States are trying to accomplish something by entering into the treaty and agreeing on its terms although Article 31(1) of the Vienna Convention makes sense, it must also be acknowledged that it is vague and does not provide any clear, meaningful guidance about the interpretation of treaties most importantly, it does not indicate (and it would be impossible for any interpretive rules to do so in a reasonable manner) how much weight to give to the ordinary meaning of the words, the context and the purpose of the relevant provisions of the treaty in any particular case for example, if there is a conflict between the ordinary meaning of the words and the purpose of the relevant provision, Article 31 (1) does not indicate how the conflict should be resolved.

Under Article 32 of the Vienna Convention, other elements, called supplementary means of interpretation, which include the preparatory work of the treaty and the circumstances of its conclusion, are only to be considered to confirm the meaning established under Article 31, or to establish the meaning of Article 31 produces an ambiguous, obscure, absurd or unreasonable result although the United Nations and OECD Model Conventions and Commentaries are important sources for the interpretation of tax treaties, they are clearly not binding their legal status under the Vienna Convention is unclear they appear to be supplementary means of interpretation under Article 32 If so, they might be considered of limited relevance or importance because they can be used only to confirm the meaning otherwise established by applying the principles of interpretation in Article 31 or, as mentioned above, to establish the meaning of the meaning under Article 31 is ambiguous, obscure, absurd or unreasonable, the United Nations Committee of Experts and the OECD do not intend the Model Conventions and Commentaries to have such a limited role the introduction to the United Nations Model Convention states that, while its provisions and the Commentaries thereto are not enforceable and should not be considered as formal

recommendations, they are "intended to facilitate the negotiation, interpretation and practical application of bilateral tax treaties based upon its provisions"

Similarly, the introduction to the OECD Model Convention indicates that the Commentaries "can be of great assistance in the application and interpretation of the conventions and, in particular, in the settlement of any disputes" It is difficult, however, to justify including the United Nations or OECD Model conventions and commentaries as part of the context of a treaty under Article 31 of the Vienna convention, especially if the treaty being interpreted was entered into before the particular aspect of the relevant commentary was revised, although the status of the OECD model convention and commentaries under the Vienna convention is a controversial topic among international tax scholars, the issue appears to be primarily theoretical and of little practical significance, in treaty cases from virtually all countries, the courts usually give the model conventions and commentaries substantial weight it is important that tax treaties be interpreted the same way in both countries (the principle of common interpretation) because otherwise income may be taxed twice or not at all assume, for example, that S, a resident of country A, performs services in country B for more than 183 days for the benefit of corporation C, the services result in the creation of some work product used by corporation C S receives a payment from corporation C that is characterized under the laws of country B as compensation for performing services in country B in contrast, Country A characterizes the payment as a royalty for allowing corporation C to use S's work product, under the tax treaty between the two countries, fees for personal services are taxable in the source state and royalties are taxable exclusively in the residence state (as they are under Article 12 (Royalties) of the OECD Model Convention),under these circumstances, S will be subject to double taxation unless the competent authorities of the two countries can resolve the matter.

When countries with different languages or when countries with more than one official language enter into tax treaties, there will be multiple official versions of the treaty in various languages. Article 33 of the Vienna Convention provides that, for tax, treaties concluded in multiple languages, all versions of the treaty are considered equally authentic unless the provisions of the treaty specify that one version is to govern in the event of a conflict some countries that conclude their tax treaties

in multiple languages, such as China, provide that the English language version of the treaty will prevail where the versions conflict in addition to the provisions of the Vienna convention, tax treaties based on the United Nations and OECD Model conventions contain an internal rule of interpretation, Article 3(2) (General definitions) of the United Nations and OECD Model Conventions provides that any undefined terms used in a treaty should be given the meaning that they have under the domestic law of the country applying the treaty unless the context requires otherwise thus, applying Article 3(2) involves a three-stage process:

(a) Does the treaty define the term?

(b) If the treaty does not provide a definition, what is the domestic meaning (not necessarily the definition under domestic law) of the term?

(c) Does the context of the treaty require a meaning different from the domestic meaning?

The first step is not as simple as it appears for example, some definitions in tax treaties are inclusive Article 3 (1) (a) defines a person to include an individual, a company, and any other body of persons in contrast, the definition of company in Article 3 (1) (b) is exclusive (“company means”) generally, an inclusive definition means that the term has its ordinary meaning plus the items that are specifically mentioned Article 3 (2) should apply to determine the ordinary meaning under domestic law of terms that are defined inclusively, such as “person” although it is not completely clear further, definitions in the treaty often contain terms that are undefined for example, the terms “individual” and “body of persons” in Article 3 (1) (a) are not defined these terms should also take their meaning from domestic law because of Article 3 (2), although once again this result is not completely clear determining the meaning of a term under domestic law also may be difficult domestic tax legislation is generally imposed on the legal consequences of transactions and the legal status of persons under the general law.

Article 3 (2) explicitly recognizes that the domestic meaning of a term used in a treaty may be derived from the general domestic law rather than the domestic tax law where, however, the domestic tax law provides a meaning for an undefined treaty term, Article (2) provides that the

meaning of the term under a country's tax law prevails over the meaning under other domestic laws an undefined term however, may have more than one meaning for purposes of a country's tax law in this situation the domestic meaning that is most appropriate should be used in the context of the treaty it should also be noted that Article 3 (2) refers to the "meaning" of an undefined term, not its definition, under domestic law a term may not be defined for purposes of a country's tax law but, assuming that it is used in domestic law, it should have an ordinary meaning the final step in applying Article 3 (2) is to consider if the context of the treaty requires using a different meaning of a term from the meaning under the domestic law for this reason, it is necessary to consider the alternative meanings for the term for purposes of the treaty and whether one of them is more appropriate in the context of the treaty than the one under the domestic law matters that should be considered in this analysis include:

- The ordinary meaning of the term as compared to the meaning under domestic tax law;
- The meaning of the term under the other country's tax law;
- The purpose of the relevant provision of the treaty; and
- Extrinsic material, such as the commentaries to the United Nations and OECD Model conventions ,

Some international tax scholars argue that in applying Article 3 (2), undefined terms should be given, if at all possible, a meaning that is independent of domestic law (a treaty meaning or international fiscal meaning) and that a domestic law meaning should be used only as a last resort other scholars argue that Article 3 (2) contains a preference for domestic law meanings because they are only displaced by a treaty meaning if "the context requires otherwise." Using the word "requires," they argue, places a substantial on us on those seeking to justify a treaty meaning the words of Article 3 (2) do not establish any clear preference for domestic law meanings or treaty meanings for undefined terms thus, the meaning of undefined terms in a tax treaty should be determined by reference to all of the relevant information and the entire context another important and controversial issue of interpretation about Article(2) of the United Nations and OECD Model Conventions is whether a term has its meaning under domestic law at the time that,

The treaty was entered into (the static approach) or its meaning under the domestic law as amended from time to time (the ambulatory approach) Article 3 (2) of the OECD Model Convention was amended in 1995 to make it clear that Article 3 (2) should be applied by the ambulatory approach a similar conforming amendment was made to the United Nations Model convention 2001 the ambulatory approach allows treaties to accommodate changes in domestic law without the need to renegotiate the treaty a drawback of this approach is that it effectively permits a country to amend unilaterally its tax treaty with another country by changing certain parts of its domestic law for example, an amendment to domestic law that significantly alters the bargain between the two countries and was not contemplated by them is equivalent to a treaty override and might be rejected as inconsistent with Article 26 of the Vienna Convention (pacta sunt servanda) (Arnold,(2013))

2.10 Double Taxation

Double Taxation is the imposition of taxes in two or more states and occurs when the taxpayers are taxed twice for the same earned income or capital by different tax collectors and in the same fiscal year. This situation occurs when corporations pay dividends to their shareholders; both of them are considered separate legal entities some countries tax their citizens based on their worldwide income, others adopted the territorial criterion or source principle indeed, double taxation is one consequence of globalization According to Kevin Holmes (2007, p. 19) “Double Taxation” is a phenomenon where taxpayers are engaged in cross-border transactions and are taxed more than once on the same amount of income, and can take different forms, but regardless of the form it inhibits economic activity, therefore, to face this phenomenon, the agreements turn out to be the most important instrument to fight and avoid double taxation, as the minimum legal framework for establishing investments in countries. (Holmes, (2007))

2.11 Objective of DTAA

The objective of a Double Taxation Avoidance Agreements is to provide a settlement between two countries interested in taxing a particular source of income by establishing rules for division of revenue and reducing the rates of tax on some types of incomes.

2.12 Economic and Juridical Double Taxation

There are two types of double taxation: Economic and juridical both of them can be prevented by domestic laws, economic double taxation may occur when the same income is taxed in the hands of different persons for example, when a corporation pay taxes on profits and again when dividends are distributed to shareholders, both of them are considered as different legal entities, the juridical double taxation occurs when two or more States tax the same person or taxpayer with respect to the same income or capital usually the term economic double taxation is allusive to refer to juridical taxation in which a same income source is taxed by two (or more) similar taxes in the hands of different tax collectors.

2.13 Tax Connecting Factors

The tax sovereignty of countries is indisputable regarding taxation of individuals regarding their incomes, therefore, from the point of view of capital-exporting countries the criterion of residence in double taxation is more suitable for them however, the source principle is more important for capital importing countries and is used mostly in developing countries there are two main connecting factors between the taxpayer and the state: Personal or Real. For personal connecting factor includes domicile, residence, or nationality, and a real factor includes the territorial criterion also the connecting factors are divided into two groups: subjective and economic criterion the subjective criterion considers the nationality, domicile, or residence of the taxpayer for to establish the tax jurisdiction of the incomes the subjective criterion is linked to the so-called "principle of worldwide income" and taxes are paid in the country where the taxpayer is resident, regardless of where the income is generated inside the economic criterion we can highlight the territoriality or source principle to establish the tax jurisdiction the income is taxed by the country where the wealth was created or where the assets were located, regardless of where the taxpayer has their residence.

2.14 Territorial or Source Principle

The source principle criterion is based on the right of the state, with its political, economic, legal, and social conditions, which help to generate income. Therefore, have right to tax the income and enrichment occurred within the territory, and have justification from an economic and social point

of view those incomes generated within the territory are considered as domestic source income, without considering the nationality, domicile or place of residence of the taxpayer therefore, if we measure the contribution that each domestic and foreign source provides to the total tax collection in each state, we can observe that, even in countries that use the worldwide income criterion, the greatest contribution comes from a domestic or national source this criterion is worldwide used and is well accepted by capital importer like Latin American countries nowadays applied the "Source Principle criterion" for tax on profits, especially for those which come from natural resources the aim is to maintain neutrality in capital import of most the countries that have tax treaty network and their conventions do not always to follow the OECD model, they used the source principle criterion on treaties between them.

2.15 Worldwide Income Principle

The worldwide income principle is subject to the state taxing rights and the link between the taxpayer and the state this criterion also is so called "universal income" tax the taxpayers based on their residence without considering the place where the income is earned therefore, the taxpayer's incomes, whether is domestic or foreign are subject to taxes however, all legal entities whether they are domestic or foreign, are subject to tax on source income nowadays, the worldwide income criterion is worldwide used and has been adopted by most of the tax legislation in the world however, its implementation is a bit complex, regarding the possibility of collecting revenue outside the country, the system demands the more developed tax administrations and the existence of tax information exchange agreements from the economic point of view the worldwide income criterion is defended under the principle of economic efficiency in capital-export neutrality it is the criterion that an ideal tax should be effective in raising revenue for the government and not have any negative effects on the economic decision making process of the taxpayer and does not prevent economic resources from being allocated to their most appropriate use, regardless of where in the world taxable income is earned the worldwide income principle ensures less distortion in the allocation of capital, because the taxpayer's income is taxes based on their domicile or residence within and outside the country, considering the totality of the domestic and foreign income of the taxpayer and granting a credit for the tax paid abroad.

2.16 Residence Jurisdiction

Another connection factor is the residence jurisdiction which embraces natural and legal persons for the tax purpose and within the civil sphere, the terms “domicile” and “residence” are associated the residence jurisdiction implicates the taxation on taxpayer’s worldwide income in his resident country and at the corporate level of income arising in foreign countries, therefore, a corporation’s place of domicile is equivalent to its place of incorporation.

2.17 Methods

A country must consider many factors before deciding which method of relieving or eliminating double taxation or a combination of them to use as a mechanism to mitigate it Furthermore, they need to determine with which type or types of tax problem are dealing, whether it is economic or juridical double taxation there are three methods by which a taxpayer may obtain relief from juridical taxation to facilitate the efficient way of allocation of resources: the credit method, the exemption method; and deduction method. The following is a brief overview of each method of tax relief as a mechanism to eliminate or alleviate double taxation.

2.18 Credit method

The credit method occurs when the state of Residence grants a credit against the total tax paid abroad by their taxpayers, based on their worldwide income earned in the state of residence and in the state of source, allowing him to deduct or reduce the tax paid in the source country (OECD Model, Chapter V, Methods for elimination of double taxation Article 23B) to apply this method, it is needed that both countries taxes are identical or similar and the amount the taxpayer seeks to deduct had been paid in the source country moreover, the tax credit mechanism provides a possibility of so-called “full credit” or “ordinary credit” Within the full credit mechanism the state of residence allows taxpayers to deduct fully (without any limitation) the tax paid in the source country therefore, if the tax paid in the source country is bigger than the tax payable to the state of residence, the latter country is obligated to repay the excess amount to the taxpayer and will grant a tax credit under the ordinary tax credit method the state of residence allows a deduction of the foreign-source tax based on worldwide income, but no more than the proportion of taxes that would be attributable to the income from another state.

2.19 The exemption method

Within the exemption method, the state of residence of the taxpayer considered exempt all incomes and properties owned outside the territory or in the State of source, assuming that the taxpayer's income was already subject to taxation in the State of source the full exemption occurs when the State of residence grants total tax exemption on all foreign-sourced income exemption with progression happened when the state of residence takes into consideration the foreign-source income to establish the tax to be imposed on the rest of the income majority of the Double Taxation Agreements or DTAs signed as a mechanism of tax relief.

2.20 The deduction method

The deduction method occurs when countries tax their residents on their worldwide income (foreign and domestic source income) and allow those taxpayers to take a deduction for foreign taxes paid in the computation of their taxable income indeed, foreign taxes and other types of taxes are considered as current expenses in foreign jurisdictions.

2.21 Double taxation agreements

The double taxation agreements are signed by two or more sovereign countries to avoid that a person is subject to pay taxes for the same income in two or more states. The DTA's functionality is to determine the extent to which the state may levy taxes.

2.22 History of DTAA

The DTAs have undergone significant changes in the last decades following a brief outline of their evolution. During the 20 and 30 the League of Nations (group of experts) begins to address more deeply the problematic of double taxation and the mechanisms to combat it even though since then the international tax legislation has become considerably more complex, the commentaries more extensive and some tax loopholes have had to be closed, this model treaty still forms the basis for all double taxation agreements in force today In 1963, the OECD Committee on Fiscal Affairs elaborated a draft "Convention on Income and Capital" from 1971, the Committee revised the draft Convention and accompanying Commentary, which ended in 1977, with the publication of the new Model Convention and its Commentaries and recommended to all member countries In the 1980,

globalization processes and the liberalization of international trade placed pressure on the OECD Model Moreover, several developed and developing countries wanted to conclude tax treaties with the goal of attracting more foreign direct investment (FDI) on the other hand,

In 1974 the United Nations (UN) used as a basis the OECD Model for to elaborated its own double taxation convention which reproduces significant part of the provisions the UN published a guide for the conclusion of the agreements between developed and developing countries, also recognized that the OECD model is a valid instrument between developed countries specifically during the 1979, was published the Manual for the negotiation of tax treaties between developed and developing countries, together with the Model Agreement seeking a better balance between the residence and source criterion In 1991, it was recognized that the revision of the OECD Model and Commentary had become an ongoing process, which adopted the concept of a "Dynamic Reform" Model Agreement that allows regular updates and changes, timely, without waiting for a full review, published the next year (1992) a new version on 2014 updated the latest version.

2.23 Objectives and Features of BIT

To harmonize the domestic and foreign policy under a common goal, and to achieve an improvement in the economy and hence greater welfare for all taxpayers, most of the countries have entered into bilateral or multilateral agreements by following the pattern of the well-known and most widely used since 1963, the OECD "Model Tax Convention on Income and Capita L" has had great influence in the negotiation, application, interpretation, and enforcement of tax treaties. (UN model,(1980)) However, the existence of the Model has facilitated bilateral negotiation between OECD members (most of them developed countries) and countries outside the organization Developing countries making possible a desirable harmonization between their bilateral conventions for the benefit of both taxpayers and national administration the convention does not deal exclusively with the elimination of double taxation, but also as the prevention of tax evasion and non-discrimination moreover, this model as a rule has the exclusive right to tax some income and capital only in the state of residence and limited taxation in the state of source.

The "United Nations Model Double Taxation Convention between Developed and Developing Countries" forms part of the continuing international effort aimed at eliminating double taxation, to preserve a stronger taxing sovereignty of the state of source where the income comes from, restricts the circumstances in which companies can operate in another country without paying taxes in the source country, and leaves open possibility to obtain higher retention rate on interest, dividends and royalties finally, regardless of the nationality or domicile of the persons, African countries have been making important strides in governance in recent years, they continue to grapple with a perception of elevated risk, which holds them back from realizing their investment potential this cautious perception, in particular held by investors not yet established on the continent, to a large extent it shaped by events of the past, a lack of understanding of the underlying risk factors and high information costs on real investment opportunities. Investment treaties are designed to provide investors with credible guarantees against risks such as expropriation or unanticipated policy reversals and malpractice and misapplication of the law by the host government or authorities, which would significantly undermine or even entirely wipe out the value of their investment bilateral investment treaties have therefore been touted as tools to promote the protection of investor rights and obligations on the part of host countries receiving such investment, reducing the risks and thereby raising the investment attractiveness of the country bilateral investment treaties also effectively signal openness to investment and associated business and recognize the need of investors to protect their investment. (Tobin, (2011).)

Double taxation treaties are designed to ensure that foreign investors will not face instances of taxes levied on the same income or activity by both home and host tax authorities. while enhancing transparency and predictability of the tax environment many double taxation treaties are also explicitly intended to reduce the scope for fiscal evasion by providing national tax authorities in the two economies with information sharing and tax assistance mechanisms, double taxation treaties showcase a country's readiness to apply "internationally accepted taxation norms" and its desire for deeper integration into the global economy these qualities of double taxation treaties are considered by investors looking for a conducive investment environment to be tools that will allow them to repatriate the proceeds of their future investment activity under the most beneficial conditions available in the light of the benefits and protection that bilateral investment treaties and double

taxation treaties offer to investors, they are often perceived as instruments that raise investment attractiveness and hence promote investment both instruments, however, must be analysed carefully, they have many dimensions about the protection of investment. (Cooper, 2014)

2.24 Trends in BIT and DTAA

There are 2,896 bilateral investment treaties globally, of which 2,337 are currently in force; these treaties have traditionally been concluded between developed capital-exporting countries, and their developing capital importing counterparts but investment treaties between countries located in the global South have become increasingly common in line with world developments. Africa experienced a surge in bilateral investment treaties in the late 1990s, which continued, albeit at a slower clip, past the turn of the century (Africa, 2016).

African countries have cumulatively negotiated 881 bilateral investment treaties of which 515 are in force, including 170 intra African treaties of which 47 are in force. North African countries and Mauritius boast the densest networks of these treaties; , the same groups of countries, along with South Africa, have been among the most committed to negotiating these treaties with other African economies. Bilateral investment treaties furnish investors with specific standards of treatment that give rise to a set of rights with the rationale behind such as standards are to establish a level playing field vis-à-vis other domestic and international investors and to shield them from discriminatory and arbitrary behavior on the part of the host country's authorities, as well as other types of political risk these rights are typically buttressed by the possibility of direct recourse to international investment arbitration. Although most bilateral investment treaties are very similar in format, they can vary greatly in substance (Muchlinski, Multinational enterprises and the law. , 2007)

The most prominent elements of investment treaties include, but are not limited to, a preamble, scope, definitions, standards of treatment, protection against discrimination, an umbrella clause, performance requirements, transfer of funds and dispute settlement, by reducing the administrative complexity and uncertainty that foreign investors face, tax treaties and conventions may complement bilateral investment treaties, even though they are completely free-standing instruments (Choudhury,(2014).) Double taxation treaties or conventions allocate tax rights on cross-border income between the host and home economies, with the aim of preventing instances of

double taxation, which occur when the same income or economic activity is taxed in both at home and host economies, double taxation treaties also offer recourse to redress usually taking the form of dialog between the competent tax authorities through the agreement procedure by April 2017 617 cases filed to the International Center, 128 had been against African countries the average length of proceedings is not indicated in recent International Center reports but the absence of tax treaties and information asymmetry between investors and tax authorities may open up opportunities for tax evasion, by establishing formal channels of communication between national tax authorities, double taxation treaties can also strive to prevent tax evasion by facilitating the exchange of information and assistance in tax collection between tax authorities, treaties tend to be relatively uniform regarding their format, content and sequence of individual chapters (Avi-Yonah, 2000)

Tax treaties in Africa, in common with other regions of the world either OECD or United Nations double taxation convention models (Organization for Economic Cooperation and Development, 2014; United Nations, 2011) treaties set out which entities and taxes they cover, such as articles 1 and 2 of United Nations and OECD model treaties or the 2011 United Kingdom and Ethiopia double taxation treaty) tax treaties usually apply to residents, both physical persons and legal persons, such as companies, of either of the two contracting States the classes of taxes covered by the treaty may, however, be different for the two countries Under general definitions (article 3 of either model), the applicability domain of the tax treaty in both models is determined by residency (article 4) and permanent establishment conditions (article 5) residency criteria set down the conditions necessary for the investor to meet to be considered as a resident of the home economy, such as in the jurisdiction taxpayer is incorporated.

A permanent establishment is, under the terms of Article 5 (1) of the OECD model, a “fixed place of business through which the business of an enterprise is wholly or partly carried on” and used as a yardstick to determine whether the investor’s economic presence in the host economy is substantial enough to warrant taxation rights for the country’s authorities. For example, under the OECD model, the minimum duration for a permanent establishment is 6 months and 12 for construction sites examples of a permanent establishment include a branch (of a company), an office, a factory, a farm and a mine host countries cannot levy source taxes (i.e., taxes on income accrued or business activity) on companies whose presence in their jurisdiction falls below the permanent establishment

threshold this scenario contrasts with the situation whereby there is no double taxation treaty in place in which case the host country can tax all income generated on its territory by foreign companies tax relief may be allowed so much that the domestic code provides special incentives or tax holidays, which may be granted by special regulations and protected under bilateral investment treaties, including those of a special economic zone, withholding taxes on passive income, that is, on dividends, interest and royalties (articles 10-12 of both the OECD and United Nations model treaties), are a critical tool in distributing tax rights between the two contracting countries (Daurer, (2014)).

Capital gains taxes imposed on the increase in value of a capital asset between the moment of purchase and its sale are also usually governed by double taxation treaties (article 13) tax treaties either abolish taxes on specific classes of revenue or fix the rates that the host authorities can apply at or below the levels prevailing in domestic legislation tax treaties alone cannot create new classes of taxes but only modify taxes already existing under the domestic tax code, the United Nations model, which accords more tax prerogatives to host economies, is deemed more appropriate for developing countries, typically net capital importers (Lang, 2014).

Tax authorities in the country of residence of investors exempt investors from the taxes to which they are subject in the host economy to prevent double taxation (article 22) There are two broad methods to prevent double taxation under the source-based exemption method, the taxpayer is exempted from domestic tax the residence-based credit method dictates that earnings from abroad are credited against domestic liabilities tax-sparing provisions then ensure that the residence economy excludes the tax relief obtained through fiscal incentives in the host economy although fair and equitable treatment is granted under bilateral investment treaties, it is not provided under double taxation treaties nevertheless, article 24 of the OECD and United Nations tax model treaties restricts discriminatory treatment taxpayers liable in the host economy (i.e., investors fulfilling the condition of permanent establishment) can expect treatment that will not be inferior to that afforded to national counterparts this standard relates to all taxes, not only those covered by double taxation treaties although neither the OECD nor the United Nations models contains a most favored nation principle, it can still be found in some tax treaties.

A most favored nation clause implies that, if a parallel tax treaty concluded between the capital importing country and a third country grants lower tax rates than that which is offered to the taxpayer in the base treaty, the lower tax rate will apply. Double taxation treaties regard the various affiliates of the same company as individual entities although, in practice, these entities are often tightly interlinked transactions among enterprises belonging to the same parent company are recorded in transfer prices individual branches of the same group are assumed to interact among themselves as they would with generic, unrelated business partners. Transfer prices should therefore be comparable to competitive prices for a similar product or service on the open market, known as the "arm's-length" principle in the host economy, applicability of source taxes are levied on separate entities that meet the permanent establishment threshold rather than on the entire company, In contrast to bilateral investment treaties, double taxation treaties often do not allow arbitration as a resource of redress for investors who deem a specific tax measure or practice to be in contravention of a double taxation treaty instead, they offer the agreement procedure (article 25 of both models) under which the injured taxpayer files a complaint and the competent authorities from the home and host economies undertake a shared analysis and interpretation of the situation and together seek a remedy consisting of eliminating the instance of double taxation, such as the 1984 Canada and Egypt double taxation treaty the agreement procedure takes place at an interstate level, and the taxpayer is not an active party to the dispute whether a local court decision can be overridden by a later procedure settlement is usually contingent on domestic legislation and for the procedure settlement to take effect the taxpayer needs to withdraw other complaints already submitted on the same issue, the taxpayer can also submit the case to be viewed by an agreement procedure before actual harm occurs in such a case the risk of double taxation is deemed not "merely possible but probable", but its application is by three years following notification,

The Organization for Economic Cooperation and Development (2017) compiling statistics for its members and for several non-members including several African countries reported that there had been 8,002 outstanding cases at the beginning of 2016, to which a further 1,496 were added in fact the year tax authorities managed to close 2,308 cases in 2016, of which 59% resulted in an agreement fully eliminating double taxation and a further 19% partially eliminating double taxation which is indicate the heightened complexity, cases about transfer pricing took on average of 30

months to resolve, while, for all other types of cases, tax authorities needed only 17 months data have been acquired from only a modest number of agreement procedures occurring in the African countries. Both the United Nations model (2011) and OECD model (2014) allow countries to choose to include the option of arbitration that should authorities fail to find a solution within two years (OECD model) or three years (United Nations model) from the time of presentation of the case the United Nations model allows only the competent authorities to initiate arbitration proceedings, while the OECD model accords right to the taxpayer in neither of the two models does the taxpayer have a say over the appointment of arbitrators turning to tax officials from one of the countries, nor may he directly influence the proceedings only the OECD model suggests that the verdict ought to be legally binding.

Unlike in bilateral investment treaties, both model double taxation treaty conventions treat arbitration as a mere complement to the agreement procedure, the prime means of redress for taxpayers. Western European countries, together with China, claim the biggest number of active treaties with African counterparts, Since the 1990s, British, Russia, India, China (BRICS) has also been active in signing new bilateral investment treaties with African countries on balance, African bilateral investment treaties with those countries do not appear to mark a substantive departure from the investment treaties signed although most of the recent treaties have yet to come into force it is notable that, while the rate of ratification of extra African treaties stands at 66%, only 28% of investment treaties between African economies have entered into force because the signature of the latter treaties remains in use as an act of diplomacy, for example, merely one of their 10 intra African bilateral investment treaties has entered into force.

Egypt and South Africa have, respectively, 21 and 19 bilateral investment treaties with other African countries that have never come into effect, as the global network of bilateral investment treaties has continued to expand and the number of arbitration cases has increased, investment treaties have also become more contested, many developing countries including those in Africa, have begun to work on articulating their own conceptions of investment law and practices at both national and regional levels Several countries, notably India, Indonesia and South Africa, have in recent years, unilaterally terminated or canceled some, or even, like Ecuador, all of their bilateral investment treaties, South Africa, for example, has also started reformulating its domestic laws

concerning foreign investment. (Schlemmer,(2016)) Other countries, namely, Venezuela (the Bolivarian Republic of) and Bolivia have withdrawn from the International Center for Settlement of Investment Disputes following a spate of lost arbitration cases is shown and apprehensive about the potential impact on its sovereignty, a series of agreements on cooperation including Angola, Ethiopia, Malawi and Mozambique do not cover indirect expropriation and do not offer recourse to investor state dispute settlement Nevertheless, countries around the world remain committed to the international investment system composed of international investment agreements in addition to regional initiatives, African countries have become more proactive in shaping their regulatory environment on investment.

The Pan-African Investment CODE(PAIC) adopted by ministers at the Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration of the African Union in October 2017 and the planned investment chapter of the African Country Free Trade Area (ACFTA) indicate this development, the objective of the code is to articulate a common and coherent position on investment policy which would better balance the objectives of promoting inward and intra African investment flows, domestic policy sovereignty and ongoing efforts to foster regional integration in turn, the investment chapter could help to promote intra African Foreign Direct Investment (FDI) and foster forward and backward economic linkages according to the United Nations Conference on Trade and Development,2017 , African policymakers have been exploring opportunities for harmonizing the two instruments, global network of double taxation treaties has grown during the past decades to stand currently at approximately 3,000 treaties, a few of similarities in the patterns of expansion between bilateral investment treaties and double taxation treaties have become clear both types of treaties in Africa exploded at the end of the past century, followed by a relative slowdown in the more recent past, At the same time, African countries have become more likely to sign treaties with other developing and emerging economies. (Hearson M. Tax treaties in sub-Saharan Africa: (2015))

The continent has some 450 double taxation treaties, of which 391 are with jurisdictions in other parts of the world, the remaining 59 treaties link to other African countries, Mauritius and South Africa are most proactive in concluding double taxation treaties, African countries have been concluded double taxation treaties with Western European Canada, France, Italy, Norway and the

United Kingdom are the top five countries having active double taxation treaties with African countries as in the case of bilateral investment treaties, the growing top line global and regional figures conceal a mounting level of discontent with the international tax regime, The growing sentiment that poorly designed double taxation treaties may cause more harm than good to host economies, Rwanda and South Africa recently renegotiated their tax conventions with Mauritius in a bid to reclaim some of their taxing rights following criticism of the tax treaties for facilitating tax avoidance,

The Netherlands has, in recent years, renegotiated a few of double taxation treaties with developing countries, including Malawi in 2015, Kenya and Zambia in 2016 A review of the bilateral investment treaty and double taxation treaty networks which shows that the two are intertwined, with approximately two thirds of bilateral investment treaties being supported by corresponding double taxation treaties, whereas the reverse is true for approximately half of double taxation treaties in approximately one third of cases in which two countries are linked by both bilateral investment treaties and double taxation treaties, the two treaties were brought into effect within two years of each other, Compared with bilateral investment treaties, double taxation treaties correlate more strongly with investment, approximately 90% of FDI stocks are protected by these treaties and only approximately 15% by bilateral investment treaties nevertheless, double taxation treaties are also more likely to be concluded between developed economies with large stocks of investment.

2.25 Heterogeneous Empirical Evidence

African countries enter into investment and tax treaties with the intention of promoting and encouraging inward investment only a part of the vast literature, however, lends support to this cause little is also known about the relative importance of individual provisions in bilateral investment treaties for investors and whether they can effectively compensate for weak domestic institutions similarly, in the case of double taxation treaties, questions remain over whether benefits resulting from these treaties may entail compensation for forgone tax revenue to date, no known empirical study has sought to quantify the cumulative effects of bilateral investment treaties and double taxation treaties on investment flows, While some early studies cast doubt on the positive influence of bilateral investment treaties on capital inflows to developing countries

(Hallward.D,(2010)), more recent studies have tended to bear this effect out for example (Neumayer,(2005)); for flows from European Union countries to ECOWAS countries found that bilateral investment treaties were conducive to higher levels of investment in particular for upper middle-income countries, but fall short of statistically corroborating this link for African countries (Lejour,2015) Using firm-level data, one study indicates that German multinational corporations tend to be more active in developing countries if covered by an investment treaty (Yackee,(2016)) .

It was also concluded in a recent study that large differences in gross domestic product (GDP) and by extension, bargaining power as postulated by its authors, as well as per capita GDP, stimulate a positive effect of bilateral investment treaties on FDI flows, (Falvey, 2017) Questions remain over the extent to which the strength of the dispute resolution mechanism influences investment decisions (Berger, 2013)) for example, investors may be interested in the dispute settlement mechanism available only when attempting to invoke the mechanism rather than at the point of making their investment decisions (Poulsen,(2013)) some studies have also found that bilateral investment treaties lead to increased investment flows from partner countries, yet once the host country faces or, in particular, loses arbitration, there is a significant fall in investment flows from the other economy (Aisbett, (2016)).

Evidence is also inconclusive on whether bilateral investment treaties can reduce political risk by replacing imperfect domestic institutions and weak legal regimes a few of studies point towards bilateral investment treaties having a positive effect on FDI when complementing quality institutions on the other hand, some authors maintain that bilateral investment treaties prove more stimulating for investment in economies characterized by higher risk and weak institutions, The causal link between tax conventions and investment inflows in developing countries appears to be even more tentative, compared with investment treaties although some econometric studies found a positive relationship between double taxation treaties and investment inflows in developing countries(Baker P. L (2014)) are also found no evidence of a positive relationship between double taxation treaties and increases in investment by arguing that this effect was precluded by developed countries introducing unilateral measures to prevent double taxation when a positive relationship is

identified, some research also suggests that middle income countries, rather than lower-income developing countries, profit from double taxation treaties regarding higher volumes of capital imports.

Doubts have also been raised over the direction of the relationship between tax treaties and investment inflows reported in empirical studies for (Hearson, Tax-motivated illicit financial flows, 2014)) example a negative relationship between double taxation treaties and outward FDI stocks from OECD countries that result in consistent with the view that tax treaty negotiations follow significant investment rather than occur between countries with very few investment links moreover, taxation is ultimately only one among money factors influencing investors' decisions regarding where to place their investment, neither bilateral investment treaties nor double taxation treaties are entirely cost free for capital importing economies the lack of unequivocal empirical evidence in favor of the two instruments warrants careful consideration on the part of policymakers for bilateral investment treaties, the question is where to draw the line between being bound to ensure a safe and predictable business environment and unduly limiting the right to regulate in the case of double taxation treaties, these are beneficial for the capital importer only if the overall welfare derived from higher (future) investment and lower leakages through tax evasion outweigh forgone tax revenue because of their impact on source Serious questions need to be raised about tax treaties do not reduce tax receipts without bringing extra capital.

2.26 Developing countries Tax and Investment treaties

The provisions contained in bilateral investment and tax treaties are binding on both contracting States these obligations however, entail vastly different consequences for capital importers such as African countries and capital exporters, typically their more industrialized counterparts these differences stem largely from the pursuit of different albeit complementary policy objectives taking place against a backdrop of unequal power and economic relations and negotiating capabilities (Hearson, international tax rules (2018)), Investment treaties tend to impose obligations solely on the host country, notwithstanding the present declaration of intentions of furthering mutual economic relations a much softer language to "encourage" engagement is usually employed in the

case of the home country, as opposed to binding commitments, such as to enhance export insurance schemes, for example, which appears to be incongruous with the intended aim of promoting investment flows between the two countries (Van Harten (2016)) Stress is also laid on the host country's obligations rather than those of foreign investors (Kingsbury,2010) companies' behaviour is thought to be sufficiently governed by domestic law or even international law if a contract between the Government and private company so allows nevertheless, a host state can, over time, begin to export capital to a source state, thus contributing to a more equitable distribution of rights and obligations in the presence of a bilateral investment treaty between the two countries.

Instead of levelling the playing field between national actors and international companies, bilateral investment treaties can slant it away from the former towards the latter the rules for arbitration contained in bilateral investment treaties typify this imbalance, Investors can usually choose the tribunal with which they wish to file the complaint, by contrast, investment treaties often do not provide Governments with a legal basis to launch proceedings against investors likewise, domestic companies do not usually have access to such institutions many bilateral investment treaties are also not drafted to give countries easy access to filing counter claims against an investor (Bjorklund, 2013).

Nevertheless, a breach of domestic law or other legal obligations by investors may also be considered by the tribunal and result in a lower award or even an outright dismissal of the claim brought by the claimant the treaties also do not allow local organizations and communities to assert a claim against a foreign investor in international arbitration in sum, bilateral investment treaties ensure that investors' interests are safeguarded but do not always play the same role for host countries and their communities research suggests that stringent enforcement provisions are more likely to be found in bilateral investment treaties characterized by significant power asymmetries between the two contracting States rather than in treaties with countries with inadequate domestic institutions (Allee (2014)) Capital importing countries also tend to consent to more constraining treaties if the negotiations take place during an economic downturn and when they perceive that their competitors for Foreign direct investment (FDI) from the same source economy have already

agreed to them more generally, these treaties reflect the reality of international law to which developing countries have adhered but which they have rarely shaped (Vandevelde, 2005) .

The phenomenon of an unequal distribution of costs also plays out in the context of tax treaties, double taxation treaties place significant limits on the host countries, often developing economies, curtailing their tax-raising powers these treaties do not, in general, have a significant impact on home countries, which, for the most part, have adopted double tax relief measures in their national codes regardless of double taxation treaties (Baker P. L. (2014)) In the absence of tax sparing measures, a reduction in withholding taxes would lead to a reallocation of taxing rights between the two economies without affecting the company's net earnings and limits on taxation in the host country and an automatic waiver of tax rights in the home economy can give rise to double non taxation, whereby the host country is prevented from raising taxes on a specific activity, while the home economy does not tax it either under its domestic legislation investment and tax treaties have to be seen in conjunction with the overall domestic regulatory framework, Robust obligations towards foreign investors as well as various fiscal incentives, including those specific to special economic zones or otherwise qualifying investors, can be found in the domestic legislation and can interact with international treaties a comprehensive review of the domestic legal regimes in Africa is needed to ensure policy alignment across different levels.

Treaties and domestic tax laws can also form part of a wider strategy to create confidence for foreign investment however, a reduction in taxation on the highly mobile capital results in losses in tax receipts and may prompt governments to shift a part of the tax burden to less mobile sources, such as labour and consumption (AviYonah, 2000) an option that raises questions of fiscal justice and which may not be easily available to developing countries tax treaties may also facilitate tax avoidance more stringent investment and tax treaties may also spread more widely over time as countries vie for a limited pool of mobile capital to spur their development several authors have pointed out that developing countries could collectively derive more benefits from foreign investments if they provide lower standards of protection and maintain more robust taxation rights but individually they find themselves in a mutually competitive relationship, which is favourable to mutual undercutting resulting in more stringent investment obligations and lower

prerogatives (Baistrocchi,2008) have found that once a developing country has signed a constraining investment treaty with a particular source economy, other countries competing for the capital from the same country are likely to follow suit Nonetheless, the propensity of African countries to adopt the models of their mode developed counterparts may also play part in this finding several studies have then indicated that the intensity of tax competition might be heightened in Africa compared to other regions and withholding taxes in African countries have also been found to have been falling over time(Hearson.M. Treaty negotiation outcomes 2016).

2.27 BIT and DTAA Challenge to Development

The ability of governments to articulate and implement effective and appropriate development policies is contingent on a degree of policy freedom and the capacity to carry out these policies, bilateral investment treaties, and double taxation treaties may sometimes complicate these objectives while the former may, for example, curtail the choice of some policy measures or result in a fear of breaching treaty obligations by introducing new legislation or policy, double taxation treaties can weaken tax resource mobilization capabilities these negative consequences can be accentuated by treaty abuse on the part of some investors, Governments may find themselves in this undesirable position over long periods.

The Inappropriate access to treaties can heighten negative externalities of treaties unless bilateral investment treaties and double taxation treaties contain specific safeguards, they may provide an incentive to third-country foreign investors to restructure their investment to obtain the best combination of investment protection and tax treatment under these agreements. This opportunistic behaviour, however, goes beyond what the contracting States initially consented to when signing these agreements and compounds the repercussions of some of the problematic features of these treaties. Treaty abuse can further undermine host States' ability to promote development policies and may be contrary to the spirit and purpose under which such treaties were adopted. Three distinct but mutually compatible, if not complementary, types of treaty misuse have been identified. First, investors from third countries may want to structure their operations to enjoy better treaty protection rather than invest directly. Second, a specific investment treaty may be particularly

attractive, given that it could double as a gateway to access better treatment present in parallel treaties through the most-favoured-nation clause. Lastly, companies can channel their investment through a separate jurisdiction to enjoy favourable treatment offered by double taxation treaties. Tax treaties covering jurisdictions with permissible domestic laws may prove particularly conducive to opportunistic behaviour. ECA linkage b/n DTAA and BITS , 2016).

2.28 Research gap

Double taxation results from an overlap of jurisdiction to tax between a *residence state* and a *source state* where the income was generated, can Countries delegate power to tax income to an international authority (conjoint taxation) or they could agree on rule to *share the jurisdiction to tax*, the basic question is which country has the right to tax the income, and which country must restrict its tax claims? No general consensus on the principle achieved, instead, the solution embodied in the Double taxation avoidances agreement remained unchanged fundamentally since 1920's until today represents the outcome of bargains in which conflicting tax claims have been traded off against each other on a case-by-case basis (Graetz 2001).

2.29 Conceptual framework

Developing countries have been taking various measures which are thought to be instruments towards attracting foreign direct investment (FDI) which includes the double tax avoidances Agreement (DTAAs) with capital exporting countries. The dispute handling mechanism within double tax avoidances Agreement (DTAAs) has incorporated mutual agreement principle (MAP) which is not compulsory even if it expressly included so, it is important for developing countries to enhance negotiating capacity and competence in the application and interpretation of double tax treaties avoidances Agreement (DTAAs).

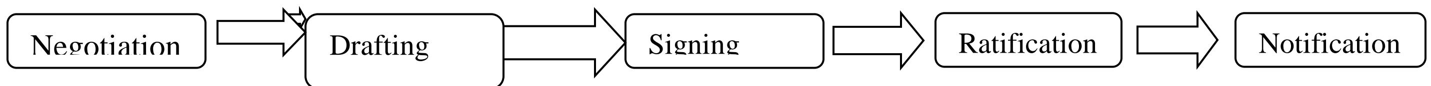
A fundamental concern arises regarding arbitration provisions of treaties which have significant implications on developing countries beside the reluctance of developing countries to arbitration is attributable to limited experience and unfamiliarity with arbitration of tax disputes most importantly, international tax dispute arbitration would affect the sovereignty of states Countries which are generally sovereign in their tax affairs. Yet, tax sovereignty cannot be absolute in the

era of globalization because the tax sovereignty of a country can be constrained by the policies of other countries.

2.30 Summary

Ethiopia has been exerting efforts to attract foreign direct investment as an instrument for growth and development, Close scrutiny of these bilateral tax treaties reveals that Ethiopia has signed these bilateral tax treaties in accordance with OECD Model Tax Treaty. Tax treaties signed by Ethiopia and other countries have incorporated the MAP this means Ethiopia has not accepted mandatory arbitration as a means to the resolution of international tax disputes, in general there is a fear that mandatory tax arbitration would seriously impair state sovereignty with regard to taxation. In the era of globalization, issues associated with international taxation are multi face and complex, international taxation is among the most important themes that have attracted the attention of multinational corporations beside there is no effective and meaningful international taxation dispute resolution system has significant impact on developing countries. Developing countries including Ethiopia are expected to enhance their benefits from the international taxation system by balancing their need to attract foreign capital and their inherent tax sovereignty.

Fig. Conceptual Framework- Stages in the life of a DTAA



CHAPTER THREE

3. Introduction

In this part of the study, the data obtained using both primary and secondary sources are presented in the first section using a comparative analysis and descriptive methods. Tables and financial ratios are also used to present and interpret the finding. The primary data collected from the manager and employees of the factory is presented using a descriptive research method. In the second section, the major findings of the study are discussed using various literatures and personal judgments.

3.1 Research approach and Design

The objective of the research is to find out challenges in the double taxation avoidances treaty in connection with tax revenue collection in Ministry of revenue the case of large taxpayer offices; the research design for this study was descriptive. In this way, the study had attempted to explain the challenge of Double taxation Avoidances Agreement (DTAA) on government tax revenue collection by using the data that had been obtained through quantitative and qualitative means.

3.2 Population and sample

According to Blumberg, B. Fet.al (2014) population of a study is defined as the total unit of elements that are used to measure a study or that are used to determine the sample of the study.The research choose Large Taxpayers' office from 12 federal taxpayer tax Centre among which 5 found in Addis Ababa and 7 federal regional branches which account for 45,057 taxpayers among this 630 of them are exist in large taxpayer offices.

Chaptor-3 Table 1 list of tax center (Organized data MOR annual report-2019)

BRANCH	TOTAL
LTO	630
MTO	3830
EAST	9352
WEST	9950
NORTH WEST	6721

BHARDAR	5396
HAWASSA	1714
MEKELE	2313
ADAMA	1088
JIMMA	2055
D.DAWA	681
KOMBOLCHA	1350
Total	40757

The federal taxpayer offices are divided into 4 categories 1 (Large taxpayers and middle taxpayers offices) and 3 (Small tax payer's offices) which base in Addis Ababa and 7 regional branch offices which are regulated under the federal taxpayer category and pay their tax for the ministry.

3.3 Research Strategy

The research design used both descriptive and inferential statistics based on the data obtained from collected data, and observation, open ended questions, interview data with both open ended and closed ended questions (Creswell, 2003). As it was stated in earlier chapters, to find out the challenges of Double taxation Avoidances Agreement (DTAA) on tax revenue collection both qualitative and quantitative research designs (mixed methods) is used for the study. This is because the tax revenue performance data are used in addition to the open ended interview questions asked to the taxpayers and tax officers. Among the Large taxpayers' office total 630 taxpayers population to acquire a representative sample the study target on multinational companies or their subsidiaries which during the research years file tax dispute for tax review offices or tax litigation for tax appeal commission inside and outside the ministry which are expected to use double taxation Avoidances agreement so, the study uses 7% (44) out of the total population by non-probability Judgmental sampling.

3.4 Nature of Data and Method of Collection

The study used both primary and secondary data. For collecting the primary data, interview was found to be appropriate the main sources of information are tax officers and manager's intensive/open interview was undertaken with them about the challenges of double taxation avoidances agreement. Secondary data was collected by analyzing documents to find the challenges

of DTAA on tax revenue performance. The study used mainly primary data sources from a self-administered questionnaire and organized data, The prime purpose of the study is to find out the challenges of Double taxation Avoidances Agreement (DTAA) on government tax revenue collection, The study was used a five-point Likert scale question that helps to measure and rate variables to the level of that respondent's agreements and disagreements to the given questions, by responding “very low =1” “low=2”, “moderate=3”, “high=4”, “very high= 5”, points, Secondary data sources such as annual reports, strategic plans, published and unpublished magazines and resources books, articles journals, and websites will be used.

3.5 Selection of Participants and Documentary Materials

It was stated previously that the subjects for the study are to find out the challenges of double taxation avoidances agreement on government tax revenue collection. The federal taxpayer tax centers are selected for the study because the researcher has some taxation related work experiences which help to get the necessary information easily collected. The questioners were distributed by judgmentally selected respondents that during their engagement on different tax related issues in the ministry especially who engaged in dispute handling and tax audit process for long years and have experiences in tax related issues around double tax avoidances treaty based on job the experiences and services year they have it enable them to give proper expert level opinion on the subject matter. The response from each of the respondent was summarized in relation to the objective and research questions of the study. The data for three years (2007 to 2011) was used to find the challenges of DTAA on tax revenue collection performance of the large taxpayer offices. In addition to the aforementioned sources, the researcher tried to refer different books, published and unpublished documents, journals, articles and research papers to get information on the theoretical frame work of the study. Some difficulties were encountered in the data collection process. Among those, shortage of time for the respondents and absence of organized data were the major ones.

3.6 Method of Data Analysis

Data collected were analyzed by using SPSS version 23 software to meet the objective of the research and deal with the research questions. The data analysis was based on the data obtained from the questionnaire, collected data, and observation. Besides the statistical analysis, the data collected from the primary survey were summarized, compiled, edited, and coded; the study try to find out the relationship between challenges

of Double taxation Avoidances Agreement (DTAA) on tax revenue collection, To analyze the data of the study both descriptive and inferential statistics used. Descriptive statistics were used to summarize the data collected in tables and graphs, to present descriptive statistics means, standard deviations, and percentage values were used. Besides, inferential statistics were used to generalize and make predictions from the results of the data.

3.7 Ethical consideration

To reach the respondents the researcher provided an oral request to the office head and staff members to help by responding to the questionnaire. The researcher informed the respondents that the data collection is only for academic purposes. They have not forced the participants to fill the questionnaire unwillingly and the confidentiality of the information given by them.

CHAPTER FOUR

4.1 DATA ANALYSIS

4.2 Demographic Characteristics

The research gathered the response of 50 tax auditors and tax managers who have a different level of work experiences in tax administration this build confidence for the study by that professional tax auditors and tax managers can provide a reliable answer to the structured questionnaire to come up with the research finding and recommendation.

Chaptor-4 Table 1 demographic characteristics of respondent

Demographic Character		Frequency	Per cent
Age	20 up to 35	31	62
	36 up to 50	18	36
	above-50	1	2
Sex	Male	43	86
	Female	7	14
Services	5 up to 10	29	58
	11 up to 20	20	40
	22 years	1	2

The data shows that 64% of the respondents are male respondents while 36% of the respondents are the female and at the same time 62% of the respondents are between the ages of 20 up to 35 years while 36% are between the ages of 36 up to 50 years while the remaining 2% have above 50 years ages, on the other hand, 58% of the respondents have 5 up to 10 years of services in tax administration while 40% of the respondent similarly, have 11 up to 20 years of services the rest 2% of the respondent have above 22 years of services.

Chaptor-4 Table 2 case analysis summary

<table>
<tr><th>NO</th><th>Tax related problem</th><th colspan="4">The level of tax related problem by tax type</th></tr>
<tr><td rowspan="8">1-compx</td><td>The extent multinational companies faces complex problems repeatedly indifferent tax types</td><td>Dividend</td><td>Interest</td><td>Royallity</td><td>Technical</td></tr>
<tr><td>Moderate</td><td>24%</td><td>48%</td><td>28%</td><td>30%</td></tr>
<tr><td>very low or low</td><td>38%</td><td>30%</td><td>36%</td><td>34%</td></tr>
<tr><td>Very high or high</td><td>38%</td><td>24%</td><td>36%</td><td>36%</td></tr>
<tr><td rowspan="2">Maximum Mean</td><td>4.65</td><td>4.03</td><td>4.6</td><td>3.97</td></tr>
<tr><td>4.68</td><td>4.27</td><td>3.55</td><td>3.88</td></tr>
<tr><td>Maximum</td><td>0.191</td><td>0.706</td><td>0.539</td><td>0.631</td></tr>
<tr><td>Standard Deviation</td><td>0.179</td><td>0.776</td><td>0.504</td><td>0.751</td></tr>
<tr><td rowspan="8">2-levecap</td><td rowspan="2">The level of capacity and experiences for auditing issues related to DTAA</td><td>Transfer</td><td>IFRS and</td><td>Good communication</td><td>International
taxation</td></tr>
<tr><td>Pricing</td><td>Basic
auditing</td><td>Interpersonal skill</td><td>and tax treaty</td></tr>
<tr><td>Moderate</td><td>22%</td><td>50%</td><td>4%</td><td>78%</td></tr>
<tr><td>very low or low</td><td>30%</td><td>22%</td><td>50%</td><td>14%</td></tr>
<tr><td>Very high or high</td><td>36%</td><td>28%</td><td>46%</td><td>8%</td></tr>
<tr><td rowspan="2">Maximum Mean</td><td>3</td><td>3.02</td><td>3.02</td><td>3.12</td></tr>
<tr><td>3.45</td><td>3.87</td><td>3.7</td><td>3.4</td></tr>
<tr><td>Maximum</td><td>0.415</td><td>0.566</td><td>0.611</td><td>0.576</td></tr>
<tr><td rowspan="4">3-levedis</td><td>Standard Deviation</td><td>0.38</td><td>0.462</td><td>0.503</td><td>0.589</td></tr>
<tr><td rowspan="2">The level of dispute cases in relation to DTAA</td><td>Dispute related</td><td>Stakeholder</td><td>Provision of</td><td>Independence of</td></tr>
<tr><td>to DTAA</td><td>integrated Effort</td><td>Data
for auditing</td><td>tax auditor
and advisor</td></tr>
<tr><td>Low</td><td></td><td></td><td></td><td></td></tr>
</table>

	Moderate	50%	24%	14%	62%
	very low or low	24%	38%	46%	18%
	Very high or high	26%	38%	40%	20%
	Maximum Mean	2.68	2.68	2.84	2.71
		4.67	4.4	4.12	4.6
	Maximum	0.283	0.4	0.572	0.283
	Standard Deviation	0.293	0.218	0.459	0.231
4- leveman	The level of manner tax agents, auditors have during dispute Handling	**Updating DTAA**		**The right capacity**	
	very low or low	34%		28%	
	Very high or high	42%		34%	
	Maximum Mean	2.59		2.6	
		4.45		4.65	
	Maximum	0.318		0.327	
	Standard Deviation	0.321		0.321	

4.3 The complex and repeated tax related problem raised by Multinational Corporation (MNC)

4.3.1 Dividend

With the confidence level of 95% and a combined mean of 4.65, 4.68, and a standard deviation of 0.191, 0.179 respectively, 38% of study participants agree that there is a low or very low level and at the same time 38% of participants agree on an intermittent high or very high-frequency issue regarding dividend tax that participants agree that these issues are serious for taxpayers during an audit the remaining 24% of participants under study believe that these issues are being addressed at a moderate level, such as Therefore, given the scale and complexity of the tax litigation being audited, the tax administration should pay particular attention to this issue.

4.3.2 Interest

Similarly, 28 percent of the study participants believed that interest expense related problems were faced at low or very low level and 24% of the participants agree at high or at very high-level while 48% of the study participants agree on the problems faced at a moderate level, so from the number of transactions related to interest expense is also very important the tax administration give attention to this problems to create a good business environment which to support the efficiency of the tax revenue collection.

4.3.3 Royalty

The data shows 36% of the participants in the study agree taxpayers face low or very low levels of problem about royalty tax during audit Similarly, 36 percent of the participants also agreed at a high or very high level while 28 percent of the participant agree at a moderate level so, the tax administration needs to give attention for this problem related to foreign companies imported goods and services to build the confidences of the taxpayers.

4.3.4 Technical Services Fee

The data collected show 34% of the respondent agree taxpayers face at low or a very low-level complex and repeated problems while 36% of them agree at a high and a very high-level taxpayers face the problems, in addition, 30% of the data indicate the problems faced at moderate level toward taxation of technical services tax during a comprehensive. Effective withholding is critical to strong tax administration because it is withheld at source tax administrators need to recognize the potential value of withholding. It can serve both to secure revenues before sums can be diverted elsewhere and crucially, by narrowing the number of collection points and limiting costs of administration. If it Implemented in various forms, withholding commonly accounts for about 75% of personal income tax (PIT) revenue, and it can also be widely applied to interest, dividends, and in some cases capital gains. The VAT itself has similarities to a (creditable) withholding tax since output tax charged by the seller is available as a credit to the buyer and withholding taxes, levied at some monitor able point at import, for instance by public or large enterprises are often used to reach those hard to control such as contractors audit in the tax administration.

4.4 The Level of Capacity and Experiences for auditing issues

4.4.1 Transfer pricing (TP)

The data collected indicate 30% of the respondent agrees a low or very low level of capacity and experiences the officers have while 36% of the participants agree the officers have a high or a very high level of capacity and experiences in addition,22%, of the respondent agree they have a moderate level of capacity and experiences in relation to transfer pricing auditing, on the other hand, a developing country has a shortage of data and limitation of information exchange with other competent organs to handle the problem of arm length prices Most disputes concern the allocation of profits of MNCs, and the growth has occurred as enforcement of transfer pricing rules has strengthened. Developing countries have been introducing transfer pricing rules and are now improving enforcement. The OECD Transfer Pricing Guidelines are complex and do not provide clarity it requires tax officials to identify the functions performed by each part of the MNC, by analyzing its business model and it requires specialized knowledge and involves discretionary and subjective judgments, so it is important for the tax administration to work on this problem.

4.4.2 IFRS and Basic Auditing Skill

The data collected show 22% of the respondent agree a low or a very low level of capacity and experiences officers have while, 28% of the participant agree at a high or very high level, in addition, 50% agree at a moderate level that officers have capacity and experiences about IFRS and Basic auditing skill during a comprehensive audit on the other side. Establishing more effective taxpayer auditing is in very many cases a leading priority. The possibility of audit remains a central deterrence tool, whose importance is amplified, not reduced, by the apparent tendency of taxpayers to over-estimate its true likelihood. Many tax administrations indeed devote considerable resources to audit, but without a coherent plan that uses third party and other information to target the highest risk segments and activities, or that takes into account ex-post evaluations of the effects of audit actions. Research shows, for instance, only about 7% of audits in 2013 targeted medium and large taxpayers, which remitted about 64% of VAT revenue in developed countries. Such misdirection is common in middle and low-income countries, doubtless in part because more expensive skills are required to audit larger, more complex enterprises. Many developing countries also still focus

excessive audit resources on comprehensive audits; compared to single-issue audits, they require more time, are more complex (often covering several taxes and periods), and limit the number of taxpayers that can be audited.

4.4.3 Good Communication & Interpersonal Skill

The data collected show 50% of the study participant agree that low or very low-level tax officers have good communication and interpersonal skill while, 46% of them agree a high or a very high level in addition, 4% of the participant agree at a moderate level the officers have during a comprehensive audit which has a capacity to make things more complicated in the tax administration.

4.4.4 International Taxation and Tax Treaty

The data collected from the study participants showed 14% agree the tax officers have a low or very low level of knowledge and skill about international taxation and tax treaty while 8% of them agree at a high or a very high level in addition,78% of the data indicate a moderate level of knowledge and skill with international taxation and tax treaty during a comprehensive audit on the other hand Tax treaties allocate rights to tax between states, but their provisions also generally apply automatically in national law. This gives directly enforceable rights to taxpayers mainly MNCs to bring actions in national courts against any tax measure that may be contrary to a treaty. Treaties also generally include a procedure for a taxpayer to complain to the competent authority in the tax administration against a tax measure that may be contrary to the treaty. It is known most disputable issues that officers and taxpayers do not agree on due to different problems that relate to tax treaties and international taxation in the tax administration.

4.5 The Level of Disputed Related to Double Taxation Avoidances Treaty

4.5.1 Dispute Related to DTAA

Within 95% confidences level and a grouped maximum mean of 2.68, 4.67 and standard deviation of 0.283, 0.293 respectively, 24% level the study participant agree at a low or a very low-level taxpayer bring disputed issues related to the Double taxation Avoidances agreement Similarly, 26% of them agree at a high or a very high level while 50% agree at a moderate level that taxpayers

bring disputed issue during a comprehensive audit In assessing whether there is a problem with excessive disputes, attention should also be paid to whether there is a particular problem in a subset of disputes. A small volume of high-value cases which are stuck for a long time in the judicial system may pose as serious, or a more serious problem for the tax administrative system than a large volume of small tax cases the latter might be annoying but not so dangerous for the revenue another possibility is that there is a large volume of cases, but they mostly involve a common type of issue the solution for this might be different than for a generalized backlog of cases in the tax administration.

4.5.2 Stakeholder Integrated Effort

The research data show 38% of the study participants agree there is a low or a very low level of stakeholder integrated effort similarly, 38% of the respondent also agree at a high or a very high level in addition, 24% of the participant agree there is a moderate level of stakeholder integrated effort between parties. Managing relationships with taxpayers and other stakeholders is important for effective compliance management; tax administration needs strong relationships with many groups of taxpayers like trade associations and other agencies responsible for different aspects of tax compliance. Advanced tax administrations have a range of channels through which tax officials communicate with the public ranging from regular briefings with trade and other organizations to work with an official taxpayer representative of which provide channels for taxpayer grievances and allow the taxpaying community to give feedback on its operations and initiatives in this regard the stakeholder relationships of the most developing country largely not regular. This means that opportunities for exchanging information, sharing intelligence, or carrying out joint/coordinated actions with other agencies.

4.5.3 Provision of Data for Quality Audit Decision

The data collected show 46% of the respondents agree at a low or a very low level toward the provision of data for quality audit Similarly, 40% of the respondent agree at a high or a very high level while 14% of the study participant agree there is a moderate level of provision of data for quality audit during a comprehensive audit so, Third-party reporting encourages compliance by increasing the probability of false reports being detected, with an important role for financial

intermediaries. Reliance on third-party information has its limitations taxpayers may for example respond by focusing their evasion on items not subject to such reporting but its potential power is proven. Extensive use of financial institutions can be an important source of information for the tax administration. Internationally, the information provided by financial institutions is at the heart of the exchange of information between tax authorities that has emerged as a principal weapon to address cross-border evasion. In lower-income countries, in contrast, limited use of financial intermediaries has been seen as a major obstacle to effective compliance, though the capacity to make use of third-party information may also be constrained.

4.5.4 Independences of Tax Advisors and Tax auditors

The data collected show 18% of the research participant agree at a low or a very low level the officers and advisors have independence while, 20% of the participant agree at a high or a very high level in addition, 62% agree at a moderate level that the officers and advisor have, in relation to this a lack of internal control and weak management may give excessive power to tax officials, which could be misused, while on the other hand, rigid control over tax auditors can hinder them from exercising discretion power independently that could avoid litigation during an audit in the tax administration.

4.6 Level of Joint work on Ruling, Updating and Negotiation of DTAA

Updating DTAA timely

The data collected show 34% of the participant agree at a low or a very low level the joint work toward updating double tax avoidances agreement while, 42% of them agree at a high or very high level, in addition, 24% of the participant agree a moderate level toward updating double tax avoidances agreement. Divergent interpretations of laws may result either in double taxation or in double non-taxation that is tax avoidance. Exploiting loopholes due to such divergence is central to the techniques developed by tax advisers to reduce MNC tax payments. One way to block such loopholes for tax authorities is to harmonize their interpretations. Usually, an MNC, complains about possible double taxation unless the right capacity and confidence is built it can be a reason for a tax dispute with taxpayers in the tax administration.

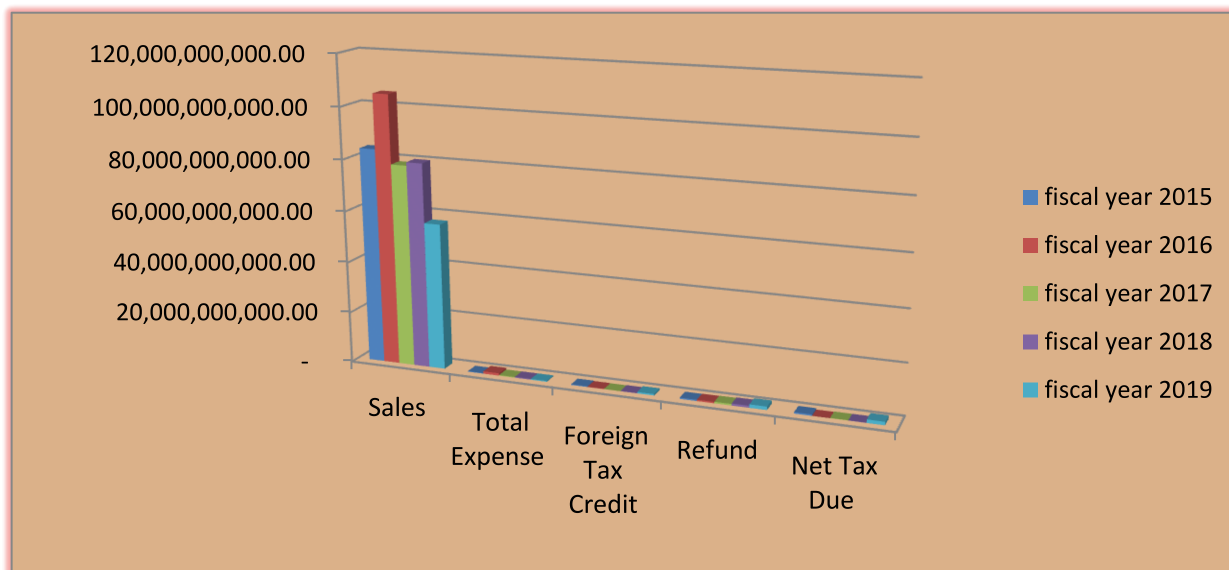
4.6.1 The Right Capacity

The data collected indicate 28% of the participant agree at a low or a very low-level effort and capacity the tax officers have for handling issues related to international taxation and tax treaties while, 34% of them agree at a high or a very high level in addition, 38% of the participant agree the auditors have a moderate level of effort and capacity, In developing countries, lack of specialization can be a problem. The availability of human resources must, therefore, be taken into account when designing the organization of the offices. If there is a lack of specialized personnel a more modest and centralized system could be established. In this case, depending on the availability of adequate human resources, the offices could be located at the regional or central levels. The more centralized the system, the more attention should be paid in terms of allowing the best possible communication with taxpayers, who should not need to travel to have access to the office In countries without enough specialized and capable personnel, the possibility of committee work could be considered, as this could allow less trained personnel to take advantage of more experienced colleagues, hence, increasing the quality of the work.

4.6.2 Sales and Tax Payment Trend

Evasion by concealing income and assets abroad has become a major concern most countries tax their resident worldwide income wherever it arises, typically with a credit for any taxes paid abroad. The temptation is to evade home taxes by placing assets in low tax jurisdictions abroad and failing to report this to the residence authorities. It is hard to assess the extent of this problem, but there are signs that it is substantial. For example, some studies show unreported overseas income has resulted in more than 45,000 disclosures yielding about US$ 6.5 billion in back taxes, interest, and penalties since 2009. This can open different holes that can create complexity on different taxation issues in the tax administration. The financial data declared from 2015 up to 2019 G.C for 50 large taxpayer offices including multinational companies show the taxpaying trend of 21% and 26% in 2015 and 2016 while it was 19%, 20%, and 14% sales volume respectively for the fiscal year which indicates an increasing and decreasing trend during five consecutive years sales declared but the total net tax due indicates below 1% of the total sales during the year 2015 to 2018, but tax paid to indicate increasing trend during 2019 within the Covid-19 pandemic fiscal year.

Chaptor-4 graphe-1 sales and tax payment



Chaptor-4 Table 4 Tax trend in billion birr (tax revenue collection data MOR-2011)

Tax collection in billion birr	**2007/2015**	**2008/2016**	**2009/2017**	**2010/2018**	**2011/2019**
Plan in birr	134.2	146.26	186.14	222.3	241.7
Actual in birr	128.3	144.3	160.2	176.1	198.2
Performance	0.96	0.99	0.86	0.79	0.82
Performances increment in birr	21.52	16.01	15.85	15.92	22.11

4.6.3 Disputed Cases and the Dispute Handling Process

The number of disputed cases on the assessment notices issued from the fiscal year 2017 up to 2019 indicate an increasing trend while the internal review decision on the disputed cases was in a proportion of 43 to 57% in favor of tax administration and taxpayer and 70 to 76% in Tax appeal commission decision, based on the sales volume recorded most of the multinational companies are found in large taxpayer offices so unless strong mechanism and structure is formed for the dispute

handling process it will probably negatively impact the tax revenue collection and foreign direct investment attraction.

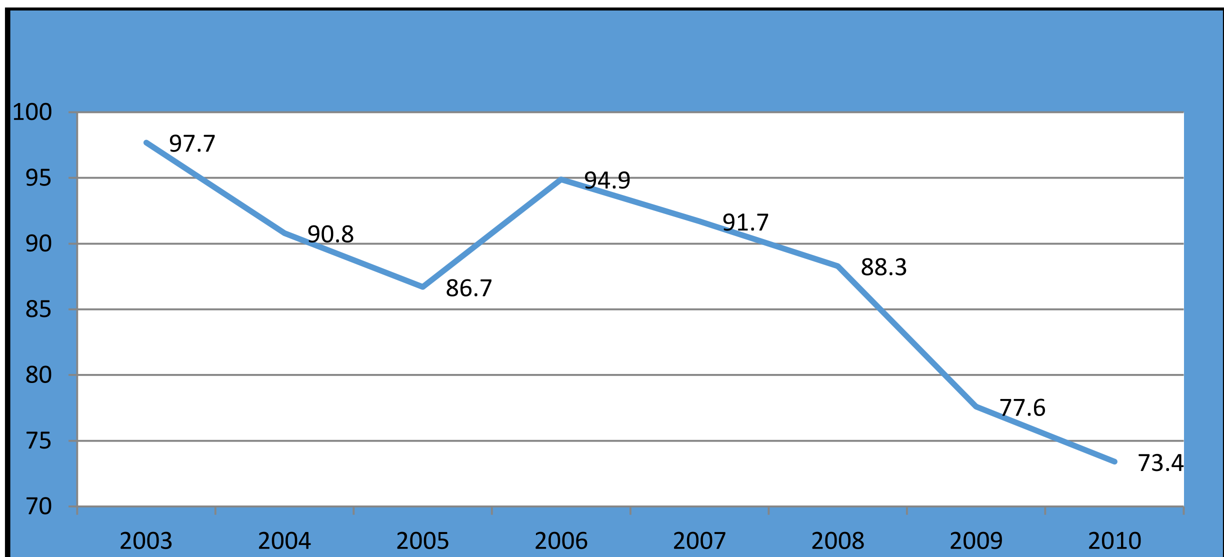
Chaptor-4 Table 5 (tax case disputed -MOR 2013 E.C) case in billions birr

Fiscal year								
Tax center	**2010/2018 G.C**		**2011/2019 G.C**		**2012/2020 G.C**		**Total**	
Lto (1)	155	18,605.96	183	3,275.63	194	4,480.32	532	26,361.91
Head offices(2)	46	17,748.37	39	34,074.98	44	44,314.79	129	96,138.16
Total(1+2)	**201**	**36,354.33**	**222**	**37,350.61**	**238**	**48,795.11**	**661**	**122,500.07**

4.6.4 Tax Revenue Collection Performance

In the first five years (2003 up to 2008) the tax revenue collection performance covers 98% of the federal budget but it decreases to 73.4% in the year 2010 similarly, even if tax revenue collection show some improvement it still indicates the need for hard work to alter and curve the trend.

Chaptor-4 Graph 2 tax revenue performances



On the other hand, when the tax revenue performance is compared to other countries Tax to GDP ratio was 12.7% in the year 2008 and decreased to 10.7% in the fiscal year 2010 so, this indicates that the tax revenue performances is below the average of sub-Saharan Africa so, the tax administration will need to strongly focus on those challenging factors and modernize the system to make the tax revenue collection efficient and competent enough to attract trade and investment. Meeting government expenditure plan through tax revenue will demand a multi-dimensional effort including modernizing the tax administration services delivery and modernization of the IT system, having skilled manpower, and creating ease of doing business for the taxpayer that helps the tax administration to keep its integrity and attract foreign direct investment so, it is very critical that the tax transformation initiative can be believed to help a lot in this regard.

CHAPTER FIVE

5.1 Finding

The more complex and repeated problems attached within the international transaction of multinational companies in relation to different tax types like divided, interest, royalty and technical fee are because of the issues connected with accounting system and operational software that multinational company use like Enterprise Resources Planning (ERP) had been a sort of problem due to accounting manipulation and miss record of transaction which cannot be traced due to access problem, location and skill gap in international and the domestic law.

On the other hand the level of capacity and experiences in Transfer pricing, International Financial reporting Standard(IFRS), international taxation and good communication, interpersonal skill for auditing the international transaction which mainly covered by the double tax avoidances treaty is very much problematic due to lack of the necessary capacity and experiences because of this the level of dispute In relation to tax decision had seen increasing year to year so, the above problems together make the government tax revenue collection challenged with treaty related problems.

Lack of professional competences and skill, integrated effort and provision of data, low level of taxpayer compliances, honesty, independence, the taxpayer, auditor and tax agents or advisor had during dispute handling process is not as it expected so, this made the tax administration work hard and have weak integrity with taxpayers similarly, the level of joint work between the ministry of finances and ministry of revenue is not satisfactory towards giving ruling during the dispute, updating and negotiations the treaties, building mutual capacity that enable to tackle the problems attached with double taxation avoidances treaty so, this and the related problem like the establishment of branch offices and registration, the provision in Turnkey and Engineering and Procurement Contract(EPC) contract and Policy related problems had overlapping issues related to investment attraction and double taxation avoidances treaty, the demand for more incentives to invest, Dispute Arbitration which had been time consuming and make the tax revenue performances of the country still to become below the average of the African country.

Conclusion

The linkage through tax evasion outweigh forgone tax revenue as the result of their impact on sources income hear a serious question need to be raised about tax treaties that do not pass this test reduces tax receipts without bringing extra capital, The tax collected from the different sector including the construction is not at the level of expected to be collected from the potential economy so, among the factors aggravate compliances gap of the taxpayer and weak capacity and professionalism are among the critical challenge for both the tax administration and taxpayers.

The growing sentiment that poorly designed double tax avoidances agreement may cause more than harm than good to host economies, Lack of well-organized mechanism and joint effort between MOF and MOR in a different stage like treaty negotiation and updating also weak dispute handling process will negatively impact the tax revenue collection and become cost-ineffective for the taxpayer and the tax administration.

The African countries and capital exporter countries has a different policy objective that had a backdrop of unequal power and economical relation and negotiating capacity (Hearson 2018), The compliances and tax payment trend is not satisfactory due to the skill gap on the substantive provision, treaty shopping, lack of capacity and experiences so, the tax collection from foreign-based companies is not at the level of what expected from the potential of the economy currently the tax to GDP ratio is around 10% which is very far from the most African country.

The strength of dispute resolution mechanism still in question (Berger 2014), no evidence assure double tax avoidances agreement increase foreign direct investment rather middle-income countries than least developed countries are advantageous from a volume of capital imported, The process has different gap related to capacity, lack of reconciled investment and tax treaty that makes the tax administration effort to double toward shaping compliances and creating ease of doing business environment.

The intensity of African countries to adopt a model of their own than the developed country may play a part in the tax competition might be heightened in Africa compared to other regions, withholding tax also decreasing over time (Hearson 2016). The joint effort between stakeholder is not sufficient enough for tackling problems in the international trade and investment so, updating and reconciliation of the treaty is very critical currently, most of the treaties are out-dated this can affect the tax sovereignty and create problems on tax revenue collection.

Recommendation

The tax administration highly expected to build its tax training center and work hard to fill the linkage between the tax compliances and lack of professionalism through well-designed tax education programs in collaboration with stockholders like the ministry of education and ministry of Finance.

It is important and mandatory for developing country to have a reconciled tax law with its unilateral, multilateral international agreements especially the investment and double tax avoidances treaties to overcome the problem of international trade and treaty shopping problems to protect the tax sovereignty so, updating treaty and joint integrated effort between EIA, MOF and MOR critical especially with the expansion of industrialization, free trade zone, and investment incentives in the country.

The tax administration must look for other interventions to improve the tax performances by focusing on large taxpayers and its staff toward specialization of basic skills and modernizing its approach including auditing supported by computer-aided data analyzing, other dispute handling mechanisms like Advances Payment Procedure and Formal dispute negotiation toward double taxation problems.

The tax administration needs to work with another competent organ for data provision and disputed tax issues jointly to give an easy and clear definition to the most disputed substantive provision of treaties to facilitate investment and trade.

Both the MOF and MOR must create a joint mechanism on a timely basis to review and provide recommendation by thoroughly overviewing the problems they face in their respective side about treaty at a different stage to jointly protect the tax evasion, profit shifting, and base erosion and creating ease of doing business environment.

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ADDIS ABEBA UNIVERISTY

SCHOOL OF GRATUATE STUDIES

DEPARTMENT OF PUBLIC ADMINISTRATION AND DEVELOPMENT MANAGEMENT

The researches intend to investigate the Double Taxation Avoidances Treaty and Its Challenge on Tax Revenue Collection in the Case Ministry of Revenue Large Taxpayer Offices (LTO).

Dear, Respondent initially I would like to express my warm thanks for your time to respond on this questioner in partial fulfillment of (Public Administration and Development management) in Addis Abeba University extension division in Public administration and development management master's program. The research try to study of The Double Taxation Avoidances Treaty and Its Challenge on Tax Revenue Collection aimed to use for future policy recommendation so, I like to inform that any information you give in relation to the study is kept secret, finally it is my great hope and believe the study will help the sector to improve the tax revenue collection of the government so I thanks you again for your time .

(Part I. Background of Respondents)

Gender Male------- Female-------

Age from 20 to 35 ----------- from 36- to -50------- Above 50----------

No of Services year ---

Position ---------------------------------------

Previous work place-------------------------------

Degree ------------------

Second degree----------

Part II. Questions Related to the Research Topic

The construction sector in Ethiopia has 9.5% and 14% share in Gross domestic product and Government Tax revenue income respectively according to construction minister information in 2016 so, in relation with this how do you evaluate the multinational corporation which participate in large government project by their compliances history of paying tax?

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According to IMF value added tax(VAT) cover up to 50% Gross Domestic product in 2012/13 decrease to 3.7% and 3.6% in 2014 and 2015 respectively beside this what do you observe from the department in minister of revenue with regard to team effort irrespective of their independent effort to achieve their plan and create synergy effect in collecting government tax revenue and make the tax administration predictable and able to keep its integrity ?

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Based on sources principle multinational corporation are expected to pay tax on worldwide income (foreign affiliated companies are expected to pay tax on their worldwide income in most jurisdiction) including Ethiopia so based on the Double Taxation Avoidances Treaty did they have on time information exchange for tax decision and dispute handling? ---------------------------
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It is known that multinational companies tax compliances level is low due to different reasons in respect to willingly filling and paying tax, how does the tax authority try to handle this problem based on technology and effective risk management procedures to collect government tax revenue effectively by creating Easy doing business atmosphere for tax payers?

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From the perspective of effective government tax revenue collection and based on world trade organization if the countries not able to cover the issues in their jurisdiction or cannot reach an agreement are expected to cover the issue and agree through double taxation avoidances treaty (DTAA) which prevail on other laws so does Ethiopian ministry of finances timely update this agreement in line with globally changing situation by creating integrated team work with other

stakeholders? ---

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You can understand multinational companies face different problem in on time filling and pay tax so what kind of support does the tax authority provide before taking legal enforcement measure by educating the tax payer initially in order to keep balances in services providing and taking legal action?

Do you believe that there is coordinated and integrated effort between stakeholders starting from negotiation up to ratification of the DTAA Agreement ? ---
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Does the multinational company which open a branch office to participate in large government construction projects face complex problems but among those problems they face to what extent does these problems repeatedly raised with respect to the following taxes?

Dividends

□ Very high □ high □ Moderate □ Low □ Very low

Interest expense

□ Very high □ high □ Moderate □ Low □ Very low

Royalties

□ Very high □ high □ Moderate □Low □ Very low

Technical services fees

□ Very high □ high □ Moderate □Low □ Very low

Indicate the level of capacity and experiences for auditing issues related with double taxation avoidances treaty that the tax auditors or officers have on the following concepts?

Transfer pricing, Arm length price

Very high □ high □ Moderate □Low □ Very low

IFRS, and Basic Auditing technique and approach

Very high □ high □ Moderate □Low □ Very low

Good communication and interpersonal skill

Very high □ high □ Moderate □Low □ Very low

International taxation and international tax treaty
□ Very high □ high □ Moderate □Low □ Very low

Show the level of disputed or complain on issues related to the double taxation avoidances treaty?

□ Very high □ high □ Moderate □Low □ Very low

Show the level of the problems which hinder and challenge government tax revenue collection in relation with double taxation avoidances treaty ?

Professional competences and skill

□ Very high □ high □ Moderate □Low □ Very low

Stakeholder integrated effort

□ Very high □ high □ Moderate □Low □ Very low

Provision of data for quality audit decision

□ Very high □ high □ Moderate □Low □ Very low

Tax payer compliances level

□ Very high □ high □ Moderate □Low □ Very low

Show the level of manner the tax officers, tax agent and consultant show during tax dispute handling process with respecting to the following points?

Honesty

□ Very high □ high □ Moderate □Low □ Very low

Independence

 Very high high Moderate Low Very low

Professional competences

 Very high high Moderate Low Very low

Legal Compliances

 Very high high Moderate Low Very low

Show the level of joint work by minister of finances and minister of revenue to ward double taxation avoidances treaty from the following point of view to make government tax revenue collection effective?

Giving ruling for disputed issue

 Very high high Moderate Low Very low

Show the level of Making updated double taxation avoidances treaty related directives, agreements and circulars (Updating treaties and laws directives)፤

 Very high high Moderate Low Very low

Show the level of joint effort to make effective negotiation up to ratification process of the double taxation avoidances treaty ?

 Very high high Moderate Low Very low

Show the level of having the right capacity From the perspective of having the necessary personal who have the right competences and skill on international trade, tax and tariff ?

 Very high high Moderate Low Very low

THHANK YOU