



# Tax Competition/BEPS issues affecting Developing Countries in Africa



# Base Erosion Issues

- ▶ Weak laws which are easily exploited.
- ▶ Low capacity in terms of tax administration and knowledge.
- ▶ Little resources in terms of budget, equipment and weak software.
- ▶ Giving out tax incentives without carrying out cost analysis benefit.
- ▶ Low political will.
- ▶ African counties are sources of raw materials thus have no factories to add value to their products.



# Effects of Profit shifting

- ▶ A) Unfair competition which allows MNEs gain competitive advantages against domestic enterprises due to BEPS.
- ▶ B) Inefficient allocation of resources towards activities that have lower pre-tax rates of return but higher tax rate of return.
- ▶ C) Exploitation of voluntary tax compliance by other tax payers.
- ▶ D) Transfer pricing issues, in particular in relation to the shifting of risks and intangibles, artificial splitting of ownership of assets and transactions which would rarely be undertaken by independent.



# Benefits of Limiting BEPS

- ▶ ensures competitive equality between MNEs and national businesses, and restoring confidence of all taxpayers in a fair tax systems;
- ▶ (b) ensures fairness for firms less willing to engage in aggressive tax practices, or in economic sectors where there are fewer opportunities;
- ▶ (c) removes incentives for MNEs to devote enormous resources to paying for tax advisers and the complex structures and entities that BEPS tax avoidance requires, and making international tax rules clearer and easier for tax authorities to administer;
- ▶ (d) ends the use by MNEs of tax havens and the offshore finance and secrecy system, which also facilitates a wider range of abusive tax practices, capital flight and money laundering.



# Unresolved Issues Under OECD BEPS

- ▶ no changes on mining and the transport industries.
- ▶ there is no additional data which allows for the selection of TP method.
- ▶ Provisions for sub-contracting.
- ▶ Dormant companies
- ▶ Brokers
- ▶ Home grown MNEs
- ▶ Lobbies to exempt industries
- ▶ comparables pricing weaknesses
  - ▶ quality of product or service.
  - ▶ Profit margins in Africa