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Cubillos J., Heitmüller F. and Mosquera Valderrama I.J. Chapter 14: Multilateral Cooperation in International Tax Law in [The Future of Multilateralism: Global Cooperation and International Organizations]() Ed. M. Hosli, T. Garrett, S. Niedecken and N. Verbeek. Rowman & Littlefield.

Multilateral Cooperation in International Tax Law

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Abstract

Since the 2008 financial crisis, multilateral cooperation in international tax law has developed at a fast pace. Nowadays, OECD and non-OECD countries have agreed to introduce international tax standards to tackle tax evasion, harmful tax competition and aggressive tax planning. This chapter will address these standards with a focus on the interaction between different international, and supranational (mainly EU) organizations in the process.

The first part of the chapter will describe the environment in which international taxation has evolved and explain its foundations. The second part will address multilateral cooperation in tax matters among countries and the role adopted by international organizations in the development of common tax standards. The third part of this chapter will address multilateral tax cooperation at the European Union (EU) level and explain how the EU adopts tax standards as to create general principles of conduct for tax matters. The fourth part offers some critical comments regarding the current system of multilateral cooperation as well as some ideas about the future perspectives for multilateral tax cooperation. Finally, this chapter will provide some conclusions.

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1. Introduction

Cooperation in direct taxation[1] among countries has for a long time been rather limited in scope. Until 2008, this cooperation was mainly based on the use of bilateral tax treaty models to allocate the right to tax income from cross-border transactions among two countries. These treaty models have been developed by the Organization for Economic Cooperation and Development (OECD) and the United Nations and used by countries when negotiating their bilateral tax treaties.

Since the 2008 financial crisis, cooperation has become increasingly "multilateralized", as new issues such as tax evasion and aggressive tax planning have gained prominence on the international tax agenda. If one example can illustrate this movement towards multilateralism it is the setting of international tax standards. These standards relate mainly (i) to exchange of taxpayer information (first on request and thereafter automatic), (ii) tax transparency (ending bank secrecy) and (iii) to prevent harmful tax competition among countries and to tackle base erosion and profit shifting (BEPS) by multinationals.

Developed and developing countries are participating in the implementation of these standards. However, the agenda setting and decision-making process for these international tax standards have taken place at OECD and G20 level which consist of developed countries.[2] In this multilateral setting, the role of the United Nations has been reduced. One reason is the rejection by developed countries in the 2015 Financing for Development Conference to confer the status of

[1] One generally distinguishes between direct and indirect taxes. Direct Taxes are levied on the income of individuals or corporations, whereas indirect taxes are levied principally on consumption in the form of value added taxes or excise taxes. This chapter deals exclusively with multilateral cooperation aimed at direct taxes.
[2] The BEPS and the Action Plan have been endorsed in the G20 meetings at Mexico (June 2012) and St Petersburg (Sept. 2013) respectively. In the G20 meeting in St. Petersburg, G20 leaders committed to address base erosion and profit shifting, tackling tax avoidance and promoting transparency and automatic exchange of information. See in particular, para. 50 of the Declaration, where it has been stated that: "In a context of severe fiscal consolidation and social hardship, in many countries ensuring that all taxpayers pay their fair share of taxes is more than ever a priority. Tax avoidance, harmful practices and aggressive tax planning have to be tackled". http://www.g20.utoronto.ca/2013/2013-0906-declaration.html

intergovernmental body to the UN Tax Committee, despite the call by developing countries and civil society to do so.[3]

Due to the concerns of legitimacy of these international tax standards vis-à-vis developed countries, the OECD and the G20 invited developing countries to participate on equal footing in the implementation of these standards by creating forums such as the Global Transparency Forum (exchange of information and transparency) and the BEPS Inclusive Framework to adopt the BEPS 4 Minimum Standards (aggressive tax planning).[4] At the time of writing, the Global Transparency Forum has 161 tax jurisdictions and the BEPS Inclusive Framework 137 tax jurisdictions.

Within regional blocs, with the prime example being the EU, multilateral cooperation has further deepened mainly by adopting in its Directives the OECD-G20 international tax standards and by introducing the EU Standard of Good Tax Governance for EU and third (non-EU) countries. Other regional blocks have established regional networks for cooperation between tax administrations, such as the African Tax Administration Forum (ATAF) and the Inter-American Centre of Tax Administrations (CIAT).

Notwithstanding the efforts to achieve international cooperation at a multilateral level, the allocation of taxing rights of cross-border transactions between residence (mainly developed) countries and source (mainly developing) countries has not been agreed upon. This allocation is still an important element that is agreed bilaterally (tax treaty) or unilaterally (domestic law) by countries. An example of the allocation of taxing rights problem can be observed in the taxation of highly digitalized businesses. Despite attempts from the OECD and the G20 to come with a global solution, countries are introducing unilateral measures such as the Digital Service Tax

[3] See Section 2.3. below.

[4] The BEPS Project contains 4 Minimum standards that deal with harmful tax competition, tax treaty abuse, transfer pricing documentation, and dispute resolution (Actions 5, 6, 13, and 14), 10 best practices and 1 multilateral instrument. Countries have committed to implement the 4 Minimum Standards by becoming members of the BEPS Inclusive Framework.

(France, Austria, Hungary, Italy, Poland, Turkey, and the United Kingdom) to tax digital services (online advertising, digital interface among others).[5]

Another example is the proposal to introduce a global anti-base erosion (GLoBE) rule including a minimum tax rate. If adopted, this proposal will call for more international tax cooperation, and also for a single set of rules to prevent harmful tax competition. However, the adoption of both proposals in a multilateral setting is not yet clear. These proposals have been discussed since 2018 and until now, these proposals have not been successful in achieving a consensus among all countries participating in the BEPS Inclusive Framework. Instead, the United Nations has recently introduced an art. 12B to the UN tax treaty model to tax automated digital services, that provides for source taxation (see 2.3. below).

Therefore, the landscape of multilateral cooperation that started with the adoption of the global standard of exchange of information and the BEPS 4 Minimum Standards, is now uncertain with the new proposals to tax highly digitalized business and the GLoBE. Some reasons are the unilateral approaches to digital tax, and the complexity of the proposals that makes difficult for countries to implement them.[6]

The COVID19 crisis has also exposed the weakness of governments within the EU and also outside the EU to address collectively the recovery of the economy in a pandemic and post-pandemic era. The OECD, the World Bank, the IMF and the EU have attempted to provide common solutions. However, in practice, countries are introducing their own unilateral measures (e.g. tax incentives, reducing tax exemptions, re-introducing repealed taxes, etc.) to provide fiscal stimuli to business and to keep the economy going. The uncoordinated approach might only deepen the breaches between the tax systems that before the pandemic were intended to grow aligned upon general tax standards for international tax cooperation.

[5] See Section 2.4. below.
[6] The OECD's proposals for Pillars 1 and 2 contain more than 500 pages (September 2020). See Section 2.4. below.

This chapter will address these standards with a focus on the interaction between different international, and regional (mainly EU) organizations in the process. The first part of the chapter will describe the environment in which international taxation has evolved and explain its foundations. The second part will address multilateral cooperation in tax matters among countries and the role adopted by international organizations in the development of common tax standards. The third part of this chapter will address multilateral tax cooperation at the European Union (EU) level and explain how the EU adopts tax standards to create general principles of conduct for tax matters. The fourth part offers some critical comments regarding the current system of multilateral cooperation as well as some ideas about the future perspectives for multilateral tax cooperation. Finally, this chapter will provide some conclusions.

2. Multilateral Cooperation in International Taxation

Taxation has since long been on the agenda of multilateral organizations, from the League of Nations to the UN, the OECD, the EU, the IMF and, the World Bank among others. However, as pointed out by Ruggie, the fact that physical institutions with large membership work on one issue does automatically mean that member states engage in multilateral cooperation, meaning that their relations are based on general principles of conduct applicable to all of them (Ruggie, 1992). Multilateral institutions are often the fora where such principles are developed, but not necessarily. On the other hand, multilateral institutions might not be able to effectively develop international principles.

We will show in the following sections that during a long time the activity of multilateral organizations has been confined to developing a model for bilateral conventions, as no agreement on a multilateral convention could be found. However, with the addition of the issues of tax evasion and tax avoidance to the international agenda, multilateral cooperation has deepened over the last two decades. In light of the COVID-19 crisis, however, it remains uncertain whether this deepening trend will continue.

2.1. Bilateralism with a grain of multilateralism: Addressing double taxation

In essence, taxes are collected not only for the tasks being performed within a country's territory but extended to the earning that such business makes in other jurisdictions, to make sure that the profits earned by the same taxpayer are taxed at least once. Taxation takes place either in the country were the taxpayer conducts the activity (active income – source taxation) or in the country from where the efforts to conduct the activity take place, meaning the residence state of the taxpayer (passive income – residence taxation).

In such a system, however, resident individuals and companies that invest abroad have a disadvantage compared to resident taxpayers that only invest within the country, because their income is likely to be taxed twice: Once by the country where they generate income and once by the country where they are resident. Since this prospect of double taxation hampers cross-border investment, countries endeavoured to cooperate to avoid un-intended double taxation by allocating the taxing rights between country of residence and country of source. Nevertheless, if both countries want to tax, the struggle is to define which of the two should forego revenue for the sake of the other (Rixen & Rohlfing, 2007).[7]

Different countries have different interests depending on whether they are net capital exporters (mainly developed countries) or net capital importers (mainly developing countries), the former preferring taxation at residence and the latter taxation at source. This conflict is more or less strong depending on how asymmetrical the investment flows between two countries are. Consequently, cooperation has developed principally in a bilateral fashion, with countries negotiating bilateral tax treaties, which allocate taxing rights among two countries.

These bilateral treaties are generally based on model conventions developed by the OECD (1963) and the UN (1980) upon the bilateral convention issued in 1927 by the Fiscal Committee of the League of Nations. Initially, the Fiscal Committee aimed at a collective solution, however, this

[7] Rixen and Rohlfing qualified the issue as "coordination game with a distributive conflict"

attempt was rapidly rejected observing that the countries willing to join this multilateral effort were only a few (League of Nations - Fiscal Committee, 1935)[8]; and that by virtue of marked differences between tax systems the convention would encompass provisions *"worded in such general terms as to be of no practical value"(League of Nations - Fiscal Committee, 1927)*. The Committee adopted a solution that despite being considered as partial (García Antón, 2016)[9] was aimed at finding practical bilateral implementation among countries usually connected as they were trade partners or closely bound jurisdictions by geographical proximity (League of Nations - Fiscal Committee, 1930). It is therefore possible to say that even if the setting is bilateral the roots of the original model convention and several of the comments introduced by the OECD and the UN aim at providing solutions for a multilateral arena.

For long, tax scholars made pleas for a multilateral tax treaty, without success.[10] One of the reasons for the failure to reach a multilateral agreement were the differences between developed and developing countries and the problems in the (fair) allocation of taxing rights between residence (mainly developed) countries and source (mainly developing) countries. Although, compared to the OECD model, the UN model allocates more taxing rights to source countries, provided that developing countries were usually perceived as source states (Lennard, 2009)[11], it rests on a compromise of alternating taxing rights between source and residence. This consideration reflects the general principle that dominates international taxation and is the setting upon which countries preserve their power struggles limiting the options for achieving multilateral cooperation. This does not mean that multilateralism is to be hindered by bilateralism, moreover than both currents will blend for international taxation. The Multilateral Instrument is an example of this tendency,

[8] The Fiscal Committee delivered several reports in the course of years 1927 – 1935. The report of the Fifth Session expressed specifically that there were a limited number of countries willing to adopt a collective solution. For an analysis upon the League of Nations work upon a multilateral convention (García Antón, 2016).

[9] García Antón highlights the following when addressing the League of Nations' initial work: *"Notwithstanding the difficulties, the Committee acknowledged the fact that bilateral conventions only constitute a partial solution to the problem of double taxation."* (García Antón, 2016)

[10] Disregarding the Multilateral Instrument which entered into force as of 1 July 2018. See for instance (Thuronyi, 2000) and (Ring, 2000).

[11] The UN introduced in its model measures enabling the source state to claim taxing rights under specific situations that were not addressed by the OECD in their model. (Lennard, 2009)

as it constitutes a multilateral treaty affecting bilateral treaties with standard rules, provided the countries select those bilateral treaties as to be covered by the multilateral initiative.

In light of the above, new tax developments cannot forego the fact that the international tax praxis rests upon bilateral treaties which according to the International Monetary Fund (IMF) by 2016 exceeded over 3,000 (*Tax Treaties: Boost or Bane for Development? – IMF Blog*, n.d.). The fact that the whole international tax network rests upon principles aiming at achieving the interests of single states (source and residence), and the sovereignty principle[12], allows the interpreter to believe that the course of action to be followed for international taxation will inevitably be marked by a blending of bilateralism and multilateralism.

2.2. The multilateral responses to international tax evasion and tax avoidance

After the 2008 financial crisis, new support emerged to revamp the efforts for tax cooperation and transparency. Raising revenues for supporting the economies was a top priority for all crisis affected countries. Gaining awareness about the extension of such problems allowed the G20 to insist that further investigations regarding connected issues should be handled independently by the OECD with the objective of finding once again an adequate solution or at least proposals or standards to be followed internationally. Tax cooperation was perceived as a must, since the interactions of multinational enterprises (MNEs) around the world proven to exacerbate the possibilities of facing cases of tax evasion[13] and (unacceptable) tax avoidance regarded as aggressive tax planning[14].

[12] The sovereignty principle confers power to the state to design and enact the tax policy based on the agreement of a social contract adopted by the people of the given jurisdiction to their elected (legitimate) legislators and governmental agencies.
[13] “the OECD state that ‘tax evasion’ is a term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities” (I. M. Valderrama et al., 2018)
[14] Tax avoidance has been defined by the OECD stating that it is “a term that is difficult to define but which is generally used to describe the arrangement of a taxpayer’s affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow”. (OECD, 2020)

Two separate regimes emerged, one mainly focused on tax evasion, the other on tax avoidance. The tax evasion regime consists principally in the exchange of information standard, which proscribes that countries have to provide all foreseeably relevant information about a taxpayer resident in another country that this other country requests to enforce its tax laws (Global Forum on Transparency and Exchange of Information for Tax Purposes, 2016). In addition, the standard mandates since 2014 that countries *automatically* exchange information on foreign taxpayers' bank accounts (e.g. number of accounts, balance, etc.) with the tax administrations of the taxpayers' countries of residence. Compliance with the standard is reviewed by the Global Forum on Transparency and Exchange of Information, which as of August 2020 has 161 member jurisdictions.

The (unacceptable) tax avoidance regime consists mainly in the outcomes of the Base Erosion and Profit Shifting (BEPS) project, published in 2015. While many parts of the published reports are mere recommendations, they also contain 4 Minimum Standards, which 137 jurisdictions have committed to implement by becoming members of the BEPS Inclusive Framework and peer review reports monitor the implementation process of the standards.

These standards mandate participating countries to abolish aspects of their tax regimes that encourage tax avoidance MNEs and obliges countries to require from MNEs with an annual revenue of more than 750 Million euro headquartered in the country to supply a so-called country by country report. The report contains information about the MNE, such as revenue, number of employees and value of assets, on a country by country basis. Such information allows the tax administration to conduct a tax avoidance risk assessment and select certain companies for closer scrutiny. Further, the BEPS standard requires the country to share the report with all other countries in which the MNE has a subsidiary.

However, the distinction between 'acceptable tax avoidance' and 'unacceptable tax avoidance´ is not clearly established, Valderrama et al. recognize that *"the approach towards the boundaries between accepted (legally effective) and unaccepted tax avoidance (obtaining benefits not intended by the legislator and legally ineffective due to the use of anti-avoidance doctrines) is followed by countries around the world "* (I. M. Valderrama et al., 2018)

Further, the BEPS 4 Minimum Standards affects bilateral tax treaties by obliging all participating states to exchange agreements between taxpayer and tax administrations (rulings) and to introduce an anti-abuse rule in their bilateral tax treaties. However, the efficacy of the BEPS standards has been called into question. Indeed, as these can generally be qualified as soft law and states need to introduce them in domestic law, actual compliance is uncertain and remains an under-researched issue. [15]

2.3. The role of the United Nations in International Taxation

In the United Nations, the proposals for international taxation are being discussed and adopted by the UN Committee of Experts on International Tax Cooperation in Tax Matters. One of the authors has argued elsewhere that "in this multilateral decision-making mechanism, the role of the United Nations (UN) can be relevant, since it represents the developing countries, i.e. most of the countries of Latin America and African regions. However, up till now the role of the UN in respect of developing countries is limited mainly due to the lack of participation of developing countries in the initiatives of the United Nations, the lack of support to give the UN Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee) a more important role and in the choice for South-to-South cooperation by means of partnerships between developing countries".[16]

Two examples can illustrate this limited role in international taxation. The first one is the limited response by countries regarding the BEPS questionnaire drafted by the UN Committee[17], and the

[15] This research is currently carried out in the framework of the European Research Council funded project GLOBTAXGOV in twelve jurisdictions participating in the BEPS Inclusive Framework. This Project investigates international tax law making, including the adoption of OECD and EU standards by twelve countries. (*GLOBTAXGOV – A New Model of Global Governance in International Tax Law Making*, 2020). The GLOBTAXGOV Project has received funding from the ERC under the European Union's Seven Framework Programme (FP/2007-2013) (ERC Grant agreement n. 758671)

[16] See section 6.2.2.2. "Participation of the United Nations" (Irma Johanna Mosquera Valderrama, 2015)

[17] Ibid; (Irma Johanna Mosquera Valderrama, 2015)

lack of support developed countries to give to the UN committee an intergovernmental status in the 2015 Addis Ababa conference.[18]

Despite this, the UN Committee continues working on issues of international taxation, including also submitting a new proposal (6 Aug. 2020) to amend bilateral tax treaties regarding the tax treatment of payments for digital services. (art.12B UN Model)[19] This proposal is presented as an alternative to the OECD Proposal to tax highly digitalized business, due to the lack of consensus among members of the BEPS Inclusive Framework. At the time of writing is not yet clear whether OECD or UN proposal will be adopted. Since there are countries that are introducing unilateral rules to tax digital services, it could be possible that the amendment presented by the UN could be easier to implement in tax treaties, than to reach a consensus in a multilateral system.

2.4. The prospects for deepening multilateral cooperation in tough times

While the standards on exchange of information (Global Transparency Forum) and the BEPS 4 Minimum Standards (BEPS Inclusive Framework) represent an increase of the importance of multilateral principles in taxation, these standards do not deal with the allocation of taxing rights between countries (which countries mainly deal with on a bilateral basis as introduced earlier), neither with the issue of tax competition among countries. However, members of the BEPS Inclusive Framework are currently discussing two proposals that could introduce a multilateral element in these issues.

The first proposal aims to find a solution to the tax issues resulting from the increasing digitalization of the economy. While countries' tax laws bilateral tax treaties rely to a large extent on the physical location of businesses to determine where income is generated (and where it should

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[18] The proposal of the UN Tax Committee as intergovernmental body was rejected by developed countries. These countries contested the leading role of the OECD in all tax issues. See paras. 28 and 29 of the Resolution 69/313 adopted by the General Assembly on 27 July 2015. See also (Irma Johanna Mosquera Valderrama, 2015)

[19] The provision's draft can be consulted at: (*TAX TREATY PROVISION ON PAYMENTS FOR DIGITAL SERVICES.Pdf*, 2020)

be taxed accordingly), digitalization increasingly enables businesses to take part in the economy of a country without physical presence (Mosquera & Heitmüller, 2019). The OECD's proposal for "revised nexus and profit allocation rules" suggests a method that could be applied to allocate income of digital companies to different countries. However, and mainly due to the lack of agreement in the content of these proposals, countries are introducing unilateral rules departing from the multilateral solution, it is expected however that these would be repealed once an aggregate solution is found.[20] Other countries have decided to wait before committing to further discussion for the adoption of any proposals.[21]

The second proposal addresses tax competition: "Tax competition" describes a practice whereby countries try to provide lower tax rates than other countries in order to attract internationally available capital. This is considered as potentially problematic, because countries are induced to discriminate between different "tax bases". While mobile bases, meaning principally companies in sectors that do not depend significantly on physical locations, would end up paying very little tax, immobile bases (workers, heavy industries, etc.) might face a higher burden or public spending would be reduced. While the available empirical evidence is not definitive (Adam et al., 2013), the downward trend in corporate income tax rates (Genschel & Seelkopf, 2016) and the proliferation of corporate income tax incentives (Stausholm, 2017), paired with politicians' frequent statements that the national "tax system should be more competitive", suggest that the phenomenon is real (Latulippe, 2016). Tax competition resembles a classical prisoner's dilemma situation (Rixen, 2008, p. 18).

While earlier initiatives always stressed that countries are free to set their tax rate, the current OECD proposal for global anti-base erosion (GLoBE) rules, aims at introducing a global minimum tax rate, which would "set a floor for tax competition" (OECD, 2019, p. 27). While countries would not be obliged to introduce such a minimum rate in their tax legislation, the proposed rules would act as an incentive to do so. Their basic idea is that either the country where an MNE is

[20] One example is the GAFA Tax - acronym of Google, Apple, Facebook and Amazon-.
[21] One example is the US regarding digital taxation.

headquartered or the country where income is earned would tax income normally attributed to the other country if that other country fails to levy a tax above the globally fixed minimum rate.

In sum, the two proposals currently discussed might, if adopted, influence the allocation of taxing rights and tax rates set by countries, thereby extending the scope of multilateralism in international taxation.

A remaining question is to what extent the COVID-19 crisis affects multilateralism in taxation. First, COVID-19 means that holding meetings in person is more difficult, which might, in general, render reaching negotiated multilateral solutions more difficult. Nevertheless, for the time being the OECD Secretariat and countries involved have continued negotiations with only little delay (Irma Johanna Mosquera Valderrama, 2020). But what about the content? How are the political pre-conditions for deepening multilateralism in taxation affected by COVID?

While many European countries provided direct cash transfers to businesses in difficulty (sometimes in form of wage subsidies), many countries with lower budgetary capacity enacted temporary tax reliefs for business. However, in the case of subsidiaries of MNEs, such tax reliefs might be rendered ineffective if the GloBE proposal is adopted (in a strong version)– which led observers doubt that many countries would currently agree on such a proposal (Swain et al., 2020).

The prospect for "pillar 1", however, might be better: Many digital companies are considered as winners of the crisis (think for example about online video conferencing, delivery services, video-on-demand, etc.), which, paired with a bigger need to raise revenue in the medium term, has increased the political salience of taxing their income (OECD, 2020, p. 6; Swain et al., 2020). Whether countries will indeed agree on a multilateral solution or whether other ways such as unilateral digital services taxes will be more prominent is, however, still open.

Within the European Union, however, the COVID-19 crisis has already led the EU Commission to propose a tax on digital services directly levied at European level, which – if adopted – would represent an unprecedented step of tax multilateralism within the European Union (see following section).

3. Multilateral Cooperation in the European Union

Commonly political scientists refer to the European Community as a case of success in the quest for multilateralism. Ruggie for instance argues that *"The European Community (EC) is the undisputed anchor of economic relations and increasingly of a common political vision in the West".* As such its actions and interactions at a regional level should be accounted as part of a thick multilateralism[22] providing for an example of regional multilateral agreement to the extent that is possible for tax matters within the EU and in its relations with non-EU members (third countries).[23]

The following section will address the elements that support multilateral cooperation between EU member-states, as well as those that hinder a higher level of cooperation in direct taxation at the Union level. Then comments will be provided upon the role of the EU in drafting and adopting at regional and international level generalizable principles of conduct towards direct taxation via the introduction of the EU Anti-Avoidance Package and EU fair and simple taxation, as well as the evolution of the Good Tax Governance Standard.

3.1. Achieving multilateral cooperation at the EU level

The claim about a thick multilateralism at the EU level is supported by the fact that practical coordination is granted as there is a developed institutional form that works in order to solve extensive problems of member states at the Union. In short, discussions being suggested at the Economic and Financial Affairs Council (ECOFIN) are evaluated by the EU Parliament and also

[22] *"Regionalism as a model of governance constitutes a thick multilateralism, that is to say, self-conscious efforts to construct regional identities by the use of multilateral identities and organizations".* (García Antón, 2016)

[23] Countries within the EU are typically capital exporters; hence EU decisions tend to favor residence taxation. Nevertheless, they need to consider that their positioning depends on the good relations they have with both capital importers and exporters around the world.

commented by the EU Commission. The former, enables all EU institutions to discuss broadly topics to be adopted within the same year or at least in shorter periods of time. Besides grants institutional coordination, that could be transposed to deals between the EU and third countries directly (D'Ambrosio, 2020)[24].

The institutional framework enables the creation of generalizable principles of conduct that shall be adopted by member states in their negotiations of investment treaties, commercial agreements and in general financial deals which in turn will impact direct taxation. The common ground achieved by the EU resides in the development of tax standards that provide a background upon which member states will develop their financial agreements, investment treaties and tax policies.

Basically, relations at the EU level will be envisioned with a common set of aims. The establishment of such aims is considered to be embedded in the general conception of working together to achieve broader benefits that could be applicable to all circumstances rather than specific ones (diffuse reciprocity) (Caporaso, 1992). Also, the fact that standards are being agreed in a regional setting, allows member states to expect alike costs and leverage from benefits associated with the collective actions (indivisibility).[25]

Yet, while the setting is established in order to strive in multilateral tax cooperation member states preserve their right to define their domestic and international tax policies on a single basis, with a few exceptions (e.g. compliance with primary and secondary EU law). Those exceptions need to be discussed and adopted by member states following the principle of unanimity, which necessarily implies delays in the decision-making process because of the lack of consensus among member states.[26]

[24] See chapter 9 of this book to get a perspective of economic and financial consequences of the COVID19 crisis on the multilateral relations of EU member states.
[25] García Antón describes indivisibility as the situation whereby *"costs and benefits associated with the actions taken by the collectivity are spread among the participant actors. For instance, if peace is the action, the costs and benefits concerning its effective implementation cannot be singularized by particular states"* (García Antón, 2016). See also (Ruggie, 1992)
[26] An example of this stagnation is mentioned by I.J. Mosquera in reference to the lack of consensus between EU countries when defining the content of directives addressing direct taxation matters: *"For example, the 1990s Directives on Merger Directive (90/434/EEC) and the Parent*

In January 2019 the EU Commission proposed to change decision making in direct taxation to qualified majority (European Commission., 2019, p. 15). With this proposal the Commission aimed at changing the special legislative procedure, where the Council acts as the only legislator and the EU Parliament is a consulted body, for introducing an ordinary legislative procedure, where both bodies would co-legislate. According to the Commission this change was needed to overcome the veto power that each member state has with regards to legislation for direct tax matters. Among other reasons, it was stated that the unanimity requirement implies that new proposals can be blocked for several years at the Council's level without being discussed, and that agreements are achieved at the "lowest common denominator level", which reduces the cohesive impact of measures or makes them rather more burdensome.[27]

On the other side, qualified majority voting would enable the Council to pass direct taxation decisions with 55% of the member states voting in favour if the voting parties represent at least 65% of the EU population. In other words, the shift would mean giving up tax sovereignty on the grounds of agreement with other member states, and especially with those whose population is significantly representative of the EU inhabitants. It is not surprising that the proposal was not adopted as states with smaller populations (e.g. Luxembourg, Ireland, the Netherlands and many others) did not back the decision at the closed-door meeting held in February 2019.[28]

The outcome faced by the proposal to amend the decision-making process explains some of the struggles faced by the EU when it comes to achieving a multilateral engagement at the regional level. The main feature that prevents a harmonic result for direct taxation resides in the supremacy of the concept of tax sovereignty. The unanimity rule sets a dynamic that constrains a move forward into achieving a homogenous system for direct taxes. However, as long as tax standards exists the future developments promise a better future perspective regarding a tax coordinated evolution.

and Subsidiary Directive (90/435/EEC) took more than thirty years to be approved and have since been amended further." (I. M. Valderrama, 2020)

[27] For a description of the special legislative procedures please consult (Ramos, 2019)

[28] (*Member States Shield National Vetoes on Tax Matters – EURACTIV.Com,* 2020)

3.2. Adopting standards as a way to create generalize principles of conduct

From 1997 onwards, EU institutions started investing into importing and exporting tax standards (I. J. M. Valderrama, 2019). In general, three elements were presented as required to be standardised among EU members: a) transparency; b) exchange of information (on request and automatic); and c) fair tax competition. Explicitly this were the elements included in the Standard of Good Tax Governance as introduced by the Economic and Financial Affairs Council (ECOFIN) in 2008, with the intention to tackle tax fraud, tax avoidance and the use of tax havens by securing their commitment to transparency and exchange of information. Since the creation of this standard EU institutions encouraged EU states to extend the adherence of this commitment to third (non-EU).

In order to do so, the Commission issued further recommendations on 2009 and 2012 within which new guidelines were provided. On the first, it was clarified that third states to be considered for adopting the standard were EU potential candidates and third countries requesting and receiving EU development aid.[29] If these countries did not accept they could risk to lose the support, as it could be "relocated to other countries, or in some cases even cancelled" (European Commission, 2009, p. 9-12).

On 2012 the Commission issued an Action Plan (European Commission, 2012b)[30] and two recommendations (European Commission, 2012a), providing criteria to determine administrative conditions needed in order to adopt the standards as well as hallmarks for determining if a country was engaging into harmful tax practices. The criteria mentioned by the Commission replicated OECD's advices and made emphasis in the use of OECD accepted principles (e.g. Arm's length principle) (I. J. M. Valderrama, 2019).[31] Connected with this work the Commission discussed the possibility to include a black list for identifying the countries not willing to adopt the good tax governance standards. The list was created looking forward to terminate agreements with listed

[29] The Commission published a Communication promoting Good Governance in Tax Matters. (European Commission, 2009, p. 13)
[30] See also (European Commission, 2013)
[31] See also (OECD, 2010)

nations if a solution to their standard's adoption reluctance was not foreseeable. However, the initiative was not adopted and amendments never took place (I. J. M. Valderrama, 2019).

In 2016, the Commission issued the Anti-Tax Avoidance Package (European Parliament., 2018)[32] which Annexes entailed the process for assessing and blacklisting third countries not compliant with the criteria of EU good governance in tax matters (European Commission, 2016a). The main criteria chosen for the assessment were aligned with the considerations included under the BEPS project, among them not having implemented harmful tax regimes, being able to request the taxpayer for proof of real economic activity and fulfilling the international standards of exchange of information (European Commission, 2016b). Such an action was followed by the EU Council adopting the EU blacklist (Council of the European Union, 2017)[33] of non-cooperative jurisdictions for tax purposes.[34]

In 2018, the ECOFIN introduced the BEPS four minimum standards within the elements concerning the EU Standard of Good Tax Governance (Council of the European Union, 2018) highlighting that parties compliant with the standards are interested in improving international cooperation as well as enabling jurisdictions to collect legitimate tax revenues (Council of the European Union, 2018).

4. Critical perspectives on the current system of multilateral cooperation

Both the procedure and the outcomes of multilateral cooperation in tax matters have received criticism. Many criticized for example that although developed and developing countries are participating in the implementation of standards on information and exchange and BEPS, the

[32] The package included a plan to revise the black list of tax havens outside the EU, an anti-tax avoidance directive, a proposal for establishing the automatic exchange of country-by-country reports and a recommendation to members States to revise their tax treaties.
[33] See also (European Council, 2017)
[34] To review the evolution of the list please go to (European Commission, 2020) either visit (European Commission, 2016)

agenda setting and decision-making process for these international tax standards have taken place at OECD and G20 level and/or EU level which consists only of developed countries.[35]

The BEPS project was developed between 2013 and 2015 by the OECD with the political mandate of the G20, which represents mainly developed countries and some emerging economics (G20: China, India, Russia). The BEPS Inclusive Framework was introduced in 2016 looking for the participation of OECD, G20 and non-OECD, non-G20 countries.

This biased agenda setting creates doubts upon the input legitimacy[36] of the BEPS efforts vis-à-vis non-OECD, non-G20 countries as addressed by one of the authors elsewhere (Irma Johanna Mosquera Valderrama, 2015). In the past, Pistone has questioned the legitimacy of the international standard for fiscal transparency, which in his opinion was once again created by the OECD and left to be further developed by a newly created Global Forum on Tax Transparency (Pistone, 2015).

In the case of the EU, third countries, including developing countries, have been required to adopt the Standard of Good Governance as a precondition to receive EU development aid, conclude strategic partnership agreements, free trade and economic partnership agreements. More recently, compliance with the standard determines whether a third country should be included in a common EU list of non-cooperative jurisdictions. Also, the black and grey lists adopted in 2017 by the EU Council get to be updated constantly (European Commission, 2020).

In this way peer pressure is created for the adoption of the standards at the regional level and at the international level as the countries that belong to the Inclusive Framework allow other countries to peer review the adoption of the minimum standards (I.J. Mosquera Valderrama, 2018).

[35] For an overview of the arguments criticizing the participation of developing countries in the agenda setting on the BEPS Project see (Irma Johanna Mosquera Valderrama, 2015) and regarding the participation of developing countries in the BEPS Inclusive Framework see (Christians 2018)
[36] Regarded as the participation and representation of developing countries in setting the agenda and the content of the OECD/G20 BEPS initiative. *"Scharpf states that input legitimacy means that all people affected by the decision should be brought together in deliberations searching for win-win solutions on which all can agree".* (Irma Johanna Mosquera Valderrama, 2015)

5. Conclusion

The evolution of multilateral cooperation in tax matters in the past 30 years is owed to the constant interaction of stakeholders[37] aiming at finding common standards for the solution of collective problems such as tax evasion and avoidance. As a general rule the issues identified refer to the reduction of taxes collected as a result of artificial maneuvers conducted to reduce the reported earnings in each jurisdiction entitled to tax them. These issues are supposed to gain importance in the coming years as the commercial and trade practices evolved making use of digital solutions for conducting businesses that were traced in regard to material interactions for which administrative practices were designed.

Based on this conception, international and regional efforts have been put into practice for determining generalized principles applicable to the design of countries' tax systems and their interaction among each other. One can say that between the G20, the OECD, the UN (to a lesser extent) and the EU these principles have been introduced as standards to be adopted by nation states around the world. The constant interaction between these actors and the feedback obtained from non-governmental organizations, MNEs, civil society and media enabled nation states to move forward into their adoption.

The interplay of stakeholders can be beneficial for the tax practice as it fuels the discussions regarding revenue raise, tax policy design and tax collection procedures. Conversely, the pressure imposed upon legislative and administrative bodies or international organizations might allow the creation of unaligned standards among stakeholders, providing, for diverse wordings of the same standards, and therefore, creating confusion. An example of this situation was already presented by one of the authors in the past concerning the drafting of provisions for Good Tax Governance within investment treaties signed by EU member-states and third countries (I. J. M. Valderrama,

[37] Among them, but not limited to, nation states, non-governmental organizations, international organizations, regional organizations, country associations, media and what has been defined as the Global Civil Society.

2019). It must be remembered that the consolidation of founding principles even within local or regional settings is a reverberation process that is influenced by contrasting forces in long periods of time before a formal adoption. It is in fact this mixture of ideas and interests that enables legitimate processes to take place, as the agenda setting and the implementation phases are connected and defined jointly by all the stakeholders.

Likewise, the determination of the standards introduced by the BEPS project are tainted with issues of legitimacy in their input and output (Mosquera Valderrama, 2015, p. 348) spectrums at least in consideration to non-OECD countries (mostly developing countries). Foremost, legitimacy issues could arise in the future since the pressure caused by changing circumstances (e.g. the COVID 19 pandemic) might influence the decision-making process for some of the actors at the expense of increasing the expenses for other nation states or breaching both the global tax governance cooperative aim and looking for immediate benefits opposing to tax benefits in the long run.

Some scholars might talk about a change between bilateral agreements to multilateral ones (Pistone, 2015). However, the reality seems to corroborate that both phenomena coexist and they will continue doing so, since tax standards will derive into the adoption of generalized organizing principles fueling multilateral cooperation without eliminating completely the bilateral interactions (Avi-Yonah & Xu, 2016). Likewise, unilateral action might be expected from countries that have enough bargaining power or either preserve a prevalent position[38] and decide to exercise their power to determine their tax legislation at odds with the agreed multilateral standards.[39]

The blending between bilateralism and multilateralism is a constant from which the later avails in order to keep thriving as an institutional form for international taxation. To that extent, that the

[38] Which might be granted due to their affiliation to informal associations between countries as the BRICS, G20, G8 or G24.
[39] This was for example seen before releasing the final report of the Base Erosion and Profit Shifting Action Plan where some countries decided to introduce unilateral measures deviating from the holistic and coordinated approach driven by the OECD with the project. (García Antón, 2016)

standards being agreed multilaterally will be enriched in the course of action by the diverse wordings used in bilateral or group focused interactions. Ruggie mentioned that "institutional arrangements of the multilateral form have adaptive and even reproductive capacities" (Ruggie, 1992, p. 4). Indeed multilateralism needs to be transformed in order to better serve the needs of the stakeholders through time.

For the time being, multilateral cooperation needs to survive the power struggles that may arise in the attempt to determine a new way of taxing profits achieved by enterprises operating during the COVID-19 pandemic.[40] Alternatively, international organizations/multilateral associations might raise their influence taking the lead in defining a standard that could guide states deflecting unilaterally determined tax measures. In either way, countries will strive to raise revenues with which they will cover public expenses incurred to support employment and commercial activity during the markets' partial paralysis, as well as revenues to cover for tax incentives authorized for certain economic sectors.[41]

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[40] Mainly companies that work with intangible assets or provide web platforms for online interactions. Some of which incremented their estimated profits for the year 2020 in twice of what was expected. One of this companies is Zoom, which statistics for 2020 can be reviewed in the following webpage (Mansoor, 2020)
[41] "putting stimulus packages in place, including measures to support employment, for example, taking on the burden of unpaid salaries on behalf of companies suffering from the economic effects of COVID-19 pandemic." (OECD, 2020)

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