



Ain Shams University
Faculty of Commerce
Economic Section

**The Impact of International Tax Treaties for Avoidance of Double
Taxation on Investments Flow
“Comparison Study”**

Submitted By

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To Fulfill the Requirements of the Master’s Degree in Economics

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بسم الله الرحمن الرحيم

” قالوا سبحانك لا علم لنا إلا ما علمتنا
إنك أنت العليم الحكيم ”

صدق الله العظيم

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DEDICATION

To My Parents for their unconditional and unlimited support,
My Brothers, My Husband, and My Daughters.

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List of Abbreviations

1	DTT	Double Tax Agreement
2	FDI	Foreign direct Investment
3	EU	European Union
4	LDC	Least developed countries
5	OECD	Organization for Economic Cooperation and Development
6	UN	United Nations
7	MC	Model Treaty
8	ADTT	Avoidance of Double Taxation Agreement
9	DTTS	Double Tax Treaties
10	BIT	Bilateral Investment Treaty
11	GDP	Gross Domestic Product
12	WTO	World Trade Organization
13	MNE	Multinationals Enterprises
14	AA	Associated Agreement
15	GATT	General Agreement For Trade and Tariffs
16	WTO	World Trade Organization
17	MNCs	Multinational corporations
18	TNCs	Transnational Companies
19	M&A	Merger and Acquisition
20	IMF	International Monetary Fund
21	WB	World Bank

Introduction

There is an observable increase in foreign direct investment (FDI) within the dynamism of international trade and commerce and increasing trans-border interaction among nations, and widespread liberalization of economic policy which the world is witnessing in the current era of cross-border transactions.

A big number of countries are witnessing rapid growth within their economies and local industries by urging foreign investors to enter international markets.

In addition to bringing capital for emerging or growing industries, the rise of FDI has several benefits, such as boosting the country's economy by providing the appropriate financing, more job opportunities, and potential knowledge and technology spillovers.

It is known that the most desirable policy goal for the majority of decision-makers is increasing FDI, although the factors affecting the flows of FDI are not susceptible to policy.

This fact is attributable to two reasons: first because these factors are unalterable, like natural endowment of physical resources, and cultural and geographic proximity to major source countries. Second, in the case of the efficiency of political institutions, market size, or the education and productivity of the local labour force their change would require a long-term process.

In order to increase FDI there are number of measures should be taken either unilaterally like reducing restricts imposed on investors concerning profit repatriation, bureaucracy, and reducing corporate taxes or on bilateral scale like concluding DTTs.

Since treaties in general are considered to be one of the international law elements, double tax treaties provide investors an indication that investments will be legally protected under international law.

Double taxation is defined as imposing taxes on the same income or capital of the same taxpayer for identical period in two countries. Owing to the harmful effects that double taxation has on the movement of capital and other factors in the development of inter-country economic relations, the OECD stresses such effects in the introduction to its model tax treaties, (OECD, 2010).

Accordingly, the OECD attempted to overcome the problem of double taxation by developing a model for country-pairs to be used in negotiating double taxation treaties (DTTs). In fact the model treaty eliminates double taxation when it occurs through harmonising tax definitions, defining taxable bases, assigning taxation jurisdictions.

DTTs also aim at preventing tax evasion. Thus, the model treaty encompasses articles relating to exchange of information between the contracting states which helps preventing tax evasion.

Benefits of concluding DTTs are; boosting the investor's confidence when dealing with foreign fiscal systems, lessening the administrative effort and adjusting regulations, calculation methods and definitions in a tax treaty. Such harmonization is beneficial to the tax authorities of either country as they deal with more coherent legislations. DTTs are also helpful in anti-tax-avoidance objective of exchanging information and setting rules for transfer-price calculation. Another reason for concluding DTTs is that DTTs may help to reduce harmful international tax competition from tax havens. Although, the bilateral character of tax treaties make them an insufficient measure to eliminate harmful tax competition, they introduce some regulations to palliate the problem, for instance, the permanent establishment rule and the provisions against treaty shopping which minimize the circle of beneficiaries and restrict (along with the transfer pricing restrictions) the opportunities to channel income through tax havens.

Finally, DTTs are much the same to BITs, as the benefits of concluding DTTs may go beyond any concrete treaty provision as countries that conclude tax treaties acquire international economic recognition.

Despite the aforesaid benefits of DTTs, there are some costs the contracting parties have to bear. Negotiating and ratifying the treaty ties up administrative resources. Moreover the costs can be more considerable, for all countries, especially for smaller or developing countries, because of the length and labour intensity of the negotiation process, and the additional effort of matching versions in different languages. The national fiscal sovereignty is affected out of the conflict between provisions in the treaty and domestic tax law which has to be adapted eventually.

Since DTTs are regularly inclined towards residence and not source taxation, the most significant cost factor becomes the possible loss of tax revenue. Due to the reciprocity of FDI flows, benefits should, in theory, be offered to investors from the contracting partners reciprocally as the contracting country serves as both a host and a residence country for foreign investment at the same time. However, developing countries suffers more from loss of tax revenue since they are mainly net-capital importers which makes FDI flows and stocks between developing and developed countries highly asymmetric. In this research the researcher tries to find an answer to an important question concerning whether the conclusion of a DTT result in more FDI flows between the two contracting states. If the answer was positive then, the next question should be addressed is this benefit could compensate the costs attached to DTTs. As in addition to the costs related to the negotiating process and ratifying the treaty not mentions giving up some fiscal sovereignty, there could also be a loss in tax revenues for at least one of the signing parties. This is significantly important from the point of view of developing countries as most treaties give priority to residence-based over source-based taxation.

In this research the researcher will try to demonstrate the historical background of tax treaties and its importance as follows:

Chapter one

Tax Treaties Background, concept and, definition and is divided into four sections

- 1- Section one: Historical background of Tax Treaties
- 2- Section two: Tax Treaties definition and Importance
- 3- Section three: Double Taxation
- 4- Section four: Egyptian European Partnership

Chapter two

The Investment legislation Development and its impact on FDI and is divided into four sections

- 1- Section one: Investment Definition and Types
- 2- Section two: Foreign Direct Investment
- 3- Section three: Egyptian Economic Performance and foreign Direct Investment
- 4- Section four : The Development of Egyptian Investments Laws and their Impact on FDI

Chapter three The Practical Study and is divided into two sections

- 1- Section one :The theoretical approach
- 2- Section two :The practical approach
 - Results
 - Recommendations

The problem of the research:

Double taxation is generally defined as the imposition of comparable taxes in at least two countries on the same taxpayer with respect to the same subject matter and for identical periods (OECD 2005). This may occur if one country claims taxing authority based on the residence or the citizenship of the taxpayer, while another country postulates taxing authority based on where the income originates.

Another potential source of twofold taxation could be the fact that both countries claim either a certain taxpayer as a resident or that an income arises within its country. Also, different methods of the determination of the internal transfer price applied in two states can lead to a double taxation.

Even though measures to prevent double taxation can be implemented unilaterally, countries have resorted on a very large scale to the conclusion of DTTs.

By burdening economic activity in a foreign country twice, double taxation is often believed to have a negative effect on the total amount of FDI as well as on the allocation of FDI across countries. In the words of Egger et al. (2006: 902):

“One of the most visible obstacles to cross border investment is the double taxation of foreignearned income.” One major purpose of DTTs is thus the encouragement of FDI.

Research importance :

This research is quite important as it shades lights on an issue hardly known in Egypt which is “Double Tax Treaties”.

The research handles the historical back ground of Tax Treaties. Moreover, it answers the questions concerning how Tax Treaties appeared, when and why. In addition, it demonstrates the importance of such treaties and tries to recognize the relation between Tax treaties on one hand and Foreign Direct Investment on the other hand through a statistical model which will measure the impact of such treaties on FDI.

The research also handles the investment, its definition and types as well as the Investments Laws Developments trying to identify their potential impact on FDI.

Research Methodology

- 1- Reading the ex-studies in the field of Double Tax Treaties
- 2- Recognizing the relation between Double Tax Treaties and FDI
- 3- Identifying the definition of investment and the theories explaining it
- 4- Identifying the EU investments in Egypt
- 5- Analyzing the relation between DTT and FDI through statistical model and measuring the impact of DTT on FDI

Research Hypotheses

- 1- DTT has a strong impact in encouraging FDI
- 2- The proper investment climate representing in the existing of DTT increases FDI flows
- 3- DTT reduces the state tax revenues

Research Objectives

- 1- Recognizing the historical back ground of DTT
- 2- Identifying the importance of DTT
- 3- Identifying the impact of DTT on Investments Flows
- 4- Making a Comparison Study