



Tax principles workshop

Principles of International Tax

Taxation of cross-border transactions

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Agenda



- What is international tax
- Source vs Resident
- Double taxation
- Permanent establishment – tax sovereignty
- Transfer pricing issues
- BEPS issues
- What is the way forward
- Q&A

Sovereignty & International tax



- ❖ Mandate to tax is about power, and how the powers are distributed - Tax sovereignty
- ❖ Income itself does not have a geographical location, what is looked at are the assets and activities.
- ❖ What happens where assets are located in more than one country? Which asset will you deem to be the generating a given stream of income?
- ❖ There are no formal laws that inform a sovereign state how to raise taxes and from whom they should be raised -is there international tax law.

Sovereignty & International tax

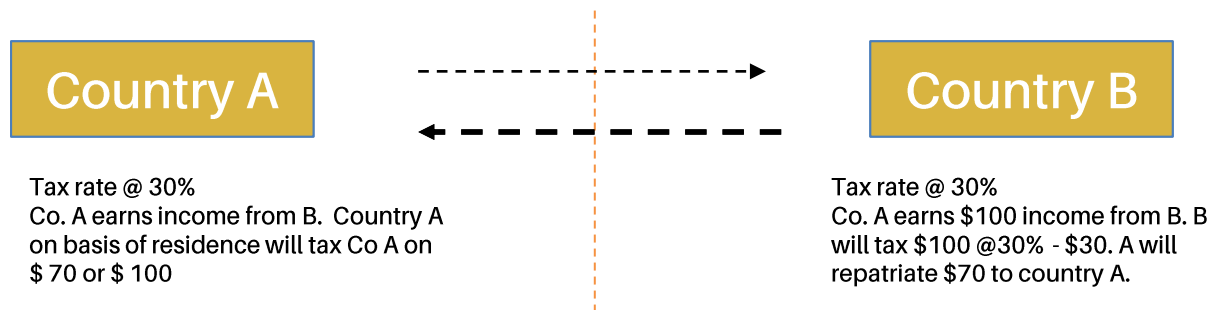


- ❖ International taxation, refers to the determination of tax liability of the income of a person, which is subject to tax in different countries
- ❖ Sovereign states have the mandate to tax and develop applicable tax laws independently.
- ❖ Sovereign States enters in to negotiated arrangements to for international tax purposes (Bilateral or multilateral arrangements).

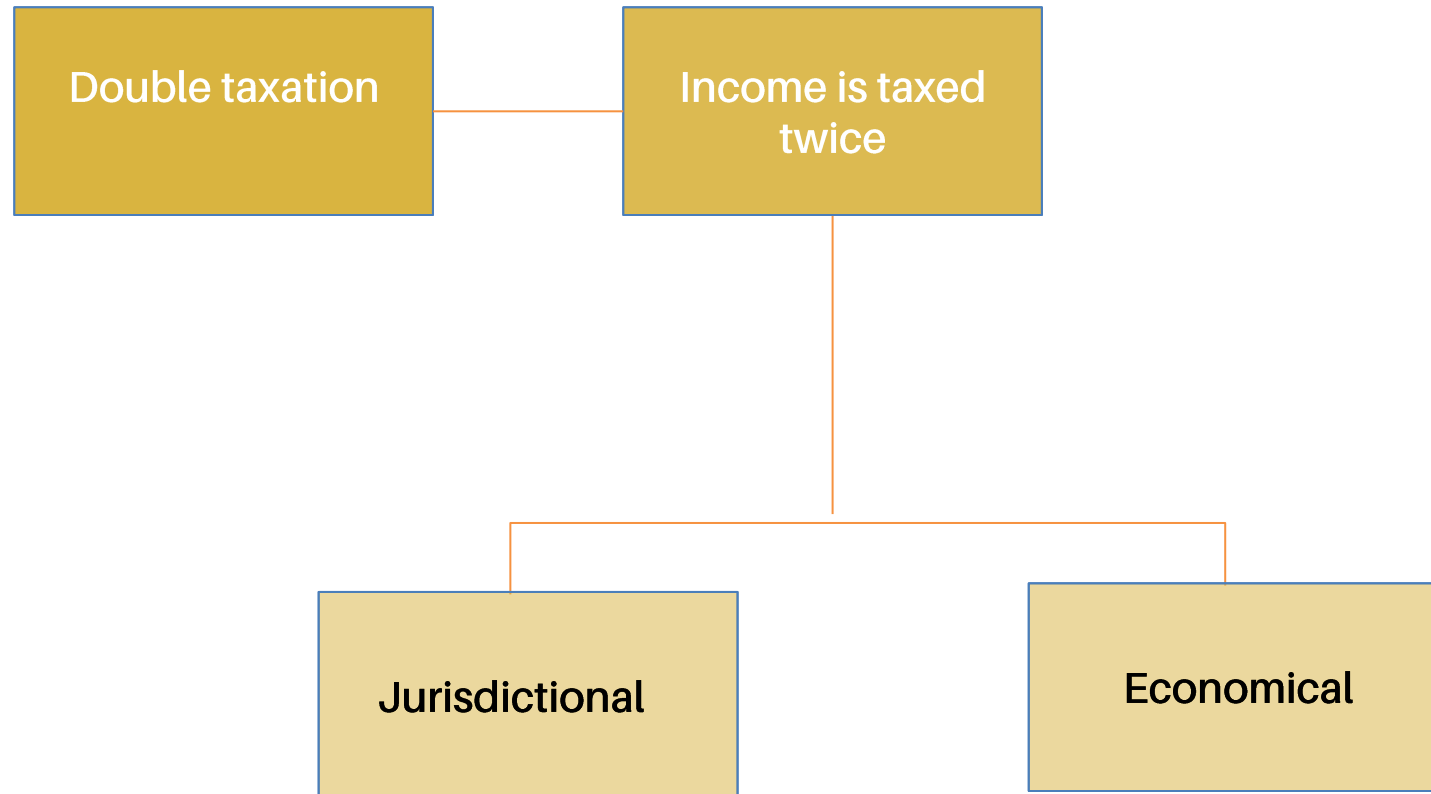
Source vs Residence taxation



- ❖ Source principle - income is taxed by the state where it is earned/sourced.
- ❖ Residence based- where income is taxed by virtue of a person's domicile in a particular country.
- ❖ Source and residence conflict - international business are taxed on basis of both source and residence (origination of international tax frameworks)



Double Taxation challenge



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How to curb - Double Taxation



- ❖ Use of tax treaties to help in allocation of taxing rights for various incomes.

Credit method

- ❖ The state of residence calculates its tax basis of the taxpayer's total income including the income from the other State
- ❖ It then allows a deduction from its own tax for the tax paid in the other State

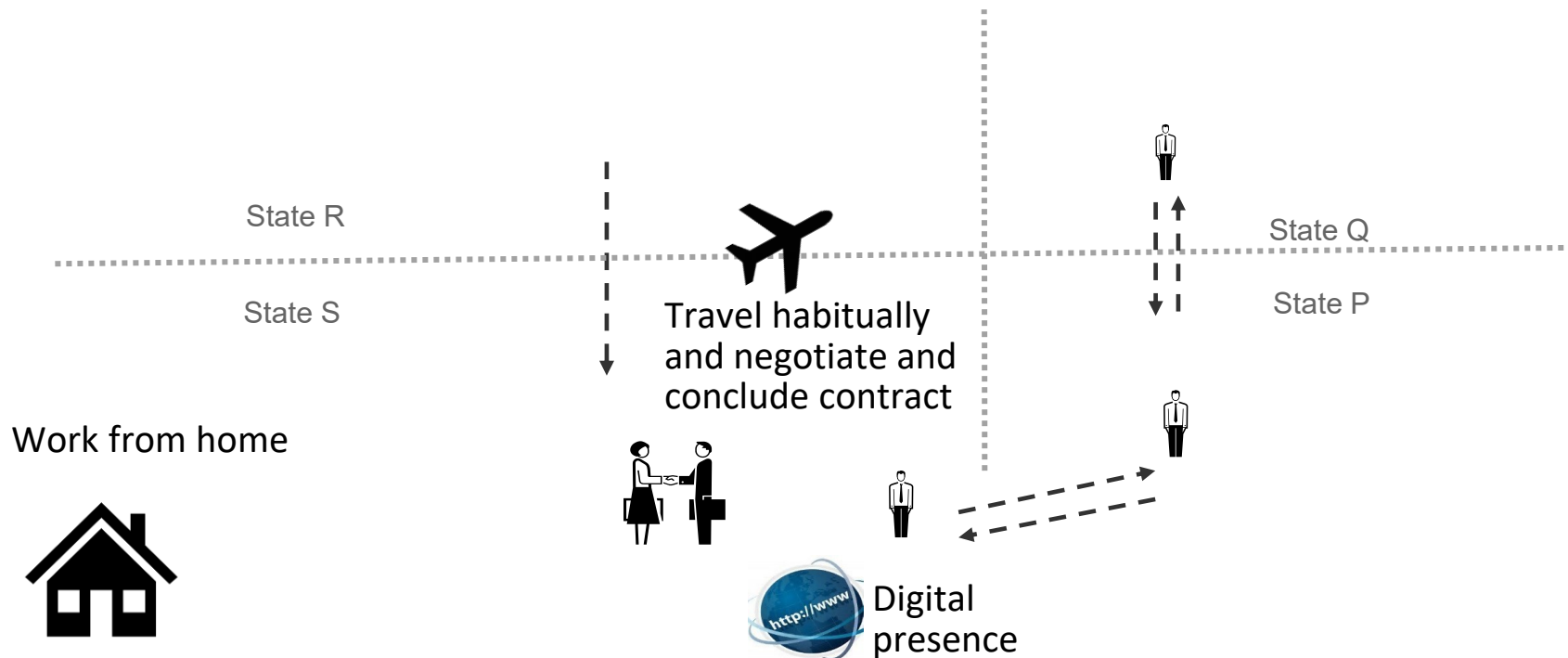
The principle of exemption

- ❖ The State of residence does not tax the income which according to the Convention may be taxed by the state of source or situs or of the situation of the permanent establishment or the fixed base
 - full exemption or
 - exemption with progression

Challenges of PE



- ❖ Is fixed place of business that generally gives rise to income or value-added tax liability in a particular jurisdiction



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Transfer pricing



- ❖ Involves the pricing (and other conditions) in place for transactions between related or associated enterprises”
- ❖ Transfer prices represent the remuneration for inter-company transactions.
- ❖ To reward all transactions between related parties as if undertaken between independent parties – Arm’s length principles

BEPS developments



- ❖ Tax planning strategies used by multinational enterprises that exploit gaps and mismatches in tax rules to avoid paying tax
- ❖ Global efforts by G20/OECD BEPS project aimed at minimizing instances of tax avoidance and evasion (15 Action plans)
- ❖ Currently the discussion is on taxation of digital economy (Pillar 1- unified approach & Pillar 2 – what could be optimal minimum tax to pay)

What is the way forward



- ❖ International tax is broad, dynamic and power driven
- ❖ Countries operate as sovereign states .
- ❖ Binding international tax principles are negotiated – as a country there is need to have a well resourced negotiation unit including all stakeholders.
- ❖ It is always good to benchmark against the best practices while taking into consideration economic circumstances.

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Q&A

Next steps

Should you have any questions please let us know

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