

Tax Treaties between Developed and Developing Countries: Withholding Taxes and Treaty Heterogeneity Content

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Abstract : Unlike any prior analysis on the withholding tax rates negotiated in tax treaties, this study looks at the treaty heterogeneity content, by investigating the impact of the residence country's double tax relief method and of tax-sparing agreements, on the difference between developing countries' domestic withholding taxes on dividends on one side, and treaty negotiated withholding taxes at source on portfolio dividends on the other side. Using a dyadic panel dataset of asymmetric double tax treaties between 2005 and 2019, this study suggests first that the difference between domestic and negotiated WHTs on portfolio dividends is higher when the OECD member uses the credit method, as compared to when it uses the exemption method. Second, results suggest that the inclusion of tax-sparing provisions vanishes the positive effect of the credit method at home on the difference between domestic and negotiated WHTs on portfolio dividends, incentivizing developing countries to negotiate higher withholding taxes.

Keywords : double tax treaties, asymmetric investments, withholding tax, dividends, double tax relief method, tax sparing

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