

Tax Diplomacy

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Abstract. The aim of this paper is to analyse the methods of achieving coordinate tax systems, and practical application of the best tax practices of one country to another, with emphasis on the significance of a country's membership in particular associations, namely the OECD, fiscal decentralisation and the increasing coordination of tax systems on the global level with the subsequent effect of interconnection. The presented hypotheses are: Membership in the Organisation strengthens tax integration and emphasises the effect of diplomacy in coordinating tax systems; Strengthening of tax diplomacy and fiscal cooperation ensures creation of new methods of preventing tax evasion. In order to test the hypotheses, descriptive and comparative research methodology of the OECD members and non-members were used. Both hypotheses have been confirmed, leading to the conclusion that membership in the OECD results in better tax integration and transparency, reduced tax evasion and enhanced understanding and willingness of tax payers to participate in the tax system.

Keywords: OECD, tax diplomacy, tax regime, cooperation, procedures, implementation.

1 INTRODUCTION

The process of countries joining associations is continually growing, and most often it can be perceived in foreign trade exchange, elimination of customs duties and in certain levies in agreement with other countries of the world. International tax diplomacy has significant importance when it comes to improving relations between countries. This form of diplomacy is not new, but has not been sufficiently noted in certain segments of research. Each country aims at or should aim at developing the international community and enhancing international business and financial services, which ultimately leads to a positive fiscal effect, filling the states' central budgets. The long-term beneficial tax cooperation among countries will result in the achievement of desired economic measures, and the abolition of customs barriers, and it will also certainly contribute to a decrease in mutual tax rates and tax levies. In order to improve the economy and the open market, it is necessary to continuously adopt various tax treaties that define the individual tax treatment to achieve partial or complete uniformity of the system, and thus enable the effective monitoring of tax flow through payment of appropriate tax levies. The Organization for Economic Cooperation and Development (OECD) plays a significant role in terms of an improved tax system and contributes to tax diplomacy. Taxation is the key element in the creation of prerequisites for global development. The primary objective of the OECD is to encourage global dialogue on important issues, to promote global development and implementation of standards, as well as the application of best practices, regardless of whether the OECD countries, emerging economies or developing countries are in question. The OECD aims to bring together experts from OECD's partner countries and other countries, which would form associations with international organizations, and to create new tax programs. This is achieved through cooperation of the advisory group for cooperation with economies in transition that are part of the OECD or developing countries. The OECD promotes international cooperation in tax matters including the signing of non-binding agreements.

1.1 Object and Aim

The aim of this paper is to analyse tax diplomacy promoted by the Organization for Economic Cooperation and Development (OECD). The aim is also to propose a detailed and critical review of the key guidelines that have contributed to greater international cooperation on the issue of taxation. Namely, tax diplomacy contributes to the diplomacy of a country which ultimately determines which of the associations and organizations a country will join and how much attention will be given to each field in order to achieve the desired results and the successful filling of the central state budget. In this paper the ways in which to address the issues in terms of achieving uniformity in the design of tax systems, and the practical application of positive tax practices of one country to another are analyzed. The paper emphasizes the importance of belonging to a particular association of countries, especially the OECD, and the importance of the countries' own fiscal decentralization and increasing world stage equalization tax systems, and therefore countries' mutual relations.

1.2 Hypotheses

The paper puts forth several hypotheses. The hypotheses presented here are aimed at proving the impact of tax diplomacy on different segments of countries' collaboration, especially in the creation of better mutual relations between countries and increased transparency in order to increase the uniformity of tax systems.

Hypothesis 1. Membership in the OECD strengthens countries' national tax systems, and effective application of tax integration that allows the harmonization of tax systems.

Hypothesis 2. Tax diplomacy directly affects the security of new solutions for combating tax evasion and preventing illegal operations of OECD member states and non-member states.

2 TAX SYSTEM AND INTEGRATION

Taxes enable a country to collect funds for its functioning and survival, i.e. for its ability to provide public services, and to satisfy public needs. Tax diplomacy represents the steps taken by countries that are aimed at other countries, whereby they represent their own interests on one hand, while supporting the interests of the wider community on the other, in creating a more balanced, transparent and efficient tax system, thereby contributing to a better economic situation. The results of such tax diplomacy will be reflected on the national tax system. Building a modern tax system depends on various factors. Taxes are the most important part of the public revenue and the best means of filling up the state budget. Although considered *acquis de civilisation*, over time, taxes acquired significant economic importance to the country as their use has become more and more popular worldwide. As countries have developed throughout history, so have different tax forms. In some countries, taxation is undertaken through the use of a smaller or larger number of tax forms. Therefore, a tax system is defined as a set of tax forms that are applied in a particular country. The tax system of a country is affected by a number of factors, but all of them can be considered to derive from the following factors (Jelčić, 2001).

2.1 Constitutional Arrangement

The modern states have developed parallel to the idea of constitutionality, which was conceived in the 18th century, and they are founded on the rule of law and the authority of the central government. Countries can be divided according to their form of government, state organization, political system and the existence of the center and the periphery. Most countries of the world have a unitary form of government: they have one head of state, one

government, one parliament and one judicial system. Federation is a form of a complex state, in which state is the real and legal holder of sovereignty (and its associate members are subordinate to the central government). As a rule, the tax system of a unitary state differs from a federal state. Federal states have a higher degree of decentralization than unitary states (e.g. they have autonomous sports, education, culture, police areas) and therefore have wider financial autonomy than federal units because they have the exclusive right to regulate matters of taxes, and the autonomy over the funds they collected through tax.

2.2 Centralization and Decentralization

Modern states are complex organizations that consist of many central and subcentral (regional) authorities, and their relationship is guided by the principles of centralization, decentralization, self-government and autonomy. Different countries have different levels of government, depending on their political organization and the level of fiscal and institutional decentralization. Centralized state indicates the type of the state where the regional authorities are not independent. They perform tasks as directed by a central body which supervises them. In a decentralized state, however, local authorities enjoy different degrees of autonomy, which means that they are free to make decisions on individual issues, but under the supervision of the central authority.

2.3 Size of Territory

Countries significantly differ in the size of their territory, which leads to difference in taxation. State territory represents a three-dimensional space, which encompasses the area of the country, its interior and the airspace above land and water. Territory as a unitary element of the country has political and legal functions. A state, on its own territory, is obliged only to follow its own rules and abide to its own laws; therefore it can be said that state borders are impenetrable, because foreign law does not apply there (except international legal agreements).

2.4 Population and Population Density

The population is a highly variable element of each country. Densely populated countries need to allocate more resources on the same level of health care, education, cultural services, protection of rights, etc. per capita than countries with low population density.

2.5 Demographic Structure

The growing number of elderly in the population structure leads to a load state of the pension system, and raises expenditure for the construction, equipment and maintenance of homes for the elderly, specialized health services and the like, which affects the tax system. Tax policies can be used to raise the birth rate or to promote pro-birth policy. Therefore, the number of inhabitants, their education, and age etc. always affect the tax system of a state. The state's territory also signifies the place under the authority of its government organs and officials.

2.6 Size of the Public Sector (the volume of responsibility of the state)

The size of a state's jurisdiction directly affects the amount of public expenditure, i.e. the need for tax revenues, which play a dominant role in total public revenues. A country's tax system needs to be adjusted, i.e. adapted to the role of government and the scope of its tasks.

2.7 Economic Integration

The increasing interdependence of national economies, international networking and integration processes are logical and necessary consequences of the enormous technological progress, the developed countries' orientation towards export, the desire for increasing the profits of international companies, increased awareness of the need to solve common problems in today's world, etc. International economic integration is usually classified according to the degree of liberalization of internal economic relations and integration of the economies of member countries in common economic integration, and to the level of protectionism and discrimination in relation to third countries carried out by certain members of economic integration. This classification includes the zones of free trade area, customs union, common market, economic union and economic union. Economically integrated countries build tax systems and introduce tax policy measures that are consistent with the idea of the single market. The integration of a state in accordance with one or more others that comprise a particular community also requires the adjustment of its fiscal system, which is particularly reflected in the adjustment of the tax system.

3 SUPPORTING INSTITUTIONS FOR TAX COOPERATION

The idea of free movement of people, capital, goods and services is unavoidable in achieving integration of national economies and national markets into supranational. Tax systems and tax measures devised by every state based on their tax sovereignty can pose impediments to integration. The opening of markets and globalization are strongly influenced by the need that countries belong to economic organizations and associations. The contribution of those organizations means that countries (regardless of their size) set goals and resolve upcoming issues together, as well as respond to current market requirements, i.e. globalization. With the appearance of globalization, countries have become more open and the number of cross-border activities has grown. Companies do business around the world, trade barriers are being removed and the digital economy is growing. With emergence of state, the tax system appeared, because states collect funds for public expenditures. The openness of the market on one hand, and growing information technology and new financial arrangements on the other, represent a challenge to tax systems of modern states. Countries want to ensure the income for their state budgets, but at the same time, they also want their markets to stay attractive enough for investment. In order for national markets and their tax systems to function in accordance with the conditions and requirements, it is necessary to continuously implement new solutions and rebuild the existing tax systems, i.e. to insure income to state budgets. States are involved in various economic and other associations to deal with mutual problems together and solve upcoming issues by searching for possible solutions to current requirements. There are three important factors that influence the increasing cooperation between countries. The first one is globalization, which results in the opening of markets worldwide. The second is that, due to globalization, corporations can make use of the open markets at their disposal to spread their business worldwide. Because of that, the possibility of making profit without paying taxes shows the need for harmonization of rules within different jurisdictions worldwide. Thus every procedure and every activity have to have the same treatment in national laws regarding tax matters. The third factor is digitalization and the changing ways of trade (the Internet etc.), which propose the new ways of earning money and doing business.

The OECD is a unique organization where governments work together, regulate and discuss the economic, social and environmental challenges that globalization brings. The OECD helps governments provide timely solutions to problems, alongside continuous development of the economy and monitoring of technological progress. Corporate

governance, new information systems, economic development and challenges posed by the increasing proportion of the elderly in the overall population structure, which a number of member countries is facing, are in the continuous focus of the OECD. In addition, the organization provides the exchange of experiences in implementation of policies, provides answers to problems, shares good practices, and by connecting national economies with international regulations contributes to multilateral diplomacy. The OECD was founded in 1961, with headquarters in Paris, and today comprises 34 member states. The member states of the OECD are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States (OECD, 2016a). In the process of accession are Colombia, Costa Rica, Lithuania, Latvia, and Russia. The purpose of this forum is that different governments, acting together, look for solutions to current problems, exchange experiences and share practical knowledge in the implementation of particular policies. Therefore, the main purpose of the OECD is that countries meet global standards, sign international conventions and fight corruption. The OECD wants to achieve corporate security for companies operating in the member states, the availability of simple and direct foreign investment between countries, the harmonization of tax systems through consensus, and dialogue and cooperation among all OECD members. Through the implementation of these strategies in the OECD member states, this mission is coordinated by the 250 Committee, consisting of a team of national experts (OECD, 2016b). The OECD focuses on helping governments around the world to restore the confidence in markets and institutions that make them function, and on re-building healthy public finances as the basis for future sustainable economic growth. One of traditional OECD's actions is to turn partnerships into effective coalitions. These partnerships are: African Development Bank (AfDB), Brazil, the Russian Federation, India, China and South Africa (BRICS), Civil Society Organization (CSO), the European Union (the EU), Group of Twenty (G20), Global Alliance on Vaccines and Immunisation (GAVI), Global Environment Facility (GEF), Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), Heavily indebted poor country (HIPC), International Atomic Energy Agency (IAEA), International Development Association (IDA), International Fund for Agricultural Development (IFAD), International Health Partnership+ (IHP+), International Labour Organization (ILO), the International Monetary Fund (IMF), International Renewable Energy Agency (IRENA), Multilateral Organisation Performance Assessment Network (MOPAN), New Partnership for Africa's Development (NEPAD), Official Development Assistance (ODA), Partnership in Statistics for Development in the 21st Century (PARIS21), Southern Agricultural Growth Corridor of Tanzania (SAGCOT), the United Nations (the UN), the United Nations Educational, Scientific and Cultural Organization (UNESCO), United States Agency for International Development (USAID), World Food Programme (WFP), World Health Organization (WHO), and World Trade Organization (WTO). Thus every institution, such as the OECD, has to track new ways of trade and changes in global trading and arrangements that appear on the daily basis. Inequality in tax systems required cooperation between countries, whereas inequality in many areas of taxation presents an obstacle to obtaining the necessary funds in state budgets. This presents the key challenge for policymakers dealing with tax policy because of its effect on economic growth. To reduce inequality, it is preferable for countries to (OECD, 2016c):

1. Reduce social security contributions and payroll taxes on low-income workers, to encourage them to stay in the labour force and boost their skills, and to make them more attractive for companies to hire.
2. Abolish or scale back a wide range of tax deductions, credits and exemptions which benefit high income recipients disproportionately;

3. Tax as ordinary income all remuneration, including fringe benefits, carried interest arrangements, and stock options;
4. Consider shifting the tax mix towards a greater reliance on recurrent taxes on immovable property;
5. Review the efficacy and effectiveness of wealth and inheritance taxes;
6. Examine ways to tax capital income at the personal level at slightly progressive rates, and align top capital and labour income tax rates;
7. Increase transparency and international co-operation on tax rules to minimise “treaty shopping” (when high-income individuals and companies structure their finances to take account of favourable tax provisions in different countries) and tax optimisation;
8. Broaden the tax base of the income tax to reduce avoidance opportunities and thereby the elasticity of taxable income
9. Develop policies to improve transparency and tax compliance, including continued support of the international efforts, led by the OECD, to ensure the Automatic Exchange of Tax Information between tax authorities.

3.1 From Bilateral to Multilateral Treaties

At the international level, even though countries’ tax systems are much more aligned, taxation or non-taxation often takes place. This means that a taxpayer in the same tax period for the same tax object can pay two or more taxes or has legal right to avoid paying taxes. This is what has a negative and detrimental effect on the international trade of goods and services, as well as the movement of capital, people, property, goods and the like. The OECD has recognized the need for avoiding double taxation and strengthening multilateral relations, as well as the importance of sharing best practices and standardization of the fiscal framework; thus it passed the Model Convention on taxation of income and capital (Model Tax Convention on income and on capital). The model represents a contract that states mutually sign to avoid double taxation. This provides a means for solving problems in the area of international law when it comes to double taxation. The following defines key terms stated in the Convention which prevent double taxation, and determine resident and non-resident obligations and obligations of the states in which it is implemented and carried out. The Model Convention is a contract concluded between countries, and these agreements contain the rights of the signees to full or partial taxation of certain income, rules for resolving the status of their taxpayers, source and rate. The obligation of the Contracting States is to exchange information through their tax administrations, and to create favorable conditions for the exchange of goods, services, capital and labor between them.

The conventions were designed because of legal and natural persons, residents. Special emphasis is placed on the definition of a resident of a Contracting State. In these contracts, a resident is defined as a person who is, according to laws of the Contracting State, liable to taxation according to his place of residence, place of habitual residence, place of administration, and the place of company foundation and registration, or any other criterion of a similar meaning. However, this term does not include that a person in this state shall be subject only to taxation of income from sources in that State or property situated therein. It thus follows that the contracts refer to the definition of resident in the domestic law of the Contracting State. In addition, the Convention specifically emphasizes the term permanent establishment, as a place of business where business of an enterprise is conducted completely or partially. The term “permanent establishment” especially encompasses (OECD, 2014a): a) a place of management; b) a branch; c) an office; d) a factory, e) a workshop, and f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

The trigger taxation are individual types of taxes, regardless of the level of government that collects them. The Contracting States are therefore free to, in signing the Convention, clearly define the terms of their tax forms in the spirit of their domestic law which in force in their countries. The Convention does not necessarily refer to all tax forms with the above mentioned types of tax. The Convention applies to any identical or substantially similar taxes, in accordance with a defined date after the signing of the Convention. The competent authorities of States Parties shall inform each other of any significant changes that occur in their tax laws. Convention imposes that every State is obliged to inform others about significant changes, with details about the new or amended tax forms. The Contracting States undertake to mutually exchange other significant changes related to the application of new regulations, court decisions and practices. Model Convention presents a solution acceptable to most of the countries which signed it, which resulted in the conclusion of a large number of contracts and their harmonization. The Model Convention of the OECD has enabled many countries to conclude agreements on avoidance of double taxation and to regulate them according to their legal regulations in force. Precisely through this kind of treatment, countries have achieved better economic cooperation, contributed to opportunities for direct foreign investment, and enabled that taxpayers pay their tax only once, as well as defined to which country the revenue belongs. International conventions about the avoidance of double taxation represents agreements belonging to public international law, to which apply the interpretations in accordance with the Vienna Convention on the Law of Treaties, which entered into force in 1980 (Admiralty law guide, 2016).

The Convention covers: Income from immovable property; Business profits; Income from the operation of ships or aircraft in international traffic and boats in inland waterways transport; Profits of associated enterprises and transfer pricing; Dividends; Interest; Royalties; Capital gains; Income derived from professional and independent services; Income from employment; Directors' fees and remuneration of top-level managerial officials; Income derived by artistes (entertainers) and athletes; Pensions and social security payments; Income derived by government employees; Income derived by students, business trainees and apprentices; Other income (UN, 2015). The current OECD Model Tax Convention takes a long time to be implemented in some tax systems, but despite time, it also requires resources. As a result, the current network is not well-synchronized with the model tax conventions, and issues that arise over time cannot be addressed swiftly (OECD, 2015a). Because of that, the OECD has projects and directions for every country based on current situation about taxation, new arrangements, globalization effects etc. BEPS, the Base erosion and profit shifting, is an OECD project that includes 15 actions in the domain of taxation. This project will produce a multilateral instrument and offer an innovative approach to solving the new gaps in taxation worldwide and fast changing tax regimes. The changes to the OECD Model Tax Convention are intended to produce changes in the network of bilateral tax treaties that form a key component of the broader international tax architecture (OECD, 2015a). The main aim of the new multilateral instrument is to modify bilateral tax agreements/treaties to avoid individual renegotiation of each treaty within the 3000+ treaty network. Thus, the purpose of the new multilateral instruments is not to remove the existing bilateral network, but to achieve a concurrent and integrated implementation of the provisions of the multilateral instrument and the bilateral treaties related to BEPS (OECD, 2015a). Bilateral treaties will still play a role in mutual relations between each pair of parties with regard to cooperation in tax matters. International law supports this in the definition of cooperation, stating that the current/signed treaty holds primacy above the treaty that was signed before new one. This will also entice the implementation of provisions in bilateral contracts.

BEPS is the inclusive framework that brings together over 100 countries and jurisdictions to collaborate on the implementation of the OECD/G20 Base Erosion and Profit Shifting (BEPS) Package (OECD, 2016d). BEPS covers tax-planning strategies to avoid tax evasion

and mismatches in tax rules, which consequently results in shifting profits to low or no tax locations, which is reflected in the state budgets' lower income from taxes (OECD, 2016d). Through cooperation and diplomatic representatives and members, governments and their tax authorities want to develop a system of cross-border transactions governed by the same rules and regulations, and to ensure security for taxpayers. Tax planning in compliance with law is considered legitimate in countries across the world. Over time, the methods of tax planning have become far more extensive than those of the classic model. These include the implementation of certain tax practices of other countries, strict legal regulations where the bond will not be able to legally withhold tax liability that was not intended by the legislator's intention.

BEPS is divided into 15 actions. They are as follows (OECD, 2017a):

- Action 1: Addressing the Tax Challenges of the Digital Economy
- Action 2: Neutralising the Effects of Hybrid Mismatch Arrangements
- Action 3: Designing Effective Controlled Foreign Company Rules
- Action 4: Limiting Base Erosion Involving Interest Deductions and Other Financial Payments
- Action 5: Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance
- Action 6: Preventing the Granting of Treaty Benefits in Inappropriate Circumstances
- Action 7: Preventing the Artificial Avoidance of Permanent Establishment Status
- Actions 8-10: Aligning Transfer Pricing Outcomes with Value Creation
- Action 11: Measuring and Monitoring BEPS
- Action 12: Mandatory Disclosure Rules
- Action 13: Guidance on Transfer Pricing Documentation and Country-by-Country Reporting
- Action 14: Making Dispute Resolution Mechanisms More Effective
- Action 15: Developing a Multilateral Instrument to Modify Bilateral Tax Treaties

3.1.1 Addressing the Tax Challenges of the Digital Economy

Digital economy includes information and communication technologies. It represents a new, fast growing way of doing business. Technology is getting cheaper, it is spreading fast, and a large numbers of new ways to do business emerge. This means that mobility, reliance on data, network effects, the spread of multi-sided business and business types now influence e-commerce, app stores, online advertising, online payment services, high speed trading etc.(OECD, 2015b). The spreading of multinational corporations and trading worldwide has given rise to new arrangements between the related companies and their branches allocated worldwide. Tax authorities now more than ever have to work towards those changes and fluctuations, carefully searching for how to tax these new ways of doing business. This especially concerns the value added tax, i.e. goods, services and intangibles arriving to private consumers from suppliers worldwide.

OECD proposed several suggestions to countries (OECD, 2015c):

1. Modify the exceptions to PE status in order to ensure that they are available only for activities that are in fact preparatory or auxiliary in nature that was adopted as a result of the work on Action 7 of the BEPS Project.
2. Countries are thus recommended to apply the principles of the International VAT/GST Guidelines and consider the introduction of the collection mechanisms included therein.

3. Countries are suggested to adopt BEPS and tackling new ways of business arrangements and introduce any BEPS directions in their domestic laws respect existing treaty obligations, or in their bilateral tax treaties.

3.1.2 Neutralising the Effects of Hybrid Mismatch Arrangements

The OECD has faced issues in constructing a system that would disable hybrid arrangements. With aggressive tax planning (which pertains to multinational companies trading worldwide using new technologies) hybrid arrangements (Hybrid Mismatch Arrangements - HMA) appear. HMAs take advantage of the mismatch in individual tax treatments between two or more tax systems, resulting in non-taxation in both countries, and may result in a decision of non-payment of the taxes, which will over the years have resulted in revenue loss for the state budget. For countries to avoid the possibility of a hybrid arrangement, the OECD recommends introducing or revising legislation or rules which are denied the possibility of hybrid benefits and share experiences with other countries in terms of non-compliance systems that create hybrid arrangements (OECD, 2015d).

Table. 1. Mismatch- Indirect Deduction/ no inclusion (OECD, 2014b)

Arrangement	Specific recommendations on improvements to domestic law	Recommended hybrid mismatch rule		
		Response	Defensive rule	Scope
Hybrid financial instrument	No dividend exemption for deductible payments Proportionate limitation of withholding tax credits	Deny payer deduction	Include as ordinary income	Related parties and structured arrangements
Disregarded payment made by a hybrid		Deny payer deduction	Include as ordinary income	Controlled group and structured arrangements
Payment made to a reverse hybrid	Improvements to offshore investment regime Restricting tax transparency of intermediate entities where nonresident investors treat the entity as opaque	Deny payer deduction		Controlled group and structured arrangements

Table. 2. Mismatch- Double deduction (OECD,2014b)

Arrangement	Specific recommendations on improvements to domestic law	Recommended hybrid mismatch rule		
		Response	Defensive rule	Scope

Deductible payment made by a hybrid		Deny parent deduction	Deny payer deduction	No limitation on response, defensive rule applies to controlled group and structured arrangements
Deductible payment made by dual resident		Deny resident deduction		No limitation on response

Table. 3. Mismatch- Indirect Deduction/ no inclusion (OECD,2014b)

Arrangement	Specific recommendations on improvements to domestic law	Recommended hybrid mismatch rule		
		Response	Defensive rule	Scope
Imported mismatch arrangements		Deny payer deduction		Members of controlled group and structured arrangements

3.1.3 Designing Effective Controlled Foreign Company Rules

CFC rules define profit collected for foreign subsidiaries, companies that are owned by a corporation which is resident in a specific country (parent jurisdiction). For many countries, it is used to make preventive action against possible transfer of income from one jurisdiction to another (OECD,2014c). The problem occurs in countries that do not apply CFC rules. Many countries impose those rules to be more adaptable to other tax systems, as well as to prevent possible negative effects on their tax revenues or tax evasion.

The OECD proposed several suggestions for countries (OECD, 2014c):

1. Definition of a CFC – defines the level to which shareholders have sufficient influence over a foreign entity for the foreign entity to be CFC. It also provides recommendations on how non-corporate entities and their income should be brought within CFC rules.
2. CFC rules only apply to controlled foreign companies that are subject to effective tax rates that are meaningfully lower than those applied in the parent jurisdiction.
3. Definition of income – attributed to shareholders in the parent jurisdiction, many CFC rules only apply to certain types of income. CFC rules have to include a definition of CFC income, and it sets out a non-exhaustive list of approaches or combination of approaches that CFC rules could use for such a definition.
4. Computation of income – The report recommends that CFC rules use the rules of the parent jurisdiction to compute the CFC income to be attributed to shareholders. It also recommends that CFC losses should only be offset against the profits of the same CFC or other CFCs in the same jurisdiction.

5. Attribution of income – The report recommends that, when possible, the attribution threshold should be tied to the control threshold and that the amount of income to be attributed should be calculated by reference to the proportionate ownership or influence.
6. Prevention and elimination of double taxation – One of the fundamental policy issues to consider when designing effective CFC rules is how to ensure that these rules do not lead to double taxation. The report therefore emphasises the importance of both preventing and eliminating double taxation, and it recommends, for example, that jurisdictions with CFC rules allow a credit for foreign taxes actually paid, including any tax assessed on intermediate parent companies under a CFC regime. It also recommends that countries consider relief from double taxation on dividends on, and gains arising from the disposal of, CFC shares where the income of the CFC has previously been subject to taxation under a CFC regime.

3.1.4 Limiting Base Erosion Involving Interest Deductions and Other Financial Payments

This action is designed for multinational corporations. Money is mobile and an MC can arrange results as they wish if they find a legal way to avoid paying taxes in another country. Groups can multiply the level of debt at the level of individual group entities via intra-group financing. Thus monitoring financial instruments is important because they are used to make payments intra-group (OECD, 2015e). That payment can be equalized to interest, but it assumes different legal forms in different countries. They can escape restrictions on deductibility of interest. To achieve favourable tax results, multinational corporations place higher level of third party debt in high tax countries; use intragroup loans to generate interest deduction in excess of the groups actual third party interest expense, and use third party or intragroup financing to fund the generation of tax exempt income (OECD,2015f). The OECD suggests to set fix ratio rule which limits an entity's net deductions for interest and payments economically equivalent to interest to a percentage of its earnings before interest, taxes, depreciation and amortisation (EBITDA). Because countries are not in the same positions, possible ratios are between 10% and 30% (OECD,2015e). Fixed ratio rule only limits an entity's net interest deductions without disabling for multinational corporation or group to raise third party debt centrally in the country and entity which is most efficient, taking into account non-tax factors such as credit rating, currency and access to capital markets, and then on-lend the borrowed funds within the group to where it is used to fund the group's economic activities (OECD, 2015g).

The OECD proposed several suggestions for countries (OECD, 2015g):

1. A de minimis threshold which carves out entities which have a low level of net interest expense. Where a group has more than one entity in a country, it is recommended that the threshold be applied to the total net interest expense of the local group.
2. An exclusion for interest paid to third party lenders on loans used to fund public-benefit projects, subject to conditions. In these circumstances, an entity may be highly leveraged but, due to the nature of the projects and the close link to the public sector, the BEPS risk is reduced.
3. The carry forward of disallowed interest expense and/or unused interest capacity (where an entity's actual net interest deductions are below the maximum permitted) for use in future years. This will reduce the impact of earnings volatility on the ability of an entity to deduct interest expense. The carry forward of disallowed interest expense will also help entities which incur interest expenses on long-term

investments that are expected to generate taxable income only in later years, and will allow entities with losses to claim interest deductions when they return to profit.

3.1.5 Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance

Tax practices must or should secure the integrity of tax systems by addressing the issues raised by regimes that apply to mobile activities and that unfairly erode the tax bases of other countries, potentially distorting the location of capital and services. Such practices can also cause undesired shifts of part of the tax burden to less mobile tax bases, such as labour, property, and consumption, and increase administrative costs and compliance burdens on tax authorities and taxpayers (OECD,2015h). The purpose is not to promote the harmonization of income taxes or tax structure generally within or outside the OECD, so that countries have to have same level of tax rate. Reviewing harmful tax practices will secure the reducing the distortionary influence of taxation on the location of mobile financial and service activities, thereby encouraging an environment in which free and fair tax competition can take place.

The OECD proposed several suggestions for countries (OECD,2015h):

1. Requiring substantial activity for preferential regimes – preferential regimes should be strengthened in order to realign taxation of profits with the substantial activities that generate them via “nexus approach”. This approach was developed in the context of intellectual property (IP) regimes, and it allows a taxpayer to benefit from an IP regime only to the extent that the taxpayer itself incurred qualifying research and development (R&D) expenditures that gave rise to the IP income. The nexus approach uses expenditure as a proxy for activity and builds on the principle that, because IP regimes are designed to encourage R&D activities and to foster growth and employment, a substantial activity requirement should ensure that taxpayers benefiting from these regimes did in fact engage in such activities and did incur actual expenditures on such activities. This same principle can also be applied to other preferential regimes so that such regimes would be found to require substantial activities where they grant benefits to a taxpayer to the extent that the taxpayer undertook the core income-generating activities required to produce the type of income covered by the preferential regime.
2. Improving transparency – covers the following six rules: (i) rulings related to preferential regimes; (ii) cross border unilateral advance pricing arrangements (APAs) or other unilateral transfer pricing rulings; (iii) rulings giving a downward adjustment to profits; (iv) permanent establishment (PE) rulings; (v) conduit rulings; and (vi) any other type of ruling where the Forum on Harmful Tax Practices agrees in the future that the absence of exchange would give rise to BEPS concerns.
3. Review of preferential regimes – countries with such regimes will now proceed with a review of possible amendments of the relevant features of their regimes.

3.1.6 Preventing the Granting of Treaty Benefits in Inappropriate Circumstances

Preventing the Artificial Avoidance of Permanent Establishment Status identifies treaty abuse, and in particular, treaty shopping. Taxpayers engaged in treaty shopping and other treaty abuse strategies undermine tax sovereignty by claiming treaty benefits in situations where these benefits were not intended to be granted, thereby depriving countries of tax revenues (OECD, 2015i). Countries have therefore agreed to include anti-abuse provisions in their tax treaties, including a minimum standard to counter treaty shopping. They also agree that some flexibility in the implementation of the minimum standard is required as these

provisions need to be adapted to each country's specificities and to the circumstances of the negotiation of bilateral conventions (OECD, 2015j).

The OECD proposed several suggestions for countries (OECD, 2015k):

1. A clear statement that the States that enter into a tax treaty intend to avoid creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance, including through treaty shopping arrangements will be included in tax treaties
2. Specific anti-abuse rule, the limitation-on-benefits (LOB) rule, that limits the availability of treaty benefits to entities that meet certain conditions will be included in the OECD Model Tax Convention. These conditions, which are based on the legal nature, ownership in, and general activities of the entity, seek to ensure that there is a sufficient link between the entity and its State of residence. Such limitation-on-benefits provisions are currently found in treaties concluded by a few countries and have proven to be effective in preventing many forms of treaty shopping strategies.
3. More general anti-abuse rule based on the principal purposes of transactions or arrangements (the principal purposes test or "PPT" rule) will be included in the OECD Model Tax Convention. Under that rule, if one of the principal purposes of transactions or arrangements is to obtain treaty benefits, these benefits would be denied unless it is established that granting these benefits would be in accordance with the object and purpose of the provisions of the treaty.

3.1.7 Preventing the Artificial Avoidance of Permanent Establishment Status

Tax treaties generally provide that the business profits of a foreign enterprise are taxable in a State only to the extent that the enterprise has in that State a permanent establishment to which the profits are attributable. The definition of permanent establishment included in tax treaties is therefore crucial in determining whether a non-resident enterprise must pay income tax in another State. The report includes changes to the definition of permanent establishment (currently includes especially (OECD, 2014d): a) a place of management; b) a branch; c) an office; d) a factory; e) a workshop, and f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources, in Article 5 of the OECD Model Tax Convention, which is widely used as the basis for negotiating tax treaties. These changes address techniques used to inappropriately avoid the tax nexus, including via replacement of distributors with commissionaire arrangements or via the artificial fragmentation of business activities (OECD, 2015l).

The OECD proposed several suggestions for countries (OECD, 2016e):

- Commentators are invited to express their views on whether the order in which the analyses are applied under Article 9 (Associated enterprises) of the Model Tax Convention and Article 7 (Business profits) of the Model Tax Convention can affect the outcome, and what guidance should be provided on the order of application.

3.1.8 Aligning Transfer Pricing Outcomes with Value Creation

Transfer pricing is focused on three areas (OECD, 2015l). The first encompasses transfer pricing issues related to controlled transactions involving intangibles, since intangibles are by definition mobile and they are often hard-to-value. Misallocation of the profits generated by valuable intangibles has heavily contributed to base erosion and profit shifting. Under second, contractual allocations of risk are respected only when they are supported by actual decision-making and thus exercising control over these risks. Third area covers high-risk areas, including the scope for addressing profit allocations resulting from controlled transactions which are not commercially rational, the scope for targeting the use of transfer pricing

methods in a way which results in diverting profits from the most economically important activities of the MNE group, and the use of a specific type of payments between members of the MNE group (such as management fees and head office expenses) to erode the tax base in the absence of alignment with the value-creation. This action insures that actual business truncations undertaken by associate enterprises are identified, contractual allocations of risk are respected only when they are supported by actual decision-making, capital without functionality will generate no more than a risk-free return and tax administrations may disregard transactions when the exceptional circumstances of commercial irrationality apply.

The OECD proposed several suggestions for countries (OECD, 2015m):

1. Transferring risks among, or allocating excessive capital to, group members. This will involve adopting transfer pricing rules or special measures to ensure that inappropriate returns will not accrue to an entity solely because it has contractually assumed risks or has provided capital. The rules to be developed will also require alignment of returns with value creation.
2. Engaging in transactions which would not, or would only very rarely, occur between third parties. This will involve adopting transfer pricing rules or special measures to:
 - (i) clarify the circumstances in which transactions can be recharacterised.

3.1.9 Measuring and Monitoring BEPS

Tax planning activities by multinational enterprises take advantage of mismatches and gaps in the international tax rules, separating taxable profits from the underlying value-creating activity, which eventually has negative impact on economic activity and states central budget. Besides that, negative effect includes tilting the playing field in favour of tax aggressive multinational enterprises, exacerbating the corporate debt bias, misdirecting foreign direct investment, and reducing the financing of need of public infrastructure. The OECD recognizes six indicators of those mismatches (OECD, 2015n): 1. Concentration of high levels of foreign direct investment (FDI) relative to GDP, 2. Differential profit rates compared to effective tax rates, 3. Differential profit rates between low-tax locations and worldwide MNE operations, 4. Effective tax rates of large MNE affiliates relative to non-MNE entities with similar characteristics, 5. Concentration of high levels of royalty receipts relative to research and development (R&D) spending, and 6. Interest expense to income ratios of MNE affiliates in high-tax locations.

The OECD proposed several suggestions for countries (OECD, 2015n):

1. Governments should improve the public reporting of business tax statistics, particularly for MNEs.
2. Governments should continue to make improvements in non-tax data relevant to BEPS, such as by broadening country coverage and improving data on FDI associated with resident SPEs, trade in services and intangible investments.
3. Governments should consider current best practices and explore new approaches to collaborating on BEPS research with academics and other researchers. Governments should encourage more research on MNE activity within tax administrations, tax policy offices, national statistical offices, and by academic researchers, to improve the understanding of BEPS, and to better separate BEPS from real economic effects and non-BEPS tax preferences.

3.1.10 Mandatory Disclosure Rules

Tax authorities' face the challenges of the lack of comprehensive and relevant information on potentially aggressive tax planning. Better exchange of information, achieved at an early

stage provides the opportunity to respond quickly to tax risk. Every country should design mandatory disclosure rules for aggressive or abusive transactions, arrangements, or structures taking into consideration the administrative costs for tax administrations and business and drawing on experiences of the increasing number of countries that have such rules. The main objectives of mandatory disclosure rules can be summarised as follows: (i) obtaining early information about tax avoidance schemes; (ii) identifying schemes, and the users and promoters of schemes; and (iii) acting as a deterrent to reduce the promotion and use of avoidance schemes. Whilst the available data on the effectiveness of mandatory disclosure regimes is not comprehensive, the available evidence, plus feedback from those with such regimes, suggests that most existing mandatory disclosure regimes are successful in terms of meeting these objectives (OECD, 2015o).

The OECD proposed several suggestions for countries (OECD, 2015o):

1. Options for "who has to report" A: Both the promoter and the taxpayer have the obligation to disclose separately or B: Either the promoter or the taxpayer has the obligation to disclose;
2. Definition of promoter;
3. Multi-step or single step approach to defining the scope of a disclosure regime A: Countries adopt a single-step approach or B: Countries adopt a multi-step or threshold approach;
4. Hallmarks for confidentiality;
5. Hallmarks for contingency fee / premium fee;
6. Options for designing generic hallmarks (A: Adopt hypothetical / subjective hallmark or B: Adopt objective hallmarks);
7. Hallmarks for loss transaction;
8. Options for timing of promoter disclosure (A: Timeframe linked to availability of a scheme or B: Timeframe linked to implementation);
9. Options for identifying scheme users (A: Through scheme number and clients list or B: Through clients list only);
10. Draft disclosure form A (for scheme user);
11. Draft disclosure form B (for scheme promoter or advisor).

3.1.11 Transfer Pricing Documentation and Country-by-Country Reporting

Transfer pricing documentation provides the necessary information to tax administration, limits the compliance burden on business, contains a three-tiered standardized approach to transfer pricing documentation, and includes a minimum standard on Country-by-Country Reporting. These three documentation tiers will require taxpayers to articulate consistent transfer pricing positions, and will provide tax administrations with useful information to assess transfer pricing risks, make determinations about where audit resources can most effectively be deployed, and, in the event audits are called for, provide information to commence and target audit enquiries (OECD, 2015p).

The OECD proposed several suggestions for countries(OECD, 2015p):

1. Master file – provide a high-level overview in order to place the MNE group’s transfer pricing practices in their global economic, legal, financial and tax context. It is not intended to require exhaustive listings of minutiae (e.g. a listing of every patent owned by members of the MNE group) as this would be both unnecessarily burdensome and inconsistent with the objectives of the master file.

2. Local file – provides more detailed information relating to specific intercompany transactions. The information required in the local file supplements the master file and helps to meet the objective of assuring that the taxpayer has complied with the arm's length principle in its material transfer pricing positions affecting a specific jurisdiction.
3. Country-by-Country Report – aggregate tax jurisdiction-wide information relating to the global allocation of the income, the taxes paid, and certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates.

3.1.12 Making Dispute Resolution Mechanisms More Effective

In the building of international tax system that supports economic growth and responds to global economy, countries have committed to a minimum standard with respect to the resolution of treaty-related disputes. In the base of this is a strong political commitment to the effective and timely resolution of disputes through the mutual agreement procedure (OECD, 2015q). That includes establishment of an effective monitoring mechanism to ensure that minimum standards are met and countries make further progress in resolving their disputes fast.

The OECD proposed several suggestions for countries (OECD, 2016f):

1. Preventing Disputes – Elements of the Minimum Standard;
2. Availability and Access to Mutual Agreement Procedure – Elements of the Minimum Standard;
3. Resolution of Mutual Agreement Procedure Cases – Elements of the Minimum Standard;
4. Implementation of Mutual Agreement Procedure Agreements – Elements of the Minimum Standard.

4 EFFECT ON ACTIVE AND PASIVE TAX SUBJECTS

Tax subject is a person that participates in taxation. Active tax subject is a public authority that has the right to implement tax and attributes obligation to pay taxes. Passive tax subject is a person or legal entity which in accordance with its economic strength pays tax.

4.1 Influence on Passive Tax Subject

Contribution to the construction of a good tax system comes from the taxpayers. They are the foundation to meet the legislation and allow the collection of revenue. Tax evasion is an indicator that taxpayers do not accept their tax burden. This attitude may reflect their belief the introduced tax is unacceptable, and the causes of their resistance to paying their taxes are numerous. The taxpayer therefore decides not to comply with his tax liability and will take the necessary steps to avoid paying taxes. Tax evasion may be legal or illegal, and includes all actions undertaken by taxpayers, individuals and companies in order to avoid paying taxes and is widespread in almost all countries. Legal tax avoidance means that the taxpayer does not breach any legal regulation in avoiding paying taxes. Illegal tax evasion means that the taxpayer is in conflict with tax laws, and exposed to certain sanctions. The OECD has recognized the importance of influencing taxpayers, i.e., of raising their tax morality so that they avoid tax evasion. The tax systems of a state, therefore, should be transparent and clear, to made accessible to taxpayer, presenting in detail the process of taxation, as well as the rights and obligations of the taxpayer. The exercise of certain rights will be motivating for

taxpayers and will also have a crucial role in their payment of taxes when they perceive indirect benefit that they receive from the state, such as the level of public services or other benefits associated with paying taxes. There are different classifications of taxpayers according to the level of the tax morale (OECD, 2017b).

Many factors influence tax morale. Tax morale represents a motivation to pay taxes, and consists of individual and group perceptions of taxpayers. The tax should depend on many factors of a country - institutional, socio-economic, religious, historical and other. World Values Survey proposed a report on factors affecting the tax morale (OECD, 2015r). The study included 90 countries in order to present a global picture of what influences tax morale, and answers the question whether taxpayers will avoid tax if given the chance. The first group includes taxpayers who are influenced by social norms to pay taxes. They live according to the principle founded on other people's beliefs, that is, respect what other people respect. The second group includes taxpayers who feel the duty to pay taxes. This group complies with regulations, if the treatment of the tax authorities is in accordance with their expectations. If these expectations change, they will not obey the rules. The third group includes the so-called honest taxpayers, who meet their tax liability at all times. Regardless of the changes taking place in terms of individual tax policy, they will still pay the tax. The last group includes taxpayers that assess the benefits of paying taxes. They believe that tax evasion is acceptable, and adhere to the regulations only if they are forced to do so. See Chart 1. for results of the study.

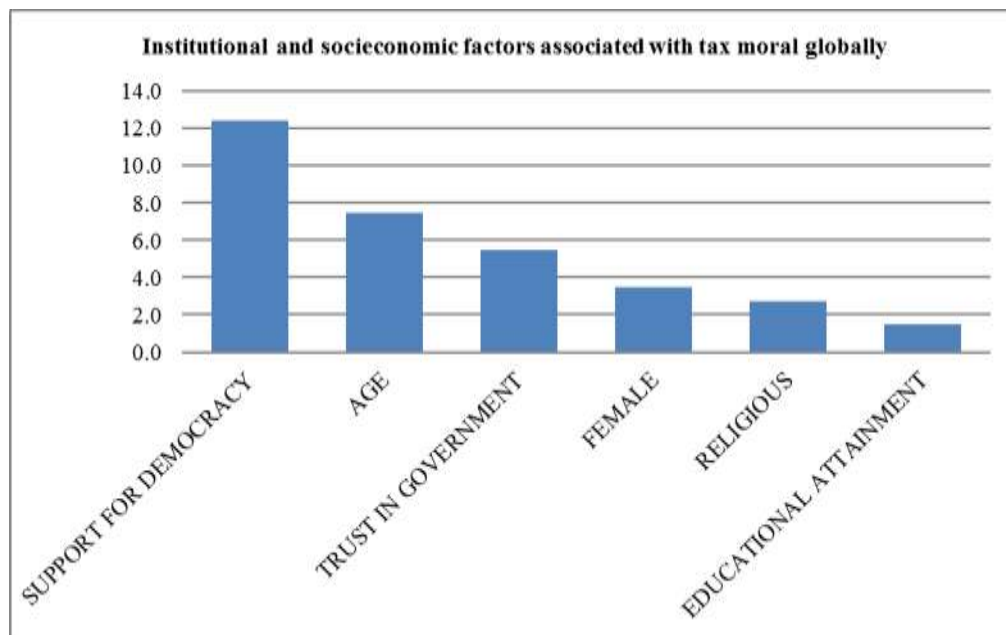


Chart 1. Institutional and socioeconomic factors associated with tax morale globally

The analysis found that certain socio-economic and institutional factors significantly affect tax morale. The chart shows that individuals who support certain attitudes find taxation justified and moral. Those who support democracy and believe that it is the best system are represented with the highest percentage, with 12.4%. They exhibit the positive attitude towards democracy and tend to think that cheating on tax is unjustified, and taxes should be paid so that the state could function. They also believe that the government has the financial sovereignty to regulate its tax system as it wants. The authority is legitimately chosen by

majority vote of the citizens and therefore from that point of view one is obliged to pay taxes and support the tax policies of the government. The second group represents age populations, with a share of 7.5%. Older people tend to believe that paying taxes is necessary and believe that tax evasion is not justified in contrast to the younger population. Trust in government is also one of the key factors, according to which the belief in a well-organized government and its objectives will be reflected in a greater revenue from taxation because taxpayers will not avoid paying their obligations. Women are an important factor according to the research, because they are more supportive of the transparent system and paying taxes than men, and represent 3% of the contributing factors. The religious are more likely to pay taxes and are represented with 2.7%. In the study, it was found that the level of education affects the tax morality, i.e., the tendency to pay tax. Therefore, those with higher levels of education are more likely to comply with the laws and regulations, and will not resist paying taxes (1.5%). The basis of the tax morale lies in a well-constructed tax system. Thus, tax cooperation and membership in international organizations contribute to national tax systems and tax development. Tax harmonization, coordination of the national system with international consequently will be reflected in the tax attitude of citizens, i.e. their greater willingness to pay taxes than to use the instruments of tax evasion. National policy also contributes to the international in a way that strengthens and clarifies the link between public revenue and public expenditure, i.e. indirect benefits that citizens receive if they respect legal provisions and comply with tax payment. To provide more information to taxpayers is also one of the important determinants. Campaigns undertaken by the tax authority must be addressed to the citizens, because they contribute to the public opinion, and through them public trust is built. It is no news that today the data on taxpayers who do not meet their commitments is public. Increasing transparency in tax policy and approaching taxpayers, as well as implementation of information technology in the spirit of the new times, will strengthen tax morale and loyalty economic groupings such as the OECD.

4.2 Influence on Active Tax Subject

As it was previously mentioned, active tax subject is a regulatory body that has fiscal sovereignty to build a tax system. Increasing interaction between different fiscal jurisdictions has led to the OECD's influence on spreading connection and good practice between OECD members and non-members. Tax administration is a factor that supports and provides implementation of multilateral agreements, diplomatic role of its country. Improving tax administrations in OECD and other countries provides information that facilitates dialogue among tax officials on tax administration issues, and which may also identify opportunities for revenue bodies to improve the design and administration of their tax systems (OECD, 2010). Cooperation between tax administrations is reflected in the following: institutional arrangement in every country includes levels of centralization and decentralization. Passive vertical financial equalization means that revenue bodies give autonomy to semi-autonomous units to perform their tasks according to their abilities. Also, in terms of active vertical financial equalization, semi-autonomous units can have their own revenue collected through tax. When adapting to change in terms of changes in the OECD, a tax administration has to see if there is need for consequent reforms. In order to cut its expenses, a tax body has to work on reducing the costs of collecting taxes, and raising taxpayers' satisfaction so that it is more acceptable for them to pay taxes. Of course, the reason behind this is to increase income and reduce debt levels.

The process of association of countries has contributed to more and more countries introducing the possibility for taxpayers to defer or reprogram the payment of their tax debt or to negotiate it with the tax authority. The implementation of new technologies is required because of operational performance data (service, verification, debt collection and exchange

of information). Automatic exchange of data about taxpayers and their type of income (e.g., dividends, interest, royalties, salaries, pensions, etc.) between tax bodies is used for information such as change of residence, buying or selling real estate, tax refunds etc. The result of this implementation is that the tax authority of every the country have information on the taxpayer. This enables them the check taxpayers' records on the basis of their residence and to see whether they reported their foreign income. Because of that, today tax authorities use modern electronic services to assist taxpayers to meet their obligations. Automatic exchange and collaboration between tax bodies has resulted in a system that improves payment by taxpayers, so that they do not to try avoid their obligations, with the purpose that they obtain all their rights, and a higher income from taxes is received. Human resources management also plays a very important role. As chart 2 shows, HMR has to know what are the main goals to be achieved in short and long terms, in the context of improving efficiency. 102 countries worldwide participated in the study, and the results have shown that effective tax administration is related with countries' membership in the OECD or the European Union.

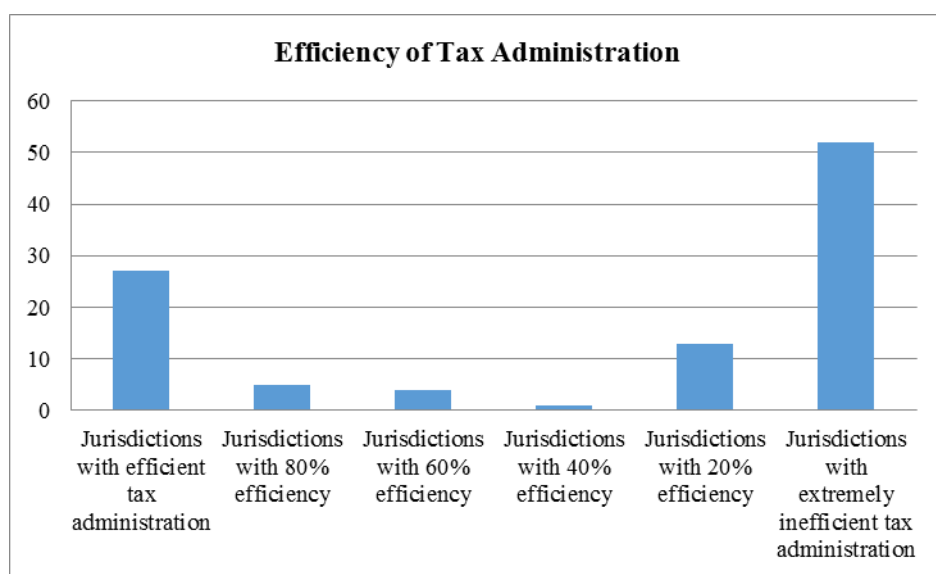


Chart 2. Efficiency of Tax Administration – Overview

Efficient tax administration also contributes to a country's growth. The benefits of countries' mutual cooperation are reflected in the most significant thing, the state's central budget. The authors of the research wanted to test if membership in the OECD contributes to a higher result in achieving greater tax revenue. The results are based on the database published on the CIA's website (CIA, 2017), which includes 217 countries, divided into 3 types: OECD members, other countries and least developed countries (UN, 2017). The results show that the proportion of the average tax revenue in total GDP is the highest in OECD countries (38.89%); other countries (some are part of the European Union) are second with 26.48%, whereas least developed countries (41 of them) come last with 20.44%.

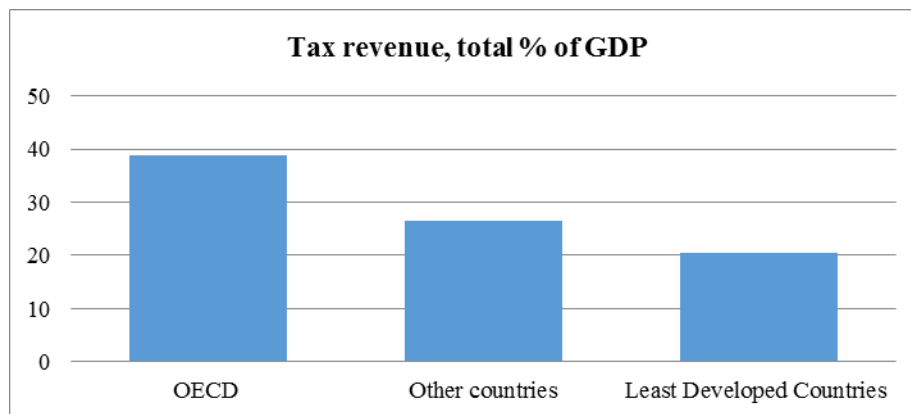


Chart 3. Tax revenue, total % of GDP

5 CONCLUSIONS

The OECD is a world organization which allows its member countries to benefit from their membership in ensuring transparent and coordinated tax systems and national regulations. The OECD has become an important actor on the international stage in dealing with negative tax competition in the international market and improving coordinated actions. The OECD cooperates with partner institutions and associations, so that unnecessary double work is conducted in resolving certain issues. This is done through clear communication about which body will make a decision on a particular important issue. Diplomacy in the context of the OECD plays a significant role. Representatives of the member countries are part of the OECD body, and each of them represents national interests of their country, and tries to contribute to general prosperity and accomplish a better position for their country. Through joint working group, a country arrives at joint consensual resolution of tax issues and implement practical solutions to their tax systems and administrations. The emphasis is placed on the right to collect taxes according to the jurisdiction and clear definition of resident and non-residents. Although states have the autonomous right to determine their own tax collection and its tax system, cooperation is inevitable. In the spirit of new changes in the fiscal policy, transformation of diplomacy takes place. It departs from the traditional framework, since it requires continuous cooperation of all segments and coordination between domestic and foreign policy, which is consequently reflected in the national legislation. Diplomacy moves away from the framework of representation, negotiation and exchange of information. The role of non-governmental actors is increasing; multilateral cooperation is inevitable, and thus the structure and function of diplomatic institutions is being redefined. Signing multilateral agreements contributes to better fiscal coordination and harmonization, which prevents double taxation. The OECD contracts are also signed by non-member countries to arrange certain tax subjects, forms and treatment in alignment with the recommendations of the OECD. Double taxation has a negative and detrimental effect in terms of international trade, as well as the movement of capital, people, property, and goods. The OECD has recognized the need for avoidance of double taxation and the strengthening of multilateral relations, as well as the importance of sharing best practices and standardization of the fiscal framework. It also recognized the need for passing the Model Convention on the taxation of income and capital (Model Tax Convention on Income and on Capital). That Convention is the basis for further cooperation between the tax authorities. BEPS is a

multilateral instrument which represents an innovation approach to solve the new gaps in taxation worldwide and fast changing tax regimes.

The results of research show that countries' membership in the OECD contributes to tax integration through their diplomatic representatives. The membership leads to a better and more balanced taxation system, which is reflected in the greater willingness of taxpayers to pay taxes, their better understanding of the tax laws and more transparent operations of multinational corporations. Strengthening relations through joint resolution of tax issues and the creation of instruments for insurance-related tax revenues for countries leads to curbing tax evasion and reducing tax evasion. Membership in the OECD results in higher tax income for the states' central budget, and a more efficient tax administration more accessible to taxpayers.

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