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UNITED NATIONS FISCAL COMMISSION

Meetings 19th - 29th May, 1947
Report by Representative of the United Kingdom

The first session of the Fiscal Commission opened on the 19th May, 1947, and lasted till the 29th. Of the fifteen participating countries Columbia, Lebanon and Poland were represented by alternates, and China by an observer, and South Africa was not represented. Representatives of the other ten countries attended, but unfortunately M. Rudolphe Putman, the Belgian Representative, who was elected Chairman at the opening meeting, was prevented by illness from attending at subsequent meetings. His place as Representative of Belgium was taken by his Adviser M. Jules Woulbroun.

Mr. P. M. Chernyshev, Representative of the Soviet Union, and Dr. Ortiz Rodriguez, Alternate for Columbia, were elected vice-chairmen, and the Chairmanship devolved on the former in the absence of M. Putman.

The proceedings were practically confined to considering what work should be done by the Secretariat to put the Commission in a position to deal with matters coming before it in the future.

The Fiscal Commission was established as the successor of the Fiscal Committee of the League of Nations.

The Secretariat had circulated a memorandum on the Commission's tasks (E/CN/8/6 - 10th April), in which its activities were classified in three groups:

- (a) Collection and Distribution of Information;
- (b) Special Studies;
- (c) Practical Recommendations.

Of these the first was conceived mainly as a continuation of work done by the Fiscal Committee, while the third would take the form of advice on fiscal matters given to the Economic and Social Council on their request, not on the initiative of the Commission. But the Special Studies would constitute a very elastic category, and at the beginning of the Commission's deliberations a proposal was submitted by the Belgian, Columbian and New Zealand Representatives for the constitution of Committees to recommend a selection of topics from a long list (Annexes A and B of E/CN/8/6) which the Secretariat had compiled.

Two Committees were appointed, one (No. 2) to deal with topics under the head of International Tax Relations and Allied Problems, the other (No. 1) to deal with the rest of the field. Of the former Mr. Chernyshev was Chairman, and M. Certeux, the French Representative, was Rapporteur. Of the latter Dr. Ortiz Rodriguez of Columbia was Chairman, and I was Rapporteur.

Neither Committee paid much attention to its reference. At the first Committee the American Representative, Mr. Bartelt, raised at an early stage the question of the cost of the work which was to be placed upon the Secretariat, and much of the discussion which then ensued was concerned with the cost, both in money and in staff, not only to the Secretariat but to the Governments, of the tasks suggested in the documents which had been circulated.

A draft report on these lines became the subject of discussion (21st May), but was summarily set aside in favour of a draft circulated by the Chairman (Dr. Ortiz Rodriguez).

That draft recognised "the present financial limitations under which the United Nations in general is operating", but nevertheless recommended "the collection, preparation and distribution under suitable forms of material, studies, bulletins and other appropriate documents" relating to the various aspects of public finance. So far as the Commission was concerned, no limitation of the work would be indicated, and the decision as to the financial provision to be made would be left to higher authority without any guidance on the Commission's part.

Among the detailed recommendations contained in the draft was one for the co-operation of Governments in collecting and submitting data with respect to "practices and procedures" in matters of budgets, governmental accounting, collection and disbursement of public funds, and management of the public debt. This went far beyond the collection and editing of official documents and statistics, and would open the way to an indefinite amount of specialised work. And, in the course of discussion on the draft Report, it was cut out, along with the introductory passage which contained the reference to special studies.

A more specific recommendation, relating to "the fiscal methods adopted by the various countries in carrying out programmes during the period 1929-35 with the view to overcoming the world-wide economic depression", raised the question of the Commission's terms of reference, and its relation to the Economic and Employment Commission. Mr. Mackay (New Zealand) had suggested (E/CN/8/17 - 16th May) "a review of the methods adopted by the various countries with a view to overcoming the world depression, 1929-32". That would obviously have encroached on the domain of the Economic and Employment Commission, and the limitation to "fiscal" methods in the draft Report could not be expected to rule out matters of economic policy in the wider sense.

Nevertheless the Committee passed the proposal, and it was retained in the Committee's Report (E/CN/8/W2 - 25th May).

At the Second Committee the United States Representative, Mr. Bartelt moved that the Committee should confine itself to projects under two headings:

1. Double taxation and mutual assistance in collection of taxes and exchange of information;
2. Obstacles to International Trade and Investment.

The detailed recommendations which he specified under these headings were directed to the collection of information, the organisation of conferences, and the composition of model treaties and statutes.

M. Certeux as Rapporteur presented a report (E/CN/8/W1) in which the American recommendations were embodied under the heading "Proposals", while the other topics that had been discussed by the Committee were added under the headings "General Remarks" and "Additional Remarks".

When the Committees were set up, the United Kingdom was not represented on the Second Committee, but it was added in the list as subsequently circulated (E/CN/8/21). Consequently I did not take part in the earlier proceedings of this Committee.

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The "Additional Remarks" included some very disputable propositions about the provision of foreign capital for development, on which "the Committee did not see its way to take a position ... since it was noted they might possibly raise the question of competence".

When the Reports of the two Committees came before the Commission, it was decided to combine them into a single document, to form the Report of the Commission itself. The "General Remarks" and the "Additional Remarks" dropped out. And in place of the First Committee's recommendation for a study of fiscal methods adopted with a view to overcoming the world-wide economic depression of the years 1929-35, an entirely innocuous paragraph was inserted, instancing the fiscal methods for anti-depression policies as a matter which the Fiscal Commission might study with a view to advising other Commissions "on the fiscal aspects of their inquiries".

The Report in its final form is to be regarded as a programme of work directed to two objects:

- (1) the continuance of the League's Fiscal Committee's work of collecting, editing and publishing information as to the fiscal affairs of the member countries;
- (2) advising member Governments and other organs of the United Nations.

The "special studies" which formed an ambitious and rather too elastic feature of the proposals originally submitted by the Secretariat, are limited to those arising out of the advisory function.

The Report concludes with a section on "Financial Implications". The estimates of cost there given are of a tentative and provisional character, and are not to be understood as imposing a rigid limit on the expenditure recommended. But they are intended to give an indication of the order of magnitude of the work contemplated.

It is evident that the amount of work that could be undertaken within the limits of the Fiscal Commission's reference is very great. Public finance everywhere offers an extensive and complicated field of study, and the comparative institutions of fifty countries would supply illimitable material.

It seems likely that some members of the Commission will be inclined to stretch the terms of reference to include matters which concern economic policy rather than fiscal policy. In particular the New Zealand Representative would like to bring in Economic Depressions, and the Columbian would like to bring in questions of development, of the standard of living and of international investment.

These matters are quite definitely referred to the Economic and Employment Commission, and I think a clear line can and should be drawn between the spheres of the two Commissions. That of the Fiscal Commission does not exclude matters of policy altogether. Though its field is public finance, "particularly in its legal, administrative and technical aspects", it should, in my opinion, include such questions as the incidence of taxation, or the effect of a tax system on the distribution of wealth, as within its purview.

Questions of policy are usually matters of controversy on which it is not possible to offer authoritative guidance. Governments decide them for themselves. Having decided its policy, a Government

may come to the United Nations for expert help in carrying it out. The decision may be to adopt tariff protection or heavily graduated taxation, or liberal social services, or a long-term plan of economic development. Once the decision is taken, either the Economic and Employment Commission or the Fiscal Commission may be able to give advice or expert assistance within its competence.

On the international repercussions of the decisions of policy organs of the United Nations can legitimately take the initiative in formulating principles of mutual forbearance among States, to which national action ought to conform; for example the Fiscal Commission recommends methods of avoiding or moderating double taxation, and refraining from undue discrimination against foreigners.

But the United Nations cannot set up to pronounce on matters of economic theory or controversy. If they have to take a position in such matters, they can only have recourse to recognised experts. From the experts they can ascertain so much doctrine as is agreed and authoritative, but beyond that it is only too easy to give the advice whatever colour may be desired, by selecting experts whose known views are in the direction contemplated.

In general such consultations should be undertaken, not by the United Nations, but by the Governments concerned, as part of the process of deciding policy. On the other hand when an appeal is received from a Government confronted with a crisis or emergency so menacing that it feels itself incompetent to take decisions of policy, the United Nations may have to overstep the usual limitations. Especially where the appeal is for material assistance as well as for expert advice, the United Nations may have to take a more direct responsibility for formulating policy. But organs of the United Nations in general, and the Fiscal Commission in particular, should confine such incursions into the realm of policy to the unavoidable minimum.

For the Fiscal Commission this should be more easily accomplished than for some of the others. Its reference is primarily "legal, administrative and technical" and the strictly fiscal issues of policy are perhaps less controversial than wider economic questions.

The meeting was confined to the consideration of the prospective work of the Commission, to the exclusion of any discussion of matters of substance, on their merits except perhaps in the General Remarks and Additional Remarks of the Second Committee.

No doubt at the next meeting matters of substance will come into view. The question of double taxation has by no means reached finality. When the Fiscal Committee met after the War (London, March, 1946) it turned its attention to the Model Conventions for the Prevention of Double Taxation, which had been prepared by Regional Tax Conferences held under its auspices in Mexico City in June, 1940, and July, 1943. Though the Fiscal Committee thought the Model Conventions "a definite improvement" on those of 1928, it did not accept them without amendment. Accordingly it produced alternative Models and reported "that the work done both in Mexico and in London could be usefully reviewed and developed by a balanced group of tax administrators and experts from both capital-importing and capital-exporting and from economically advanced and less advanced countries, when the League work on international tax problems is taken over by the United Nations".

The present Report of the Fiscal Commission, proposes that the Secretary General collect from member Governments their comments on the model conventions produced in London and Mexico City, with a view to the comments being circulated to the members of the Fiscal Commission before the next session. No doubt the outcome will be an expert conference. The subject would include not only double taxation both of income and of estates and successions, but "reciprocal administrative assistance", that is to say, mutual assistance by tax departments in the countries concerned in preventing evasion, by exchanging particulars of taxpayers and their means and by collecting sums due.

No doubt the request for comments will be received in due course and will be referred to the Inland Revenue.

The recommendation in paragraph 9 of the Fiscal Commission's Report for (d) the collection of information on tax systems of a discriminatory character would not be limited to taxes on incomes and estates but would extend to all forms of taxation.

From speeches made by Dr. Ortiz Rodriguez at the meetings it would seem that he will want to make reservations on the subject of tax discrimination. I rather gathered that his view is that a weak country ought to be free both to attract foreign enterprise and to fleece it when it has come, but I may be doing him an injustice.

On the broader questions of fiscal policy, I should anticipate that if member Governments ask the Fiscal Commission for advice the vital need will be to make ends meet, in order to avoid inflation. If that is so the propensity to advocate public works and deficit finance on the assumption that there is a depression round the corner may be very dangerous.

R. G. HAWTREY

8th July, 1947

Fiscal Commission.

Second Session.

10th to 25th January at Lake Success

(Report of the United Kingdom delegate, Mr. W. W. Norton)

1. The Commission's report has now been published as paper E/CN.8/49 Rev. 2 and sets out the subjects that were covered and what was achieved. The following notes deal only with matters which raised points of interest potentially wider than the merely technical and with matters which may be of interest for any discussion that might take place in the Economic and Social Council when the Commission's Report is considered.

2. Early on in the discussions, there developed a project which, I understand, is a departure from normal U.N.O. practice. There was a general feeling, which was sponsored by the United States, that without greater guidance than is ordinarily available, the Secretariat might dissipate its energies between sessions on matters not regarded by the members as of major importance. For this session, the Secretariat work had been unevenly done and was on the whole badly presented. There was, too, an impression that a tendency towards academic study should be discouraged. The position was of some delicacy vis a vis the authority of the Secretary General and his responsibility for the work of the staff, but this was overcome by the co-operation of Mr. Owen, Assistant Secretary General, who acquiesced in the formula that was eventually achieved and is recorded in paragraph 10 of the report:- i.e. "That a consultative group composed of three members be established between sessions of the Fiscal Commission to confer with the Secretary General on the implementation of the decisions of the Commission." It was the understanding that this group would be called together at the instance of the Secretary General. The Commission was careful to avoid expense in this departure by choosing representatives who were permanently located in New York, though the value of their influence will be the less in that they are not persons with any expertise in fiscal matters.

3. The work of the Commission on Public Finance was dispatched without anything of interest emerging. In the main this consists, for the present, in requisitioning information from Member Governments and in publishing the resulting compilation. A volume on Public Debt saw the light during the session. Some rather nebulous ideas of embarking on comparative and analytical studies were mooted but for the immediate future the resources of the Secretariat are not likely to run beyond the labour of compiling and editing national statistics.

4. The subject of technical assistance to Governments provided the first opportunity for a demonstration by the representative of the U.S.S.R. supported by the delegate for the Ukraine. The Secretariat reported that it had been given technical assistance on public finance and taxation to Venezuela and Haiti. The U.S.S.R. and Ukrainian delegates found it appropriate to make statements to the effect that while they endorsed the U.N.O. policy of providing technical assistance, their view was that the assistance should be provided at the cost of the Governments getting it. On being pressed, both readily admitted that they were not raising any issue of substance. Both agreed that this had been decided by a resolution of the General Assembly which was binding on the Fiscal Commission and explained that they had felt it necessary to make the point of view of their countries clear, seeking seemingly no more than that this point of view should be noted in the record.

The Commission unanimously approved the continuance of this work of technical assistance as opportunity offered. One delegate, at least, was left with some private doubts as to the quality of the assistance available. So far as I could judge, the staff of the Secretariat were, perhaps inevitably in view of the nature of their work, over-academic in

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their outlook and the prospects are that they will become more so as the interval, from such practical experience as they have had, increases. There is little doubt that Governments asking for technical assistance would benefit, if there were associated with the Secretariat for particular assignments of this kind, working officials of member Governments who in the ordinary course of their work are in daily contact with the practical difficulties of administration.

5. The most important difference of opinion between the Eastern European countries and the remainder of the Commission arose on the work of the Commission on the elimination of international Double Taxation. The Soviet line, supported by the Ukraine and by Czechoslovakia, was that work of this kind was not appropriate to the Fiscal Commission nor indeed to any organ of the United Nations. While these representatives expressed approval of the negotiation of conventions for the elimination of double taxation between countries on a bilateral basis, they took exception to international action in this field on the grounds that it represented pressure on the under-developed countries to the advantage of highly developed countries. They claimed that this work in U.N.O. was encouraging the exploitation of under-developed countries to the disadvantage of the masses of these countries and alleged that relief from the burden of taxation on international trade could be more effectively given by decreasing the expenditure on armaments of the "Imperialist" powers and so lowering the general level of taxation. This line of argument was rebutted by the rest of the Commission, including representatives of the so-called under-developed countries. The answers given emphasised that the existence of double taxation acted as an obstacle to the free flow of international trade, that its elimination would encourage the investment of capital in the under-developed countries, so helping to raise depressed standards of living, that the elimination of double taxation did not of itself place any compulsion on under-developed countries to open their frontiers to foreign capital and that the work of the fiscal Commission was concerned solely with ascertaining the best method for eliminating double taxation. The point, too, was made that this work had been assigned to the Fiscal Commission by the resolution of the Economic and Social Council No. 67(V) more particularly, item (i) which runs:

"To make a review and revision of the work which has already been accomplished by the League of Nations in the field of international tax problems, with particular reference to further action to be taken for the solution of such problems."

and that the work was clearly not therefore "ultra vires".

It was rather difficult to ascertain just what lay under this Soviet line. It may have been in part a dislike of seeing the work of the League of Nations Fiscal Committee continued. More probably, it was an exercise in a somewhat technical field of the general policy at the moment of Soviet Russia. This line was, however, in spite of the arguments, consistently maintained throughout the deliberations of the Commission concerned with this topic, and at one stage, on the insistence of Russia and the Ukraine, the draft report of the Commission recorded the objections specifically. At the final meeting, however, references to the Soviet line were, on the initiative of the Soviet and Ukrainian delegates, deleted from the report and the representatives of Russia, Ukraine and Czechoslovakia said they would content themselves by voting against the report as a whole. (Poland was absent from this meeting and, indeed, took no effective part in

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the proceedings. The Czechoslovak representative gave the impression of a rather unwilling partner in the minority). In consequence, the voting on the report was 10 in favour with 3 against and no abstentions.

6. There was also a threat of difficulty when the proposed questionnaire of the Trusteeship Council was considered in its fiscal aspects. The Soviet representative proposed the inclusion of questions directed to ascertaining the extent to which investment in trustee territories was in the hands of residents of these territories or held abroad, particularly by nationals of the Trustee Power. After discussion, however, directed to showing that these points were not within the competence of the Fiscal Commission, the Soviet representative agreed not to press them. The amendments that were made to the Questionnaire were relatively trifling and were acceptable to the Colonial Office representative in New York.

7. Most of the other items discussed were of a severely parochial Revenue character. Some difficulty arose on two projected future studies:

- (a) on fiscal measures to prevent depressions
- (b) on the influence of taxes upon consumption, the standard of living and production.

One school of thought held that these were proper fields of research for the Fiscal Commission and wanted authority given to the Secretariat to embark on their study. The opposing school felt that topics of this kind would carry the Commission into the wider fields of economic analysis which were the preserve of other organs of the Economic and Social Council. This latter school largely won the day, since the Commission decided that these two topics should be taken up "at the instance of, and in co-operation with, other organs of the United Nations."

8. Only one of the decisions of the Commission specifically gives rise to extra expense. The Commission resolved that the volume of International Tax Agreements published by the Secretariat should be issued in Spanish, at an estimated cost of \$5000. This is intended for use in South American countries and, so far as the United Kingdom share is concerned, should be eminently worth while. We are anxious to negotiate agreements with certain of the South American countries but so far interest on the other side is slight. Anything that can be done to stimulate interest there should redound to our ultimate advantage.

9. Generally, while debate was at times forthright, the personal relations among members of the Commission were cordial and friendly. The Russian chairman was in that capacity efficient; although a trifle ruthless in cutting short discussion, he was eminently fair. I sought an opportunity with him at the end of the session to enquire whether he expected that the objections which he had taken to the Commission working on problems of international Double Taxation could be expected to reappear at the meeting of the Economic and Social Council which would deal with this report. He gave me to understand that the Soviet representative on the Council would probably content himself with abstaining from any vote.

10. As the report indicates, the session was not very productive. The work so far done and contemplated for the future on public finance is primarily of an encyclopaedic character, though it may be of value when completed as a reference source for a variety of purposes. It may be too that the published information will be of interest to those countries whose finances are still in an early stage of development. On the taxation side, while little has yet been achieved, there is much to be said for continuing on the present lines. The emergence of generally accepted principles in, for example, the taxing of foreigners and in the relief of international Double Taxation (though in the latter respect most of what can usefully be done was completed by the old League of Nations Fiscal Committee) will be worth the trouble taken. The United Kingdom particularly has much to gain from the increasing adoption, particularly by under-developed countries, of sound principles of income taxation and from the conclusion on sound lines of Conventions for the relief of double taxation. Discriminatory practices and the burden of double taxation operate as serious obstacles to the flow of trade.

<u>Chairman:</u>	Mr. Chernychev	Union of Soviet Socialist Republics
<u>Rapporteur:</u>	Mr. Morton	United Kingdom
<u>Members:</u>	Mr. Woulbroun*	Belgium
	Mr. Hsiu Cha*	China
	Mr. Ortiz Rodriguez*	Colombia
	Mr. Perez Cubillas	Cuba
	Mr. Czesany	Czechoslovakia
	Mr. Certeux	France
	Mr. Hakim	Lebanon
	Mr. Barker*	New Zealand
	Mr. Shaffi*	Pakistan
	Mr. Barrie*	Union of South Africa
	Mr. Bartelt	United States of America
	Mr. Galagan*	Ukrainian Soviet Socialist Republic
<u>Non-governmental organization observers:</u>		
	Miss Sender	American Federation Labour
	Mr. Bower	International Chamber of Commerce
	Mr. Carroll	National Association of Manufacturers
<u>Secretariat:</u>	Mr. Owen	Assistant Secretary-General in charge of the Department of Economic Affairs
	Mr. Silva	Secretary of the Commission
	Mr. Shahbaz	Assistant Secretary of the Commission

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24th July, 1951

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STEERING COMMITTEE ON INTERNATIONAL ORGANISATIONS

FISCAL COMMISSION: THIRD SESSION
(LAKE SUCCESS, 7TH TO 17TH MAY, 1951)

Report by United Kingdom Representative

As at previous sessions the work of the Fiscal Commission during its Third Session fell into two broad categories: problems of taxation, particularly in its international aspects, and topics on the classification of national budgets, and on public finance. On both these categories, a considerable wealth of papers was prepared by the Secretariat, but as usual, inadequate time for studying had been allowed. By and large, however, it can be said that the work had been well and studiously done.

2. On taxation, the Secretariat is engaged on work of a continuing character, mainly on the compilation and publication of international tax agreements concluded by member countries, and on the analysis of national taxation systems from particular aspects. For this session, it had prepared a useful paper on the effects of taxation on foreign trade and investment, and a study on the taxation of corporate profits and dividends. This latter was not discussed, but it appears to be in the main a historical review and analysis of practice. The Commission endorsed the continuation of this type of work. In addition, an appreciable part of the energies of the Secretariat appears to be devoted to providing technical assistance, particularly to under-developed countries. The continuation of work of all these kinds is dealt with in Resolutions B, I, J, I (a), (c) and (d); and J, II (b) and (d).

3. The Commission took into consideration, in particular, taxation in the relations between under-developed countries, and countries in a more advanced state of development, and adopted Resolution B, II. Double taxation commonly arises out of international trading relations, for the country in which the trade is carried on charges the profits to its tax while the country from which the trade is carried on normally charges tax on the total income of its residents or nationals, wherever that income may arise. Summarised, the effect of this Resolution is that double taxation normally operates as an impediment to the free flow of trade and investment, that the elimination of this double taxation can be most usefully achieved by the conclusion of bilateral agreements, that the country in which income arises has, in general, a prior right to tax, and that in consequence, the main burden of relief will fall on the country in which the taxpayer resides. To put this more concretely, if a company in the United Kingdom develops enterprise in say, Chile, a bilateral agreement providing for the elimination of double taxation as between Chile and the United Kingdom would normally recognise that Chile has the

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right to tax the profits of this company which arise in Chile, and that the United Kingdom should give the appropriate relief. While detailed variations from this rule normally appear in bilateral agreements, the broad effect is that the more advanced country carries the bulk of the cost of relieving double taxation, and so these bilateral agreements can be entered into by under-developed countries with little cost to their Revenue. The policy outlined in this Resolution is an important one from the point of view of the United Kingdom. The United Kingdom has been extending its network of double taxation agreements with a view to encouraging overseas trade, but like the United States whose policy is similar, has met with reluctance on the part of under-developed countries to negotiate agreements. If it were more widely recognised that these agreements can be concluded with comparatively small cost by under-developed countries, it may be that greater success would be achieved.

4. The other significant topic on the taxation aspect of the Fiscal Commission's work at its last session concerned the taxation of international civil aviation. Paragraph 20 of the Commission's Report recites fairly fully what happened at the meetings. One is bound to record that an amount of time disproportionate to the importance of the matter was spent, and the result was very largely unsatisfactory. The International Civil Aviation Organisation had referred to the Fiscal Commission a draft Resolution which had the broad effect of exhorting Governments to secure the elimination of double taxation by the method of reciprocal exemption. In other words, I.C.A.O. proposed that each country should tax the profits of its own air lines and exempt from tax the profits of other air lines. This proposition can, in the main, be defended on practical considerations, and is a method widely adopted in bilateral agreements. An international air line as with an international shipping line, is likely to be severely hampered by taxation at each air port, and considerable difficulties arise in determining how much profit is attributable to the operations in each of the countries over which an air line operates. The proposition, however, met with the hottest resistance on the part of the delegates of India, Pakistan, Venezuela supported by Cuba who was in the Chair. This resistance inevitably brought in the support of the Soviet group, Russia, Czechoslovakia and Poland. The line followed by the objectors was the simple one that as between two countries, each of which has an air line, the method of reciprocal exemption is equitable, but as between two countries, one only of which has an air line, reciprocal exemption is quite unfair. Efforts were made to secure acceptance of a formula which, while providing that reciprocal exemption for air line profits could be adopted as one of a series of items of a bilateral agreement the agreement as a whole conformed with the propositions in the General Resolution referred to in paragraph 3 above.

In the result these efforts were frustrated, partly by reason of a procedural tangle, and the Commission may be said to have reached no conclusion on the matter (Resolution at paragraph 34 of the Report). The United Kingdom policy is entirely in line with the draft Resolution put forward by the I.C.A.O., as is also that of the United States and other countries with international air lines. In all bilateral agreements for the elimination of double taxation concluded by the United States and the United Kingdom, whether the other countries had air lines or not, air-line profits have been dealt with on the basis recommended in the I.C.A.O. draft Resolution.

5. One further item on taxation came up for discussion. This was closely related to the continuing work of the Secretariat. A project, it is understood, at the instance of the Law School of Harvard

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University, had been mooted for the preparation of a comprehensive analysis of national tax laws and administration on a world wide basis. It was suggested that there should be a joint enterprise between the Fiscal Division's Secretariat and Harvard University, with the co-operation of such other Universities as might offer their assistance. The general desirability of such a survey was endorsed by the Commission, it being understood that the work could be compassed within the existing budget.

6. On national budgets and public finance, the work hitherto undertaken by the Commission has mainly been of publishing compilations of national statistics. The Secretariat aspired after work on comparative analysis, leading to the evolution of recommended systems. This carried the approval in particular of the United States delegation, while the practical utility of such work created doubts in the minds of others, including the representative of the United Kingdom. In the result, the resolutions adopted, particularly in determining the order of priority of future work, gave somewhat modified encouragement. The projects are the development of basic principles for Government budgeting and auditing, and the preparation, by means of information to be secured from Governments, of publications on a uniform and comparable basis (Resolution D), the compilation and publication of brief summaries of outstanding fiscal developments in member countries from time to time (Resolution F) and the possibility of extending the work into the area of provincial and municipal finance (Resolution E). In the order of priority of work set out at Resolution J, it was intended at II (a) that work on the principles of audit and control in national accounts should be the main concern.

7. As at the Second Session, the Soviet Group (Russia, Czechoslovakia and Poland) objected in principle to the Commission's work on taxation and on national finances. They were prepared to endorse the desirability of bilateral agreements for the elimination of double taxation but insisted that these were matters for sovereign Governments. They argued that the work of the Fiscal Commission had the effect of putting pressure on member Governments, and, in particular, on under-developed countries to the advantage of the more highly developed imperialist powers. They claimed also that the ordering of national finances was a matter for each Government to determine. The Group therefore voted against the Report as a whole.

8. As will be observed, the work of the Session was only modestly productive. Nevertheless, it is probably worth holding. The discussions on the point dealt with at paragraph 3 above, provided valuable exchanges of view and the Resolution adopted, as is explained, should be of some continuing value. The time spent on the taxation of civil air lines may not have been wholly wasted, if countries like India and Pakistan have begun to appreciate the arguments pressed against their point of view. As a generalisation, it is probably true that, with taxation systems developing in scope and complexity in most parts of the world, occasional meetings of this kind will continue to be worth while. One feels much less sanguine of the somewhat academic work on public finance, on which the Commission seems in real danger of embarking.

FOREIGN OFFICE, S.W.1.

24th JULY, 1951.



UNITED KINGDOM DELEGATION
to the UNITED NATIONS,
EMPIRE STATE BUILDING,
NEW YORK 1, N. Y.

AIR BAG

16 May 1951.

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Dear Verity,

I am sorry I have not been able to write you sooner. Although the results will be by no means commensurate with our efforts, The Commission has been going very hard over the last few days. We have been sitting, inclusive of Saturday, from 10 in the morning until 7 at night. In spite of that we are behind the programme, and although we should have finished tonight, will be lucky if we get through tomorrow.

We have had the usual brawls with the USSR group, but since their line was more or less a repetition of the one they took last time, the exchanges have been more of the nature of shadow boxing. We have a Cuban in the chair and now and again he demonstrates his Latin American temperament, getting us all into a procedural tangle which may take an hour or more to resolve. The only really tense issue has been on the reciprocal exemption of air profits. India, Pakistan and Venezuela are taking a firm line that exemption involves disparity of sacrifice, as between developed and under-developed countries and, of course, are getting the support of the Soviet group. A long, repetitive discussion yesterday afternoon had the result, since one or two abstained, that the Indian-Pakistan view was carried by a small majority. I am hoping that we may be able to extricate ourselves from this today.

The most important thing we have done is to record certain principles on which the relief of double taxation, as between developed and under-developed countries, can be based. The propositions are, I think, all right and may help the Latin American countries to begin discussions. I have little doubt though that some of them will be used to our disadvantage from time to time but I don't see how that can be helped.

I am hoping to travel back at the latest on Tuesday night after spending a day or so in Washington. I shall therefore, all being well, be back at the office on Thursday. We shall be having one or two visitors from the Commission in London - Welles of South Africa and Qadir of Pakistan; neither, I believe, has any plan for substantive action. Qadir, by the way, makes Pahdi of India, look like the most flexible and adaptable of mortals..

Yours,

W. W. Morton
(W. W. Morton)

E. W. Verity, Esq., C. B.,
Board of Inland Revenue,
Somerset House,
Strand,
London, W. C. 2.

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GENERAL

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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE ONE HUNDRED AND SIXTEENTH MEETING

held at the Palais des Nations, Geneva,
on Tuesday, 31 July 1951, at 3 p.m.

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Secretariat:

Mr. Owen	Assistant Secretary-General in charge of the Department of Economic Affairs
Mr. Bloch	Director, Fiscal Division
Mr. Dumontet	Secretary to the Committee

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REPORT OF THE FISCAL COMMISSION (THIRD SESSION) (item 10 of the Council
(E/1993, E/2015, E/L.175)

The CHAIRMAN declared open the general discussion on the Fiscal Commission's report on its third session (E/1993).

Mr. HUYBRECHTS (Belgium) said that the Belgian Government was in agreement with the conclusions reached by the Fiscal Commission at its third session. With regard to the problem of double taxation, draft resolution E.2 on page 14 of the report recognized that the under-developed country in which income arose had an undoubted right to tax that income, and that in such cases the burden of relief of double taxation must fall on the country where the income was also taxable, for instance, by the giving of credit for the tax already paid in the first country. That solution appeared to be wholly acceptable.

The problem of double taxation could easily be made the subject of general rules based on certain principles; but in practice it should be resolved primarily through bilateral agreements.

As to the studies to be undertaken by the Secretariat on budgetary taxation and accounting, the Belgian delegation felt that the target should be limited to the unification of basic principles; the draft resolution finally adopted by the Commission embodied that view.

Mr. MOROSOV (Union of Soviet Socialist Republics) observed that the first group of draft resolutions submitted to the Council by the Fiscal Commission was aimed mainly at the elimination of double taxation, and was in reality intended to promote conditions favourable to the activities of British and American monopolies to the detriment of the interests of the under-developed countries. That was a matter which had nothing in common with the aims of the United Nations.

The object of the second group of draft resolutions put forward was to lay down certain standards for budgetary accounting, controls and so on. The Soviet Union delegation considered that questions of that sort fell exclusively within the domestic competence of the States concerned.

The Soviet Union delegation therefore concluded that the work done by the Fiscal Commission had not settled the questions, to deal with which it had been set up by the Economic and Social Council, that the Commission was engaged in futile operations, and that it was therefore useless to keep it in existence.

Mr. ISMAIL (Pakistan), referring to draft resolution B-II recommended by the Fiscal Commission for adoption by the Council, suggested that the principle enunciated in sub-paragraph (ii), namely, that the country in which the income was earned had the right in principle to tax that income, should also apply to the earnings of air companies. The matter had been discussed at the twelfth session of the Council, but no decision of principle had been reached.

Mr. BLUSZTAJN (Poland) believed the conclusions reached in the Fiscal Commission's report to be quite contrary to the principle of non-interference in the domestic affairs of States, and to the economic and social interests of the less highly developed and under-developed countries. Indeed, the majority of the Commission had, by certain of the recommendations adopted by that body, tried to exploit the authority of the Economic and Social Council to relieve investors from the highly-industrialized capitalist countries of the taxation which those less highly developed countries were entitled to enforce.

His delegation thought it necessary to draw attention to the fact that the relevant publications put out by the Secretariat were incompatible with the fundamental principle of fiscal policy, namely, the promotion of economic development and the improvement of standards of living. They did not place sufficient emphasis on the fact that an increase in foreign investments in the under-developed countries would not necessarily accomplish those aims, and were based on an incorrect belief that exemption from taxation would increase the rate of foreign investments and thereby benefit the economies of the under-developed countries. Nevertheless, he would commend the value of certain United Nations publications of a historical and statistical character, which had made a contribution to existing knowledge in the field of international tax agreements.

In view of the fact that the Fiscal Commission was being exploited as an instrument to further the ends of the highly-industrialized capitalist countries, his delegation found itself unable to support the draft resolutions submitted by the Commission for the Council's consideration. Moreover, it considered that the Commission's work was unsatisfactory, and that it had failed to discharge the duties entrusted to it by the Council.

Mr. CORLEY SMITH (United Kingdom) wished to clarify the United Kingdom delegation's position with regard to the Fiscal Commission. It was in agreement with the Soviet Union and Polish delegations as to the desirability of winding up the Commission's activities, although for other reasons than those advanced by them.

Although the United Kingdom Government did not disagree with any of the views expressed in the report of the Commission, and had no wish to be critical of the individual members of the Commission, it maintained its view that the preparatory work for the Council in the fiscal field could be carried out more effectively by small groups of experts with the assistance of the Secretariat than by a permanent functional commission.

The representatives of the Soviet Union and Poland had seen in the draft resolutions submitted by the Fiscal Commission an attempt by the highly-industrialized countries with investments in other countries to evade taxation by means of bilateral agreements. His delegation was, however, prepared to support the system of bilateral agreements mentioned in sub-paragraph (v) of draft resolution B-II, and would vote in favour of the Committee's taking note of the Commission's report, on the understanding that it would not thereby be committing itself to supporting the continued existence of the Fiscal Commission.

Mr. LUBIN (United States of America) expressed the United States' delegation's support for the report as an accurate review of the work done at the Commission's third session. He emphasized the fact that the draft resolutions

proposed by the Commission had been exhaustively debated during that session, which had been attended by experts, highly qualified in fiscal problems, from fifteen countries, assisted by other experts representing the specialized agencies and international non-governmental organizations.

To enable the Commission to carry out its task to the best advantage, he suggested that it should receive from the Secretariat a comprehensive review of the projects completed by the Secretariat, as well as recommendations from the Secretary-General regarding the projects to be continued or initiated following the meetings of the Fiscal Commission.

His delegation felt that the Commission's activity represented an effective contribution to mutual co-operation between governments, and that it would thus make for closer relations between countries and for a greater flow of trade, and so increase the standard of living of the peoples in fulfilment of the aims of the Charter.

The CHAIRMAN declared the general debate closed, and suggested that the various draft resolutions presented by the Fiscal Commission be considered one by one.

It was so agreed.

International Tax Problems

Draft resolution B-I

Mr. MOROSOV (Union of Soviet Socialist Republics) said that his delegation would be obliged to vote against draft resolution B-I because it was intended solely to serve the interests of British and American monopolies, and had nothing to do with the tasks laid down in the Charter of the United Nations or with the interests of the peoples of the under-developed countries.

Draft resolution B-I was adopted by 15 votes to 3.

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Draft resolution B-II

Mr. ROSENSTOCK-FRANCK (France) declared that the French delegation fully supported draft resolution B-II. He observed, however, that the procedure for concluding bilateral agreements was a long-term affair, and that it was therefore desirable, wherever possible, for Member States to grant unilaterally exemption from taxation on incomes earned in other countries.

With regard to the recommendation that Member Governments should find a place in their fiscal programmes for the conclusion of bilateral agreements for the relief of double taxation, it appeared that that could only be transmitted in the form of a suggestion that, in consequence of the conclusion of such agreements, certain sums should be deducted from the totals of taxable receipts.

Mr. MOROSOV (Union of Soviet Socialist Republics) observed that draft resolution B-II admitted only "in principle" the right to tax income in the country in which it arose. Such a limitation was unacceptable. Furthermore, the elimination of double taxation in highly industrialized countries would place monopolies in a privileged position, and consequently increase the burden of taxation on the workers. For those reasons, the Soviet Union delegation would vote against the draft resolution.

Draft resolution B-II was adopted by 13 votes to 3, with 2 abstentions.

Mr. ALVAREZ OLLONIEGO (Uruguay), explaining his vote, said that sub-paragraph (ii) of resolution B-II recognized the principle of taxation at source, which was traditional in his own country, and that he had consequently voted in favour of the resolution.

Mr. INGLES (Philippines) said that the Philippines delegation was wholeheartedly in favour of the principle proclaimed in sub-paragraph (ii).

He thought, however, that it would have been preferable to have omitted the phrase "little sacrifice of national revenue" from sub-paragraph (v), since he believed that no sacrifice at all should be called for from the under-developed countries. Moreover, he thought that the word "normally" in the first recommendation detracted from the general tone of the resolution.

Draft resolution C - Taxation of foreign nationals, assets and transactions

Draft resolution C was adopted by 15 votes to none, with 3 abstentions.

Draft resolution D - National accounting and budgetary practices

Mr. MOROSOV (Union of Soviet Socialist Republics) stated that the effect of the proposed draft resolution would be to force on Member States specific standards in a matter which came solely within the domestic jurisdiction of each State; that being so, the Soviet Union delegation would be obliged to vote against the draft resolution.

Mr. ROSENSTOCK-FRANCK (France) stated that the French delegation particularly welcomed the resolution because, for several years past, the public authorities in his country had been endeavouring, with the aid of the publications of the "Bureau de statistique et de documentation fiscales", to supply other States with information on developments in French national accounting methods.

In reply to a remark by Mr. CHA (China), the CHAIRMAN said that he saw no objection to the reference in the draft resolution to the next session of the Fiscal Commission. Should that body cease to exist, the Secretary-General's report mentioned in the draft resolution would be submitted direct to the Economic and Social Council.