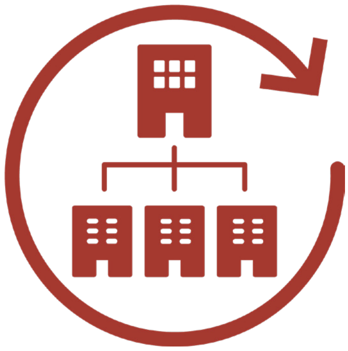
CROSS-BORDER SERVICES

The taxation of income from cross-border services in today's digitalised and globalised economy exposes the failure of outdated tax rules — and demands a bold, proven alternative: unitary taxation with formulary apportionment.



The problem

In today's globalised and digitalised world, the economy has outgrown traditional tax rules. It is no longer feasible to treat tax as a purely domestic matter, as companies operate across borders—and often without any physical presence in a country.

Current rules fail to trigger taxing rights where no physical presence exists, making it difficult to tax income from services delivered across borders. This failure widens inequality, undermines human rights, and limits countries' ability to raise public revenue. The taxation of cross-border services offers a critical chance to fix some of the outdated flaws in the international tax system.

The solution

One of the early protocols currently being negotiated around the UNFCITC is on digital services. The main objective of this protocol should be to support domestic revenue mobilisation by providing for a fair allocation of taxing rights to where services are delivered and users are located.

In order to accomplish this goal, the protocol should:

Encompass a broad scope of services
Focusing on all cross-border services, rather than only digital, broadens taxing rights and reduces complexity.

Incorporate unitary taxation with formulary apportionment
Calculating the profits of multinationals as unitary entities and allocating those profits by formula offers a clear, workable path to a fairer share of taxing rights —especially for lower income countries.

Prioritise simplicity and fairness
The protocol should focus on simplicity and ease of administration, to tackle current problems and lay the groundwork for more ambitious reform and a future-proof, equitable system.

Focus on real economic activity
The trigger for a taxable presence should be simple to define and resistant to manipulation. Focusing on real economic activity is a clearer path to determining where services are deliv-ered and users are located.

TAX JUSTICE NETWORK