Acknowledgments

First and foremost I would like to thank my family, who supported my decision to make a radical turn in my life by moving to Portugal and embarking in graduate studies in a new field for me, in order to fulfil my future career goals.

I would like to express my deepest gratitude and appreciation to my supervisor Professor Manuel António de Medeiros Ennes Ferreira, for his encouragement, guidance, kind understanding and constant support throughout the process of the preparation of this dissertation.

Finally, I would like to thank my colleagues and supervisors at work, especially Pedro Simoes Pereira and Jordana Fialho with whom we worked on various transfer pricing projects in Angola, which served as an inspiration for this research.

Resumo

A tese analisa a importância da mobilização de recursos internos em países em via de desenvolvimento, em particular através da mobilização de receitas fiscais. A análise principal é dedicada à compreensão das implicações que a utilização abusiva de preços de transferência, tendências de desvio artificial de lucros e práticas de erosão da base fiscal têm sobre a mobilização de receitas fiscais em países em via de desenvolvimento. Procurou-se avaliar potenciais implicações que reformas *anti-BEPS* teriam em Angola, sobre a mobilização das receitas fiscais no país, por meio da introdução de mecanismos eficazes para combater a utilização abusiva de preços de transferência e desencorajar práticas de erosão da base fiscal e de desvio artificial de lucros pelos grupos multinacionais a operar em Angola. Apurou-se na análise que o atual rácio de impostos/PIB em Angola, tendo uma vez atingido os níveis requeridos pelos Objetivos de Desenvolvimento do Milénio, entretanto tem vindo a diminuir nos últimos anos. Consequentemente, no caso de Angola, a particular importância das reformas *anti-BEPS* reside tanto no aumento das receitas fiscais, como em mudança gradual da estrutura da receita fiscal tornando-a mais sustentável, diversificando as fontes de receitas fiscais. Reduzindo a dependência em relação aos impostos das indústrias extrativas, por sua vez, será possível aumentar a parcela de receita fiscal não-petrolífera e alargar a base fiscal pela captação duma parte justa do valor criado por grupos multinacionais no território nacional, impedindo-os de desviar artificialmente os lucros de Angola para jurisdições com regimes fiscais mais favoráveis.

Abstract

The dissertation analyzes the importance of internal resource mobilization in developing countries, in particular, through mobilization of tax revenues. The main analysis is dedicated to understanding the implications that transfer pricing abuse, profit shifting tendencies and base erosion practices have on the tax revenue mobilization in developing countries. An attempt was made to evaluate the potential implications that planned anti-BEPS reforms in Angola would have on the tax revenue mobilization through the introduction of effective mechanisms for combatting transfer pricing abuse and discouraging base erosion and profit shifting practices by the multinational groups operating in Angola. The analysis conducted herein concludes that the tax-to-GDP ratio in Angola, having achieved the levels that had been targeted by the millennium development goals, has, however, been declining over the past couple of years. Therefore, in the case of Angola, the particular importance of the anti-BEPS reforms lies in increasing the tax revenues , as well as gradually changing the structure of the tax revenue, making it more sustainable and diversifying sources of tax revenues. This way, dependency on the extractive industry taxes will be decreased, leading in turn, to an increased share of non-oil tax revenue items and broadening the tax base through capturing the fair share of value created by multinational groups in the national territory and preventing them from shifting the profits outside of Angola to the jurisdictions with more beneficial tax regimes.

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1. Introduction

The ability of a country to mobilize its internal resources in order to finance public services is a key to a well-functioning state. This dissertation analyzes the importance of internal resource mobilization in developing countries, in particular through mobilization of tax revenues. The main analysis is dedicated to understanding the consequences that transfer pricing abuse, profit shifting tendencies and base erosion practices have on the tax revenue mobilization in developing countries.

An attempt will be made to evaluate what potential implications anti-BEPS reforms in Angola would have on the tax revenue mobilization through introduction of effective mechanisms for combatting transfer pricing abuse and discouraging base erosion and profit shifting practices by the multinational groups operating in Angola.

Considering the lack of publicly available data on the financial status of the large number of taxpayers potentially subject to the BEPS regulations in Angola, it will be impossible to perform an assertive numeric evaluation of the potential value of additional tax revenue to be mobilized, which is why an emphasis will be made on the analysis of the BEPS implications at the macroeconomic level per category of tax revenue in Angola. An analysis will be performed in order to understand the main value added by potential BEPS regulations within the country, i.e. diversification of the tax revenue via general increase of the share of non-oil tax revenues, increase of withholding taxes on royalties, intellectual property related taxes, and others.

2. Literature review: tax revenue mobilization in developing countries through anti-BEPS reform

2.1. Domestic resource mobilization in developing countries

Domestic Resource Mobilization (DRM) can be defined as the generation of savings from domestic resources through public and private sectors (WBG, 2016). The public sector mobilizes domestic resources through taxation and public revenue generation. These resources are important to developing countries, as they are potentially the biggest source of long term financing for sustainable development, also serving as the source of all government spending, such as the provision of public goods and services. At the same time, they help to strengthen fiscal institutions and long-term fiscal planning, as well as allow an exit from long term aid dependency leading to increased local ownership. Unlike mobilization of external resources, DRM provides for higher level of domestic policy ownership and suggests a greater coherence with domestic needs (Osoro, 2010).

As mentioned above, one the main mechanisms of the DRM is tax mobilization. The importance of tax revenue mobilization in economic development has entered the mainstream debate and development policy over the past decade. As the OECD states in its report:

> "*Tax is not the sole determinant of rapid development but it is one pillar of an effective state, and may also provide the basis for accountable and responsive democratic systems*" (OECD, 2008).

Furthermore, enhancing domestic tax mobilization is considered to be key to providing governments with sustainable revenue sources in order to finance the post-2015 Sustainable Development Goals (SDG), invest in development, relieve poverty and deliver public services (OECD, 2015a). In this sense, effective taxation provides a reliable source of revenue required to promote inclusive growth, thereby decreasing aid dependency in developing countries.

There are various approaches to domestic tax mobilization, including broadening the existing tax base, improvement in tax administration capacity, rationalization of tax incentives, fighting tax evasion through profit shifting and tax base erosion, etc. (Osoro, 2010).

During the Doha Conference on Financing for Development one of the hottest discussed topics was the need to enhance tax revenues through modernized tax systems, more efficient tax collection, broadening of the tax base and effectively combating tax evasion, with an emphasis on supporting sustainable development and inclusive growth (UN, 2009).

Even though since then many countries have shown noticeable progress in tax collection, half of sub-Saharan African countries still mobilizes less than 17% of their GDP through tax revenues (OECD, 2012), which is below the targeted level of 20% that was considered by the UN as necessary to achieve the Millennium Development Goals (MDG).

On paper, donors have recognized the utmost importance of the role that domestic resources should play for sustainable development, however, real allocation of donors' financial and human resources does not keep up with this

endorsement. According to data gathered in 2014 (Savoy, 2014) less than 1% of the Official Development Assistance (ODA) worldwide was directed to programs aimed at enhancement of the domestic resource mobilization. However, over the last couple of years, there has been a momentum to correct this situation. One of the examples of the international effort directed to domestic resource mobilization and evidence of its importance on the cooperation for development agenda is the commitment to double the ODA targeted at domestic resource mobilization projects, as discussed at the first High-Level Meeting of the Global Partnership for Effective Development Cooperation in April 2014 (MAICD, 2014).

Although there is much to be optimistic about, e.g. according to the African Economic Outlook (2014) the total tax revenue collected in Africa has increased almost four-fold during the past decade, from about USD 130 billion in 2000 to USD 520 billion in 2012, which, however, was mostly due to increasing prices on extractive industry products. Furthermore, in most countries the growth of tax revenue was not equitable, deriving from either a single or only a few types of taxes. Therefore, even though there have been recent improvements, increasing tax effort is jeopardized by the narrow tax base, especially in sub-Saharan Africa.

2.2. Base erosion and profit shifting in developing countries

As mentioned in the previous sub-section, tax bases across much of Africa are very narrow, which leads to disproportionate distribution of the tax burden among different taxpayer categories. There are various drastic examples across Africa, e.g. Burundi, where just one company contributes nearly 20% of total tax collection, or Rwanda and Nigeria, where 70% and 88% (respectively) of the tax base come purely from multinational groups (OECD, 2015b).

Furthermore, the already narrow tax base is further eroded by high levels of capital flight, evasion and avoidance, due to weak tax administration (among other reasons). The local skills gap (due to poorly trained and underpaid staff) allows multinational groups to take advantage of the situation, use tax loopholes, underreport profits, and engage in activities such as transfer pricing abuse by shifting taxable profits to low tax jurisdictions (AfDB, 2015).

Base erosion and profit shifting (BEPS) has been taking place for decades, however it was conceptualized just several years ago. BEPS refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations. About five years ago, it became one of the most popular topics on the international tax agenda and entered mainstream discourse, which led the G20 finance ministers to call on the OECD to develop an action plan to address BEPS issues in a coordinated and comprehensive manner.

This resulted in the OECD's 2013 initial Action Plan, which provided countries with domestic and international instruments that align rights to tax with

economic activity (OECD, 2013a). This Action Plan (i) identified 15 actions needed to address BEPS, (ii) set deadlines to implement those actions and (iii) identified the resources needed and the methodology to implement those actions (Ibid.).

Notwithstanding some skepticism among the international tax community regarding the attainability of the ambitious action plan after its publication in 2013, the BEPS working group of OECD managed to deliver the reports on actions of the Action Plan within the prescribed timeframe. Therefore, the final reports on each of the 15 actions were published in the beginning of October 2015, containing thorough analysis of BEPS practices and addressing them through a series of instruments and recommendations for countries to adopt in the local legislation. The 15 actions covered by BEPS project and respectively addressed in the final reports published, are as follows (OECD, 2015c):

- Action 1 - Addressing the Tax Challenges of the Digital Economy
- Action 2 - Neutralizing the Effects of Hybrid Mismatch Arrangements
- Action 3 - Designing Effective Controlled Foreign Company Rule
- 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 - 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.

Developing countries' heavy reliance on corporate taxation of multinational groups means that they suffer from BEPS disproportionately compared with developed countries with balanced and equitable tax systems. Developing countries lose around USD 100 billion per year in revenue due to tax avoidance practices (UNCTAD, 2015).

Considering the above, it is important for developing countries to be a part of the BEPS discourse. In particular, at the G20's St. Petersburg Summit in 2013, G20 leaders recognized that developing countries should be able to enjoy the benefits of a more transparent international tax system, and to enhance their revenue capacity, as mobilizing domestic resources is critical to financing development. For this reason, the G20 leaders endorsed the St. Petersburg Development Outlook (OECD, 2013b), which committed the Development Working Group to review relevant work on BEPS during 2014 in order to identify issues relevant to low income countries and consider actions to address them.

This resulted in the publication of a two-part report by OECD "Part 1 and Part 2 of a Report to G20 Development Working Group on the impact of BEPS in Low Income Countries" based on direct consultations with developing countries at regional BEPS consultation events (involving Asian, Latin American and Caribbean, and Francophone countries) and at the ATAF Consultative Conference on New Rules of the Global Tax Agenda (involving African countries).

These reports summarize the results of these consultations. In particular they show which of the actions addressed in the BEPS Action Plan are the most relevant for the reality of the developing countries, as the challenges faced by developing countries would be expected to be quite different than those faced by the developed countries with advanced tax administrations and capacities. For example, the granting of wasteful tax incentives may be far more significant to developing countries than to developed countries. Developing countries often face less sophisticated and more abusive tax planning structures. Moreover, developing countries often have limited capacity, experience and skills to implement measures designed to counter BEPS, and face challenges in obtaining the information they require (OECD, 2014).

In this regard, developing countries have indicated that some of the action items in the Action Plan are more relevant than others. In particular, Actions 4, 6, 7, 10, 11 and 13 were identified as most pertinent to the realities of developing countries.

Following preliminary discussions with various developing countries, OECD established an Inclusive Framework on BEPS in July 2016, which allows interested non-OECD countries to participate in the development of standards on BEPS related issues and in the implementation of the relevant elements of the BEPS package (OECD, 2016a). Furthermore, in line with the BEPS Inclusive Framework, all signatory members will commit to implementing the BEPS package of four minimum standards into their local tax legislation. The package of minimum standards includes Actions 5, 6, 13 and 14, information on which will be provided later.

As fairly noticed by Sadiq K. (2016), the minimum standards that members of the BEPS Inclusive Framework are committing to implement were agreed upon beforehand without consultations with developing countries. As a proof of that, we can see that only two of the actions highlighted by developing countries as high priority, were reflected in the minimum standard package, namely Actions 6 and 13.

As far as the minimum standards package is concerned, Action 5 is aimed to challenge continuous tax competition, unjustified preferential tax regimes and other harmful tax practices that are used for artificial profit shifting. Even though tax competition has been on the agenda of international institution for decades, it continues to persist as an important issue, leading, among others, to BEPS. According to Santos A.C. and Lopes C. M. (p.311, 2016) previous attempts to address tax competition were not successful, since many countries continue to pursue tax competition strategies in other areas, such as patent box, participation exemption, etc.

Another action of the minimum standards package, Action 6, deals with the problem of treaty-shopping, i.e. taking advantage of the benefits of tax treaties by channeling investments into a country through corporate or other legal entities formed in jurisdictions which have a treaty with that country. It is interesting to note here that treaty-shopping is not necessarily applicable to many developing countries that do not have a network of double tax treaties (Angola among them). Regarding this matter, Kadet J. and Picciotto (p.2, 2015) argue that for many developing countries "…*concluding tax treaties makes little sense in tax terms. This is because without them such countries are free to take their own decisions on the most appropriate regime to apply to inbound investment, including making appropriate provisions to prevent genuine double taxation*." Nonetheless, Action 6 was mentioned among the BEPS Actions with the highest priority for developing countries (OECD, 2014).

The main objective of Action 13 is to articulate consistent transfer pricing positions and provide tax administrations with useful information to assess transfer pricing and other BEPS risks through implementation of a three-tier transfer pricing documentation approach. It is worth noting that Action 13 was also mentioned among the high priority BEPS Actions in the survey conducted by OECD in developing countries (Ibid.).

Action 14 deals with issues that prevent countries from resolving treaty-related disputes under the mutual agreement procedure (MAP). It also includes recommended measures to combat those problems to ensure that treaty-related disputes are resolved in a timely, effective and efficient manner. However, as argued by Piciotto S. and Kadet J. (2015), not all options and measures

provided in Action 14 are applicable in practice to developing countries, due to various reasons (e.g. lack of resources and experience within local tax administrations). Therefore, in order to effectively implement Action 14 in developing countries, strong capacity in tax administration service should be developed first.

2.3. Dealing with transfer pricing abuse

Globalization and development of technology, transportation and communication have given rise to a large number of multinational enterprises that have the flexibility to place their enterprises and activities all over the world. This leads to an increasingly large volume of global trade represented by international transfer of goods, services, capital and intangibles (such as intellectual property) within multinational enterprises. Such transfers are called “intra-group transactions”. Intra-group trade is growing steadily and arguably accounts for more than 30% of all international transactions (UN, 2013).

Transfer pricing is defined as pricing of intra-group transactions. It is important to note that transfer pricing itself does not necessarily involve tax avoidance, since setting prices while conducting transactions is a normal way for a business to operate, and intra-group transactions between companies of the same multinational group are no exception. However, when transfer prices differ from market level prices, i.e. prices that would have been agreed upon between independent unrelated entities, issues of tax avoidance and shifting of profits may arise. An important concept to understand here is the concept of “arm’s length prices” which are prices practiced between independent enterprises.

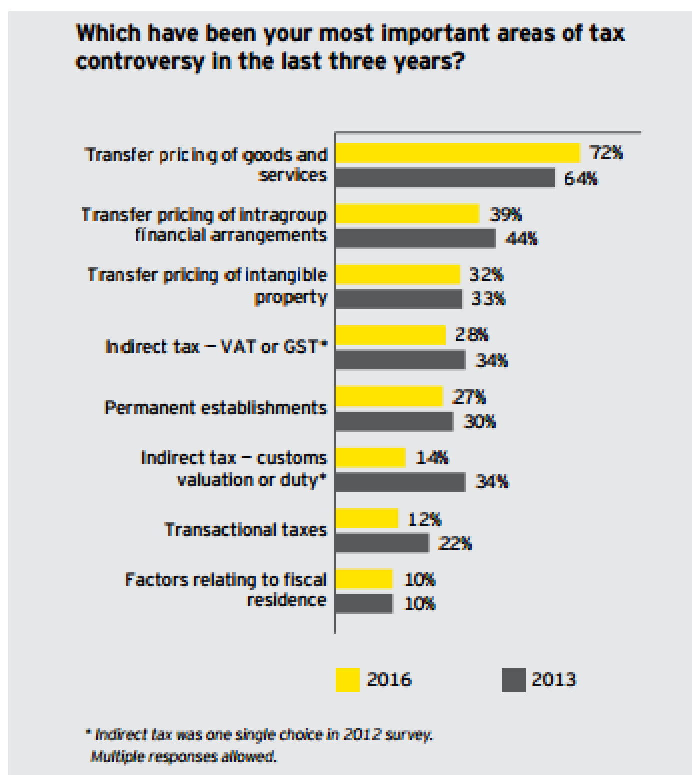
Although transfer pricing has been a well-established subject for several decades now, its role in tax avoidance and flight of capital was not broadly discussed in social responsibility literature for a long time (Christensen and Murphy, 2004).

As discussed by Bernard, Jensen and Schott (p.19, 2006) *"transfer pricing may be playing an important role in aggregate national accounting, potentially reducing the reported value of exports and the current account (and thus GDP). The response of the price wedge to tax rates indicates that tax minimisation may be an important part of transfer pricing decisions with consequences for the level of corporate tax revenue and strategic responses to changes in the tax code.*"

In this sense, transfer pricing regulations adopted in local legislation of different countries are normally devoted to making sure that transfer prices practiced by taxpayers in their intra-group transactions are in line with arm's length prices and are not set intentionally to shift profits to other jurisdictions.

In recent years, an unprecedented public scrutiny over the tax practices of multinational groups could be observed. This is apparent from EY's 2016 Transfer Pricing Survey, which covered 623 transfer pricing executives in 36 jurisdictions across 17 industries and found that respondents are encountering significantly more transfer pricing disputes in more jurisdictions than in the past (EY, 2016a). In particular, as can be seen in the graph below, transfer pricing related controversy continues to dominate among tax controversy issues for multinational groups.

Figure 1: Areas most challenged in tax controversy



Source: EY's 2016 Transfer Pricing Survey Series

Transfer prices, and consequently taxable income, are adjusted for tax purposes if the prices are not arm's length prices. Most countries adhere to this approach in order to mitigate double taxation and also to avoid losses of tax revenue (UN, 2013). However, when it comes to developing countries that have no transfer pricing legislation or have inefficient transfer pricing regulations, it becomes quite easy for multinational enterprises to engage in transfer pricing abuse.

In particular, transfer pricing abuse occurs when corporations which form part of a corporate group engage in transactions with other corporations in the same group in order to maximize the proportion of their profit stemming from low-tax jurisdictions, and to minimize the amount from high-tax jurisdictions (HC-IDC,

2012). The potential for multinational enterprises to reduce their tax liabilities through transfer pricing abuse is quite significant, as they are generally able to hire the most skilled accountants to facilitate such tax planning.

For instance, according to ActionAid estimates (2010), payments by multinational enterprise “SABMiller’s” to its subsidiaries in Switzerland, the Netherlands and Mauritius from its subsidiaries in Africa and India resulted in a total tax loss to governments in those countries of £20 million, enough to put 250,000 children in school, and equivalent in Africa to almost one-fifth of the company’s estimated tax liabilities.

As another example, Zambia lost over USD 4 billion (an amount close to its total external debt) from 2003 - 2009 due to transfer pricing abuse, and even though Zambia has transfer pricing legislation in place, the enforcement of the legislation by the country’s tax authority has not been aggressive enough (Ibid.).

These and many other examples show how transfer pricing abuse may be used for shifting profits from countries in Africa, hindering their ability to mobilize tax revenues. For this reason, action is needed in order to improve transfer pricing regulations, and enhance tax capacities in countries in order to prevent multinational enterprises from engaging in aggressive tax evasion practices through transfer pricing abuse.

Therefore, introducing transfer pricing legislation in developing countries has proven to be one of the more effective ways of tax mobilization. For instance, as a result of strengthening transfer pricing capacity in Colombia, tax revenue has

been steadily increasing from USD 3.3 million in 2011; USD 5.83 million in 2012; USD 10 million in 2013; and USD 30 million in 2014 (OECD, 2015a).

The BEPS project championed by the OECD and described in the previous sub-section is aimed at (among other things) eradicating transfer pricing abuse. Transfer pricing issues are pillars of the BEPS project, which is quite visible considering that 4 out of 15 actions of the BEPS Action Plan published are devoted to transfer pricing issues (i.e. Actions 8-10 and Action 13 as defined in the previous sub-section).

3. The potential of anti-BEPS reform in Angola

3.1. Macroeconomic framework and importance of tax revenue

Angola's macroeconomic environment is challenging. The oil price shock has significantly reduced fiscal revenue and exports, raising the issue of economic vulnerability to oil price fluctuations and increasing the need for diversification of the country's economy (IMF, 2015).

According to the African Development Bank (2016), Angola's economy grew by 3.8% in 2015 (showing a slow-down from 4.8% in 2014), and GDP growth is estimated to remain moderate, at 4% in 2016 (IMF, 2016) and 3.5% in 2017, due to lower crude oil prices.

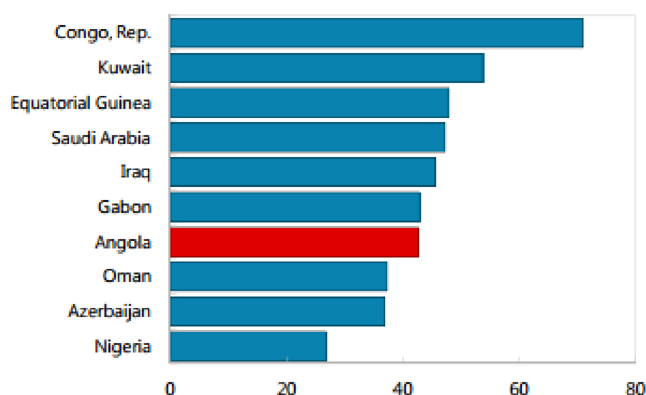
Growth in the non-oil economy also slowed in 2015 on account of delays in the execution of key electricity and industrial investments. Non-oil growth is estimated to have reached 1.3%, with 2.5% growth in the energy sector, 3.5% growth in construction, 3.2% growth in diamonds, and 0.2% in the agriculture sector. Additionally, inflation has been increasing steadily since June of 2014, when it reached a record low of 6.8%. In 2015, inflation almost doubled to 14.3%. The central bank raised interest rates from 9 to 12% and reserve requirements from 12.5 to 25% (WBG, 2016a).

It is worth noting that public debt has sky-rocketed over the last 3 years. From a debt to GDP ratio of 21% in 2013, Angola's debt grew to 31% in 2014 and is estimated to have reached 47% of GDP by the end of 2015 (Ibid.).

On the other hand, public investment has been on a downward trend since 2011, falling from around 75% to just above 60% in 2013 (Fjeldstad et al., 2014). Among the group of countries in sub-Saharan Africa classified as resource rich based on share of resource exports in total exports, as well as share of resource revenue in total revenue, Angola has the second lowest investment rate after Nigeria, and invests a significantly lower share of GDP than other resource rich comparator countries (IMF, 2014).

In countries that are not rich in natural resources, goods and services are mostly produced by combining labor and capital. Whereas in the case of countries rich in natural resources, such as Angola, a significant flow of output derives from the extraction of rents from such natural resources. In Angola's case, for much of the past two decades, international oil prices have been higher than the cost of extraction, resulting in significant oil revenue, much of them captured by the government through taxation (Ibid.) As shown on the chart below, Angola is among the top 10 countries with the highest oil rents as share of GDP:

Figure 2: Top 10 countries with the highest oil rents as share of GDP

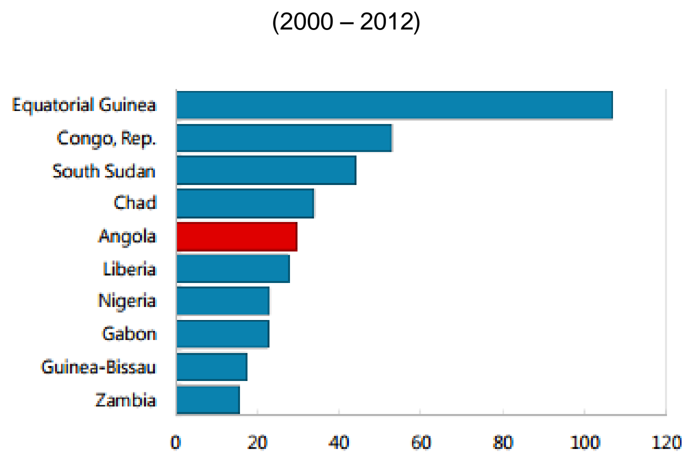


Source: IMF Country Report No. 14/275 - Angola Selected Issues Paper

It is worth noting that one of the characteristics of countries rich in natural resources is that GDP per capita does not often translate into the living standards of the people in the country (Ibid). In cases where extractive industries are mainly represented by multinational corporations, the majority of value generated gets repatriated to the resident countries of ultimate parent entities of the multinational industrial group, including through transfer pricing abuse and other BEPS practices. This tendency can be confirmed through observing the significant gap between GDP per capita and GNI per capita. As illustrated in the chart below, Angola has the fifth largest gap between these indicators compared to other countries:

Figure 3: Top 10 countries with the greatest difference between GDP per capita and GNI per capita

(2000 – 2012)

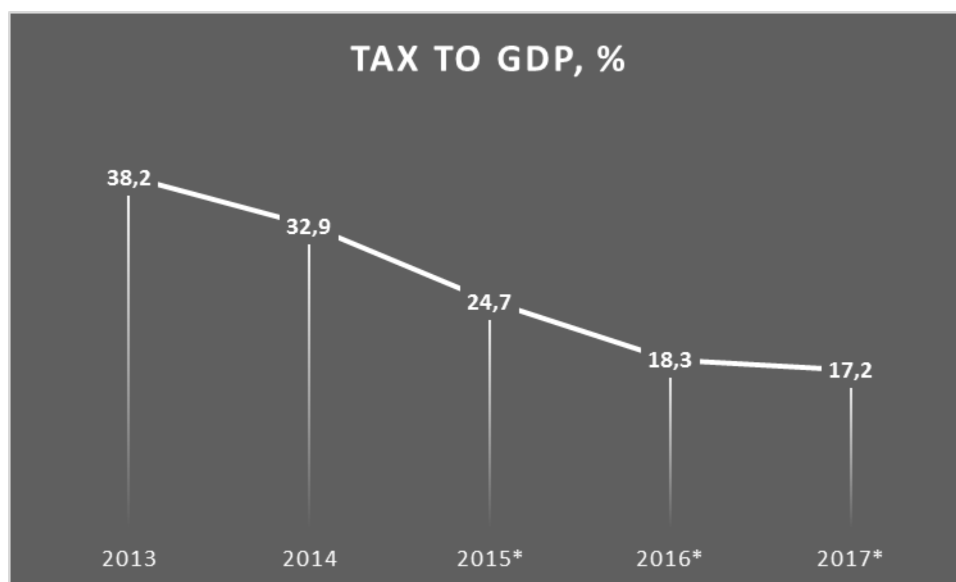


Source: IMF Country Report No. 14/275 - Angola Selected Issues Paper

As for the importance of tax revenue in Angola, it is worth noting that Angola is among the largest tax collectors on the continent (Algeria, Angola, Libya, Nigeria and South Africa), whose joint tax effort accounts for about 68% of the continent's total (AfDB, 2015).

However, the individual tax-to-GDP ratio has been quite volatile in recent years, and has seen a significant decline in the last 5 years (as demonstrated in the figure below).

Figure 4: Tax to GDP ratio in Angola (2013 – 2017)



* *Estimated values. Executed budget for these years has not been published as of the date of this calculation*

Source: Government Budget Proposal Report for 2017, p. 49

http://www.minfin.gv.ao/PortalMinfin/faces/materiasderealce/sintesedooge

Furthermore, lack of government revenue diversification implies that it remains highly vulnerable to declines in the oil price and disruptions in oil production (IMF, 2014).

3.2. Fiscal legislation and current state of transfer pricing legislation in Angola

3.2.1. Recent developments in fiscal legislation in Angola

For decades, the Angolan tax system has been characterized by severe underdevelopment of legislation, administrative capacity and general financial system infrastructure due to historical factors (colonial past, civil wars, etc.), which inevitably led to poor tax administration and low tax collection characterized by disproportionalities and inefficiencies (Santos and Cruz, 1993).

Furthermore, Angola has experienced significant changes over the last several years. When in 2008-2009 the massive drop in oil prices resulted in a considerable deficit and very little revenue came into the treasury, the Angolan government came to the understanding that the existent tax system was "obsolete, inefficient, excessively complex and at times based on laws that date back to colonial times" (AGT, 2011).

This is why a comprehensive reform of the tax system of the country (*Projecto Executivo da Reforma Tributária*, hereinafter – "PERT") was initiated in 2010. One of the main objectives of PERT was to increase non-oil tax revenue in Angola in order to avoid dependency of the government budget on volatile oil prices.

When it comes to reforms of such scale, political commitment to reform is crucial for its success. At the beginning of the reform planning process, it seemed to have strong political support (Fjeldstad et al., 2012). The momentum was supported by the IMF, which in 2009 approved a 27-month Stand-By

Arrangement with Angola in the amount of approx. USD 1.4 billion, where one of the three pillars of the program foresaw a comprehensive tax reform. According to the program paper:

> *“The authorities are committed to take further steps to improve fiscal management over the medium-term, increase non-oil revenues by reforming the tax system, and de-link the fiscal stance from short-term movements in oil revenues” (IMF, 2009)*.

However, in the following years, PERT has suffered a series of delays, suggesting that the support for the reform might have suffered a setback. In 2012 and 2013 Angola continued to recover from the global financial and economic crisis of 2008/2009. However, non-oil revenues grew very slowly and did not keep with the optimistic projections (Fjeldstad et al., 2014). But, on June 26, 2014, the National Assembly finally approved the long awaited tax reform package consisting of the corporate and personal income taxes and three comprehensive tax codes, i.e. General Tax Code (*Código Geral Tributário*), the Code of Tax Procedure (*Código de Processo Tributário*) and the Tax Collection Enforcement Code (*Código das Execuções Fiscais*).

For the purposes of this dissertation, the corporate income tax component of the reform is one of the most relevant. Companies are subject to corporate tax, referred to as industrial income tax (*imposto industrial*), which is charged under the Industrial Income Tax Code (ITC). A new Industrial Income Tax Code (*Código do Imposto Industrial*) was introduced by Law 19/14, on 22 October 2014, and came into effect on 1 January 2015. The industrial income tax is

levied on profits arising from business activities (industrial and commercial) carried out in Angola by companies (including permanent establishments of non-resident entities).

3.2.2. Transfer pricing legislation in Angola

Transfer pricing legislation was first introduced in Angola in 2013, by the Presidential Decree, n. 147/13, published on 1 October 2013. This new legislation introduced the basic concept of the arm's length principle both in transactions between Angolan resident entities (domestic transactions) as well as in transactions between an Angolan-based entity and a non-resident (cross-border transactions). Tax authorities may make the necessary pricing adjustments in order to determine the taxable profit of an Angolan-based entity subject to business income tax (e.g. company, foreign branch or agency) where, because of a special relationship between the parties, the conditions deviate from those that would be agreed upon by unrelated trading partners in comparable transactions in the same circumstances (article 10 of the Presidential Decree 147/13).

According to article 11 of the Presidential Decree 147/13, two entities are deemed to be related if one has control over the capital of the other or exercises, directly or indirectly, a significant influence over the management of the other, whenever it appears that such situations reduce the profit, and thus reduce the taxable base. The following categories of related parties are listed in this article:

- "*where managers, administrators, their ascendants, their descendants, or their spouses, own directly or indirectly 10% of the capital or of the voting rights in the other entity;*
- *where members of the executive board or management have private links with each other – i.e. spouses, de facto unions, or direct line kinship;*
- *where the entities are connected by a subordination agreement;*
- *where entities are involved in a domination agreement relationship under which one entity has the power to directly influence the management decisions of the other entity, or have reciprocal participations, that is if:*
  - *they are connected by a subordination agreement;*
  - *they are connected by an equal partners agreement; or*
  - *they are connected by any other agreement which has legal equivalent effects according to the Business Companies Law (Lei das Sociedades Comerciais);*
- *where commercial transactions between the two entities total more than 80% of all transactions; and*
- *where one entity finances the other to the extent of more than 80% of its credit portfolio, i.e., 80% of its total liabilities.*"

Taxpayers belonging to the list of Large Taxpayers whose annual profit exceeds AOA 7 billion at the year-end, are obliged to prepare transfer pricing

documentation which details each commercial transaction with all related entities of the taxpayer. The latest Large Taxpayers' list was released in a decree of the Ministry of Finance of Angola, published in June 2015 in the Journal of Angola and includes 524 companies to which transfer pricing documentation rules applied in 2015.

The transfer pricing documentation must be composed of (article 12 of the Presidential Decree 147/13):

- a summary;
- an explanation of the macro-economic environment;
- a general description of the company ;
- a functional analysis of the company;
- the identification of the controlled transactions; and
- an economic analysis of the controlled transactions.

This transfer pricing documentation is to be submitted to the Angolan tax authorities no later than 6 months following the fiscal year-end. The first transfer pricing documentation from the reporting entities was due by 30 June 2015 (Circular number 12/DLT/DNI/2014).

In cases where Large Taxpayers fail to submit the required transfer pricing documentation, the General Tax Administration (GTA) notifies them of their obligation to pay a tax fine under the General Tax Code of Angola, as specified in paragraph 2 of Article 198, ranging from AOA 10,000 to AOA 50,000. According to the statistical data from the notifications sent by the GTA for the

first two reporting periods, the maximum amount of this range is usually applied (EY, 2016b).

However, it is important to note that the noncompliance with transfer pricing documentation requirements will result not only in fiscal penalties but also in other administrative consequences. In these cases, noncompliant taxpayers may be forbidden from performing capital operations, current invisible transactions (payments for services and intangibles) or trading operations which, according to the exchange control regulations currently in place, require an intervention from the National Bank of Angola. In other words, in practice, the General Tax Administration may completely block the day-to-day activity of any taxpayer, which is a much more severe outcome for a business compared with a fine of AOA 50,000. (Ibid.)

3.3. Evaluating the potential implications of anti-BEPS reforms in Angola on tax revenue mobilization

In July 2016, Angola joined the BEPS Inclusive Framework, becoming an official BEPS member. Angola's decision to become an official BEPS member and commitment to implementing the BEPS package of minimum standards in the local fiscal legislation raises various issues. Firstly, the initial origin of the BEPS concept was due to double non-taxation practices resulting from, among other things, double tax treaty abuse. However, it is important to recognize that Angola has not ratified any double tax treaties with other countries as of the date of this research. Rather, Angola's BEPS practices are primarily conducted through loopholes in local tax legislation and its mismatches with the tax legislation of other countries. Moreover, aggressive tax planning is directed in Angola by the multinational enterprises (with the help of international tax advisors) who come up with somewhat sophisticated tax planning while the local tax administration in many cases lacks the capacity to challenge it.

Potential anti-BEPS regulation in Angola will affect the Large Taxpayers (according to a yearly published list of the Ministry of Finance), as transfer pricing documentation rules apply directly to them. More than 60% of the large taxpayers provided in this list are multinational enterprises with subsidiaries in various tax jurisdictions. This means that the scope of potential anti-BEPS reforms in terms of coverage of local taxpayers encompasses approximately the 300 biggest multinational enterprises functioning in Angola.

Implementation of anti-BEPS reform in Angola will influence various categories of tax revenue of the Government budget, affecting general domestic tax mobilization. In relation to this, a structural analysis was performed in order to understand what categories of the tax revenue may be affected and how significant they are for the total tax revenues of the Government Budget in Angola.

The table below shows data on the main tax revenue categories of the Angola's Government Budget for the period of 2012-2017.

Figure 5: Main categories of tax revenue of Angola's Government Budget for 2012-2017

Government budget revenue item	Value per year (thousand AOA)						
	2012	2013	2014	2015*	2016*	2017*	Average
Total Tax Revenue	2,207,347,238	2,259,439,786	2,314,676,074	1,794,952,607	2,247,588,958	2,388,493,222	2,105,913,298
Revenue from Corporate Taxation, including:	1,294,375,547	1,248,468,099	1,172,690,161	556,853,543	830,895,848	862,732,242	1,001,813,023
Corporate Income Tax of Oil&Gas Companies	783,436,186	806,323,702	687,899,565	140,054,061	368,496,028	277,028,750	530,778,584
Other Corporate Income Tax	187,563,798	244,208,490	313,240,298	383,716,554	416,536,617	542,695,265	305,482,360
Consumption Tax	163,790,905	199,123,754	226,090,274	235,235,545	284,119,941	391,868,630	228,463,907
Taxation of International Trade	111,325,453	124,413,554	182,041,910	175,137,670	135,996,670	118,931,013	131,967,270

** Estimated values. Executed budget for these years has not been published as of the date of this calculation.*

Source: Data from Angola Government Budget at http://www.minfin.gv.ao/PortalMinfin/

The shares of the tax revenue categories indicated above in the total country's tax revenue are provided in the table below:

Figure 6: Distribution of tax revenue by category for 2012-17

Government budget revenue item	Share of Total Tax Revenue, %						
	2012	2013	2014	2015*	2016*	2017*	Average
Total Tax Revenue	100	100	100	100	100	100	100
Revenue from Corporate Taxation, including:	58.6	55.3	50.7	31.0	37.0	36.1	47.6
Corporate Income Tax of Oil&Gas Companies	35.5	35.7	29.7	7.8	16.4	11.6	25.2
as % of Revenue from Corporate Taxation	*60.5*	*64.6*	*58.7*	*25.2*	*44.3*	*32.1*	*53.0*
Other Corporate Income Tax	8.5	10.8	13.5	21.4	18.5	22.7	14.5
as % of Revenue from Corporate Taxation	*14.5*	*19.6*	*26.7*	*68.9*	*50.1*	*62.9*	*30.5*
Consumption Tax	7.4	8.8	9.8	13.1	12.6	16.4	10.8
Taxation of International Trade	5.0	5.5	7.9	9.8	6.1	5.0	6.3

** Estimated values. Executed budget for these years has not been published as of the date of this calculation.*

Source: Author's calculation based on data from Angola Government Budget at http://www.minfin.gv.ao/PortalMinfin/

The potential impact of anti-BEPS reforms on the tax revenue categories specified above is summarized in the table below:

Figure 7: Potential impact of anti-BEPS reforms per category of tax revenue

Government budget revenue item	Whether or not can be mobilized through anti-BEPS reforms	Potential implications of the anti-BEPS reform
Total Tax Revenue	Yes	Potential anti-BEPS reforms will have an impact on the total tax revenue through the influence on the revenue categories identified below

<table>
<tr><th>Government budget</th><th>Whether or not can be mobilized</th><th>Potential implications of the anti-BEPS reform</th></tr>
<tr><td>Revenue from Corporate Taxation, including:</td><td>Yes</td><td rowspan="3">Potential implementation of anti-BEPS regulations, when introduced into local legislation, will help close loopholes that allowed for tax base erosion and profit shifting, and discourage taxpayers from evasive practices, leading to a fair distribution of taxable income within international subsidiaries of multinational groups, which may result in an increase of taxable income in some countries, and decrease in others.

However, considering that the main tendency of base erosion and profit shifting in Angola is extraction of capital and shifting of profits abroad, a more fair distribution of taxable income within multinational groups (in line with functional profile of subsidiaries and real value creation within groups), will potentially lead to an increase of taxable income in Angola, and, consequently, lead to an increase of government tax revenues in this category.</td></tr>
<tr><td>Corporate Income Tax of Oil&Gas Companies</td><td>Yes</td></tr>
<tr><td>Other Corporate Income Tax</td><td>Yes</td></tr>
<tr><td>Consumption Tax</td><td>Yes</td><td>Even though only Action 1 of BEPS refers to Value added tax/Goods and sales tax (VAT/GST) in the context of effective tax collection with respect to the cross-border transactions, important implications on indirect taxation may also arise from other BEPS actions. In particular, from actions directed to transfer pricing issues in part that influences the pricing of goods and services (EY, 2015).

Given that VAT/GST is normally levied on the transaction price agreed between counterparties, reinforcement of transfer pricing regulations leading to application of arm's length prices will potentially affect consumption tax collection.</td></tr>
<tr><td>Taxation of International Trade</td><td>Yes</td><td>Potential implementation of anti-BEPS regulations (in particular Actions 8-10, and 13) will oblige the multinational enterprises to apply arm's length prices in the intra-group cross-border transactions, preventing mis-pricing of goods due to transfer pricing abuse. Change in prices of goods in the cross-border transactions will affect import/export duties paid in Angola. It is important to mention, that since this category is comprised of taxes on both import and export, enforced transfer pricing regulations may have an ambiguous effect on it. However, given that taxes on import account for 99% of this category, change of import prices to arm's length prices is expected to have the main impact within this category of tax revenue.</td></tr>
</table>

Source: Author's analysis

It is important to mention that the potential impact of anti-BEPS reforms (specifically transfer pricing related ones) on different types of taxes may be ambiguous. For instance, a decrease of transfer prices in cross-border intragroup transactions with tangible goods could potentially lead to a corresponding decrease of import duties and indirect taxes applied. On the other hand, decrease of prices in passive transactions results in a decrease of a

company's costs, leading to an increase of taxable income, which, consequently, leads to an increase of corporate income tax collection.

This being said, in cases when corporate tax rates are higher than import duty rates, the net impact of the reduction in the transfer prices of imported goods on the country's tax revenue will be positive (Cooper et al., 2016).

Considering the information in Figures 6 and 7 it can be deduced that tax revenue categories accounting for about 65% of the total tax revenue of the Angolan Government Budget (in average for 2012-17) would be affected by potential anti-BEPS reforms.

Numerous attempts have been made by various organizations and academics to quantify the loss of tax revenue in developing countries due to base erosion and profit shifting practices. However, as Fuest and Riedel (2010) analyzed in detail, the measurement methods used therein have a number of drawbacks that makes it difficult to interpret the results.

In an attempt to evaluate the potential positive impact of anti-BEPS reforms in Angola, we tried to calculate the amount of additional tax revenue that may be generated. Due to lack of resources and publicly available data to conduct an original research on the amount of potential additional tax collection in Angola, we based our calculation on the OECD's (2015d) estimation that BEPS results in a loss of revenue for governments conservatively estimated between 4% and 10% of global corporate income tax.

Using this range, we calculated the potential amount of additional tax collection that may be recuperated through successful implementation of anti-BEPS

reforms. To account for a potential worst-case scenario, we also added an estimation for 1% of additional corporate income tax collection.

The results are presented in the table below:

Figure 8: Evaluation of additional tax revenue mobilization

Potential scenarios	2017 (in AOA)
Revenue from Corporate Taxation (Angola Government Budget 2017)	862,732,242,230
Pessimistic scenario (1% of corporate tax revenue increase)	8,627,322,422
Moderate scenario (4% of corporate tax revenue increase)	34,509,289,689
Optimistic scenario (10% of corporate tax revenue increase)	86,273,224,223

Source: Author’s calculation

Based on the above, we can see that even a pessimistic estimation of additional tax revenue mobilization gives quite a significant amount of additional resources that can be directed, for instance, to important social programmes.

For ease of reference, in the table below we have summarized some of Angola’s Government budget expenditures in 2017:

Figure 9: Selection of Government Expenditures in 2017

Government Expenditures	2017 (in AOA)
Government Expenditures by sector	
Education	34,657,803,919
Health	36,522,962,842
Government Expenditures by programme	
Alphabetization programme	2,728,412,652
Social support programme	5,167,824,382
Programme for improvement of healthcare quality	8,618,751,903
Programme for promotion of social housing	20,659,105,959

Source: Data from Angola Government Budget at http://www.minfin.gv.ao/PortalMinfin/

Comparing figures in the tables 8 and 9 above, we can see that potential additional revenue mobilization (in the pessimistic scenario) would give sufficient additional resources to finance government programmes for alphabetization and social support or to finance the Programme for improvement of healthcare quality. While under the moderate scenario, the additional revenue collected would cover the whole country's budget for education (including all respective projects and programmes). Finally, should the optimistic scenario be realized, additional revenue mobilization could give sufficient resources to cover Angola's annual expenditures for both education and health.

Furthermore, taking into account that an average of Official Development Aid (ODA) annually received by Angola is 40 bln. AOA (p.8, OECD, 2016c), we can see that even under the moderate scenario, almost the whole ODA amount could potentially be compensated by additional mobilization of domestic resources.

Having said this, a healthy skepticism should be maintained when evaluating potential implications of anti-BEPS reforms in Angola, and no unrealistic returns from efforts to implement BEPS-related reforms should be expected.

For instance, Michael Dust (p.14, 2015) argues, that "*although reforms generated by BEPS may offer countries some prospect of improved revenue yields from corporate income tax, the BEPS reforms are likely to leave opportunities for multinationals to continue to avoid large volumes of taxes through profit shifting*".

This is why it is important for governments to be selective in allocating resources to the implementation of BEPS reforms, focusing only on those reforms that will clearly generate increased revenue, considering the very limited administrative capacity typically available to developing country revenue agencies.

Also, any new tax policy design must take into account the administrative dimension of taxation and the tax capacity in the country to ensure that any newly introduced legislation could be enforced by the respective capacity of tax administrators.

In addition, it is important to make sure that potential changes to the tax legislation through BEPS-related reform in Angola are as straightforward and transparent as possible, since Angola is already ranked among the worst countries according to the indicator of the ease of paying taxes. Angola was ranked 141 in the list of 189 economies in this indicator (WBG, 2016c).

In conclusion, considering that the tax-to-GDP ratio has been gradually declining over the last five years, the mobilization of additional domestic resources is as important as ever.

In the case of Angola, the particular importance of anti-BEPS reforms lies inherently in increasing the tax revenues, as well as in gradually changing the structure of the tax revenue system to make it more sustainable and diversifying sources of tax revenue. This way, dependency on the extractive industry taxes will be decreased, leading in turn to an increased share of non-oil tax revenue items and broadening the tax base through capturing the fair share of value created by multinational groups in the national territory, preventing them from shifting the profits outside of Angola to jurisdictions with more beneficial tax regimes.

Finally, on moral and ethical grounds, given that tax evasion and profit shifting practices have a negative effect on the provision of public services and alleviation of poverty, an effective combat of such practices will contribute to sustainable development and promote inclusive growth in the country.

4. Conclusions, limitations and future research

The ability of a country to mobilize its internal resources in order to finance public services is key to a well-functioning state. The public sector mobilizes domestic resources through taxation and public revenue generation, and enhancing domestic tax mobilization is considered to be key to providing governments with sustainable revenue sources in order to finance the post-2015 SDGs. Although there is much to be optimistic about, considering that the total tax revenue collected in Africa increased almost four-fold during the past decade, at the same time it is important to understand what is behind that growth, as in most countries the growth of tax revenue was not equitable, deriving from either a single or only a few types of taxes and narrow tax bases. Moreover, already narrow tax bases are further eroded by high levels of capital flight, evasion and avoidance.

The issue of BEPS entered mainstream international discourse about five years ago and moved up the international agenda quite rapidly, leading OECD to develop a BEPS package consisting of main 15 actions that needed to be addressed. Obviously, challenges faced by developed countries with advanced tax systems and sophisticated tax capacities are quite different from those faced by developing countries. In order for the BEPS package to be helpful for developing countries, it was important to hold consultations with tax officials of developing countries and analyze the specific challenges that they face. After such consultations, an OECD BEPS working group committed to addressing issues raised by developing countries and developing tools to help implement

relevant actions into the local legislation of interested countries (developing tool-kits for tax administrations, drafting template legislations, etc.).

Considering that Angola officially joined the BEPS project, signing the Inclusive Framework in July 2016, it committed to addressing key issues of the BEPS project in the local fiscal legislation.

The analysis conducted herein concludes that potential anti-BEPS reform will affect tax revenue categories accounting for about 65% of the total tax revenue of the Angolan state budget (on average for 2012-17).

Furthermore, according to the high-level calculations conducted, even under a pessimistic scenario the potential additional revenue mobilized would give sufficient additional resources to finance various important government programmes (e.g. programmes for alphabetization, social support, etc.). Under the moderate scenario, the additional revenue collected would, for example, compensate almost the whole amount of ODA annually received by Angola. While under the optimistic scenario, additional revenue mobilization could give sufficient resources to cover Angola's general annual expenditures for both education and health.

However, a healthy skepticism should be maintained when evaluating potential implications of the anti-BEPS reforms in Angola, and no unrealistic returns from efforts to implement BEPS-related reforms should be expected.

Considering that the tax-to-GDP ratio has been gradually declining in Angola over the last five years, the particular importance of the anti-BEPS reforms lies inherently in increasing the tax revenues, as well as in gradually changing the

structure of the tax revenue by making it more sustainable, and diversifying sources of tax revenues. This way, dependency on the extractive industry taxes will be decreased, leading in turn to an increased share of non-oil tax revenue items and broadening the tax base through capturing the fair share of value created by multinational groups in the national territory, preventing them from shifting the profits outside of Angola to the jurisdictions with more beneficial tax regimes.

Given the novelty of the BEPS concept and discourse (it has been in existence for less than five years), there is a lack of impartial academic research on the impact of BEPS reforms in developing countries. This is why this dissertation was predominantly based on the literature and research of interested organizations, namely OECD, IMF, the World Bank Group, African Development Bank, etc., which are all driven by their own agendas. The lack of independent academic literature on the matter shows the importance of a substantial unbiased research in the field which, however, would require significant time and financial resources.

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