FISCAL AFFAIRS

Twelfth IMF- Japan High-Level Tax Conference for Asian Countries

International Taxation: Domestic Corporate Tax Reform under Pillar 2

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Kiyoshi Nakayama
Advisor
Fiscal Affairs Department

Countries' reaction to the Pillar 2

- Choose what rules to adopt from Pillar 2
  - 15% minimum tax on "excess profits" in each country
  - Enforced through outbound and inbound minimum tax rules
    - No need for all countries to participate for it to work
    - No requirement for countries to adopt ("common approach")
    - A 9% minimum tax on certain cross-border payments
- Rethink tax rate, tax incentives, and minimum taxes
- Much more is needed for domestic revenue challenge

Optimal Reactions differ by country

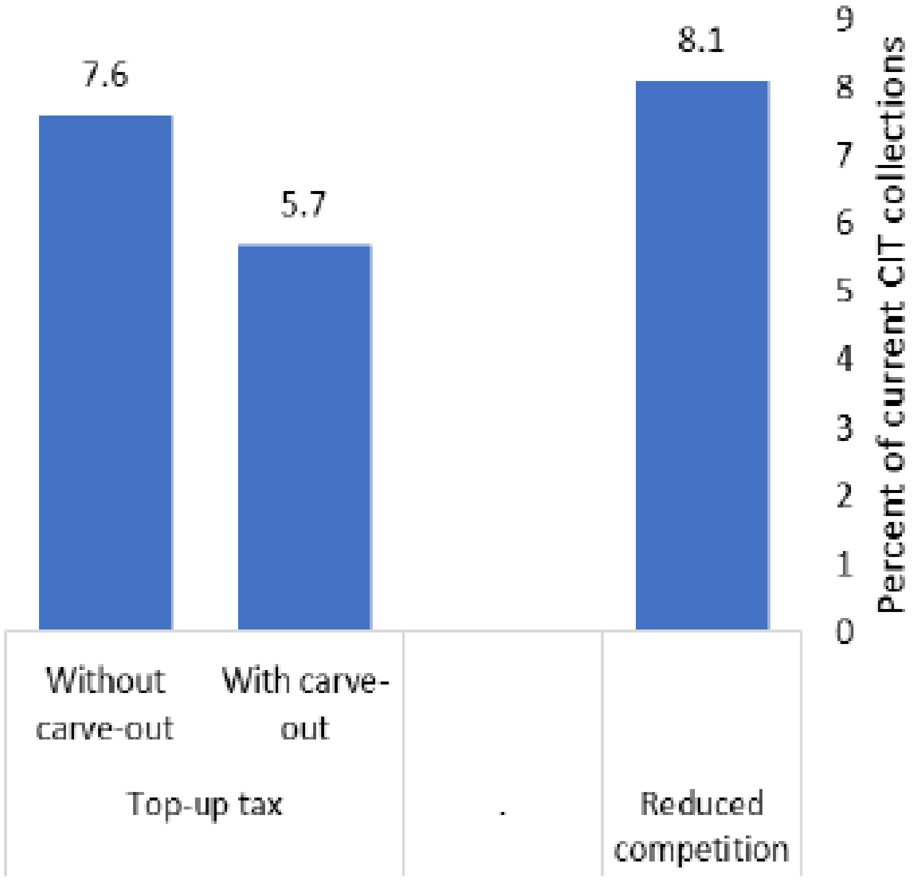
- Major economies: need sufficient adopters to enforce system
- Developing countries (capital importers):
  - Adopt “Qualified Domestic Minimum Top-Up Tax” (QDMTT)
    - Raise revenue
    - Dominate tax rate increases/tax incentive cuts
- Conduit countries (investment hubs): Need for major structural adjustment
- Countries with minimal MNE activities

Broader tax increase is possible and necessary

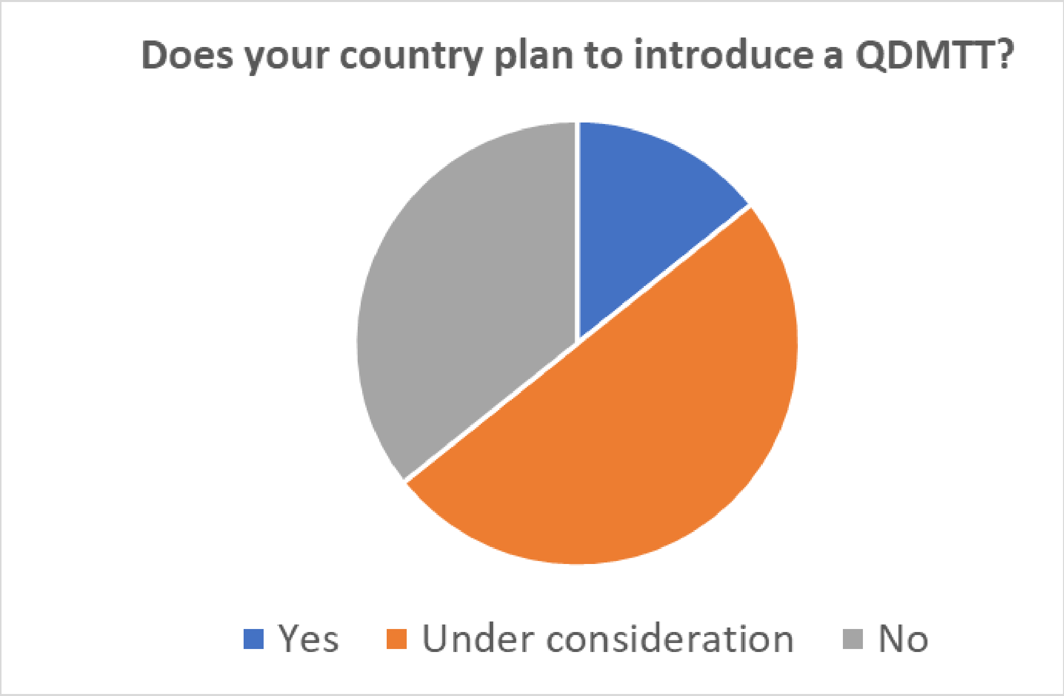
- Tax incentives are often redundant or ineffective
  - Now less pressure to offer them
  - Need to address stabilization clauses
  - If any are kept, may need to be redesigned (refundable credits, accelerated depreciation)
    - These are in any case more efficient designs
- Tax rate increases (possibly only on excess profits)
- Rethink alternative minimum taxes
- Revenue gains from international tax reforms are dwarfed by developing countries' spending needs

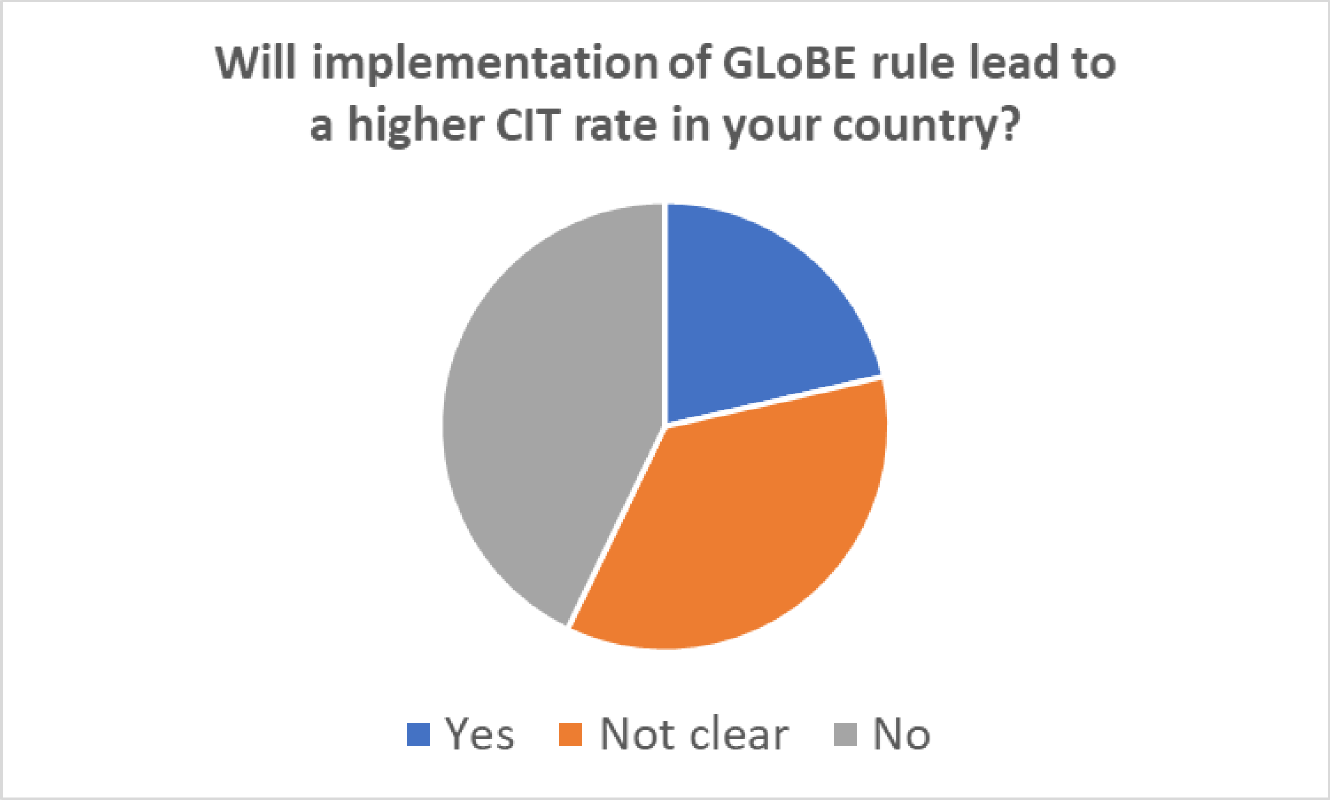
Pillar 2's Impact on Revenue

- Direct global revenue effect more significant than P1
  - ➢ Base close to US$1.5 trillion
  - ➢ Direct revenue US$ 150 billion
- Distribution of revenue depends on
  - ➢ A countries' adoption of rules
  - ➢ All other countries' adoption
  - ➢ MNE response
  - ➢ Countries' domestic tax policy response
- Indirect effects can in fact be far more important than direct effect



Survey Outcomes





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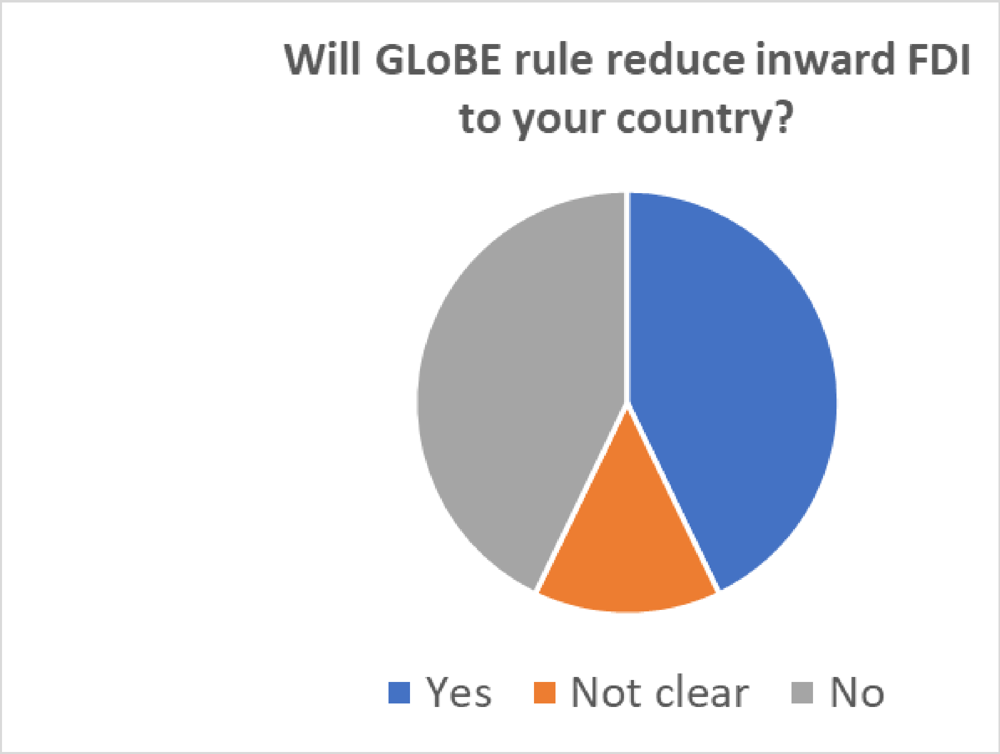

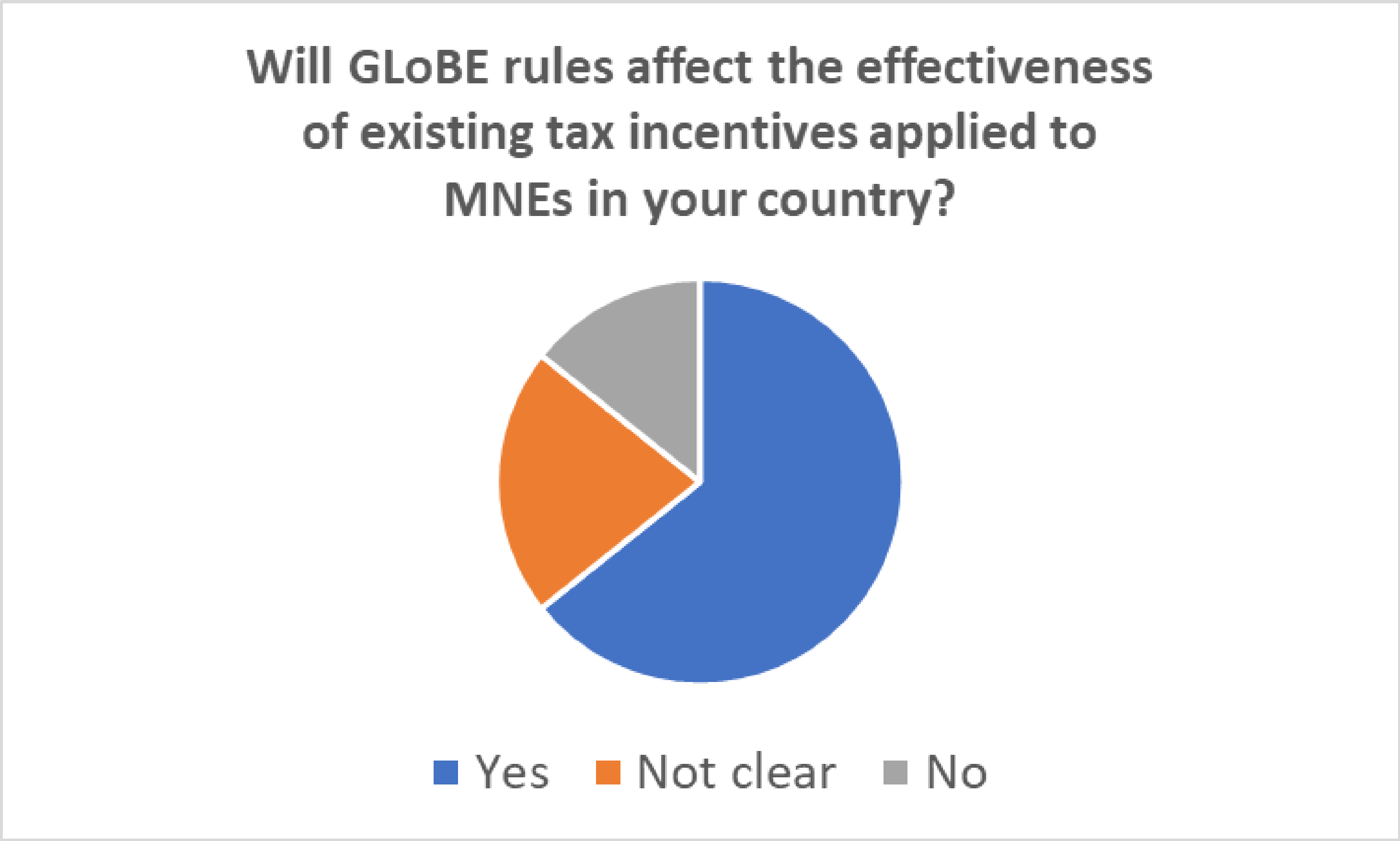

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