

# SOME IMF WORK ON INTERNATIONAL TAX POLICY



Michael Keen

8<sup>TH</sup> IMF-Japan High Level Tax Conference for Asian  
Countries

Tokyo, March 23 2017

Increased prominence in IMF work

- Key role for IMF in addressing issues important for developing countries, including protecting source tax countries, and addressing spillovers from others
- In addition to analytical work (more later)...
- ...continue to address these in growing (confidential) TA;
- Recognizing macro-significance, now engaging on them with c. 10 members each year in annual surveillance
  - Including so far, *inter alia*, several ASEAN (Indonesia, Malaysia, Philippines); the U.S.; Peru; Belgium; Kenya; Iran...

# ASEAN integration—work in Indonesia

- Tax competition reducing revenues throughout region
- Links to wider Indonesian tax reform—possible CIT rate cuts
- Protecting the base—much FDI through low-tax jurisdictions
- Territorial vs. worldwide approach
- Treaty strategy—how to make helpful rather than revenue risk?
- BEPS: What priorities for Indonesia? E.g.:
  - Expand definition of ‘permanent establishment’
  - Limit base erosion through interest stripping
  - Strengthen CFC rules

# United States

- Assessed main distortions of current US international tax system...
  - High statutory rate (exacerbating debt bias)
  - Deferral of tax for income earned abroad (“weak territorial”)
  - “stateless income” tax planning
- ...and possible solutions
  - Transform CIT into a rent tax (e.g. ACE)
  - Eliminate deferral but impose a strong minimum tax
  - Tax “normal returns” at investor level; withhold tax at corporate level
  - Cut rate to 25-28 percent/broaden base through limiting tax expenditures
- Estimated possible spillover effects of one model of reform
  - Foreign tax bases: reduced in low tax jurisdictions subject to proposed minimum tax; increased in other countries
  - Real activity is far less sensitive to such changes

# Kenya: Protecting source base taxation

Increasing FDI flows, and positioned for more outbound flows as EAC hub

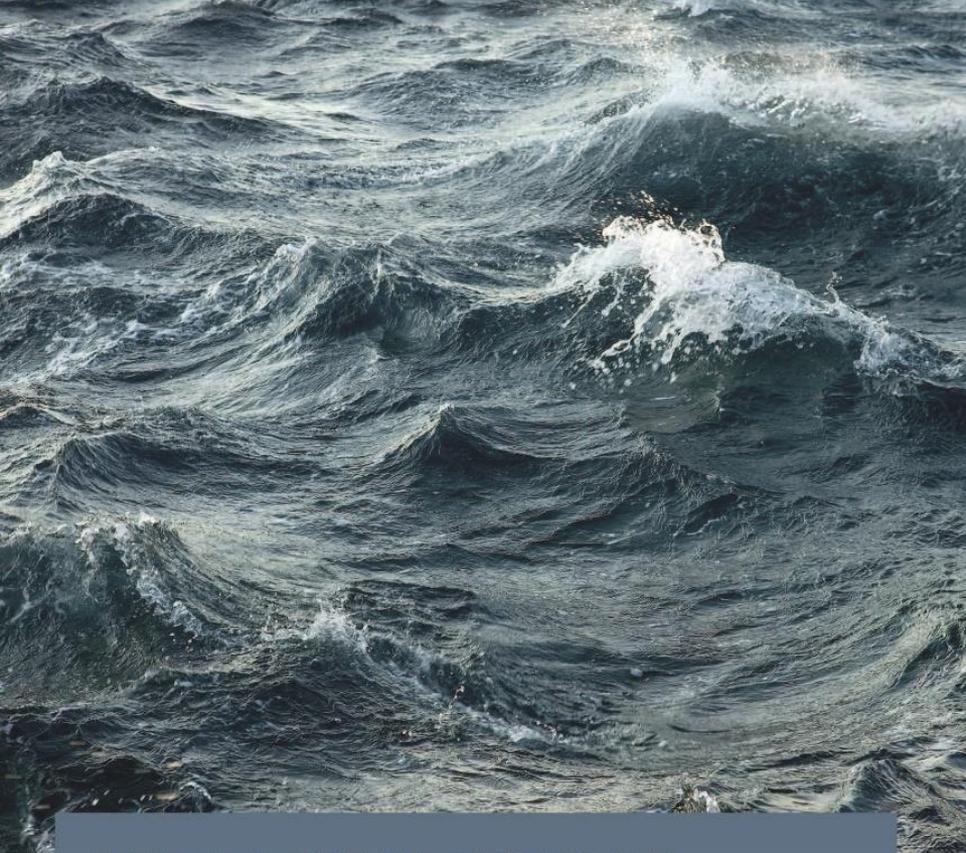
- Treaty policy of particular importance to protect Kenya's source tax basis
  - Finalize and put into force regional EAC multi-lateral treaty
  - Adopt, with partners, OECD MLI provisions for treaty abuse and indirect transfers
  - Consider carefully what provisions must be in new treaties, and which countries should be treaty partners
  - Withholding provisions for service and management fees
- Consider more risk based analysis and alternative pricing methods in TP
- Supplement current thin cap rule with “earnings stripping rule”
- Consider a CFC rule to protect tax base as outbound investment grows

# Belgium

Reviewing CIT and international provisions to promote growth and jobs while safeguarding revenue and reducing distortions

- Relatively high statutory and average effective CIT rate; relatively low marginal effective CIT rate
  - ...but EU directives are limiting various special regimes
  - Innovation box regime: Are there more efficient incentives?
- Current system provides a notional allowance for equity
  - concern is to reduce its use in international tax planning
- Replace special CIT rates for SMEs with a single rate?
- Proposed ways to achieve authorities' goals

# International Taxation and the Extractive Industries



# INTERNATIONAL TAXATION AND THE EXTRACTIVE INDUSTRIES

Edited by Philip Daniel,  
Michael Keen,  
Artur Swistak and  
Victor Thuronyi



 Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra  
  
Swiss Confederation  
  
Federal Department of Economic Affairs,  
Education and Research EAER  
State Secretariat for Economic Affairs SECO



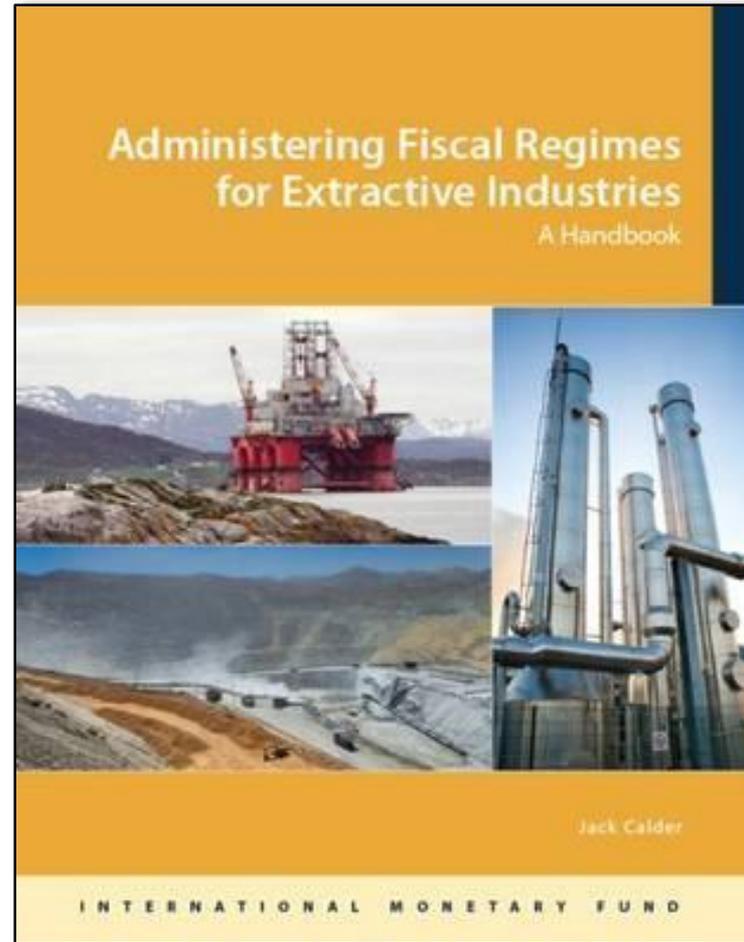
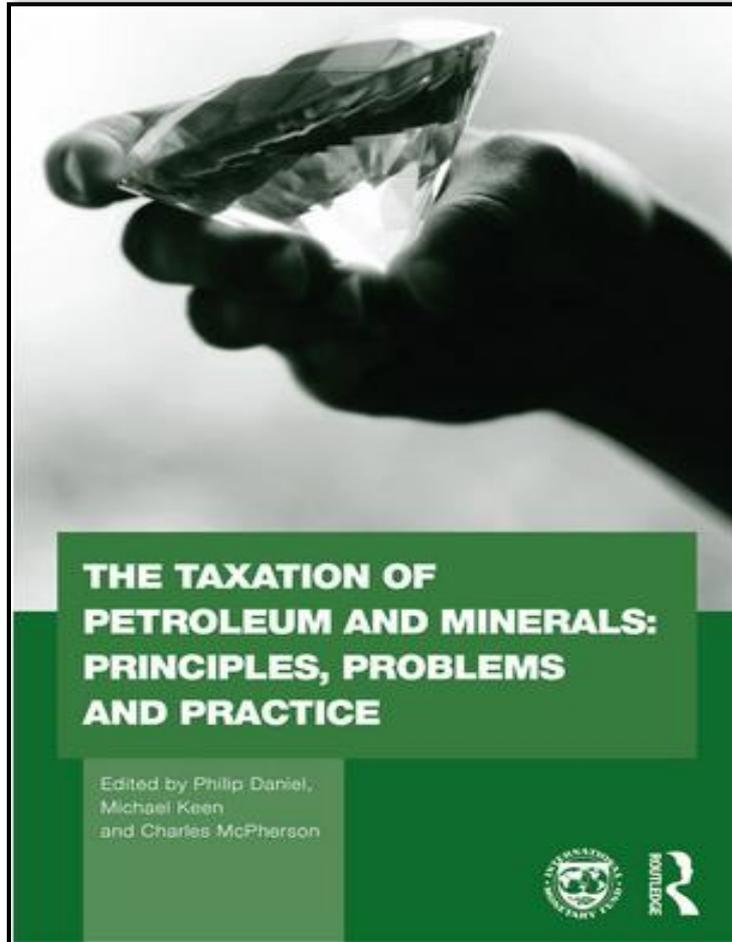
Ministry of Foreign Affairs of the  
Netherlands

**MNRW**  
TRUST FUND



Why this book?

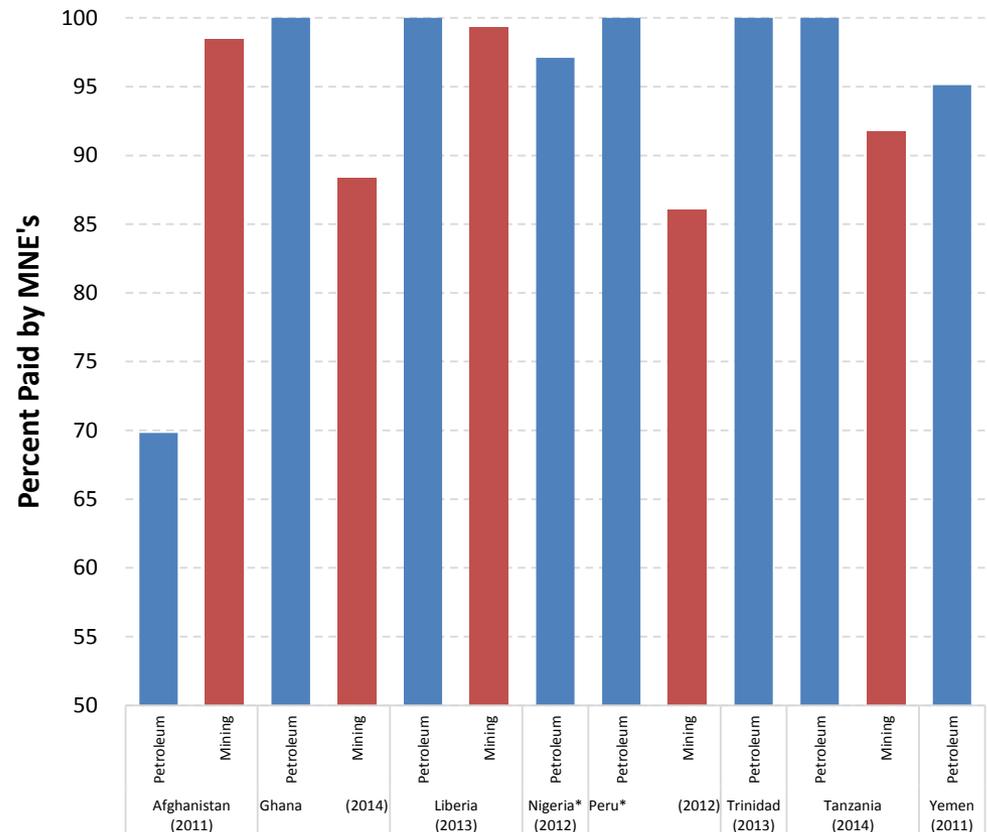
# Previous work touched on international issues



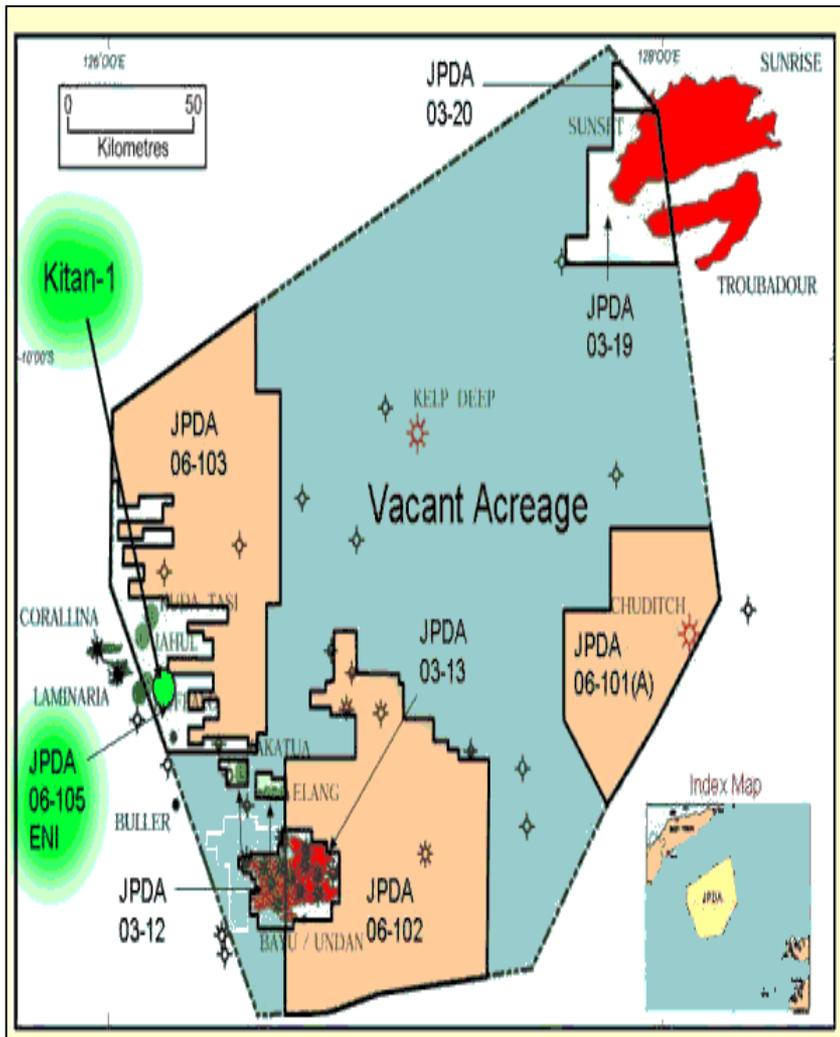
...but a detailed focus is warranted

# International tax issues central because...

- Multinationals' central role means full set of tax avoidance issues arises
- Tax competition may erode revenues



...and



- Deposits may cross national borders
- Cross-border infrastructure may be essential

# So the blue book addresses

- Problems in international taxation that are not unique to the EIs but loom especially large there
  - i.e. specific challenges from general issues
- Challenges of coordination/conflict from
  - Overlapping/ill-defined national property rights
  - Transportation infrastructure

All with a particular focus on developing countries

# GENERAL ISSUES, SPECIFIC CHALLENGES

# E.g. Transfer pricing (2): Specifics for EIs

- High tax rates raise the stakes
  - Including domestically
- Ease of valuing commodities varies widely
  - Special methods for valuing commodity transactions
- ‘Ring-fencing’ can amplify issues
  - Between sectors, and licenses or projects
- Not just an income tax issue: Royalties, cost recovery under PSA....

# SPECIAL/JURISDICTIONAL ISSUES

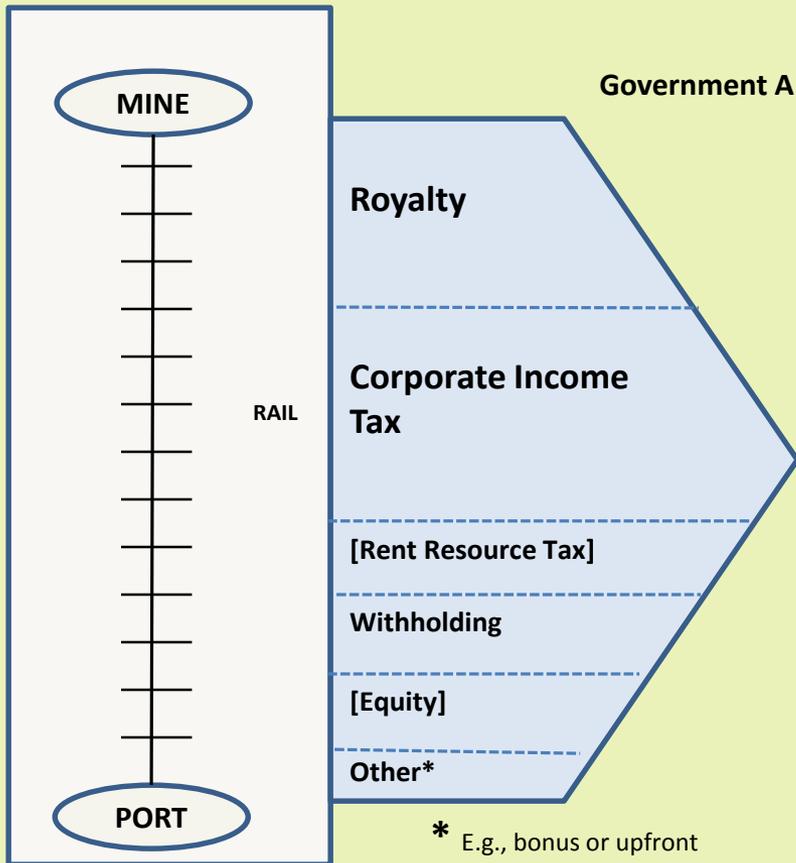
# Projects across (settled or disputed) boundaries



- Oil and gas fields don't respect international boundaries
  - International unitization agreement (IUA), where cross established boundary
  - Joint development zone (JDZ), where claims overlap
- Increasingly complex frameworks sometimes combine both (Timor-Leste/Australia)

# Cross border infrastructure

Project Company



\* E.g., bonus or upfront payments, fees, duties, social funds

Mineco

