Challenges for International Tax Administration – Pillar 2

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Global Minimum Tax: Administrative Challenges 1.

- The GMT creates several challenges for developing countries due to
  - Its complex and extensive regulations
  - Lack of clear tax policy direction in many countries
  - Significant pressure tax administrations experience
  - Major reform effort the introduction of the GMT creates
  - Political sensitivity around impact on FDI, and foreign MNEs
  - Perhaps unrealistic expectations from policy makers and the public concerning the revenue impact of the Pillar Two rules
  - Lack of properly functioning domestic and cross-border exchange of information (EOI) or automatic exchange of information (AEOI)

Global Minimum Tax: Administrative Challenges 2.

- Low-Income Countries have weak general capabilities to deal with international taxation
  - no reform capacities
  - absence of qualified workforce (tax accountants, international tax experts, data analysts)
  - lack of robust compliance risk management processes
  - no experience with auditing complex cross border transactions and arrangements
  - no dedicated LTO/unit or work program
  - limited cooperation and coordination with foreign tax administrations
  - weak dispute resolution/certainty processes in complex tax areas

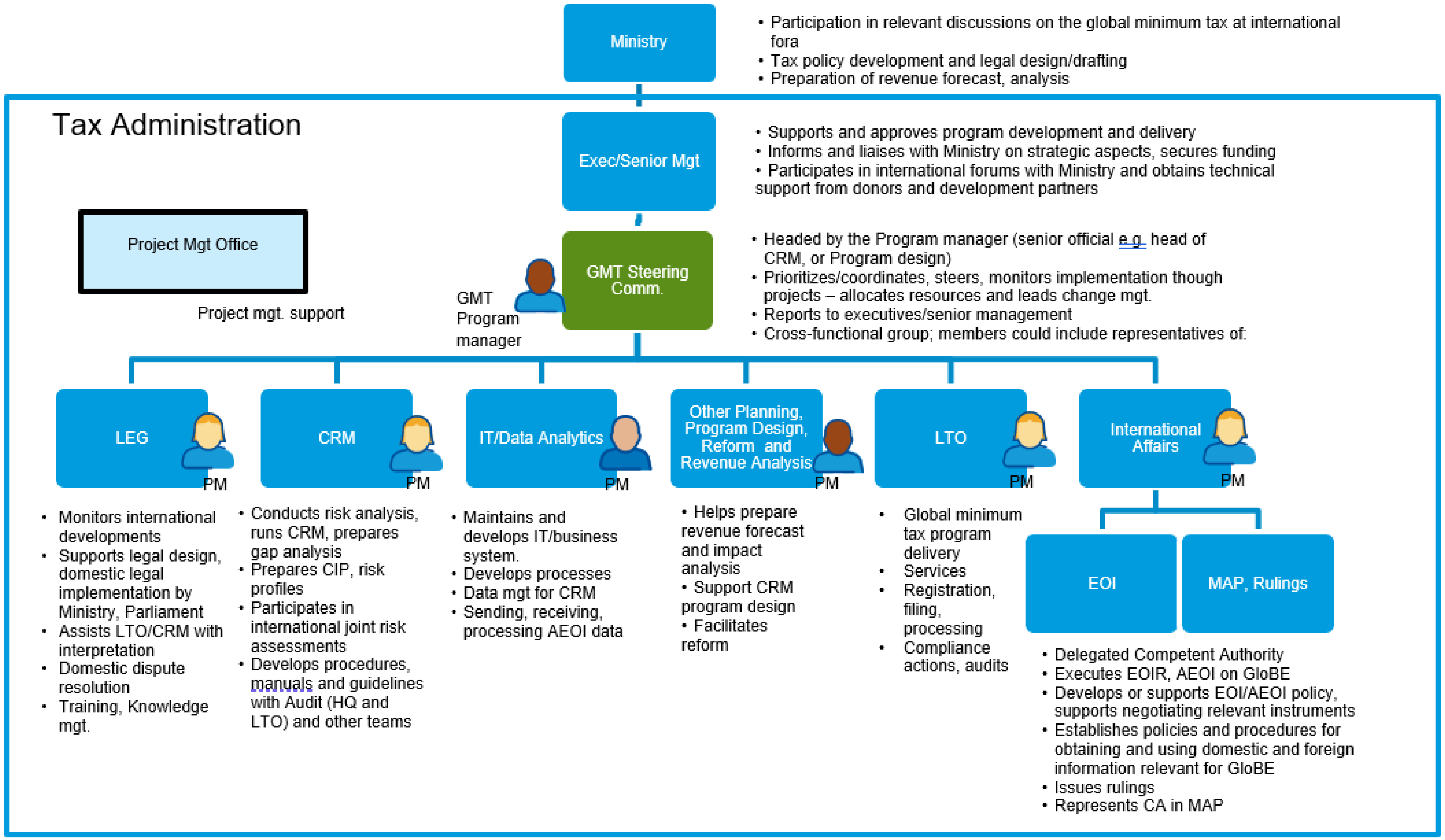
Recommended Tax Administration Actions for the Implementation of the Global Minium Tax

- Proactively engage the tax policy team and provide support to formulate the government's position on the global minimum tax.
- Develop a structured and comprehensive process to identify in-scope MNEs and estimate their ETR.
- Cooperate with the legislative team to support domestic law implementation including administrative provisions.
- Draft and execute a robust minimum tax implementation plan.
- Establish a governance and project management framework to plan, monitor, and execute implementation tasks.
- Identify stakeholders, prepare a communication, and outreach strategy and execute it.
- Identify and adjust the necessary processes, and systems.
- Update workforce plans to address new HR demands.
- Review organizational arrangements.
- Adjust or develop a formal CRM process to systematically identify, assess, analyze, and treat minimum tax-related compliance risks.
- Assess availability of data and if needed identify new data sources for gmt-related CRM.
- Build and integrate international tax CRM into their existing CRM structure.

GMT Implementation Plan

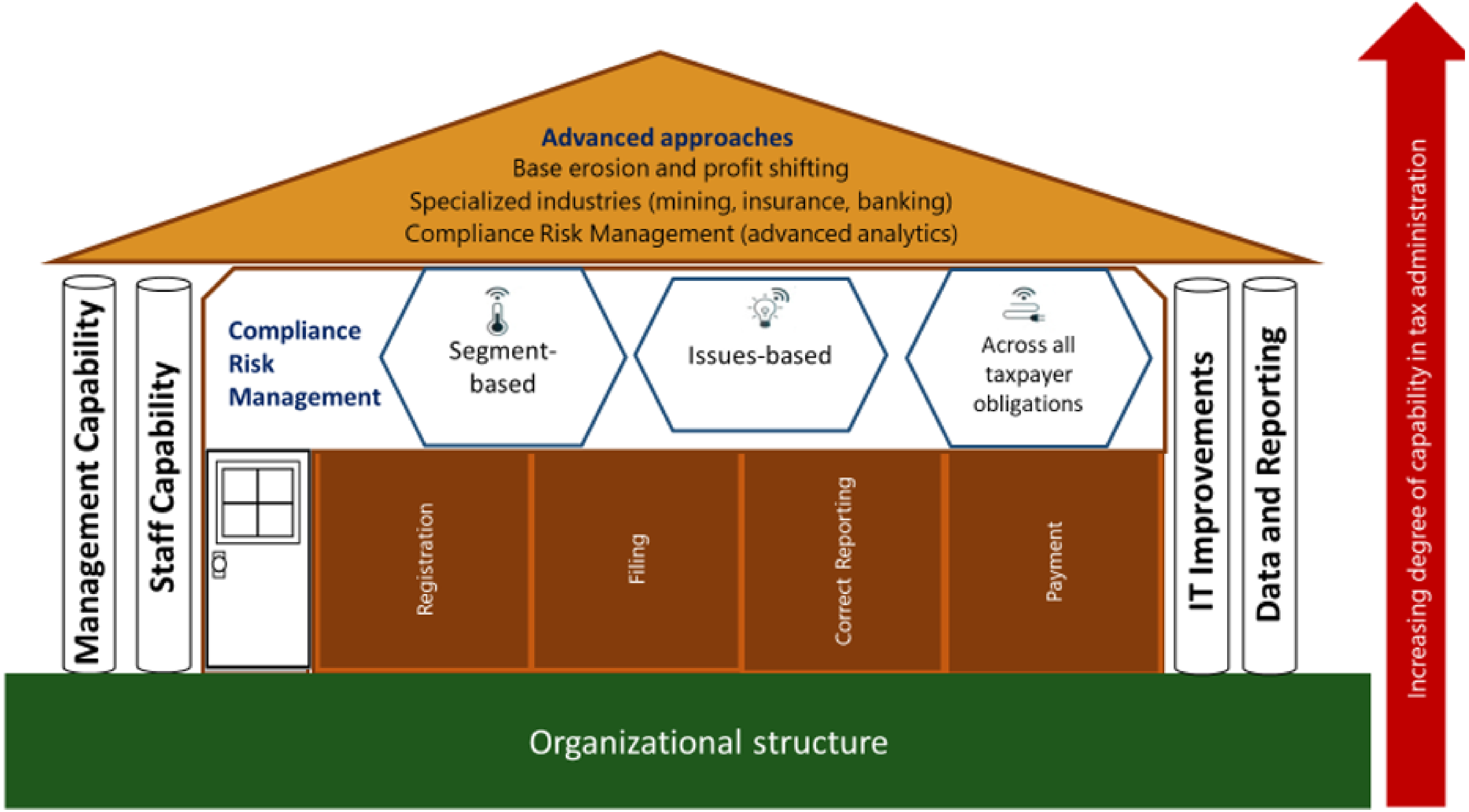
- An implementation plan is needed.
- Should be reviewed and approved by the executive team.
- Might also need to be sanctioned by the responsible ministry or the government.
- Throughout the planning and implementation, strong and continuous engagement between the executive leadership team of the tax administration and the ministry (and the government) is needed to ensure alignment between the tax policy, legal and administrative workstreams, political support (which is fundamental since the global minimum tax may affect existing tax and investment incentives, MNEs and FDI in countries), adequate funding, and oversight.

Governance Framework (Illustration)

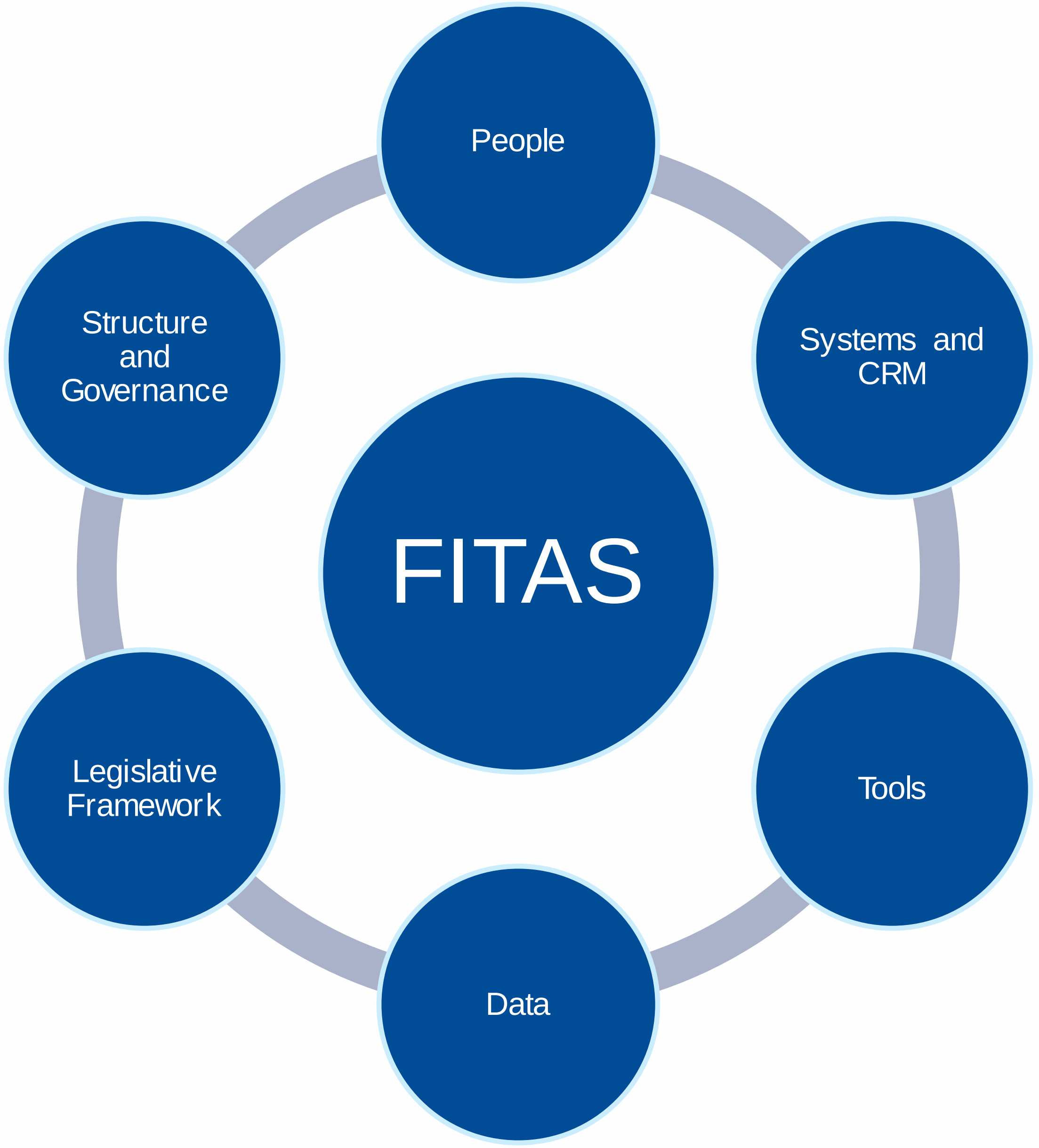


The IMF FITAS

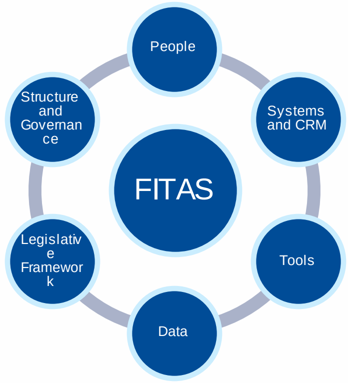
Building a Strong Foundation in Tax Administration to Manage International Tax Risks



The IMF's Approach to Build Capacity in International Taxation

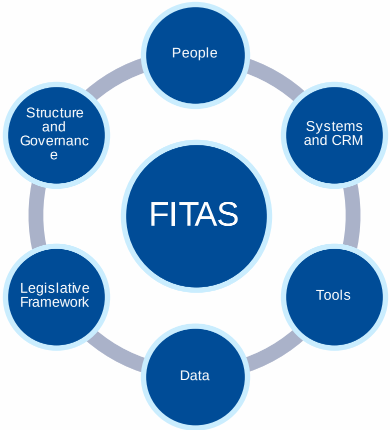


- Evaluation of the current readiness to effectively manage international tax risks.
- Questionnaire approach to help assess a country's progression toward good practice for each of the 28 elements within the 6 categories of the FITAS.
- Provides examples of the capabilities expected in each category and element.
- Three assessment ratings representing the levels of capacity development E = Emerging; P = Progressing; and GP = established Good Practice.
- Upcoming paper (under final pre-publication review)



The IMF's Approach to Build Capacity in International Taxation – Example on People

CATEGORY		EMERGING	PROGRESSING	ESTABLISHED Good Practice
People	P1 **Analytics Capability** Use of data analytics and profiling tools	▪ Staff not assigned to international tax analytics and profiling ▪ No or limited skills exist ▪ No targeted recruitment of staff with relevant skills and qualifications	▪ Staff perform analytics and profiling but do not specialize ▪ Some skills on basic tools, e.g., Excel and pivot tables ▪ Limited staff with relevant skills and qualifications	▪ Specialist full time analytics team ▪ Basic skills for all staff ▪ Advanced skills, such as on design of risk algorithms and use of Big Data, for specialists ▪ Skilled staff are recruited and assigned to specialist teams
	P2 **International Audit Experience**	▪ Few cases are selected, and staff do not specialize, so have little or no experience ▪ Cases may not be selected based on international risks and may tend to involve simpler matters. Complex international matters often unactioned	▪ Staff have some experience in addressing less complex international tax risks, and good domestic skills in audit ▪ Some complex cases may not be actioned due to limited staff with required skills ▪ Most/all cases are handled by individual auditors	▪ Staff are skilled in addressing complex international tax risk issues within an audit ▪ Some staff have specialist expertise in complex topics, industry specific issues and international relations such as MAP, treaty negotiations and Advanced Pricing Arrangements (APAs) ▪ Major cases are actioned by multi-disciplinary teams



The IMF's Approach to Build Capacity in International Taxation – Example on CRM

CATEGORY		EMERGING	PROGRESSING	ESTABLISHED Good Practice
Systems and Compliance Risk Management (CRM)	S1 **Support for International Risk Assessment in Case Work**	▪ International tax risks found after case work begins ▪ Cases are not able to be auto selected on the basis of international risks markers ▪ Taxpayer profiling is manual drawing on data from a number of systems/sources ▪ Links between related entities are not able to be identified using systems or mapped using suitable software	▪ Some cases auto selected using international risk markers and information about the risks identified are provided to case officer ▪ Limited information available to case officers on international dealings and corporate groups ▪ More analysis using advanced analytics and wider data sets needed to support risk analysis and field work, including information about make-up of corporate groups and related party dealings	▪ International risk markers are well developed, cases are selected using algorithms reflecting this understanding and case officers are provided with full details of risks identified ▪ Case officers are provided with an automatically generated case profile, including risks identified, corporate structures and related party dealings ▪ Software is available to map relationships and flows of funds

A FITAS assessment would give countries an integrated and comprehensive picture of where a tax administration stands

It is useful underlying information for preparing a plan to strengthen capacity in international tax administration

The IMF stands ready to support countries in this process.

Category	Element	Rating[1] E	P	GP	Overall Rating by Category
People	P1-Analytics Capability	x			P
	P2-International Audit Experience	x			
	P3-Resource Availability and Adequacy		x		
	P4-International Tax Specialist Training		x		
	P5-Treaty Application and Negotiation		x		
Systems and Compliance Risk Management (CRM)	S1-Support for international risk assessment in case work	x			P
	S2- International risk markers and case selection algorithms		x		
	S3-Exchange of Information (EOI)			x	
	S4-Data Onboarding and Bulk Data Analysis		x		
	S5-Data Storage Capacity		x		
	S6-Compliance Risk Management				
Tools	T1- International Tax CRM	x			E
	T2-Policies and Procedures	x			
	T3-Audit Tools	x			
	T4-International Relations	x			
	T5-International Cooperative Forums		x		
Data	D1-Access to Data	x			E
	D2-Information Security		x		
	D3-Data to Support CRM	x			
	D4-Managing Data related to international cooperative forum membership		x		
Legislative Framework	L1-Domestic Laws			x	P
	L2-Network of Bilateral Agreements		x		
	L3-Domestic Information Reporting by Taxpayers		x		
	L4-Information Security		x		
	L5-Participation in International Cooperative Forums		x		
Organization Structure and Governance	O1-Organization Structure to Manage International Tax Matters		x		P
	O2-Resources Assigned	x			
	O3-Governance and Monitoring		x		

Thank you!

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Strengthening International Tax Capacity

FROM

- Limited skilled & specialized staff resources
- Strong economic/political influence by MNEs
- Limited access to data (e-filing, CBCR, AEOI, third party information, comparable benchmarks) and security concerns
- Weak or partial CRM in place
- Inadequate procedural, judicial or legislative clarity, especially when it comes to international tax

TO

- Hiring, training, and retaining specialized people in international taxation (competition from the private sector) and more broadly (IT skills, CRM/analysis)
- Increasing autonomy and strengthening governance to safeguard tax administrations from political influence
- Building solid IT systems, data gathering, and analytical skills with solid cybersecurity
- Adopting a full CRM model
- Enacting legislation to address potential areas of tax leakage

Illustration