



**FISCAL AFFAIRS**

# **13<sup>th</sup> IMF- Japan High-Level Tax Conference for Asian Countries**

## **Pillar Two: Implications & Responses**

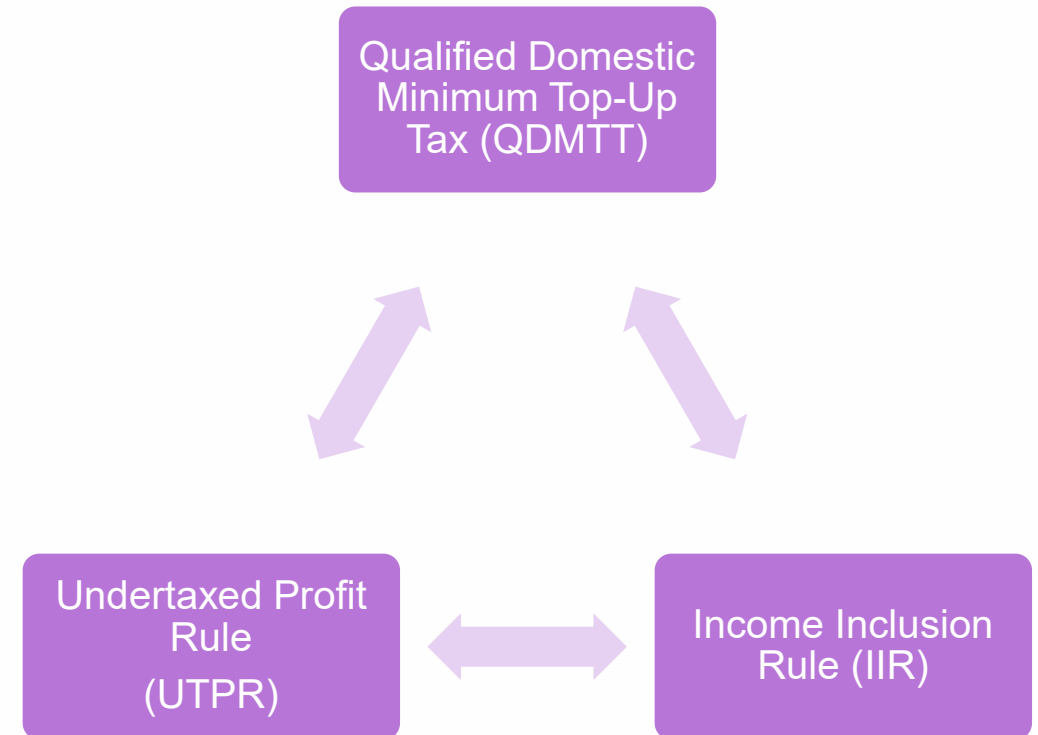
April 25, 2024

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# BEPS and Pillar 2

- **BEPS 1.0** addressed egregious forms of profit shifting, but left the international tax system unchanged
- **Two-pillar solution** is major departure from century-old norms
  - P1: formulary – destination-based
  - P2: coordination on minimum rate
- **Pillar 2** sets minimum effective tax rate at 15%
  - Combination of GloBE rules
  - Optional for countries – no mandated minimum
  - Common approach – accept rules by others



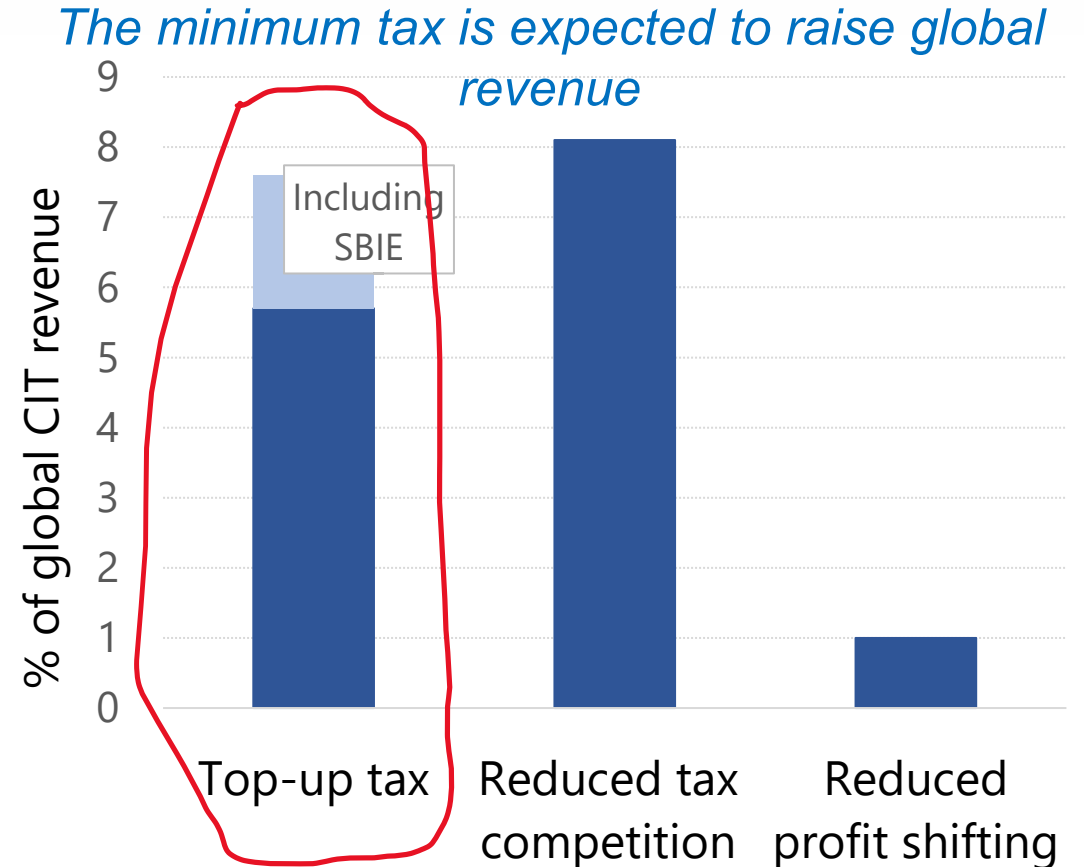
# Progress with implementation P2

Final Legislation		Draft Legislation		Intention	
European Union	QDMTT, IIR, UTPR	<b>Australia</b>	<b>QDMTT, IIR, UTPR</b>	Bahamas	
<b>Japan</b>	<b>IIR</b>	Barbados	QDMTT	<b>Hong Kong SAR</b>	
<b>Malaysia</b>	<b>QDMTT, IIR</b>	Canada	QDMTT, IIR	<b>Indonesia</b>	
Mauritius	QDMTT	<b>New Zealand</b>	<b>IIR, UTPR</b>	<b>Singapore</b>	
<b>South Korea</b>	<b>IIR, UTPR</b>	South Africa	QDMTT, IIR	<b>Thailand</b>	
Switzerland	QDMTT	Switzerland	IIR, UTPR		
Norway	QDMTT, IIR	UK	UTPR		
UK	QDMTT, IIR				
<b>Vietnam</b>	<b>QDMTT, IIR</b>				

Source: Earnst & Young Pillar 2 Tracker

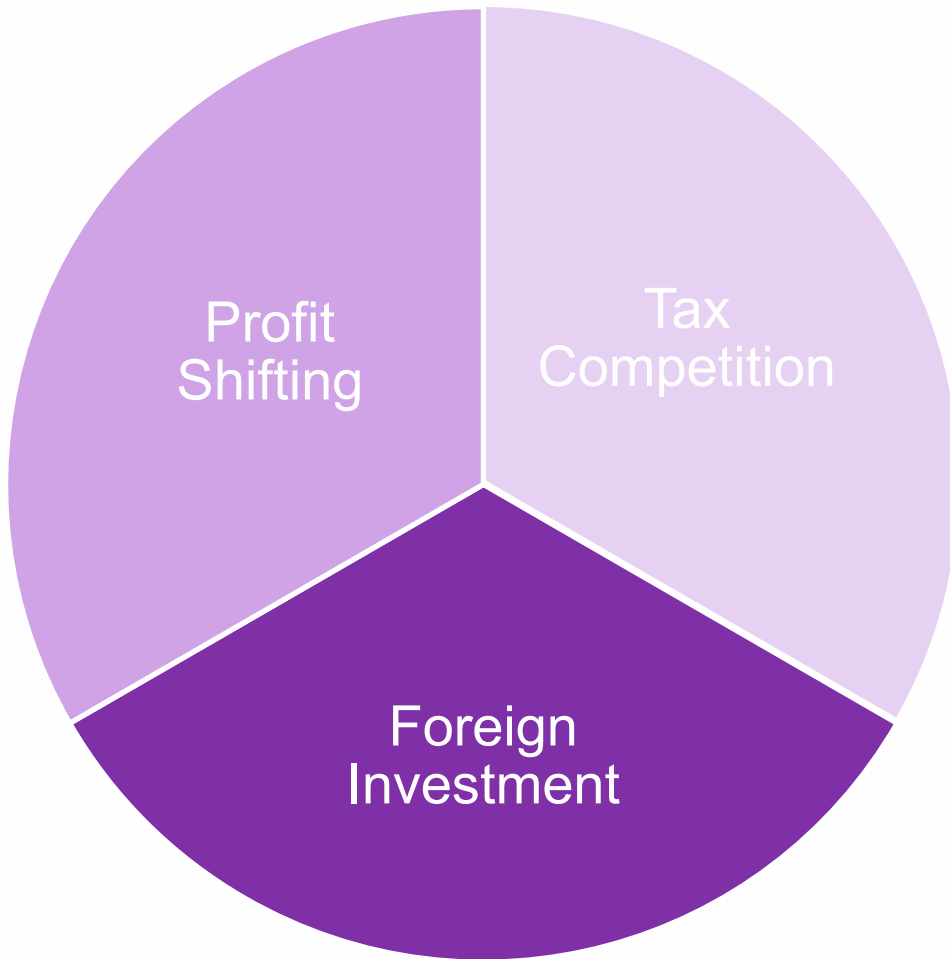
# Direct revenue effect from P2


- **P2 raises approximately \$150 bn globally in direct revenue (≈ 6% CIT or 0.15% GDP)**
  - ▶ Closer to \$200 bn without SBIE
  - ▶ Approximately similar in latest OECD update
- **Country-specific revenue effect is harder to predict as depends on**
  - ▶ What GloBE rules a country itself adopts
  - ▶ What GloBE rules all other countries adopt
  - ▶ How will firms respond
  - ▶ How other countries change domestic policies
  - ▶ How country itself will change its policies
- If there is no response and all countries adopt the QDMTT, **low-tax countries** will get the revenue



Source: IMF (2023) and IMF (2022).

# Dynamic Effects Critical



 INTERNATIONAL MONETARY FUND

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February 2023

### INTERNATIONAL CORPORATE TAX REFORM

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document(s) have been released and are included in this package:

The report prepared by IMF staff and presented to the Executive Board in an informal session on January 20, 2023. Such informal sessions are used to brief Executive Directors on policy issues. No decisions are taken at these informal sessions. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

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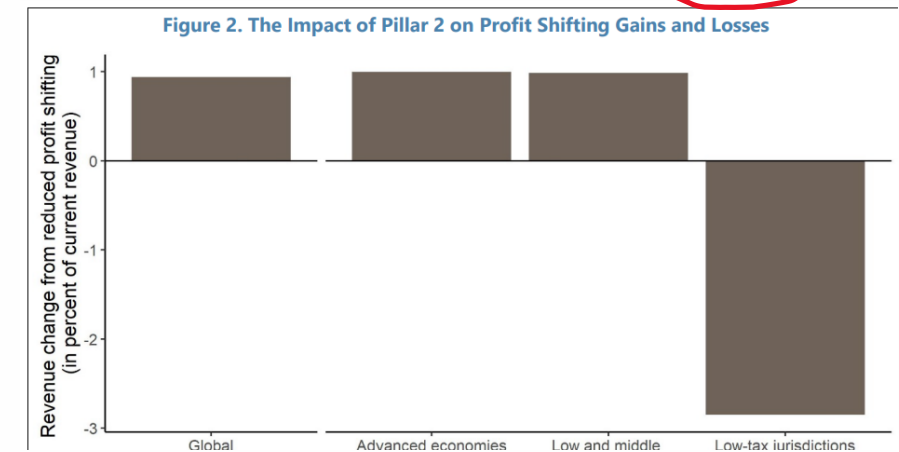
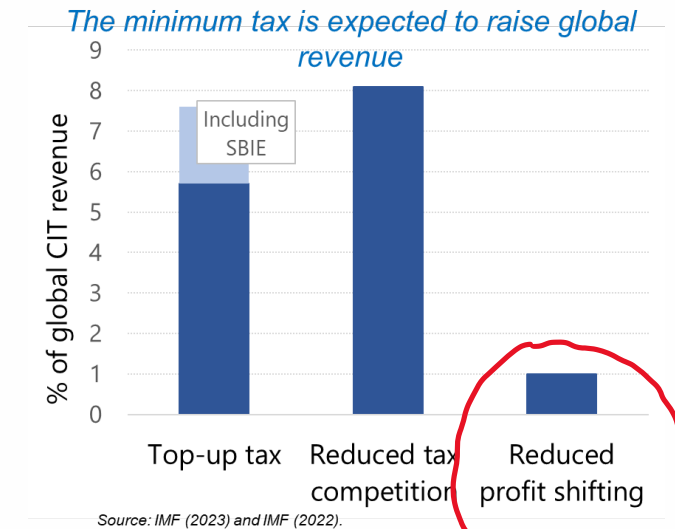
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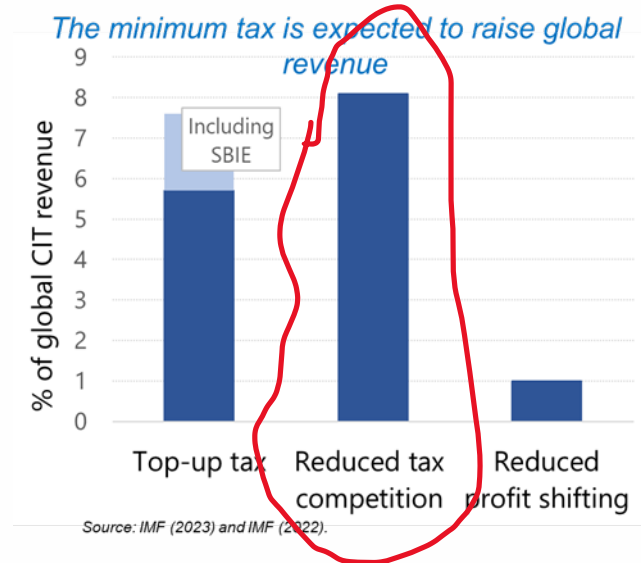
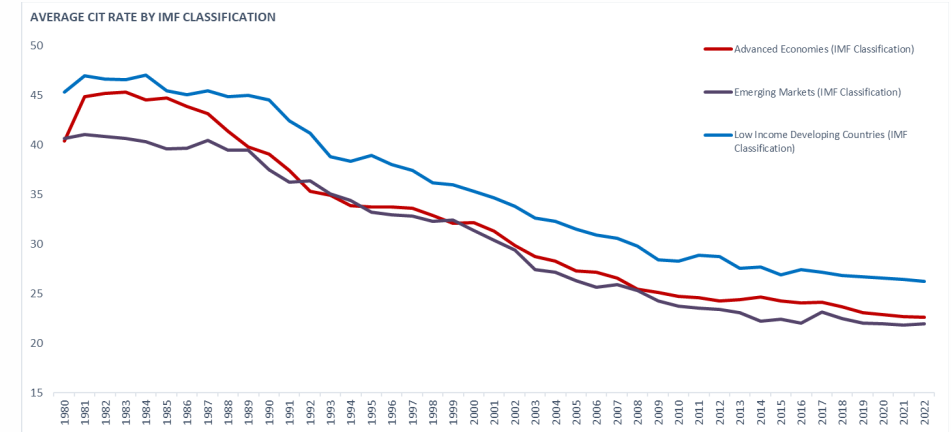
# Effects on profit shifting

- **Profit shifting causes global revenue loss**
  - ▶ Estimates vary, but might be \$200 bn
- **Profit shifting to countries with effective tax rates < 15% will decline as offset by top-up tax**
  - ▶ Using an average elasticity, this is estimated to add 1% of CIT in revenue (≈ \$25 bn globally)
  - ▶ Effect might be larger, as shifting tends to rise more than proportionally in the tax rate differential (raising the lowest rates has bigger effect)
- **Effect varies by country**
  - ▶ Largest in countries with high CIT rates
  - ▶ Low-tax jurisdictions might see their tax base decrease



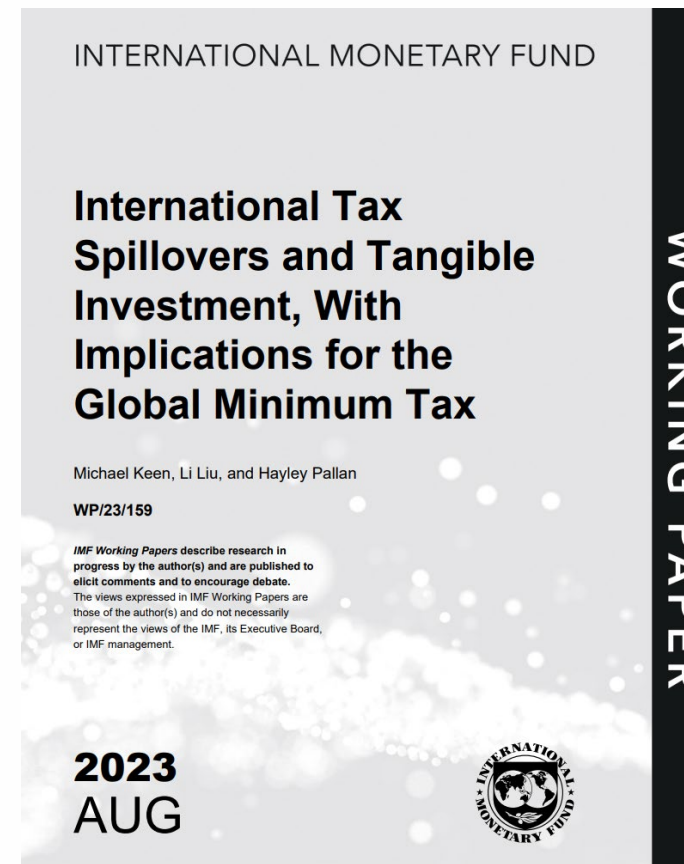
# Effects on tax competition

- **Countries undercutting each other to attract tax base (or prevent eroding their tax base)**
  - ▶ Rates declined from > 40% in 1980 to < 25% today
  - ▶ 15 countries have no CIT; 20 have < 15%
  - ▶ Countries use ample tax incentives that reduce the rate < 15%
- **Impact of GloBE**
  - ▶ Low-tax countries will likely respond – introducing QDMTT, remove tax incentives
  - ▶ High-tax countries may subsequently respond to the reduced pressure of tax competition – tax rates as strategic complements (Keen and Hebous 2021)
- **Estimated impact > 8% of CIT revenue (> \$200 bn)**
  - ▶ In the new equilibrium, high- and low-tax countries increase rates by almost 2pp



# Effects on foreign investment

- **Effect of GMT on global foreign investment likely small**
  - ▶ All other countries raise their taxes too
  - ▶ Note that UNCTAD estimates a larger decline 1-4% ↓
- **Relocation effect might be bigger**
  - ▶ Low-tax countries will lose competitive advantage, while high-tax countries gain
  - ▶ **Keen, Liu and Palan (2023)** – using foreign affiliate investment (= real capital)
    - High and large effect of statutory rate in host country on real investment: semi-elasticity of  $-3.6$  is much larger than previous studies





# How should (large) advanced countries respond?

## 1. What GloBE rules to adopt?

- IIR and UTPR – to enforce the minimum tax
- QDMTT typically desirable, but less if tax rate high

## 2. How to modify domestic policy?

- Reconsider tax incentives, e.g. for R&D
- Recalibrate the CIT rate

## 3. How to deal with tax administration?

- Expand international tax division

# How should developing countries respond?

## 1. What GloBE rules to adopt?

- QDMTT typically desirable
- IIR and UTPR – country-specific assessment needed

## 2. How to modify domestic policy?

- Reconsider investment tax incentives
- Recalibrate the CIT rate
- Assess (existing) alternative minimum tax

## 3. How to deal with tax administration?

- Build basic capacity to deal with international tax issues (see new IMF tool – FITAS)
- Carefully assess the role of tax treaties

# How should investment hubs respond?

## What GloBE rules to adopt?

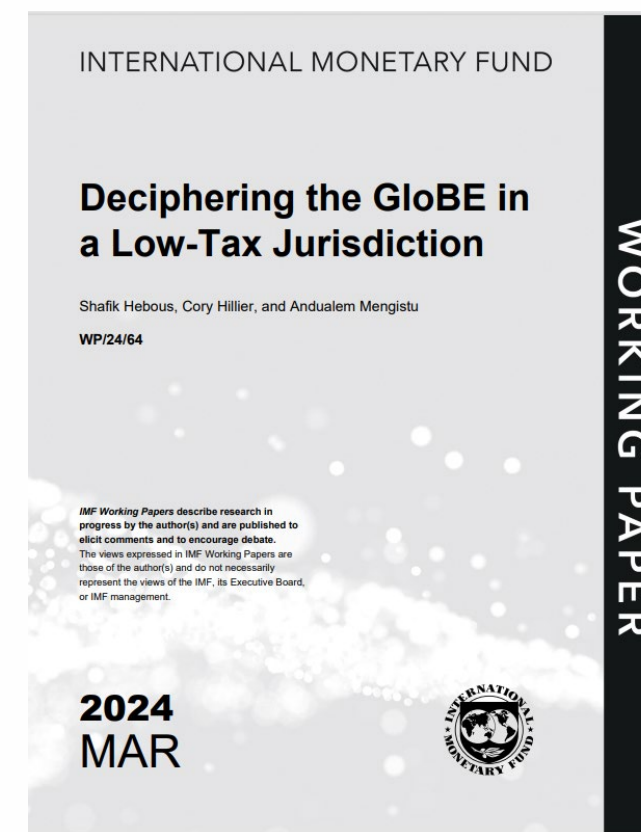
- QDMTT typically desirable – can significantly boost revenue
- IIR and UTPR require case-by-case assessment

## How to modify domestic policy?

- If no CIT, consider introducing one, plus QDMTT (see new WP)
- Diversify the economy

## How to deal with tax administration?

- Build capacity to administer corporate tax





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**Thank You!**