

International Taxation:

The Impacts of the Global Minimum Tax (Pillar Two) on Tax Policies and Japan's Contribution to Capacity Building in Asian Countries

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Kenichi Nishikata

Director, International Tax Policy, Tax Bureau, MOF, Japan

What is this presentation all about?

- 1 **Impacts of the Global Minimum Tax
(Pillar Two) on Tax Policies**
- 2 **Japan's assistances for Asia-Pacific countries**

1 Impacts of Pillar Two in developing countries

I Overview of Pillar Two

II Implementation in Japan

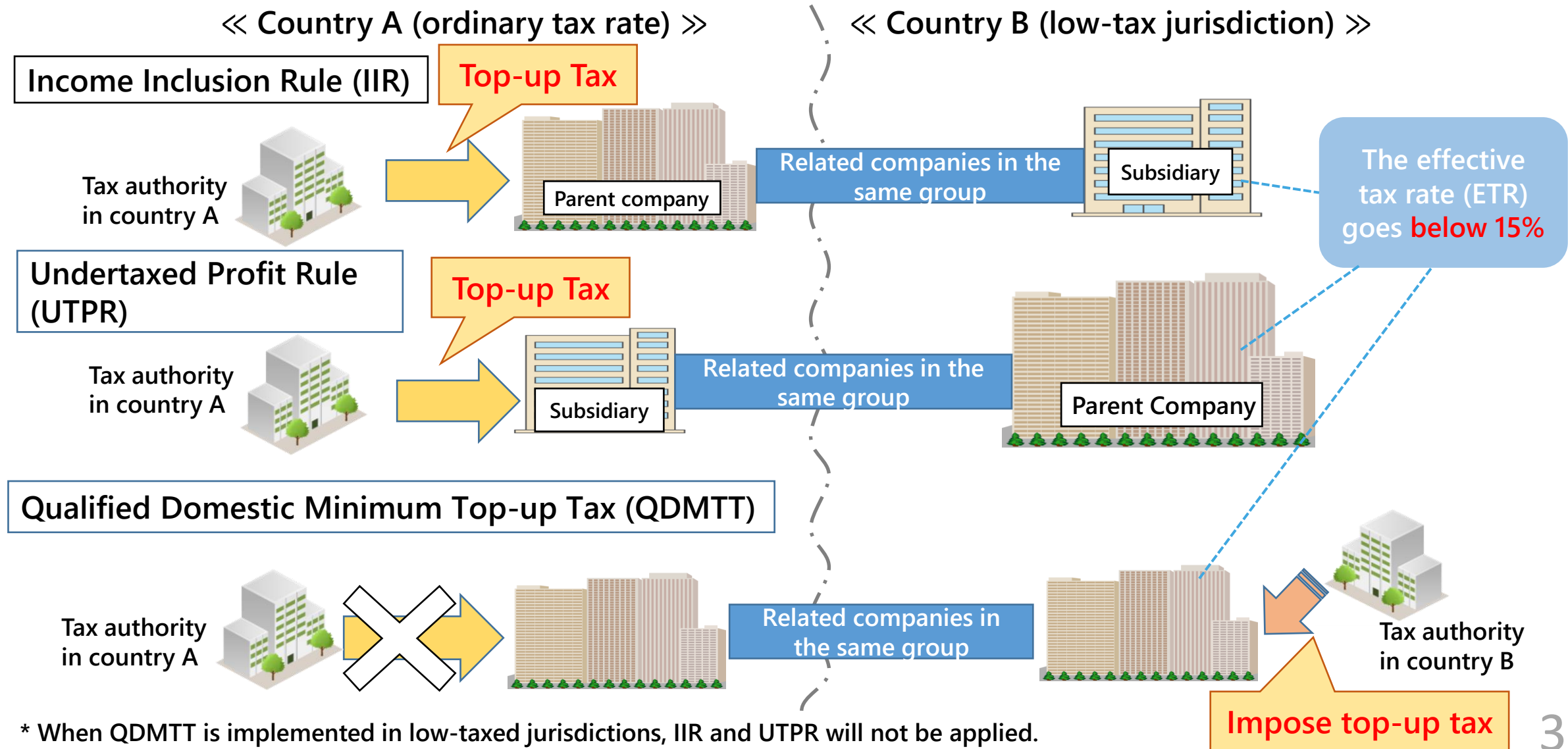
III A case scenario in a developing country

IV What are the implications for your tax policy?

V Time to Reconsider Tax Incentives to Attract MNEs

I Overview of Pillar Two

- Global Minimum Tax to globally ensure minimum effective tax rate of 15% in each country.
- Top-up taxes are imposed to bring the total amount of taxes paid on an MNE's profit in a jurisdiction up to the minimum rate of 15%



II Implementation in Japan

➤ In Japan,

- ✓ IIR : **already legislated in 2023**, to be applicable from the FY beginning in or after April 2024.
- ✓ UTPRs and QDMTTs : planned to be legislated in 2025.

➤ Curbs the “race to the bottom” in corporate taxation:

- ✓ Pillar 2 is supposed to ensure
 - ① the minimum effective tax rate (ETR) of 15% worldwide for the in-scope MNEs.
 - ② the level playing field for in-scope MNEs.

III A case scenario in a developing country

<What could happen to your country?>

A case scenario

1 A subsidiary of Japanese Multi-National Enterprises in your country enjoying several tax incentives in accordance with your FDI policy.

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2 The ETR (effective tax rate) of this subsidiary could go below the minimum tax rate of 15%.

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3 Then, Japan could impose the top-up tax on its parent company in Japan by its implementation of the IIR.

➔ This MNE as a group is not supposed to fully benefit from the tax incentives of your government.

IV What are the implications for your tax policy?

Excessive tax incentives bringing the ETR below 15% will no longer be effective and beneficial for in-scope MNEs.

It is advisable for any jurisdiction to introduce Qualified Domestic Minimum Top-up Tax (QDMTT) to protect its tax revenues from the imposition of IIR or UTPR by other jurisdictions

- To be “qualified” DMTT, it needs to be subject to **“peer review” conducted by the Inclusive Framework.**
- When a jurisdiction introduces QDMTT, other jurisdictions **cannot** impose IIR or UTPR on the same MNE.
- **Additional tax revenue** expected by the QDMTT.

* The global revenue increase providing by the Pillar 2 is estimated to be **USD 155-192 billion** by the OECD.

V Time to Reconsider Tax Incentives to Attract MNEs

It is time for any country to revisit the entire system of tax incentives to attract MNEs, as the global minimum tax could ease the pressures of tax competition with neighbors.

- "Tax incentives are often ineffective in attracting new investment and impose costs on society that go beyond the direct revenue forgone" (IMF Policy Paper, 2015)
- Tax incentives can cause distortion of the economy and administrative costs such as the management of incentives and prevention of fraudulent use. (IMF, Working Paper, 2009)

If a new subsidy is introduced as a direct substitute for the abolition of the conventional tax incentives to neutralize the impacts of the global minimum tax, **it could be regarded as violation of the rule of the Global Minimum Tax** in the peer review process.

The IMF and other multilateral development banks including the Asian Development Bank are ready and helpful to support such reconsideration of tax policies.

2 Japan's assistances for Asia-Pacific countries

I Key points in technical assistances

II Support through international organizations

III Bilateral support for strengthening capacity of tax administration

I Key points in technical assistances

<Possible Challenges for Developing Countries>

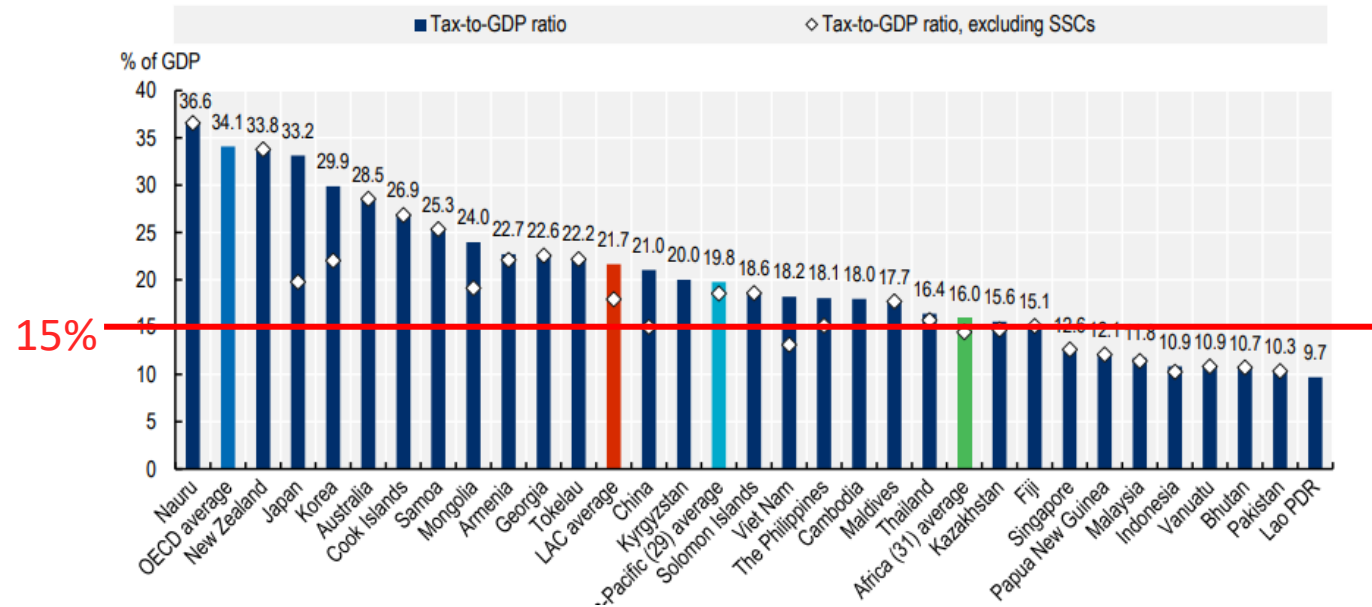
1. Over-reliance on **customs duties** and **individual indirect taxes**, and insufficient imposition of income tax (personal and corporate).
2. **Tax evasion and income inequality** due to **lack of progressive systems** and **effective capacity of tax administration**.
3. **Low tax revenues** (some countries are still below the 15% target of tax-to-GDP ratio)

Japan has contributed to the capacity building assistance through the IMF, World Bank, OECD, and Asian Development Bank (ADB)

DRM Target : 15%

Tax-to-GDP ratios in Asian and Pacific economies

Percentage of GDP

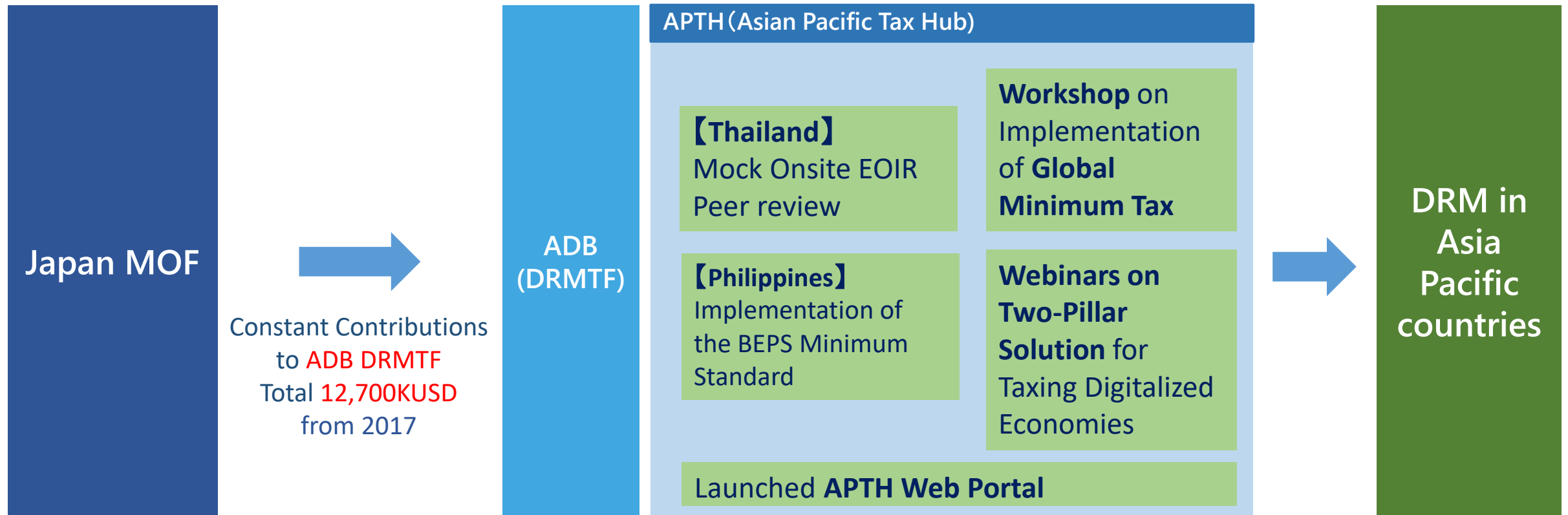


[Figure] Tax-to-GDP ratios in Asian and Pacific economies and regional averages, including and excluding social security contributions, 2021 ("Revenue Statistics in Asia and the Pacific STRENGTHENING PROPERTY TAXATION IN ASIA, OECD, 2023)

II Support through international organizations

APTH (Asian Pacific Tax Hub) hosted by the ADB

- Consists of **three** (3) building blocks: International Tax Cooperation (ITC), Medium-Term Revenue Strategy (MTRS), Automation
- Japan is contributing through the DRMTF (Domestic Resource Mobilization Trust Fund) of the ADB.



* Japan MOF also contributes to DRM through other international organizations (OECD, IMF, WB, PCT)

II Support through international organizations

APTH (Asian Pacific Tax Hub) hosted by the ADB

<Workshop on the implementation of **Global Minimum Tax**>

- The APTH organized a workshop, in collaboration with the Inland Revenue Board of Malaysia, OECD and SGATAR, with respect to the implementation of the Global Minimum Tax for the Asia-Pacific region.
- Sharing knowledge **among other international organizations and countries**

III Direct support for capacity of tax administration (NTA)

- The NTA (National Tax Agency, Japan) **dispatches NTA staff to developing countries** to conduct trainings and lectures. In 2022, it was held in Indonesia, the Philippines, and Vietnam.
- The NTA **also conducts training in Japan**, including training on **international taxation**.

Practicum at the NTA, Japan



<TADAT Workshop> **TADAT**

- Most recently, the NTA provides training program on tax administration and held discussions with a lot of Asian countries on how to assess the soundness of tax administration.
- Participants are involved in tax administration from Cambodia, Indonesia, Laos, Mongolia, Papua New Guinea, the Philippines, Thailand, Vietnam, Armenia, Azerbaijan, Bangladesh, Bhutan, Fiji, Georgia, Kyrgyzstan, Maldives, Samoa, Solomon Islands, and Pakistan.