

The 5th IMF-Japan High level Tax Conference for Asian Countries
“Emerging Taxation Issues for Asian Countries”

Opening Remarks by Mr. Shinohara
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It is my great pleasure to welcome you to the 5th IMF-Japan High Level Tax Conference for Asian Countries organized by our Fiscal Affairs Department, and the Japanese Ministry of Finance. I would like to thank our co-host, the Ministry of Finance, for its generous support to the conference, and staff of the Fiscal Affairs Department and Regional Office for Asia and the Pacific for their efforts for making this conference possible. I also thank the delegates from Australia, Hong Kong, and Singapore for volunteering to participate in the conference to share their experiences with other participants. I also welcome representatives of the OECD and Asian Development Bank.

This conference takes place at a time when fiscal policy needs to focus on rebuilding fiscal space as the recovery of the global economy is strengthening. This will allow automatic stabilizers to work fully, provide room for a discretionary fiscal response if needed, and ensure debt sustainability. Fiscal policy should also support broader policy objectives such as fostering inclusive growth and equity. Let me first say a few words on the recent development of fiscal conditions.

In most advanced economies, the pace of fiscal consolidation will slow in 2014 as average gross debt stabilizes and the focus appropriately shifts toward ensuring that the composition of adjustment supports the still fragile recovery. The main exception is Japan, where fiscal consolidation measures are starting this year, with the welcome first step in increasing the rate of the Consumption Tax (VAT). Among emerging market economies, deficits remain significantly above precrisis levels as most countries opted to postpone fiscal adjustment in 2014. In countries more closely integrated with international capital markets, the normalization of global liquidity conditions has begun to raise borrowing costs and financial volatility, giving yet greater urgency to fiscal consolidation. Fiscal space is shrinking in many low-income countries as revenue mobilization has lagged behind fast spending growth. Reduced availability of aid resources and commodity price volatility remain key risks for these economies.

So the question is how to rebuild fiscal space. Efforts should be made to step up the mobilization of domestic revenue, as well as to undertake reforms that will increase spending efficiency, including through the streamlining of subsidies. Let me discuss further these revenue mobilization issues, which of course are of particular interest and importance to you all. The key challenges are: How can taxation best respond to mounting spending needs in developing countries, and help bring down debt ratios in advanced economies? And how can

equity concerns be balanced—especially in hard times—with the efficiency that is needed to secure long-term growth?

Can countries tax more, better, more fairly? In emerging market economies and low-income countries, where the potential for raising revenue is often substantial, improving compliance remains a central challenge. Several advanced economies could still mobilize significant amounts while limiting distortions and adverse effects on growth. Broadening the base of the value-added tax ranks high in terms of economic efficiency almost everywhere and can in most cases be combined with adequate protection for the poor, though this can of course be a particular challenge in lower income economies. Reforming international taxation—high on the global fiscal agenda—will be hard but is especially important for developing countries, given their greater reliance on corporate taxation, with revenue from this source often coming from a handful of multinationals. And there is a strong case in most countries, advanced or developing, for rising substantially more from property taxes.

This conference will look in detail at some of the key issues that arise in addressing these revenue challenges, with a particular focus on those paramount in the region. Let me say a little about the importance of each.

Energy taxation: Many energy prices are set at levels that do not reflect environmental damages, notably global warming, local pollution and traffic congestion. In doing so, they forego an efficient way to meet revenue needs that are acute in many countries—or to reduce reliance on more damaging ways of raising revenue. In order to get the prices right, fiscal instruments must be center-stage in ‘correcting’ the major environmental side effects of energy use; taxes on coal, natural gas, gasoline, and diesel must reflect these environmental costs.

Regional harmonization of tax system: In the region, there are two regional economic associations, ASEAN and SAARC (South Asian Association for Regional Cooperation). While SAARC aims to form South Asian Free Trade Area (SAFTA), ASEAN will transform to ASEAN Economic Community (AEC) (ACM) in 2016. SAFTA and AEC focus on customs, and there are little discussions on how tax system should be harmonized at this stage. However, in looking to possible futures, it is important to learn lessons from efforts towards the coordination of tax systems in other regional economic communities. And all of its members need to pay close attention to WTO rules, which can place significant constraints on national tax system, especially in relation to tax incentives linked to exports.

Analytical tools to strengthen tax administration: the IMF’s Fiscal Affairs Department (FAD) is now promoting three important initiatives to help strengthen tax administration, including the Tax Administration Diagnostic Assessment Tool, otherwise known as TADAT. This tool—which now has its own secretariat, located in the Fund—has been strongly supported by the tax, development, and donor communities—including several regional organizations

of tax administrations, national tax administrations, the World Bank, as well as bilateral and multilateral donors. It is designed as a diagnostic tool to assess tax administration performance in an objective fashion, using an evidence-based approach that will identify the strengths and weaknesses of tax administrations. In doing so it will provide an assessment baseline that can be used to determine reform priorities and investments, and, with subsequent repeat assessments, highlight reform achievements.

Another important tax administration tool developed at FAD, RA-FIT, aims to collect comparative data on administrative structures, practices and results that can greatly assist national tax administrations. A presentation last year introduced the tool—this year we will learn some of the results from its first implementation.

International taxation: International aspects of corporate taxation, which have long arisen in IMF technical assistance, have come to prominence in public debate. Most notably the G20-OECD project on base erosion and profit shifting (BEPS) is an ambitious and constructive effort to strengthen the international corporate tax system. Building on the central role that the OECD has played in developing and maintaining that system, and its unique ability to draw on countries' knowledge and experience, the BEPS Action Plan aims to make progress on 15 areas by the latter part of 2015. This is an unprecedented effort, and one that is already having some effect on national tax policies and, perhaps, MNE behavior. Drawing on its own distinct perspective, coming from its near-universal membership, technical assistance expertise and strong analytical capability, the IMF is complementing current initiatives by identifying and analyzing macro-relevant spillovers arising through international corporate taxation—under both present and possibly reformed arrangements. Among the key issues we are addressing in this work are assessing the importance of international corporate tax spillovers matter for macroeconomic performance, and reflecting on how they can best be addressed.

Taxation of High Income and Wealth Individuals: The issue is here how countries can achieve their desired degree of progressivity in tax design. Policy options include the shaping of the progressivity of Personal Income Tax, reviewing the efficient taxation of capital incomes; and deciding the proper role of inheritance and wealth taxes.

In closing, I am happy to inform you that this year marks a number of special anniversaries for us here at the IMF. It is the 70th anniversary of the Bretton Woods conference that gave birth to the IMF; and it is the 50th anniversary of the creation of the Fiscal Affairs Department. Fifty years ago, our predecessors at the Fund decided that macroeconomic and financial stability could not be achieved by relying solely on monetary and exchange rate policies; we also needed to strengthen our fiscal policy capacity—and hence the creation of the Fiscal Affairs Department in 1964. Clearly, as we look at the fiscal challenges the world still faces, there is plenty more work for FAD to do.

I wish you all productive discussions.