

# THE IMPORTANCE OF INTERNATIONAL TAX ISSUES FOR DEVELOPING COUNTRIES



Michael Keen

Tokyo, April 9 2015

See IMF (2014), “Spillovers in international corporate taxation”

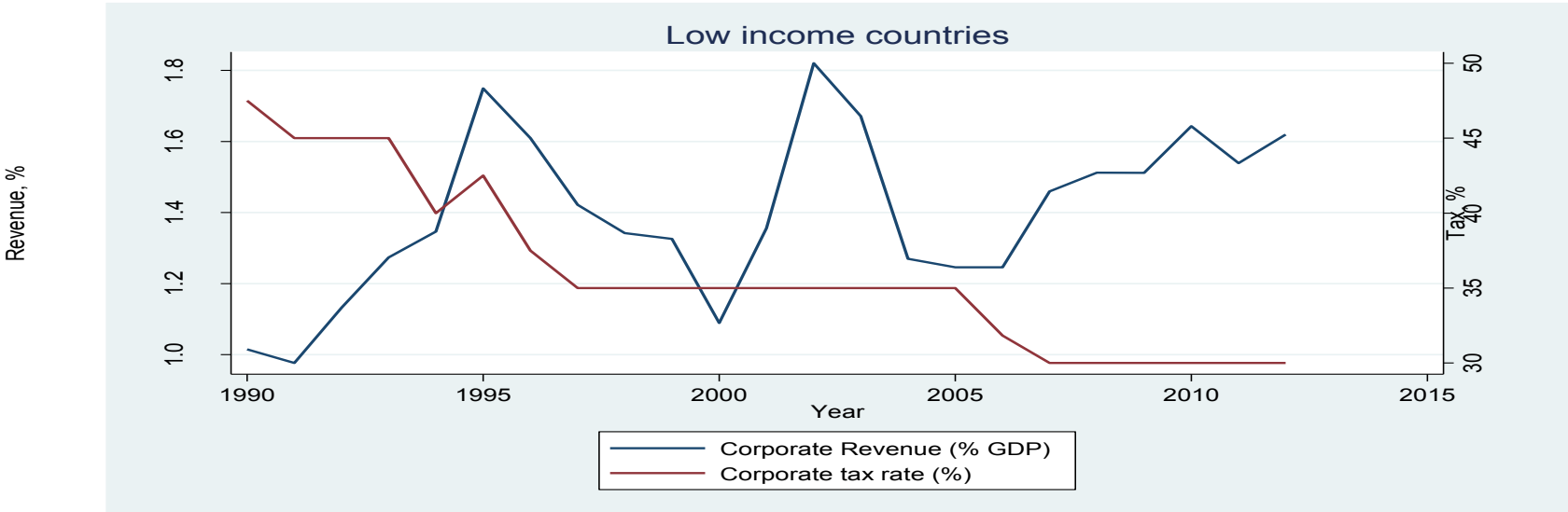
Views are mine alone

Context

# Three intertwined issues

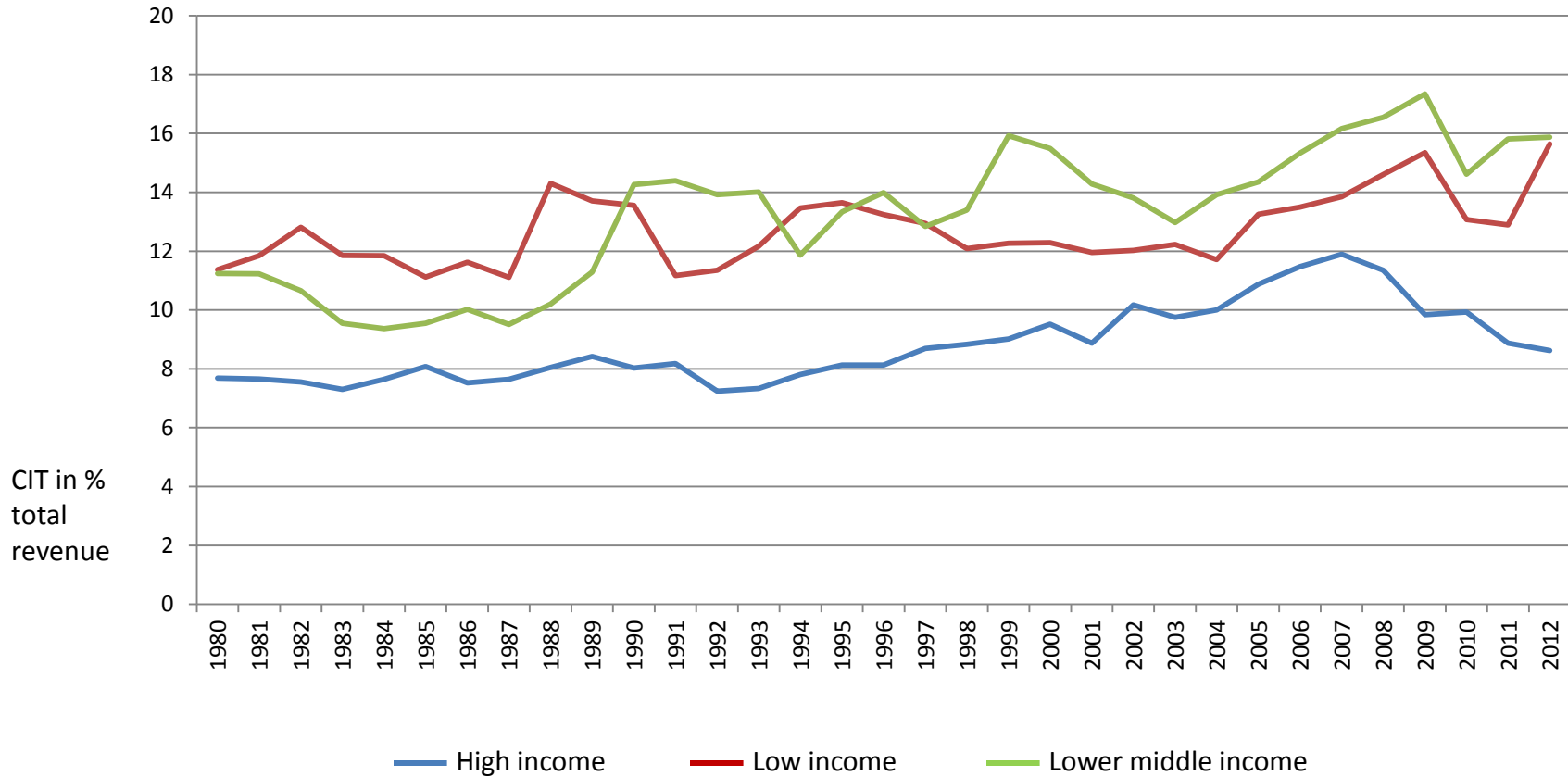
- Tax avoidance
  - Exploiting rules to reduce liability
  - The focus of the BEPS project, and of this presentation
- Tax competition
  - Strategic tax setting by governments to reflect and exploit real and/or avoidance responses
  - An overarching issue
- Structure of the international tax system
  - Allocation of taxing powers, use of Arms Length Pricing, formula apportionment (in federal countries, CCTB proposal)...

# Perspective: CIT rates and revenue



Importance for developing countries

# 1. More reliant on CIT revenue

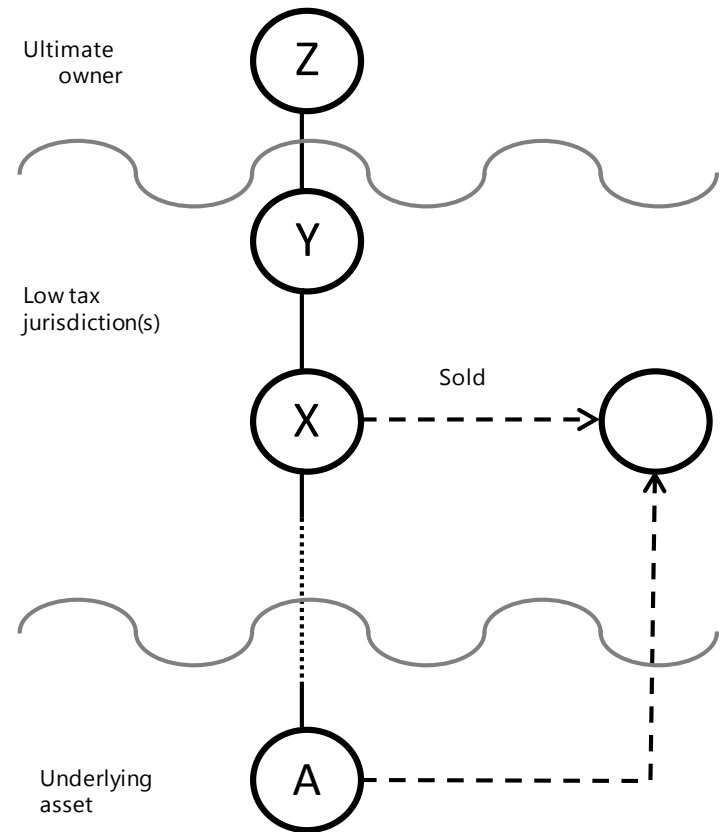


...and fewer alternative revenue sources

## 2. Even single cases can be macro-relevant

Most often in relation to  
“Indirect transfers of  
assets”

- Especially but not only in  
the extractive industries



### 3. 'Base spillovers' seem strong

	All	OECD	Non-OECD	Low and Middle Income
	(1)	(2)	(3)	(4)
CIT Base, lagged	0.7337***	0.6041***	0.5271***	0.4994***
Own CIT rate	-0.0839**	-0.0747*	-0.1649***	-0.2580***
<b>Spillover</b>	<b>0.2973***</b>	<b>0.1051*</b>	<b>0.2908**</b>	<b>0.3119**</b>

Source: Crivelli, de Mooij and Keen (2015): revising IMF (2014).

Note: Spillover is from 'haven-weighted' tax rates.



Getting granular

# Common topic in IMF technical assistance

- Transfer pricing (TP)
  - Bangladesh, Burkina Faso, Cambodia, Colombia, Dominican Republic, Egypt, El Salvador, Ethiopia, Greece, Guatemala, Malawi, Mauritania, Mongolia, Nicaragua, Panama, Ukraine
- Treaties
  - Burkina Faso, Costa Rica, Dominican Republic, Egypt, El Salvador, Georgia, Honduras, Indonesia, Malawi, Mauritania, Mongolia, Nepal, Panama, Uganda
- Capital gains across borders
  - Mongolia, several natural resource intensive countries

# ...continued

- Holding companies, related party debt, thin cap.,...
  - Bangladesh, Cambodia, Colombia, Egypt, Greece, Malawi, Portugal, Romania, Uganda, Ukraine
- Tax incentives
  - Everywhere!
- Compliance and control of MNEs
  - Establishing LTOs, a key function of which is the control of major MNEs, has long been a pervasive theme
- Drafting
  - Fund has helped several dozen countries draft income tax laws, all dealing with all aspects of cross-border transactions