

ASIA VOICES: PERSPECTIVES ON TAX POLICY SEMINAR 2 PROCEEDINGS

EXECUTIVE SUMMARY

In October 2023, the second Asia Voices seminar was held, which continued the conversations on the impact and development of Pillar Two of the Global Anti-Base Erosion Model Rules (GloBE or BEPS Pillar Two). In particular, this session placed the discussions in the context of the impact, possibilities and challenges of a regional response towards Pillar Two.

The seminar consisted of three sessions, each taken from the perspectives of advisers, policymakers and the corporates, respectively. The first panel of advisers provided an introductory overview of developments in Asia and Europe. The second panel focused on the perspectives of regional policymakers on the development of BEPS as well as possible cooperation within the region. The last panel session consisted of representatives from corporations who shared their perspectives on the effects of implementing Pillar Two on multinational enterprises operating in the region.

SESSION 1: PERSPECTIVES OF ADVISERS

The panel first discussed the uncoordinated moves observed in all regions, which are leading to a fraying global consensus. These unilateral actions have also resulted in uncertainty regarding the adoption of rules, which could lead countries to choose to adopt different elements of the GloBE rules.

The panel also agreed on the limitations of present analyses and estimates on the impact of Pillar Two. These include how estimates are limited to static scenarios while the reality is incredibly dynamic with the decisions of each jurisdiction having spill-over effects to MNEs operating in other jurisdictions. Another important limitation highlighted was the lack of estimates on compliance costs, especially when peer-review processes are uncertain.

SESSION 2: PERSPECTIVES OF REGIONAL POLICYMAKER

This second session encompasses pertinent viewpoints put forward by regional policymakers regarding the development and potential cooperation within the region. Following the perspectives of the advisers, regional policymakers agreed that understanding the effects of Pillar Two must go beyond estimating long-term revenue gains. In determining the long-run implications of Pillar Two, regional policymakers have to consider potential opportunities to reform the tax system in each jurisdiction, its impact on Foreign Direct Investment (FDI) tax incentives, and greater possibilities for further regional cooperation.

The panellists also agreed on the need to get priorities right on remaining competitive instead of getting distracted by short-term effects such as gaining revenues from the GloBE rules. Lastly, while recognising the practical difficulties, the panellists also discussed the opportunities for regional cooperation and the sharing of best practices on the implementation of these tax rules. This might be particularly beneficial for developing countries in Asia that are already constrained in their capacities.

SESSION 3: PERSPECTIVES OF CORPORATIONS

The first two sessions sketched out the difficulties but also opportunities that advisers and policymakers anticipated in the face of Pillar Two implementation. In the third session, the same are described in a more specific focus on the perspectives of large corporations operating in the region.

The representatives of corporations raised a significant concern that has to do with uncertainties in peer review and dispute resolution processes. While there is consensus that all in-scope businesses are at different stages of preparing to comply with rules under Pillar Two, long-term plans and actions are still difficult to pin down given the uncertainties in the implications of their compliance plans.

Another point of discussion was on the need to recognise that different corporations are differently impacted by the global minimum tax rules. For example, carve-outs like the substance-based income exclusion (SBIE) can have heterogenous effects on companies belonging to the same industry. One of the reasons could be due to the way the companies classify their assets in their accounting systems.

Lastly, the panellists suggested some factors that they considered for an ideal tax environment, especially in the context of Pillar Two implementation in the very near future. Whilst there were concerns about the peer review and dispute resolution processes, the corporates were also largely hopeful that no extensive changes would be needed. There were also hopes of increased trust between authorities and corporations as the latter shared their own difficulties in compliance.

SUMMARY

Whilst coming from different perspectives, the challenges and opportunities that surfaced in each panel shared common themes.

First, there was agreement that uplifting data accessibility and gathering capabilities is important for many reasons. For example, corporations will be helped in becoming

data-ready for compliance purposes while policymakers and advisers can be more informed to make policies when equipped with the data.

Second, there was also alignment that Pillar Two should not be seen as a money-grabbing race for jurisdictions or corporations, which would lead to a lose-lose situation. Instead, a longer-term view with broader interests for all stakeholders is to seize the opportunities to make necessary reforms.

This ties in with the final theme, which is that the environment of doing business remains the most crucial factor to be prioritised. This returns to the emphasis that Pillar Two, and even Pillar One, should be seen as opportunities to uplift capabilities and systems for the growth of the overall ecosystem.