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ASIA VOICES: PERSPECTIVES ON TAX POLICY SEMINAR 2023 PROCEEDINGS

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BACKDROP

In January 2022, an Institute of Policy Studies (IPS) Working Group published the paper “Asia Voices: Perspectives on Tax Policy”. The group was convened to coordinate and encourage perspectives and actions from Asia regarding the Organization for Economic Co-operation and Development (OECD)’s reform to address base erosion and profit shifting (BEPS) risks. The paper outlined the theoretical principles and debates that underpin international taxation. More specific to BEPS, it discussed issues of harmful preferential tax regimes in the Asian context as well as provided alternative views to the largely critical perspectives of tax incentives. The paper explained and provided evidence on positive externalities of global investment hubs such as Singapore and the contribution of tax incentives to the economic transformation in Asia.

As discussions within the OECD progressed, it became increasingly clear that Pillar Two of the Global Anti-Base Erosion Model Rules (GloBE or BEPS Pillar Two) was more likely to be implemented before the first pillar. Pillar Two will impose a minimum effective tax rate of 15 per cent for all multinational enterprises (MNEs) that have revenues of 750 million euros or more. In principle, this move was meant to eliminate the “race-to-the-bottom” competition among countries that lower their tax rates against one another in a bid to attract investments.

On 7 December 2022, the IPS Working Group convened its inaugural “Asia Voices: Perspectives on Tax Policy” seminar focused on discussing the impact of Pillar Two on developing Asia.

ASIA VOICES SEMINAR 2023

A 2023 seminar continued the conversations on Pillar Two and its impact on revenues and tax incentives. The session placed the discussions in the context of the impact, possibilities, and challenges of a regional response towards BEPS 2.0.

The seminar consisted of three sessions, each taken from the perspectives of advisers, policymakers and 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 that shared their perspectives on the effects of implementing Pillar Two on multinational enterprises operating in the region.

The following sections document the key points of the three sessions.

Session 1

Perspectives of Advisers

SESSION 1: PERSPECTIVES OF ADVISERS

This first section covers key points discussed by the panel consisting of advisers such as economists and academics studying this field in the region. A commentary by the IPS Working Group members on these discussion points follows at the end of this section.

For the opening session, an overview of the development of Pillar Two was provided by describing the BEPS initiative as a race. It is a race for jurisdictions to “grab the gold” before others do so. This “gold” refers to the additional top-up tax that in-scope firms[1] must pay. Whether jurisdictions are able to collect this “gold” depends on the way they run the race (i.e. the rules they choose to implement).

As to whether the global minimum tax should be described and pursued as a race, however, was contested. Voices from the second and third panels warned of the possibility of a lose-lose situation that could arise from a mutually destructive competition.

Nonetheless, such a description is likely warranted given the observations thus far. First, as of end 2023, most countries in Asia are still generally unaligned in their interpretation and implementation of the GloBE rules. Second, for several reasons the lack of clear and comprehensive understanding on the impact of Pillar Two breeds the tendency for jurisdictions to protect their own interests, thus making it difficult for coordinated efforts.

UNCOORDINATED MOVES IN ALL REGIONS

Fraying global consensus

First, even though 138 countries have signed on to the Inclusive Framework, there remains challenges to the OECD’s mandate and efforts to find an alternative way towards fair international taxation.

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[1] Pillar Two in-scope firms refer to large multinational enterprises with consolidated annual revenues of 750 million euros or more.

For example, in November 2023, a resolution titled “Promotion of inclusive and effective international tax cooperation at the United Nations” was championed by African countries and supported by 125 nations when brought before the United Nations (UN). This adopted resolution will begin the process of setting up a UN tax convention on international co-operation. The resolution was first proposed by Nigeria and backed mainly by developing countries that have been frustrated by their lack of ability and access to influence discussion on global tax cooperation at the OECD (Thomas 2023). The resolution was voted against by 48 countries including major economies such as the United States, United Kingdom and Japan.

Some of the concerns regarding this new UN convention were that it “would result in duplication of ongoing or completed international standards” and reopen negotiations that have been led by the OECD (Agyemang 2023).

Uncertainty regarding adoption of rules

Global consensus on the Inclusive Framework notwithstanding, countries may choose to adopt different elements of the GloBE rules. For example, some European Union (EU) countries will gain more by implementing both Income Inclusion Rule (IIR) and Qualified Domestic Minimum Top-Up Tax (QDMTT) while other countries may gain by choosing to enforce only one. While many jurisdictions have announced their GloBE adoptions early, there is little visibility as to how the interactions between different policies will play out.

In Asia, there is a general alignment in that the immediate policy is to implement QDMTT to secure the top-up taxes. However, there is also an expectation that each jurisdiction will still attempt to retain the businesses of their MNEs as much as possible. Thus, the different considerations will inevitably affect the exact implementation of QDMTT in each country. As a result, a concerning situation may arise where there are more than 130 variants of QDMTT operating throughout the world.

Furthermore, having decided on the immediate move of adopting QDMTT, complications and uncertainties remain as to how QDMTT will interact with other rules. For example, the amount of revenues left for jurisdictions to collect under the IIR will decrease with QDMTT in place. Rules like Subject to Tax Rule (STTR) and Controlled Foreign Corporation (CFC) are also to come into play as part of implementation of QDMTT; therefore, there is also the need to consider how all these rules will play out in different tax jurisdictions.

LIMITATIONS OF PRESENT ANALYSES AND ESTIMATES ON IMPACT OF PILLAR TWO

Another main discussion point is that attempts to estimate the impact and implications of Pillar Two are generally limited. The lack of clear and comprehensive understanding on these areas could inform why consensus and alignment in the interpretation and implementation of specific rules have been difficult to achieve.

Estimates limited to static scenarios

One of the limitations regarding research on Pillar Two is that the many attempts to make estimates have been constrained by the inherent difficult in predicting behavioural changes. This means that they cannot take into account the dynamic reality where the behaviour of one jurisdiction necessarily affects another jurisdiction.

The main practical constraint is that there are endless permutations on the possible behaviours and responses of jurisdictions and firms. Broad scenario-based estimations on revenues in IIR-only or QDMTT-only cases have been done (Gee & Yap, 2023). However, these would still be far from the reality where STTR, QDMTT, IIR, CFC, Undertaxed Profits Rule (UTPR) and more would be implemented in different combinations and at different stages.

Beside these known rules, important mechanisms that provide offsets for firms are also significant when considering the implications of Pillar Two on firms and jurisdictions. For example, qualified refundable tax credits are treated as part of an item of GloBE income and the calculation amounts to a higher effective tax rate. This means that the revenue taxable under Pillar Two will be lesser compared with firms operating in another jurisdiction that has no such tax credits. However, whether and how these tax credits would be adopted by different countries is still relatively unclear. Without visibility in these important areas, it has therefore been difficult for accurate estimates on the impact to be made.

No comprehensive estimates on compliance costs

A major aspect of understanding the impact of Pillar Two is the compliance cost. While it is broadly understood that a large number of resources have already been poured into making sense of and preparing for the upcoming changes, advisers agreed that there were yet no proper calculations of how much firms and jurisdictions would continue to pay to comply with Pillar Two. Such compliance capabilities and costs are especially important considerations that can turn the tables for developing countries when weighing the implications of Pillar Two on their already constrained fiscal space.

Longer-term indirect costs such as inflation, reduced private capital spending and increased cost of production are also areas of significant impact but have not been able to be accounted for.

Other than the complications that come with the endless permutation of scenarios, the lack of access to micro data also adds to the difficulty of this endeavour. Any data publicly available on the Country-by-Country Reporting (CbCR) database for example, are aggregated and therefore can only be used to generate very rough estimates.

Nonetheless, it was pointed out that tax authorities in each country would likely have access to the detailed data and should look into those resources to assess the different behavioural responses. This would require close collaboration between the authorities, the corporates contributing their data, as well as researchers undertaking the studies. Trust and mutual understanding of the benefits of sharing their insights and collaboration are important to underlie the effectiveness of these relationships.

COMMENTARY

Challenges and opportunities in becoming data ready for Pillar Two

A large part of being able to comply and meaningfully gauge the impact of Pillar Two have to do with the ability to collect and analyse important data. However, this is a mammoth task that can either raise the capabilities of many firms and jurisdictions as a whole or open the floodgates to more burdensome data requirements that hamper innovation and efficiency.

On 17 July 2023, the OECD released a standard template for the GloBE Information Return (GIR) (OECD, 2023b). The 28-page document comprises about 480 data points. The main objective of the template is to ensure that MNEs file sufficiently comprehensive information and tax calculations to allow administrations to perform appropriate risk assessments and to evaluate the current of a Constituent Entity (CE)'s tax liability.

According to the Wolters Kluwer BEPS Pillar Two Readiness Index Report from November 2023, more than 37 per cent of the interviewed organisations identified the primary challenge they face as understanding data requirements (Wolters Kluwer, 2023). The well-detailed GIR might therefore be a helpful provision that enables MNEs and jurisdictions to have more clarity on the data that they need to meet their obligations.

The GIR might also serve as a potential push towards the standardisation of data collection, which could greatly broaden the scope and depth of research done in estimating those effects of Pillar Two.

However, paragraph 3 of the GIR template does clarify that the obligation to prepare the GIR will be separated from the operations of tax return filing and payment obligation rules, which are left to each implementing jurisdictions. What this means is that GIR will be another layer of administration burden for MNEs and jurisdictions.

Lastly, it should be noted that there will be sensitivity regarding access to the GIR data. The section on “Dissemination of GloBE Information” in the document essentially outlines the approaches of which implementing jurisdictions must access the information. Therefore, even if all MNEs are able to supply all the information via the GIR, it is unclear how meaningful this will be for advisers and researchers.

Session 2

Perspectives of Regional Policymakers

SESSION 2: PERSPECTIVES OF REGIONAL POLICYMAKERS

This second session encompasses pertinent viewpoints put forward by regional policymakers regarding the development and potential cooperation within the region. A commentary by the Working Group members on these discussion points follows at the end of the section.

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.

GETTING PRIORITIES RIGHT ON REMAINING COMPETITIVE

Monitoring long-term implications on revenue and externalities

First, there was agreement amongst policymakers that potential revenue gains are only first order effects of raising tax rates. In the long run, businesses and governments will react to both the increase in tax rates, as well as to each other’s strategies to stay competitive. The impact of these must be monitored in the years to come and not just the short-term potential revenue gains. In countries such as Singapore, it has also been clearly articulated that while there may be additional revenue efrom the implementation of Pillar Two, there would also need to be additional investments into the country’s economic system to remain competitve.

For developing countries like Vietnam, there was also optimism in that Pillar Two has been seen as an opportunity to reform their tax systems to be more transparent and enhance their legal frameworks to attract higher quality FDI. If done right, these positive externalities arising from improving the efficiency and equity of tax systems should also be accounted for beyond the potential revenue impact of Pillar Two.

Furthermore, given the interlocking rules of QDMTT, IIR, UTPR and STTR, regional policymakers must weigh out the effects of these rules on taxpayers in their jurisdictions, as well as on their local firms operating in other countries, all while evaluating long-term revenue implications. As already described by the advisers in the previous section, this is understandably a difficult task given the endless possibilities of moves by different actors. Therefore, while some countries have announced general timelines, most are still taking a "wait-and-see" approach on the exact rules to be implemented.

Re-evaluating FDI tax incentives

In the meantime, while regional policymakers continue to keep an eye on Pillar Two development, it is worth noting that Asian economies have continued to rely heavily on FDI tax incentives to remain competitive. With the implementation of Pillar Two, however, the effectiveness of incentives such as tax holidays will be greatly impacted, and jurisdictions will have to re-evaluate the costs and benefits for in-scope firms operating in their country (OECD, 2022b). Tax allowances and R&D incentives will also see a decline in their effectiveness, and such a change would negatively impact the competitive advantage of middle-income economies like Vietnam and Indonesia. A comprehensive impact analysis on the existing tax incentive structures will be productive in determining the tax reforms required to cope with BEPS rules in the future.

However, this is not to say that policymakers should completely shift away from tax incentives. It was acknowledged that tax incentives can still be a fiscally efficient way of attracting investments as well as promoting activities in desired areas. For instance, tax incentives remain relevant and appealing for out-of-scope companies, which are generally companies with less than 750 million euros in annual revenue. Thus, different forms of tax incentives must be available to address the different needs and profiles of different companies. This applies particularly to a diversified economy where there is a combination of companies involved in manufacturing activities, research and development, tourism, etc. Such a targeted approach in providing tax incentives is necessary because competition for investments will remain intense. This is evident from large subsidies and tax credits offered by different countries in areas such as the semiconductor and green industries. For example, since 2014, the Malaysian government has implemented Green Technology Tax Allowance (GITA) and Green Income Tax Exemptions (GITE) tax incentives for qualifying green technology projects and provisions of green services, respectively (OECD, 2021).

Most importantly, for policymakers and even for taxpayers to understand the perspectives of authorities, decisions regarding tax incentives must be taken in the broader context of the political economy. For example, while tax expenditures are not subjected to approval of the parliament, they are financed out of the nation's budget which must be passed by the parliament. Under such consideration, jurisdictions might find it politically and financially easier to forgo revenues rather than to create different tax incentives, for which the finance ministries will have to find a way to fund.

OPPORTUNITIES FOR REGIONAL COOPERATION AND SHARING OF BEST PRACTICES

For developing countries onboarding this global initiative, a positive outlook is to see this as an opportunity to enhance their international integration and learn from international practices to reform their own tax systems. Pillar Two presents an important opportunity and impetus to make changes to tax incentives, on which Asian economies have been especially dependent.

While a coordinated response on Pillar Two in the region is undeniably challenging since ASEAN countries are at different stages of implementation, it is necessary for regional policymakers to band together for nuanced discussions and coordinated action. As noted by the IPS Working Group that was formed on the belief that there is a “lack of considered Asian tax perspectives in international tax policy”, a stronger and more united Asian/ASEAN voice is needed (Gee & Woo, 2022). A potential starting point could be devising a common approach to Pillar Two rules, which are common across all jurisdictions. There will be increasing need for greater open communications between tax jurisdictions so that policymakers can make informed decisions on the rules to implement, instead of guessing each other’s moves. For instance, coming up with a common reporting framework in areas relating to compliance could be beneficial for all regional jurisdictions. Regional financial institutions could also continue to play a part in continuing to support capacity building and economic impact assessments of ASEAN countries.

The potential for meaningful and practical sharing of best practices could be found in the work of the Tax Inspectors Without Borders (TIWB). TIWB was started from a partnership between the OECD and United Nations Development Programme (UNDP) and aims to facilitate the transfer of tax audit knowledge and skills to developing countries through “a practical, ‘learning by doing’ approach”. This includes having experienced tax auditors working aside local tax officials in assistance-requesting countries (OECD, n.d.). Pillar One and Pillar Two initiatives could increase participation and activity under TIWB. Nonetheless, as detailed in the following sub-section, there is also a need to review whether these efforts have truly delivered the outcomes and value of building capabilities. This includes taking into serious consideration the circumstances of developing countries such as ensuring that the programme also allows for developing countries to feedback on how rules can be adapted for different contexts.

COMMENTARY

Needs and capabilities of developing countries

One of the main critiques giving rise to the fraying global consensus mentioned in Session 1 is that developing countries have never had a say in the process of deliberation led by the OECD or G20. When the global minimum tax rule was introduced from the top, there is little political power or will for weaker developing countries to resist. After all, the mandate to eliminate base erosion and profit shifting cannot be argued against. The opportunities to reform one's tax incentive landscape are also necessary and potentially profitable.

However, these benefits might not materialise for many countries, especially for developing countries that cannot afford the cost of the transition.

For one, in the above-mentioned point on learning and reforming their tax systems to attract higher-quality FDI, it is worth considering how meaningfully these can happen. In the first Asia Voices seminar in 2022, it was explained in greater detail the limitations that developing countries face. For example, Matt Andrew from Auckland University argued that developing countries are far from being able to compete with developed countries on factors such as educated workforce and quality of infrastructure (Gee & Yap, 2023). Representatives from African countries also added that most of them were struggling with basic taxation systems and compliance issues. Therefore, it is highly unlikely that there would be the resources and capabilities to seize Pillar Two as opportunities for meaningful reforms even if there was the desire to do so.

Beyond the lack of resources to build up non-tax incentives and a strong tax ecosystem, it is also worth reiterating that there could be a legitimate place for preferential regimes and tax incentives for developing countries. In the first IPS Working Group publication, the authors shed light on how developing countries could benefit from tax incentives as they level the playing field for them to attract FDI (Gee & Woo, 2022). The opportunities and resources for growth then allows the developing countries to gradually advance to become more like developed countries, where they can compete based on non-tax incentives. However, to immediately require countries to do away with tax incentives and compete on higher-level offerings such as infrastructure and education, is not only infeasible but also unfair for developing countries that simply do that have the wherewithal to do it.

Session 3

Perspectives of Corporations

SESSION 3: PERSPECTIVES OF CORPORATIONS

Sessions 1 and 2 sketched out the difficulties but also opportunities that advisers and policymakers anticipate in the face of Pillar Two implementation. In this section, the same are described with a more specific focus on the perspectives of large corporations operating in the region.

UNCERTAINTIES IN PEER REVIEW AND DISPUTE RESOLUTION PROCESSES

First, there was consensus that all in-scope businesses are at different stages of preparing to comply with rules under Pillar Two. However, long-term plans and actions are still difficult to pin down given the uncertainties in the implications of their compliance plans.

As mentioned in the Session 1, while the immediate step taken by jurisdictions to implement QDMTT may be clear, the actual roll-out would still differ as the jurisdictions take into different considerations to protect their interests. This leads to a scenario of having more than 130 versions of QDMTT in play. Therefore, a major concern amongst corporations is that their efforts to comply would never be sufficient as it will be unclear if any version of the QDMTT would be denied at the peer review stage.

In the broader scheme of things, it was also raised that issues of international taxation are viewed as sovereign rights that are considered as carve-outs in bilateral treaties. Therefore, disputes relating to these matters cannot be resolved in reference to the bilateral treaties. To these, two imperatives follow.

The first is that dispute resolution processes should be more accessible and robust to address the lingering concerns regarding the peer review processes. The second would be to ensure that the rules applied by each jurisdiction would be “watertight aligned”, such that there will be certainty that disputes or incidences of double taxations would be unlikely. It is therefore the responsibilities of tax authorities and policymakers to ensure such certainty and ease in tax compliance.

Indeed, the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (known as Multilateral Instrument) developed by the OECD and G20 continues to be an important effort to save governments the effort of bilaterally negotiating separate treaties and eliminate double taxation. However, it is not without its limitations (Hohmann et al., 2023), and efforts on regional levels are crucial to bring about that watertight alignment that minimises uncertainties and double taxation.

An Asian/ASEAN multilateral framework

Alignment within the region would be a good starting point to avoid cases, such as when a Vietnamese firm pays top-up taxes in Indonesia that turn out to be an unqualified DMTT and have to pay again in Vietnam. In the Asia Voices paper, the authors pointed out that an Asian regional multilateral institutional framework is lacking (Gee & Woo, 2022). Unlike in Europe, there are little institutions or forums that coordinate research and action that are needed for preventing disputes and resolving them when they do arise.

The ASEAN Forum on Taxation (AFT) established in 2010 could be a potential platform for more activities to be conducted. In the latest meeting in August 2023, the ASEAN finance ministers revealed that the AFT are carrying out work to support bilateral tax agreements to address the issue of double taxation. It was also shared that there are efforts to improve the implementation of exchange of information between jurisdictions in the region (Monetary Authority of Singapore [MAS], 2023).

However, other than reporting by the general ASEAN body, there is little to no information that can be found directly from the AFT. Without more visibility on the activities and ways to interact on the forum, it remains to be limited in being able to bring about meaningful cooperation in the region.

MANAGING NUANCED PERSPECTIVES ON IMPACT AND NEEDS

In this effort to tackle base erosion and profit shifting, many lines of distinctions and exceptions have emerged, which show the effort to avoid a one-size-fits-all blanket. For example, on a most basic level, both pillars apply only to MNEs of certain sizes in terms of their revenues. The focus on addressing tax challenges arising from digitalisation also explains the existence of the Substance-based Income Exclusion (SBIE), which provides carve-outs for tangible assets. Lastly, the G20/OECD Roadmap on Developing Countries and International Taxation also shows that there are efforts to consider and accommodate specific contexts of different countries (OECD, 2022a).

However, efforts to push for more comprehensive consideration of the positions and needs of different regions persists. The initiative by African countries to set up a UN convention on international co-operation is one example showing that there are still dissatisfactions with the current provisions by OECD.

The differences in interpreting data also hint at the potential for parties to weigh in more and make known their own perspectives. For example, in the OECD's Corporate Tax Statistics 2023 report, it was noted in investment hubs that MNEs on average report a higher share of profits (30%) compared to their share of employees (4%) and tangible assets (11%). According to the report, this could be an indicator of BEPS (OECD, 2023a). The SBIE, which accommodates tax incentives based on employee compensation and tangible assets, therefore penalises these investment hubs. However, it is worth noting that the analysis informing the SBIE does not take into account is the non-tangible quantities and qualities of investment hubs such as Singapore. This was raised by the Asia Voices Working Group in their first publication, which stressed the importance of investment hubs to the economic development of the region which they are situated in (Gee & Woo, 2022)

On an even more granular level, for individual firms the implications of Pillar Two can also vary for each company depending on the nature of their businesses, thus causing each firm to experience varying impact of each rule under Pillar Two. For example, again on SBIE, such provisions can actually have negligible impact on even large manufacturing companies that are assumed to be able to benefit due to their tangible asset base. This is because under the limitations set within the SBIE, the way the accounting is done determines whether the companies' tangible asset base can qualify as an expenditure carve-out. It is therefore cannot be immediately assumed that any firms with some sort of tangible assets will benefit from the SBIE.

In large in-scope MNEs, it is likely that they each have an array of remarkably diverse businesses of which the accounting system of each business is different. Complying and making the best out of the GloBE rules might therefore mean having to make the analysis through each of these accounting systems, to the end that the net effect of SBIE for the entire MNE amounts to nothing.

The position of each firm might be difficult to anticipate when implementing policies. Efforts to understand the impact and needs of each firm must therefore be a continuous effort and extend beyond the provisions from OECD. Consultation platforms that take into consideration the needs and concerns of numerous jurisdictions are therefore important to ensure that Pillar Two does not hinder development of firms and jurisdictions. The dialogues at Asia Voices also showed that it is important for the corporates to understand the risks, considerations and limitations of the policymakers operating at the higher level.

IDEAL TAX ENVIRONMENT

The Asia Voices seminar was held close to the end of the year 2023, which meant that the implementation of Pillar Two for some countries was coming in just a few weeks. For other countries, it was just one financial year to go before implementation. Uncertainties surrounding the details and timeline of Pillar One remain, with growing scepticism of it being rolled out.

Nonetheless, the dust appears to be settling for many who have been watching the space. Most in-scope corporates who are already sure of certain impact expected from the GloBE rules are already looking forward to that steady state. This was expressed in forms of the long-term ideal tax environment that they desired.

Whilst there are concerns about the peer review and dispute resolution processes, the corporates were also largely hopeful that no extensive changes will be needed. Having committed the resources to comply with the global minimum tax rate, their expectations were that only minor adaptations will be made in the future. Therefore, their longer plans and focus are back to maintaining their competitiveness and delivering value instead of constantly monitoring the international taxation space for compliance needs.

In articulating this, the corporates were also keen to address the perception that they are looking for loopholes in the GloBE rules to avoid taxation. According to them, it is important that trust between themselves and tax authorities is strong to bring about the stability needed for long-term growth and development. Platforms and opportunities for taxpayers and tax authorities to come together to share their perspectives are therefore important. For example, in this seminar, there were opportunities for corporates to explain their difficulties, the efforts they have put into complying with the rules, as well as their desire to focus beyond these to delivering value.

Common Themes

COMMON THEMES

COOPERATION ACROSS PARTIES TO OVERCOME DATA-RELATED CHALLENGES

In Session 1, it is noted that becoming data-ready for Pillar Two remains a huge challenge. Therefore, it might be difficult to expect research in related areas to be significantly more robust than they already are. What was not yet mentioned was the hinted solution of how collaboration across different parties can lead to structures and incentives, which can potentially overcome existing challenges surrounding the collection and sharing of data.

For example, one of the participants at the seminar envisioned a platform where corporations regularly feed important data points into a system which can perform simulations that can inform them where and how much top-up tax they will have to pay. On the same platform, tax authorities can also carry out their risk and compliance assessments in ways that are more consistent and transparent, given that these assessments are being on a publicly accessibly platform.

In Session 2, the opportunities for sharing of best practices especially by developed countries for the benefit of developing ones were mentioned. Again, one can imagine that this one-stop platform can facilitate such sharing of insights and practices.

Of course, this is but a sketch of one ambitious solution. The general idea is about the creation of a public good that facilitates the consolidation and sharing of data such that benefits can be reaped for all. Such an idea takes the BEPS Action 11 further in a positive twist. Other than using data to measure the impact of tax avoidance and the effect of the implementation of the BEPS measures in curbing these practices, it is also more about establishing the right relationship structures and platforms that allow data to be used to generate growth.

The Platform for Collaboration on Tax (PCT) jointly initiated by the International Money Fund (IMF), OECD, UN and World Bank Group could be an example of what this public good looks like. This platform offers useful tools and frameworks to support countries in formulating tax system reforms. Their Tax Projects Database also allowed learning from one another as country users have access to information on the various resource mobilisation projects implemented. However, whilst a commendable effort, the platform remains a top-down one that is lacking inputs from vital parties such as those of major MNEs. As a result, the platform, like many others, only serves to be a useful point to gain more information but unable to actively generate new and dynamic insights brought about by inputs from relevant parties.

This idea of setting up new infrastructures or systems to develop the international taxation space in a positive way is rarely mentioned in these BEPS-related discussion. This is understandable given that the intuitive responses to such a major initiative have been on comprehending and complying with the complex rules of Pillar Two. Nonetheless, as will be described in the next point, the different voices at the seminar were beginning to urge for the right perspective to be taken. This would be to see the Pillar Two as an opportunity to carry out politically difficult but necessary reforms.

PILLAR TWO AS AN OPPORTUNITY TO REFORM AND NOT A MONEY-GRABBING RACE

Amidst the uncertainties and complexity of the rules, it can be easy to forget the aim of GloBE Pillar Two, which is to ensure fair competition by removing incentives for a race to a bottom and setting a new floor on tax competition. As mentioned in the introduction of Session 1, Pillar Two has been described as a race for revenues amongst jurisdictions. This is neither helpful for regional growth nor fruitful for the countries themselves given the uncertainties surrounding the implications. In fact, it was repeated throughout the sessions that the complexity of Pillar Two might mean that it could be an extremely costly way for some countries to bring in any revenue relative to alternative types of taxation.

Assessing existing tax incentives

Once the aim of removing unhealthy tax competition is addressed through jurisdictions and companies complying with the rules, countries should in theory, focus on more productive use of finite resources by investing in capacity building and the overall ecosystem. A more sustainable win-win approach is to see Pillar Two as the opportunity to carry out important reforms that will reap long-term benefits. For one, this OECD-led initiative could give jurisdictions the political imperative they had previously lacked domestically, to assess the effectiveness of existing tax incentives.

For example, in the first publication of the Asia Voices, the IPS Working Group urged for a nuanced treatment of tax incentives, recognising that some tax incentives can be beneficial for certain countries in their specific regional contexts. In the Asian or ASEAN context, the “flying geese” model of economic development could explain how preferential treatments for developing countries can lead to overall benefits and growth for the whole region. What this also means is that as countries progress and contextual environment changes, there ought to be continual assessment to identify the kind of tax incentives that are effective for the stage of development which they are in. The momentum against preferential regimes is the opportunity for countries to do away with incentives that are indeed harmful and push for those that are important for development.

Systems change and upgrade within corporations

For in-scope corporations, it would be limiting if the bare minimum is done merely to comply with the GloBE. Since tremendous efforts and resources have to be set aside for compliance, it is worthwhile riding on the momentum to carry out thorough re-organisation and upgrade of the existing systems. Examples of important but often neglected work include, for instance, aligning the chart of accounts within the firms or ensuring that the legal entity reporting is done up.

As with the policymakers, corporates should also be able to take the long-term perspectives of readying their systems for future changes and filing requirements, rather than merely reinventing the wheel to adapt to each new upcoming compliance requirement.

Upgrading filing systems with an eye on improving transparency can also bring about long-term benefits. Again, rather than simply fulfilling the basic requirements of the CbCR, initiatives by the corporates to further improve visibility of their accounts can also facilitate the building of trust between corporates and tax authorities.

ENVIRONMENT OF DOING BUSINESS STILL THE MOST IMPORTANT

The last important point where stakeholders seemed to converge on was that the environment of doing business remains the most crucial factor to be prioritised.

This goes beyond the point that Pillar Two should not be seen as a money-grabbing exercise. Instead, it 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.

One of the most repeated aspects of a good business environment is stability. More specifically, tax certainty is especially important in the GloBE context where more rules are expected in the already complex space. As mentioned by representatives from in-scope MNEs, corporates are willing and ready to pay the additional taxes. What they do not want is further rounds of unexpected top-up taxes or rehauling of policies should they fall short in the peer review process. It is therefore important that policymakers and tax authorities do not merely respond to changing rules from the OECD but formulate plans and policies based on holistic long-term considerations.

Capability development to ensure a competitive labour force is another factor that was agreed to be important. This was raised in the discussion on tax incentives as policymakers were urged to ensure that any forms of incentives are to be driven towards capability development. Since tax has never been and will not be the main factor driving investment decisions, incentives should also not be decided upon and meted for the sole purpose of subsidising operating costs for firms. An example of productive incentives is Singapore's Enterprise Innovation Scheme (EIS), which gives businesses tax deduction for expenditures such as carrying out innovative projects with polytechnics and Institutes of Technical Education.

Lastly, this strives towards a conducive and competitive environment for doing business beyond each jurisdiction's domestic sphere. As the Asia Voices working group was convened upon the belief that the regional health is crucial to the development of individual countries, policymakers should take a regional and even global perspective when formulating policies. This includes being willing to make compromises on one's own gains to achieve an international world order for tax, rather than a fractured one with unilateral approaches.

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Appendix

Asia Voices: Perspectives on Tax Policy Working Group

ASIA VOICES: PERSPECTIVES ON TAX POLICY WORKING GROUP

The Asia Voices: Perspectives on Tax Policy working group has been formed by the Institute of Policy Studies to contribute meaningful, policy-relevant research on important cross-border and regional tax issues as they relate to Asia and especially the developing countries in the region.

The Institute welcomes comments from tax practitioners, academics, and policymakers with an interest in corporate tax policies in Asia. Those interested to collaborate with or join this working group may apply by contacting Christopher Gee at christopher.gee@nus.edu.sg.

The biographies of the working group members responsible for the publication of this report are set out here (by alphabetical order of their surnames).

Matt ANDREW is a Teaching Fellow at Auckland University and also currently a PHD Candidate. Prior to this, Matt was the head of the OECD's Tax Treaty, Transfer Pricing and Financial Transactions Division. There, Matt was responsible for overseeing the OECD tax policy developments in relation to tax treaty and transfer pricing matters.

Christopher GEE is Senior Research Fellow at the Institute of Policy Studies, National University of Singapore (NUS) where he leads the Governance and Economy Department. Christopher has published several papers on retirement financing, strengthening old-age income support and aspects of fiscal policy. Christopher previously worked in investment banking, leading equity research teams covering Singapore and Malaysia, and the Asian real estate sector. He has a BA (Law) from the University of Nottingham and holds the CFA charter.

Darren KOH is one of the editors of The Law and Practice of Singapore Income Tax (LexisNexis, 2020, third edition). He is both a Barrister and a Chartered Accountant of England and Wales. His career has taken him around the world from London to Hong Kong, Kobe, Geneva, Singapore, and Cincinnati, and back again to

Singapore. His career stretches from tax advisory roles to in-house, client-side regional and global tax roles as well as handling war reparation claims filed against Iraq after the first Gulf War. He obtained his Master of Laws and joined the School of Business of SIM University (now the Singapore University of Social Sciences) as Head of Area — Taxation and Business Law. He is now the Vice-Dean of the School of Law as well as the Head of Programme — Master of Taxation.

Paul LAU is a partner at PwC Singapore. With over 25 years of experience in practising tax, Paul has advised financial institutions, investment funds and multinationals in a broad range of transactions, including corporate restructuring, mergers and acquisitions, transfer pricing, treasury operations and capital markets instruments. Paul has written widely on taxation matters. Among others, he co-authored the capital market transactions chapter in The Law and Practice of Singapore Income Taxation (LexisNexis, 2013) and authored the capital allowances chapter for the 3rd edition of the said publication, as well as the taxation chapter in Theory and Practice of Islamic Finance (Saw Centre for Financial Studies, 2008). Paul chairs the Tax and Levies Committee at Singapore Chartered Tax Professionals. He holds a bachelor's degree in accountancy from Nanyang Technological University and a master's degree in international taxation from University of Sydney Law School.

Justin TAN is a Senior Lecturer in the Law Faculty at NUS where he teaches cross-border taxation. He holds an LLB (NUS, 1st Class Honours), BBA (NUS) and an LLM in tax from New York University, where he was a Vanderbilt Scholar). He practised tax law at Baker & McKenzie Wong & Leow, advising on the international tax aspects of cross-border transactions. He continues to act as a consultant with Baker & McKenzie Wong & Leow's tax practice group.

Michael **VELTEN** is a financial services tax partner with Deloitte Singapore and is the firm's Southeast Asia Financial Services Tax Leader. He also leads Investment Management and Real Estate for Deloitte Southeast Asia. From 2106 to 2021, Michael was the firm's Asia Pacific Financial Services Tax Leader. He has 35 years of finance, legal, tax and management experience; almost 30 years of which have been spent working in Asia having been based in Kuala

Lumpur, Hong Kong and Singapore. Michael started his career in Melbourne, where he was a senior associate with a leading Australian law firm. He holds a Bachelor of Commerce, Bachelor of Laws and Master of Taxation from the University of Melbourne. He holds a Master of Laws from the National University of Singapore and a Master of Business Administration from the University of New England. More recently, Michael completed an Executive Certificate in Public Policy at the Harvard Kennedy School.

Chris WOO is the Tax Leader for PwC Singapore and Myanmar, and a member of the firm's leadership team and the Asia Pacific tax leadership team. He is a board member of the Singapore Chartered Tax Professionals and an Accredited Tax Advisor in Income Tax. Chris has over 30 years of experience particularly in deals tax and corporate restructuring to meet the tax needs of strategic, financial and private equity clients from Asia, the United States and Europe. He has led many regional and global projects in various industries to maximise long-term value and tax efficiency for multinationals engaged in realigning their global business structures, supply chains, assets and key personnel. He has been active in moderating and speaking in various discussions regarding recent international tax developments. Chris brings practical industry experience as he was the international tax director for a large US MNC based in the US and Singapore.