

POLICY BRIEF No. 2/2024
OCTOBER 2024

Asia Tax Observatory – A Regional Taxation Think-tank

by Christopher Gee and Yap Jia Hui

RECOMMENDATION

This policy brief focuses on the issue of fair governance in the international taxation system, proposing for an **Asia Tax Observatory** to be established in the region.

Modelled on the EU Tax Observatory in Paris, this proposed think-tank could be a regional institution located in Singapore but has membership from jurisdictions in Asia. Such an organisation would be underpinned by three main aims:

1. Support policy-making and policymakers with in-depth, objective and credible research from an Asian perspective;
2. Distil and advocate for the perspectives of Asian jurisdictions on international tax policies; and
3. Serve as a neutral platform for convening and engaging policymakers, corporates, and advisers on aligning and cooperating on taxation policies that benefit the whole region.

With globalisation and digitalisation of economy, the nature of taxation has changed to become increasingly global. Collaboration is needed to ensure fair and efficient taxation but there remains a lacuna in Asia in not having a regional tax organisation representing the diverse stakeholders in the region to build consensus and coordinate actions. Not only is this inefficient and may breed detrimental effects when jurisdictions take unilateral actions, there is also an issue of fairness when the region is unable to advocate for its positions in international negotiations. Such a think-tank proposes to fill these gaps.

CONTEXT & ANALYSIS

A massive reform in the international taxation space is underway, driven by the OECD/G20 Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy (BEPS 2.0 Project), which aims to address tax challenges arising from globalisation and the digitalisation of the economy.

Pillars One and Two of BEPS 2.0 are key components that ensure large multinational enterprises pay a minimum amount of tax, including on profits generated from jurisdictions where they do not have physical presences and consequently are generally beyond reach of local tax regimes.

Other than reforming the tax rules governing the amount enterprises should

pay and to which jurisdictions, issues of governance have also been of great importance.

On which platforms should deliberation take place, how sovereign states should and can meaningfully participate, how the diverse needs of every country should be considered in designing multilateral taxation policies – these are questions of fairness that are inevitable and have hindered the progress of GloBE where there are no consensus (Brauner, 2023). These issues are accentuated when building consensus across a region as diverse as Asia.

This policy brief focuses on the lacuna in Singapore and Asia in not having a quality regional tax policy research and convening think-tank. This is an issue of equity and inclusiveness in the global taxation policy space given that a large group of countries – developing countries in Asia in particular – do not have the capacities, proximity (being far away from Paris for instance where the OECD is located) or language (having a lingua franca that is not English or French) to contribute to international tax policy deliberations, even if there are opportunities to do so.

TAXATION IS NO LONGER DOMESTIC

One of the key reasons underpinning the need for a regional establishment to gather, research, convene, and advocate for regional views is the same reason why regional organisations like the African Tax Administrations Forum and the International Chamber of Commerce (ICC) were founded. As the OECD/G20 BEPS project advances tax reform and global coordination of tax systems to meet the challenges of digitalisation and globalisation, such organisations and institutions reflect the perspectives of different regions and constituents.

Complex supply chains and increasing cross-border digital trade arising from globalisation lead to increased complexities of tax arrangements (both digital and non-digital). This means that taxation is no longer a domestic issue. From the classical need to avoid double taxation using tax treaties to enable cross-border investments, the focus in recent years has shifted to tackling tax avoidance arising from treaty abuse and exploitation of tax arbitrage to create double non-taxation. Companies operating in Singapore no longer just pay taxes on a territorial basis according to the Singapore Corporate Income Tax regime. Depending on the nature of their business activities, they will be subject to corporate tax, VAT and other impositions of the countries they do business in. Such taxes are increasingly extended to activities such as digital commerce where Singapore companies may not even have a physical presence but are nevertheless exposed to foreign digital taxation. Singapore authorities must increasingly interact with other countries to ensure that corporations doing business overseas are not doubly taxed.

The complexities of the BEPS reforms have been much bemoaned, but this is the cost to pay for taxation to be commensurate with the many benefits which the globalised digital economy has brought. However, the costs whether economic inefficiency or compliance, can be minimised with regional coordination that work to include various stakeholders and build consensus such that individual countries should not pursue beggar-thy-nation tax policies for short-term gains.

DIVERSITY AND TRENDS IN ASIA

The need for a regional think-tank or platform to provide supporting research, build consensus, coordinate the perspectives and actions of Asian

economies is also due to the unique characteristics of Asia which is well worth articulating and advancing in policy making, especially when global taxation reforms seek to introduce common frameworks and norms across a highly diverse region.

For one, Asia comprises of developed and developing countries with very different economic drivers and capabilities (Gee & Woo, 2022). Without being able to recognise the unique strengths of different jurisdictions that make Asia attractive, the region will lose its competitiveness as blanket rules are implemented that diminishes the comparative advantage of different countries.

For example, in the case of Pillar Two, Asia ought to be able to make the case that tax incentives have been legitimately based on real substance to encourage activities in both manufacturing and investment hubs in Asia. Being able to articulate this might shape the way tax incentives are dealt with under proposed new taxation rules.

Lastly, having taxation coherence at a regional level might be particularly significant for Asian economies given the trends in its digital economy.

In a 2021 paper by the International Monetary Fund (IMF) for example, it was observed that the strength and extent of digital businesses in Asia are set to grow in the aftermath of the COVID-19 pandemic. The e-commerce and online financial start-up spaces have seen major players emerging from countries like China, Japan, and Indonesia. Moreover, these Asian homegrown tech giants are mainly operating within domestic markets and rivalling the presence of US multinational enterprises (IMF, 2021).

What this means is that there are significant activities, revenues, and profits flowing through the source and resident jurisdictions which are intra-Asia. It therefore makes sense for research and policymaking efforts to be focused on understanding the kind of taxation system and rules that work for Asia.

OPTIONS

INTERGOVERNMENT BODIES

At present, the proposed UN Tax Framework Convention appears to be the most obvious alternative to building consensus, crafting and influencing tax policies where they differ from the OECD's perspectives.

However, what is less recognised is that the UN tax committee is limited in its capacity, and it is also dependent on the participation of member states to shape and drive its agenda.

If jurisdictions in Asia remain as passive as they have been in the OECD-led BEPS processes, no meaningful impact can be expected in advancing Asia's point of view. As it stands, views from Asia are still lacking. Although representatives from Singapore, the Republic of Korea, and China are on the Ad Hoc Committee for the UN Tax Convention, a unified Asian organisation that coalesce multi-stakeholder views of governments, businesses, civil groups, academic etc is still absent.

Countries in Asia, especially developing ones, have not been able to keep up with the BEPS discussions due to the technical complexity, speed of reviews, and language barriers. A regional think-tank that is well-versed with the positions of these countries will be better placed to research, coalesce, articulate, and

advocate for the region on international platforms.

EXISTING TAX ORGANISATIONS IN ASIA

There are existing tax organisations in the region that are serving various purposes but none have the necessary structure and focus to serve the tax policy needs of the whole region.

Firstly, there are established institutions like the Asian Development Bank (ADB)'s Asia Pacific Tax Hub (APTH). The APTH focuses on providing knowledge expertise and consulting services to developing countries, whereas the regional think-tank suggested in this brief differs in that it takes a broader focus on gathering and advocating for Asia's perspectives on international taxation issues.

Another organisation to be considered is the ASEAN+3 Macroeconomic Research Office (AMRO). The AMRO team has occasionally published on taxation issues but in the main, their focus is on macro-economics, with key output comprising of ASEAN+3 Economic Outlook reports, Financial Stability Reports and macroeconomic policy position papers.

In each country, there are also local taxation associations and organisations. However, they tend to be domestic focused. For example, Malaysia has its Chartered Taxation Institute of Malaysia. Indonesia has its Indonesia Tax Consultants Association catering to tax advisors. Singapore has its Singapore Chartered Tax Professionals whose members are tax professionals in Singapore and the Tax Academy, which caters to the training needs of the tax community in Singapore.

Lastly, there are several tax conferences hosted by different institutions annually. Examples include the International Tax Review (ITR) Asia Tax Conference, the EY Asean Tax Forum, the Asia-Pacific Tax Forum (APTF) by the Institute for Development of Economics and Finance (INDEF), and others. These events are run by different organisations that have different focus, none of which is a centre dedicated to research and representing Asia's perspectives.

CASE STUDY

EU Tax Observatory

The EU Tax Observatory is a research laboratory hosted at the Paris School of Economics.

The Observatory conducts research on taxation and aims to foster dialogues between the scientific community, civil society, and policymakers in the European Union and worldwide.

Their outputs include policy-oriented reports and working papers focused on issues of tax avoidance and tax evasion. Another main output is an open database to widen access to knowledge of data and research on those issues.

The EU Tax Observatory also convenes academic events and public debates that brought together professionals from research, politics, and associations (EU Tax Observatory, n.d.).

SPECIFIC RECOMMENDATIONS

The need for a regional think-tank or platform on taxation was one of the strongest consensus suggestions that surfaced throughout the "Asia Voices: Perspectives on Tax Policy" seminars organised by the IPS Working Group.

There is at present a lacuna in Asia in not having a neutral regional tax policy research centre.

The call for this regional think-tank could take the form of an Asia Tax Observatory with three main aims:

1. Support policy making and policymakers with in-depth, objective and credible research from an Asian perspective;
2. Distil and advocate for the perspectives of Asian jurisdictions on international tax policies;
3. Serve as a neutral platform for convening and engaging policymakers, corporates, and advisers on aligning and cooperating on taxation policies that benefits the whole region.

A key focus of the Asia Tax Observatory's work will be on global or pan-Asian international tax initiatives that impact the region, such as the OECD/G20 BEPS Global Anti-Base Erosion Model Rules (GloBE Rules) as such international tax reform will significantly impact the countries across Asia. To date, there is still lack of coordinated research, engagement, and actions on BEPS even though there have been multiple rounds of consultation by the OECD in the past three years on the new proposed GloBE rules. Such collaborative efforts are important if Asia's opinions are to be considered by policymakers in designing a global tax regime.

The work of the Asia Tax Observatory will not be limited to corporate taxation policies but can extend broadly to all issues related to taxation and fiscal policies in Asia.

STRATEGIC OUTCOME AND BENEFITS TO SINGAPORE

An Asia Tax Observatory can yield both tangible and intangible benefits to Singapore.

On the tangible side, Singapore as a financial and trade hub is the natural choice to locate a think-tank that is a thought leader in the region for tax policy. The organisation can represent an Asian voice in providing well thought out research from an Asian perspective to policymakers at the OECD, the United Nations Tax Committee, the World Bank and the IMF as a credible and independent think-tank.

Properly resourced, the Asia Tax Observatory will be able to conduct tax policy research, produce credible policy papers on issues of concern to Singapore and the region and convene stakeholders and experts to deliberate such issues. This capability can provide quality research to support the Singapore government in policy making, collect data and regional perspectives to advocate for policy positions that work for Singapore and Asia. Having a deep tax research capability, policy expertise and understanding of the Asia region also comports with Singapore's needs as a regional hub.

The Observatory also has the advantage of neutrality and independence from the Singapore government, enabling its voice to be another channel for advocacy and engagement of policy makers that complements and augments Singapore's government-to-government channel. It is also more natural for the Asia Tax Observatory, rather than the government, to engage other research institutions and think-tanks such as the EU Tax Observatory. This independence also enables the Asia Tax Observatory to run exchange programmes and host visits where thought leaders can better understand the unique positions of Singapore and the region.

Finally, the Asia Tax Observatory can be a platform for Singapore to engage and collaborate with other like-minded partners in the international arena to formulate and articulate common positions when defending our collective interests as it relates to international tax reforms.

.....

The contributions of the The Asia Voices: Perspectives on Tax Policy Working Group to this policy brief is acknowledged. The Working Group is 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.

REFERENCES

Brauner, Y. (2023). Serenity Now! The (Not So) Inclusive Framework and the Multilateral Instrument. *University of Florida College of Law Legal Studies Research Paper Series No.22-6*.

EU Tax Observatory. (n.d.). Retrieved from <https://www.taxThink-tank.eu>

Gee, C., & Woo, J. (2022). *Asia Voices: Perspectives on Tax Policy*.

IMF. (2021). *Digitalisation and Taxation in Asia*. Retrieved from <https://www.imf.org/-/media/Files/Publications/DP/2021/English/DTAEA.ashx>

*For further information, contact IPS at:
1C Cluny Road, House 5
Singapore 259599
Email: ips@nus.edu.sg*



© Copyright 2024 National University of Singapore. All Rights Reserved.
You are welcome to reproduce this material for non-commercial purposes and please ensure you cite the source when doing so.