Institute of Policy Studies

# Asia Voices: Perspectives on Tax Policy Seminar 2022

By Yap Jia Hui

The Governance & Economy Department of the Institute of Policy Studies (IPS) held its inaugural "Asia Voices: Perspectives on Tax Policy" seminar on 7 December 2022. The online event was held over Zoom and had about 85 participants at its peak. The focus of the seminar was the OECD's Base Erosion and Profit Shifting (BEPS) plan and the impacts of Global Anti-Base Erosion Model Rules (GloBE or BEPS Pillar Two) on Asia. The participants included academics, business leaders and policymakers from public and private sectors in the region.

The seminar began with a keynote speech by Dr Jay Rosengard, Adjunct Lecturer in Public Policy at the Harvard Kennedy School. This was followed by two main sessions: paper presentations and a panel discussion. Three presentations were delivered by Mr Matt Andrew, Teaching Fellow at Auckland University; Dr Mona Barake, Post-doctoral Fellow at the EU Tax Observatory; and Dr Ivan Lazarov & Ms Belisa Liotti, researchers at the Institute for Austrian and International Tax Law. The presentations and discussion that followed were moderated by Mr Christopher Gee, Senior Research Fellow at the IPS.

The later panel discussion brought together five panellists with perspectives as academics, corporate leaders and policymakers. Mr Michael Velten from Deloitte Singapore moderated the session and the panellists included Mr Bruno Casella from the United Nations Conference on Trade and Development (UNCTAD); Mr Panoyiotis Nicolaides from EU Tax Observatory, Ms Samantha King of Standard Chartered Bank plc; Mr Vaibhav Sanghvi from NortonLifeLock Inc; and Professor Thabo Legwaila from the University of Johannesburg.

## Keynote Speech

In his opening speech, Dr Rosengard emphasised the implementation process of BEPS. For GloBE Rules, he pointed out many details that have to be clarified and resolved. These include finding alignment with existing US tax regulations to avoid double taxation, changes to be made to domestic legislations, and prevention of new tax avoidance techniques. In the later discussion, Dr Rosengard also shared that implementing the rules in 2023 is unlikely as many structures necessary for such a multilateral initiative to materialise are yet in place.

His second focus was on tax incentives, as he spoke about the ineffectiveness and harms of using tax incentives to attract foreign investments. He urged policymakers to consider economic rationale rather than allowing political imperative to drive the creation of tax incentives. Dr Rosengard argued that a minimum tax applied to all countries will be a "blessing in disguise" for both resident and source countries. Particularly for the latter, countries that lose advantage in tax incentives will still gain revenue from increased tax that can be used to fund other expenditure priorities. He suggested that this might give policymakers the necessary political motivation "to resist the temptation of offering counter-productive and self-defeating tax incentives to attract foreign investments."

**Paper Presentations**

Mr Matt Andrew kicked off the first part of the seminar with his presentation, titled "The GloBE and International Vertical Equity". Compared with the later two presentations, his was more theory-oriented, with an explanation and argument for the importance of the principle of vertical equity in international taxation rules. Stemming from the consideration of vertical equity, Mr Andrew outlined his proposal for the GloBE framework to include exemptions for developing countries to maintain certain tax incentives regimes.

Dr Mona Barake's presentation offered the practical perspective as she presented her findings on revenue implications of the global minimum tax on Asia. After highlighting the figures for various Asian countries, Dr Barake concluded that developed countries would draw substantially more revenues than developing countries only if the Income Inclusion Rule (IIR) applies. Qualified Domestic Minimum Top-up Tax (QDMTT) may however better distribute the revenue gains in favour of developing countries and low-tax jurisdictions.

Lastly, Ms Liotti highlighted and explained how the GloBE rules impact the tax incentives used by each country differently as countries differ in the nature of their economic activities. Dr Lazarov then explored the different policy options that countries could adopt and considered the trade-offs between implementing QDMTT and carrying out a general corporate tax reform. He made the case for the latter with suggestions such as bringing those incentives up to 15 per cent or switching them to other incentives like refundable tax credits.

**Panel Discussion**

The issues and findings raised in the paper presentations were discussed amongst the panellists. Although not always explicitly referenced, the idea of vertical equity was discussed in the context of issues relating to developing countries. Professor Legwaila explained that the GloBE rules were not appealing to African developing countries who saw tax incentives as the only tool that they had to attract foreign investments. Mr Casella offered an alternative perspective in suggesting that there could be an overemphasis on tax incentives in the African region. Speaking from an Asian perspective, Mr Sanghvi pointed out that developing countries would also have difficulties interpreting and implementing the rules as they were generally not proficient in OECD's working languages.

The panellists also responded to questions about the challenges of implementing the global tax rules. On geopolitical tensions pushing anti-multilateralist sentiments, Mr Nicolaides and Mr Casella agreed that BEPS provide a good opportunity to prove the ability of multilateralism to deliver and reverse nationalistic trends. Ms King and Mr Sanghvi explained specific concerns of corporations such as compliance costs, which will become even more burdensome if certainty of specific rules is not established in advance of implementation.

Consistency in rules across countries and with the US regulations as well as clarity over rules pertaining to safe harbour and losses were mentioned to be desirable for corporates.

Lastly, Ms King suggested the importance of considering the Pillar Two framework in relation to global sustainability initiatives and how tax incentives interplay between the two. In the earlier discussion, Mr Andrew also mentioned that environmental efforts had not been considered in BEPS discussions. On that, he expressed hopes for ongoing reviews and policy changes to better consider the positions of developing countries.

Mr Gee closed the session with his view that stakeholders in Asia needed to take more visible stances about their perspectives on this issue. He also echoed Mr Nicolaides' view that more work and research in Asia would be desirable to better evaluate the implications of BEPS on the region.

*Yap Jia Hui is a Research Assistant at IPS.*

*****

*If you have comments or feedback, please email ips.update@nus.edu.sg*

Lee Kuan Yew School of Public Policy
National University of Singapore