April 9, 2020
Approval: 4/16/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/13-1

3:05 p.m., February 21, 2019

1. Corporate Taxation in the Global Economy

Documents: SM/19/11 and Correction 1; and Correction 2; and Correction 3; and Supplement 1

Staff: De Mooij, FAD; Keen, FAD; Waerzeggers, LEG

Length: 2 hours 12 minutes

Executive Board Attendance

C. Lagarde, Chairman

Executive Directors	Alternate Executive Directors
	I. Mannathoko (AE)
	M. Alle (AF), Temporary
	J. Di Tata (AG)
N. Ray (AP)	
	B. Saraiva (BR)
Z. Jin (CC)	
L. Villar (CE)	
L. Levonian (CO)	
R. Kaya (EC)	
	A. Castets (FF)
	K. Merk (GR)
S. Gokarn (IN)	
D. Fanizza (IT)	
M. Kaizuka (JA)	
	M. Daïri (MD)
H. Beblawi (MI)	
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
A. Mozhin (RU)	
M. Mouminah (SA)	
J. Agung (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
A. Lerrick (US)	

S. Bhatia, Acting Secretary
O. Vongthieres, Summing Up Officer
D. Jiang / V. Sola, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Communications Department: A. Annett. European Department: J. De Vrijer, E. Detragiache, A. Schaechter. Fiscal Affairs Department: A. Klemm, R. De Mooij, M Keen, K. Nakayama, V. Perry. Legal Department: C. Waerzeggers. Strategy, Policy, and Review Department: K. Kostial.

Senior Advisors to Executive Directors: G. Gasasira-Manzi (AE), C. Williams (CO).
Advisors to Executive Directors: K. Florestal (BR), E. Ondo Bile (AF), F. Rawah (SA).

1. CORPORATE TAXATION IN THE GLOBAL ECONOMY

Mr. Rashkovan, Mr. Jost, Mr. Cools and Mr. Hanson submitted the following statement:

> We thank staff for the paper which we believe to be a welcome addition to the important ongoing debate on corporate taxation (CIT). The sound technical assessment contained in the paper enriches the complex discussion on the best way forward, by laying out a set of insightful alternatives which help us better understand the challenges faced by the memberships regarding our rapidly changing and increasingly interconnected economies. Staff's focus on taxation challenges pertaining to digitalization, value creation, implementation, and multi-national enterprises, including profit-shifting and tax-avoidance, are vital elements in this context. Going forward, we would suggest to staff to possibly take into account dynamic considerations, such as second-round effects, and further analyze economic ramifications, also for smaller and low-income economies. The paper rightly highlights the importance of multilateral and inclusive coordination efforts which bring all stakeholders, including LICs, to the table.
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> We believe that the recent efforts at the OECD level are a powerful example of such a successful global consensus-based approach. As staff rightly stresses, significant progress was achieved in recent years at OECD level, which now regroups 125 jurisdictions in its Inclusive Framework, including low income countries. We thank staff for providing a comprehensive overview of past and ongoing efforts, including those at the level of the European Union (EU). At the same time, and notwithstanding the acclaimed success of the BEPS project and the existing timelines of OECD working groups, we agree with staff that the international CIT-system is under stress. In this sense, efforts continue to be necessary. The OECD remains the central body to finding a sustainable solution in this context, as entrusted by the G20.
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> The digitalization debate –and how to tax multinational companies in the digital era– uncovers broader difficulties with the international system and shows the need for more thorough reforms. While the general principle that tax be levied where value is created readily attracts agreement, views can differ widely when it comes to deciding where exactly this is. In recent years the digital economy has expanded strongly, while –to a certain extent– corporate taxation has not been adapted to this new form of entrepreneurship. Digitalization has an impact on all sectors of the economy. Because even traditional companies and business models will change, options for reform

that are not limited to certain 'ring-fenced' activities or sectors need to be explored. In this context, we welcome the policy note published by the OECD, dated January 23, 2019, on tax challenges of the digitalization of the economy. Could staff briefly comment on this note?

We share staff's view that tax competition is taking place. We agree that tax competition can be harmful. However, we caution against the use of declining statutory rates over the past 20 years, as shown in Figure 2 in the paper as evidence for tax competition. In fact, Figure 4 shows that the share of CIT to total tax revenue remained constant in the same period. In addition, we note that decreases in statutory tax rates are often financed through base-broadening measures that reduce distortions and increase transparency. Decreasing statutory rates may also help combatting tax avoidance if financed through base-broadening measures.

The analysis of the effects of different alternative systems adds value to the international discussion. We look forward to continued work by staff on the development of these and other proposals to inform the debate. As a basic principle, alternative systems should avoid double taxation, provide certainty and be administrable for taxpayers and revenue authorities. We would like to offer the following four remarks about the analysis:

Feasibility of a minimum tax based on effective tax rates: the proposal for a minimum tax is based on effective rates instead of statutory rates. Although this is theoretically desirable, it is also a burden for the tax authorities. We wonder how staff judges the feasibility of systems based on effective rates?

User participation in a system of residual profit-sharing: residual profit-sharing could be applied to tax digital companies based on user value. However, finding a definition of 'users' is not obvious, as it is difficult to distinguish between real users and artificial traffic.

A VAT and a wage subsidy instead of a Destination-Based Cash Flow Taxation (DBCFT): staff rightly notes that a DBCFT is equivalent to a broad-based single rate VAT combined with a wage subsidy. We wonder whether moving away from a CIT towards a single rate VAT and a wage subsidy would be easier to implement than a DBCFT.

More fundamental reflection on the CIT: the starting point of the paper is the existence of a CIT. This is understandable as the CIT currently makes up a significant part of government revenues, including in LICs. However, the

CIT is relatively distortive, because it affects investment decisions and corporate debt bias. As profits become more mobile and information exchange between tax authorities increases, the relative benefits of a direct tax on capital income of shareholders increases.[1] Noting that moving away from a CIT would be a controversial step, we wonder whether staff considered alternatives to a CIT (e.g. recent experiences regarding distributed profit taxation in Estonia)?

The CIT and carbon taxes should both be part of the discussion on international corporate taxation. Tax avoidance and harmful tax competition have international spillovers through the erosion of foreign tax bases, while CO2 emissions yield negative climate externalities. They therefore both require multilateral coordination. Including carbon taxation in the discussion about CIT could support the search for a multilaterally acceptable solution. In addition, CO2 emissions can be seen as an economic rent, that could be taxed under an alternative CIT-system. For example, one could envisage a formula apportionment or residual profit allocation system where carbon emissions would be part of the tax base.

The debate would benefit from better data, as well as further research about the effects of different systems. We welcome staff's efforts to encourage the collection of taxpayer-level data and to analyze this data. Capacity development could be used to support data collection in developing countries. The consequences of the different proposed systems are far reaching. Further research is needed to make informed decisions. We therefore welcome further research by staff, including about the dynamic effects of different systems and their expected effect on corporate investment. We also welcome efforts by the IMF to identify the impact of reforms on different countries, including LICs.

We believe that current governance arrangements, with a dominant role for the OECD, are effective. While the OECD should remain the central body to finding a sustainable solution to questions on international corporate taxation, we believe that cooperation via the Platform for Collaboration on Tax is most useful, especially in the area of capacity building. A globally supported multilateral solution is only feasible if the interests of developing countries are also taken into account. We therefore welcome the efforts by the Platform for Collaboration on Tax to help ensure that the interests of low-income countries are on the agenda of the Inclusive Framework of the OECD.

[1] The CIT can be seen as a withholding tax on shareholders, who are assumed to be more mobile than profits.

Mr. de Villeroché, Mr. Meyer, Mr. Castets, Mr. Merk, Ms. Fritsch and Mr. Sode submitted the following joint statement:

> We thank staff for an informative report which provides welcome input to the debate on reforming the international tax system at a moment when this debate gains renewed momentum. Recent measures – most notably the BEPS initiative – have successfully addressed shortcomings of the international corporate tax system and the Inclusive Framework has importantly contributed to strengthening international tax cooperation. While acknowledging the progress made, we agree with staff's assessment that the international corporate tax system still faces significant challenges mainly related to profit shifting and tax competition. Given increasing calls for a fair distribution of the tax burden, we see merit in advancing multilateral and sustainable solutions that address existing regulatory gaps that allow undue profit shifting to low tax jurisdictions and encourage aggressive tax competition, notably at a time when many Fund members face a need for fiscal consolidation and are advised by the Fund to enhance domestic revenue mobilization efforts. Excessive tax competition and tax avoidance undermine the ability of the state to finance its public spending (be it for investment or for social cohesion) and it puts an increasing pressure on the domestic tax bases that are the less internationally mobile.
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> Against this background, we welcome the insightful analyses on alternative tax architectures. The paper significantly informs the debate and complements existing analyses by international institutions, policy-makers and academia. We appreciate the candid assessment of staff on the current state of the international corporate tax system. We notably welcome that staff does not only assess the merit of proposed reforms according to its impact on tax avoidance, but that staff also looks at its effect in terms of tax competition. As pointed out by staff, the spillovers that tax competition can generate raise risks for inter-nations equity on the one hand, through their impact on the allocation of tax revenue across jurisdictions, and, importantly, on efficiency on the other hand. It also raises the question of burden sharing within nations since it could encourage countries to rely more on indirect taxations, with potential adverse distributional impacts.
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> The Fund, through its comparative advantage in macroeconomic analysis as well as due to its universal membership, is well positioned to contribute to this issue, while fully recognizing the OECD's role of standard-setter for the multilateral regulatory framework. Going forward, we encourage the Fund to pursue its analytical work further by providing a more systematic and granular quantitative assessment of the scope of profit shifting and of the

impact of potential international tax reforms on tax revenues. While we recognize that existing data gaps are important, we are very much in favor of the Fund in being more proactive to encourage the collection and analysis of such data in coordination with the OECD and other stakeholders.

Regarding the broad principles that should guide the international corporate tax reform, while we agree with staff on the drawbacks and limitations of the concept of taxing where value is created, we think it remains a relevant objective that should be somewhat preserved. Preserving this principle of granting taxation rights to the residency country safeguards substantial achievements under BEPS and other initiatives thus far while allowing to incorporate further complementary reforms into a comprehensive framework.

We see great merit in the concept of minimum taxation as it is an efficient, practical and realistic way to curtail tax avoidance while limiting harmful tax competition with jurisdictions imposing low or no corporate tax rates. Minimum taxation also addresses the broader challenges arising from the digitalization of the economy as well as an increasing reliance on intangible assets in the production process while having the advantage to build on the existing system. If implemented at the multilateral level, with minimum taxation rates at a sufficient level and applied to profits made abroad on a country-by-country basis, such reform could close most existing loopholes of the current system. France and Germany submitted a comprehensive proposal on effective minimum taxation to the Inclusive Framework on BEPS to set a new global standard. The concept is based on coordinated rules and grants jurisdictions the right to tax profits that are otherwise subject to no or only very low taxation in other jurisdictions. While fostering sustainable tax competition, the proposal limits compliance and administrative costs and avoids double taxation. Furthermore, a multilateral approach on minimum taxation could benefit Low-Income-Countries (LICs) as minimum taxation reduces the incentive for countries to engage in a harmful race to the bottom by effectively imposing a lower bound on the tax rate. This could strengthen much-needed revenue mobilization in these countries.

We strongly support efforts by staff to take into consideration the specific situation of LICs. This is particularly important as LICs potentially suffer disproportionately from revenue losses due to tax avoidance and tax evasion. We agree that the distinct problems faced by, as well as capacity limitations of, low income and fragile countries require tailored responses, in line with internationally agreed tax standards. The Fund is well positioned to contribute to the analytical work in this field and to ongoing work on these issues in international fora. In parallel, thanks to its expertise on technical assistance for tax policy and revenue administration, the Fund will also be a key actor to implement the necessary reforms in developing countries. In this regard, we expect staff to actively participate in the Platform for Collaboration on Tax, not only through analytical work but also in term of technical assistance delivery and jointly developed guidance. Coordination in the field, with domestic authorities as well as development partners, is a crucial factor to successfully implement such reforms in LICs. Staff comments are welcome.

Mr. Villar and Mr. Moreno submitted the following statement:

We thank staff for its useful policy paper. The report provides a good overview of the current state of the debate on international corporate taxation, including its theoretical framework, the main positions among policy makers, and the strengths and weaknesses of the institutional coordination setting that the international community has built since 2013. Following the paper structure and the issues for discussion, there are three broad subjects in which we will focus our comments: international taxation governance and the role of the IMF, the strategic approach and alternative tax schemes, and digitalization and taxes.

International taxation governance and the role of the IMF

The strategic approach to reforms. In general terms, we share the view that the international income tax system requires substantial reform. The question is how to approach it in practical terms and what is the role that the IMF may play. In this respect, the G20/BEPS has followed a pragmatic approach of setting specific targets and timetables, which is yielding results, including a new agenda on digitalization with a 2020 timeline objective reiterated on the the 6Th meeting of the Inclusive Framework (IF) on BEPS last January. The IMF contribution may be very important in this process by contributing to build a conceptual framework, in data collection, and in computing the impact of any proposal on potential tax revenues of each country.

On governance, we find that the current setting is working appropriately. The OECD’s IF has rightly evolved into a multilateral approach that now includes 128 advanced, emerging and developing countries, and the participation of the IMF as an observer. As stressed by staff, the Platform for Collaboration on Tax (PCT), builds on the different comparative advantages across international institutions, including: standard setting within the OECD and the UN, and capacity building and surveillance within the IMF and the World Bank. We share staff's view that the PCT could have a more prominent role in the international tax dialogue to identify and analyze emerging international tax issues, especially those of interest to developing countries.

We would highlight the role to be played by the IMF through bilateral and multilateral surveillance and in capacity building. It is particularly useful that surveillance focuses on the spillovers and macroeconomic of national fiscal policies, including international tax competition and distributional implications. In developing countries, we share staff's view on the important role that the IMF can play, both from the analytical and capacity building perspectives. Here, we would stress the importance of facilitating that the international debate adequately considers developing countries specificities and the framing of technical advice within the revenue mobilization objective of the SDGs.

On data provision. As a general approach, we find it useful to enhance access to country specific micro-level tax information. We also find that the IMF is particularly well placed to participate in data collection and analysis given its global outreach. Here, there is also particular space for the IMF's capacity building to enhance data provision in developing countries. We would nonetheless warn against the risk of duplication as there are similar efforts run by the OECD. We would welcome staff's comments on the scope for coordination with the OECD on these data collection initiatives.

Strategic approach and alternative tax schemes

Areas of concern. The paper rightly stresses that, while the main focus of BEPS has been on tax avoidance and, more recently, on digitalization and taxation, there are other areas of special concern, most notably, tax competition and the specific challenges of developing countries. We are particularly concerned with the risk of a race to-the-bottom on corporate taxation. There is scope for the IMF to deepen its analysis in these two areas, including in its country surveillance, signaling their macroeconomic impact and the spillover effects of national fiscal policies.

With respect to the alternative tax architectures, the paper provides a comprehensive overview of several alternatives and their economic implications with a strong emphasis on the efficiency and ease of implementation principles, and a welcomed reference to suitability to circumstances in developing countries (as summarized in table 2). This is a useful exercise that feeds into the international debate that could be enriched by extending the analysis to consider other taxation principles, such as equity, predictability or revenue mobilization capacity. This said, we would refrain from endorsing any of the proposals, other than supporting the ongoing agenda at BEPS2, which includes a welcomed program on minimum effective taxation rules, also highlighted in the staff paper.

On digitalization and taxes, the Inclusive Framework (IF) of BEPS has already taken significant steps in the digitalization agenda, including through the work of the Task Force on Digital Economy. Discussions are now focusing on two central pillars: revisions to the profit allocation and nexus rules and global anti-base erosion proposal. The work is being carried out under a "without prejudice" principle, and there are several proposals that have been put forward by advanced economies and the G24 that go beyond the digital companies and apply to a broader range of both digital and non-digital business models. We share staff's view that these discussions could benefit from a rethinking of the "taxing where value is created" principle. The projected agenda includes a progress report in June 2019 and a solution delivered in 2020. Many countries are adopting temporary tax measures for digital companies until a global solution is agreed, which is consistent with the ongoing progress in the OECD and the need for a solution in this field.

Mr. Inderbinen, Ms. Levonian, Mr. Ray and Ms. Riach submitted the following joint statement:

We thank staff for their paper, which helpfully considers the "big picture" issues regarding the design of the international tax system. This includes assessment of both the macroeconomic implications of the existing architecture and of possible alternatives. Analysis of the implications for low-income countries is a particular area of need where the Fund has relevant experience on which to draw. The paper, however, is very ambitious in scope – it touches on many different important issues in international tax and attempts to bring them together and provide an overall assessment.

While we support analytical work in this area, we would not want for the paper's conclusions to be taken as Executive Board-endorsed policy directions or as general guidance for future Fund engagement. At a time when the international community is considering significant changes to the international tax architecture, it is important that the Fund provide measured and evidence-based analysis, recognizing the ongoing discussion in this area and the nuances and trade-offs involved in policy choice and implementation. We are concerned that the paper, in its current form, may in fact make it harder to find consensus. In particular, the assessment risks being interpreted, without the nuance that staff intend, and the summary seem biased against the status quo and in favor of theoretical alternatives that take little account of the practical consequences of their implementation. That said, recognizing the valuable analysis included in this paper, we wonder whether it would better suited for publication as a staff discussion note with some adjustments to tone and a focus on the evidence-based sections or re-framed as a stocktaking with section F excluded. This would allow for staff's useful and complementary insight to be reflected in ongoing debates without the Fund and its Executive Board seeming to formally endorse a particular approach to reform of the international corporate tax system in a premature way.

We remain supportive of the outputs of the OECD/G20 project on BEPS and consider that the paper undervalues this undertaking and other recent developments in tax coordination. Supporting widespread adoption of the agreed BEPS minimum standards should continue to be a priority for all Fund advice (notably in surveillance and TA) on these issues. The paper does not adequately acknowledge the advances that have been made in a range of areas and seems quick to judge before actual results are available. For example, the statement (in paragraph 10) that BEPS is seen as creating uncertainty does not seem to take into account the new minimum standard on treaty dispute resolution and the commitment by a group of countries to adopt mandatory and binding arbitration. The paper's commentary on tax competition does not consider the significant ways in which tax competition is already being addressed (e.g., through standards on exchange of information, transparency in tax rulings, the forum on harmful tax practices, and the re-activated substantial activities requirements for no- and low-tax jurisdictions). We believe that ensuring widespread adoption of the agreed minimum standards on BEPS and on tax transparency should continue to be a priority for the international community.

That being said, we are committed to multilateral dialogue on potential further changes to the international tax framework that build on the results of the BEPS project. Such work is underway under the auspices of the OECD-led Inclusive Framework on BEPS (which brings together 127 countries, including all OECD and G20 countries and many developing countries). Initial efforts were spurred by outstanding concerns regarding new business models of some highly digitalized firms. The work also includes consideration of options with broader implications – including some of the alternative mechanisms described in the paper. The international community has agreed to work collectively with a view to developing consensus by 2020 on a long-term, principles-based approach, and we remain supportive of these multilateral discussions. We believe that it is important to take the time required to establish a coherent set of international rules that has broad support among countries.

We have concerns with the way the paper bluntly frames the issue of tax competition. It is important to note the benefits of fair tax competition, which can encourage business investment and innovation, as well as improve capital flows. As the paper acknowledges, there are many protections in place against harmful tax competition within the global tax standards framework. Limitations on tax competition are a sensitive subject that need to be handled in a nuanced way, recognizing the interests and motivations of differently-situated countries. We also emphasize the need to respect the sovereignty of nations to set their tax rates in line with local economic and fiscal circumstances. It would be helpful if the paper were clear about what it means by tax competition (simple rate differentials, targeted incentives, ring-fenced regimes, etc.), set out why tax competition in various forms may be problematic, and presented the arguments for and against limiting it.

Furthermore, in its consideration of alternative architectures, the paper takes a somewhat one-sided approach in assessing what would appear to be its preferred alternative, a destination-based cash flow tax (DBCFT). It seems unrealistic for the paper to argue that the DBCFT does not create a preference for domestic production (which it taxes on a net basis) over imports (which are subject to gross basis taxation). It would seem more reasonable to be fully transparent about the first order effects of the DBCFT, including on trade, and then discuss how price and exchange rate movements could offset those impacts. This assessment would need to recognize the likely uneven and uncertain impacts of a DBCFT, particularly for small open economies. The complicated factors that determine exchange rates cast doubt on the notion that exchange rate changes would smoothly offset the effect of import and export discrimination. Similarly, in terms of WTO compliance, it would be reasonable to explain why the DBCFT seems likely to contravene WTO rules, and not merely state the argument against this. Lastly, regarding exports, there is no discussion of the political feasibility of government subsidization of the systematic tax losses of profitable exporting companies, which a DBCFT would seem to require.

Finally, we see a limited role for the Fund to engage on policy debates on international corporation tax. Along with macroeconomic analysis, its tax activities should support wider efforts on capacity development. The Platform for Collaboration on Tax (PCT) plays a crucial role coordinating international organizations' activities in this area, reducing the risk of duplicating efforts or providing competing advice. We would like the Fund to work with PCT partners to progress work on Medium-Term Revenue Strategies, toolkits to support low capacity countries' implementation of existing international tax standards, and the Comparative Advantage Note. That being said, we recognize the valuable insight from Fund technical assistance for ongoing debates in international tax, so we support continued efforts to facilitate this feedback loop.

Mr. Agung, Mr. Abenoja, Ms. Ong and Mr. Srisongkram submitted the following statement:

We thank staff for their rich analysis and useful outreach. Significant progress has been made in recent years in addressing weaknesses in the international tax architecture, notably through the OECD BEPS initiative. While characterization of the international corporate tax system as being "under unprecedented stress" seems unduly dire, vulnerabilities and gaps clearly remain in the existing architecture. We agree that there is a need to continue strengthening the international corporate taxation architecture. Without weighing in on staff's assessment of alternative tax architectures, we view that staff's analysis can be a useful addition to the existing literature. We offer the following comments.

First, the Fund is well-positioned to make valuable contributions to the international tax discourse, particularly to reflect challenges faced by developing countries, but it should avoid duplicating or complicating existing processes of other international bodies. The Inclusive Framework and Global Forum[2] remain the core fora for discussing tax issues and finding sustainable global solutions. We encourage the Fund to continue engaging actively in both platforms and elevating perspectives of developing countries in global discussions. We see an important role for the Fund in the following:

Leveraging its analytical capacity and broad membership to understand the implications of developments in global taxation across the different segments of the membership and contribute to on-going discussions through objective analyses;

Working closely with low-income and developing countries through capacity building and technical assistance, to strengthen domestic expertise, close data gaps, and enhance administrative capacity; and

[2] The Inclusive Framework on BEPS ("Inclusive Framework") and Global Forum on Tax Transparency and Exchange of Information for Tax Purposes ("Global Forum")

Reinforcing the importance of a multilateral and consensus-based approach to international tax discussions, which fosters a level playing field for tax for all markets, regardless of their size and income level. For instance, tax architectures that favor market size tend to penalize small, open and developing economies, such as those in our constituency. We also encourage the Fund to continue to advocate against unilateral measures that would serve only as quick-fixes, but do not address fundamental issues at hand.

Second, it would be helpful to have clarity around how this analysis will impact the Fund's engagement with international stakeholders and its membership. We have some reservations regarding the implications of the Board's formal consideration and endorsement of this paper – would this mean that the judgments within form the Fund's official view? Could staff elaborate on how the analysis will feed into the Fund's work in surveillance and capacity development? We also invite staff to share their thoughts whether publishing this report in an alternative format (e.g. Staff Discussion Note) would be more appropriate.

Third, we are concerned that the paper appears to favor the premise that all tax competition is detrimental. Taxation forms one element of a broader business environment. It is not practical or appropriate to eliminate tax considerations altogether in the locational decisions of businesses, nor to constrain the flexibility of jurisdictions to calibrate tax policies to fiscal needs and structural characteristics (e.g. population size, land area, natural resources). It is therefore important to distinguish harmful and distortionary tax competitions, from that which are justified by economic substance, and are transparent and subjected to peer assessment on compliance with internationally agreed standards. Ongoing international efforts are appropriately focused on the former, but we are concerned that the staff paper blurs this line.

Fourth, it is imperative that the Fund remain measured in conducting and communicating its analysis. Given the stature of the IMF, and the high-profile and politically charged nature of international tax discussions, it is paramount that the Fund remains clear, balanced and objective in its assessments of alternative architectures and governance arrangements. For instance, we would appreciate further elaboration on staff's proposals for additional data collection by the Fund (paragraph 111) and an expanded role for the Platform for Collaboration on Tax (paragraph 112). How would IMF data collection efforts interact with existing efforts to create a global revenue statistics database within the OECD? What would a "fuller role" of the PCT look like? What are the resource implications of each of these proposals for the Fund?

Fifth, future changes to the tax architecture, if globally agreed, must be implemented on a gradual, tailored and proportionate basis. The alternatives analyzed by the Fund represent, in some cases, major shifts from the existing framework. We should not underestimate the practical challenges of such policy pivots. We encourage staff to continue to consider how practical issues (e.g. political economy considerations, structural idiosyncrasies, and implementation capacity) could affect the costs and benefits of alternative solutions. We reiterate the importance of capacity development to assist emerging markets and developing economies in understanding and implementing developments in international taxation.

Mr. Tombini and Mr. Saraiva submitted the following statement:

We thank staff for the insightful report and welcome the thoughtful propositions presented. The inherent complexity of the issue under analysis recommends a cautious approach. Recently, two important developments brought the issue of corporate income taxation to the top of the policy agenda in different countries and multilateral organizations. First, tax reform in advanced economies, involving substantial tax cuts, put pressure on emerging market economies and low-income countries, which in many cases do not have the fiscal space to promote similar reforms. Second, global value chains and technological advances augmented the capability of corporations to combine production in different countries and supply goods and services in certain tax jurisdictions without a physical presence. These momentous transformations challenged the current state of international corporate tax arrangements, making international coordination critical.

We welcome the IMF’s efforts in taking stock of the current situation, in partnership with other international organizations. We recognize the ongoing progress in the context of the G-20/OECD Base Erosion and Profit Shifting (BEPS) project. At the same time, we agree with the staff’s assessment that the BEPS project has not entirely addressed crucial challenges, such as tax avoidance and the impacts of digitalization in taxation. These challenges have led to unilateral actions in some countries, which are not optimal solutions. The broad membership of the Fund, coupled with its mandate in bilateral and multilateral surveillance and its capacity development activities, places the institution in a unique position to make a distinctive contribution to this debate, taking into account the specificities not only of advanced economies, but also of emerging market economies and low-income countries. In our view, one important contribution the Fund could provide is the regular surveillance of independent fiscal jurisdictions, which remain at the margins of the Article IV surveillance framework for being nominally submitted to another sovereign state. Could staff comment on the possibility of extending mandatory surveillance to these territories of IMF member states?

Notwithstanding the fact that ‘digitalization’ represents a specific challenge for contemporary corporate taxation, we share the view that the international tax system should avoid “ring-fencing”. Staff’s report clearly reveals the difficulties in measuring value added, its geographic location, and the value of different inputs, particularly in face of digital technologies and new business models. However, the exercise of creating a specific tax system for a limited number of digital corporations does not seem to be the best approach. Furthermore, the evident lack of consensus regarding the details of such framework suggests that additional analytical and empirical work should be done. It is possible that the best coordinated solution for this emerging challenge lies beyond the scope of “corporate taxation”, involving broader concerns about international taxation in general.

The summary of alternative corporate taxation architectures proposed by the staff is a good start. Nevertheless, we believe that the evaluation of the actual fiscal impact of alternative frameworks is basically an empirical endeavor. The report is a valuable theoretical exercise and presents several alternative taxation regimes, including the assessment of implementation difficulties. We are of the view that national fiscal authorities are better placed to evaluate the real impacts of alternative tax reforms and tailor it to their specific needs. Indeed, we would like to encourage staff to take a closer look at existing best practices, inasmuch as, in several cases, national authorities gathered valuable practical experience in dealing with the most deleterious effects of tax avoidance. Overall, we welcome the exercise and encourage continued analytical work and discussions in several fora.

We sympathize with the collection of more specific data and the role of the Platform for Collaboration on Tax (PCT). Robust and consistent data are the basis for good economic analysis. The PCT has the potential to become a key structure for collaboration, creating the adequate conditions to encourage the reporting of data and information by a broad set of countries. Nevertheless, the costs of such an initiative and the limited capacity of many countries to provide data and respond to surveys should be taken into account. Considering the number of staff involved and the structure of the PCT, what is the estimated impact of the initiative on the IMF budget?

Mr. Fanizza and Ms. Collura submitted the following statement:

We thank the staff for the insightful paper, which is technically very complex.

First, we think it is important to share our views on the current governance arrangements in international taxation and the role of the Fund. The Inclusive Framework on BEPS has already started an important stream of work in the international tax area and, on this basis, it is in a better position to pursue such work to address the still remaining vulnerabilities and new tax challenges. We would like to highlight the importance of having only one standard. At the same time, we think that the OECD and the UN tax-related frameworks are becoming more and more inclusive. In this context, the IMF is already involved in the international discussions on tax issues through the Platform for Collaboration on Tax (PCT).

We are convinced that the Fund can contribute to the understanding and debate on international tax issues, first through surveillance. The Article IV consultations provide for a solid framework in this respect, allowing discussions on spillovers from members' economic policies that may significantly affect global stability, including alternative policy options that would minimize their adverse impact. At the same time, we encourage staff to consider the possible spillovers stemming from their advice to the authorities. Indeed, tax policies might have important spillovers, including when adopted by small countries. We welcome staff engagement on international tax issues in relation to spillovers in the context of bilateral surveillance.

The PCT's primary role is to coordinate capacity building initiatives, promote the implementation of the agreed tax principles and reduce differences across jurisdictions. We acknowledge that through the continuous dialogue with the membership - and in particular with developing countries - the Fund might have an insight on emerging international tax issues, such as international tax standards implementation challenges. The PCT can bring to the attention of the Inclusive Framework these challenges so as to support a consistent implementation worldwide. We thoroughly understand the specific Low-Income Countries' needs and capacity limitations. However, the importance to converge towards common standards – which is necessary to ensure effectiveness - makes it difficult to design an ad hoc solution for developing countries. Nevertheless, we are open to consider for countries with capacity constraints, a step by step approach in implementing those standards or, as an alternative, the grant of more time.

The Fund has a unique macro-economic expertise. We see merit in using such expertise to assist the international OECD/G20 tax debate. We believe that discussions on any global solution should consider the impact of the different measures on all countries, including on developing and Low-Income Countries. We recognize the importance of bridging data gaps to have a full understanding of the distinct circumstances of developing countries. In this regard, we see a role for the Fund in encouraging the analysis and collection of more country specific taxpayer-level information.

Against this background, we would then suggest caution against any duplication or overlapping on international tax issues, as we do in other areas of the Fund's concurrent expertise. There is already an intense discussion on international tax issues in the Inclusive Framework, and it is not clear what could be the added value of a debate on the different international tax arrangements at the board. However, we wish to provide our views on the more technical issues.

The evolution of the business models and the digitalization of the economy pose challenges and increase the risks associated with profit shifting and tax competition. The Base Erosion and Progress Shifting (BEPS) project has made substantial progress in international tax cooperation, but we concur with staff that vulnerabilities remain. Furthermore, the current rules need to adapt to business models characterized by limited or no physical presence in the market jurisdiction. At the same time, we believe that further efforts are warranted to reduce localization opportunities in low-tax jurisdictions, either by requiring the application of the economic substance principle also in the case of low taxation or - more effectively - by considering the introduction of a shared minimum effective taxation. On the contrary, we do not see a major overhauling of the international tax system as feasible or even desirable at this stage. In this regard, we believe that the destination- based approach (not an option currently discussed at the Inclusive Framework) would involve significant downsides, as also staff acknowledge. Furthermore, we would like to point out that the residual profit-splitting method presented by staff is much broader than the one currently under discussion at the Inclusive Framework.

The on-going discussion on the scope of the revision of international tax rules is a major open issue to be addressed by the international community. The OECD BEPS Action 1 Report acknowledged that it would be difficult, if not impossible, to ring-fence the digital economy from the rest of the economy for tax purposes, but it did not express any clear-cut judgment on the appropriateness of any measure based on its scope. In this regard, the staff statement that the implication of the digitalization debate was that "measures seeking to ring-fence a subset of firms of activities would be inappropriate" (§20) is not fully consistent with the outcome of the international debate. Furthermore, the difficulty to ring-fence digital economy should not be interpreted as suggesting a one size fits all solution to any challenge of international taxation.

In our view, the leading principle in the updating of the current rules is that taxation should be aligned with value creation (i.e., considering whether users/consumers contribute to the value of the company). Therefore, any expansion of the taxing rights attributed to the destination country would be justified only in the presence of a certain level of interaction between businesses and users/consumers in the market jurisdictions, when such interaction has the characteristic of being value generating and market specific. As such, we disagree with staff statement that "taxing where value is created is at best an incomplete standard by which to assess international tax arrangements" (§31). While we see merit in exploring alternative international tax architectures, we would support only a solution which reflects this principle and accordingly achieves a balanced combination of the different arrangements currently under discussion at the Inclusive Framework.

Finally, while reaffirming our firm commitment to work towards an internationally agreed upon solution, we cannot hide from the fact that reaching an agreement on a global solution requires time. Therefore, we are not against the adoption of temporary measures to restore the level playing field between digitalized and traditional businesses.

Mr. Beblawi, Mr. Mouminah, Mr. Alhomaly and Mr. Al-Kohlany submitted the following joint statement:

The October 2018 IMFC communiqué underlined support for "the Fund's continued role in international tax issues and domestic resource mobilization, including through the Platform for Collaboration on Tax …" In this connection, we welcome the informative staff paper on corporate taxation in the global economy. We look forward to continued Fund contributions to the ongoing debate drawing from the experience gained in technical assistance and, more recently, in surveillance. These contributions are especially relevant to address the interests of many emerging and developing economies, including low-income countries, which may be affected by capacity limitations and are considerably vulnerable to profit shifting.

We welcome the significant progress in international tax cooperation with the G20/OECD BEPS project but note the many current challenges.

These include unilateral initiatives going beyond BEPS, tax competition, and digitalization. In this context, we see scope for further multilateral policy cooperation to better address the existing tax challenges, with a view to represent the interests of the entire membership. In addition, we encourage the Fund and relevant institutions to help build a cooperative approach, including through improving administrative capacity where needed. In Appendix 1, we note that most civil society organizations (CSOs) favor a regime under the auspices of the UN for an inclusive global governance for setting international tax standards and advancing international collaboration. The UN is one of the principle venues for the development of international tax norms, and we would welcome staff elaboration on the organization's specific role in international corporate tax reform, apart from the work carried out under the Platform for Collaboration on Tax.

Tax challenges arising from digitalization are a pressing issue. In this context, we see the benefit of agreeing on a common approach as unilateral actions might undermine all the progress that has been made so far. Indeed, internationally coordinated solutions, albeit challenging to bring about, would be desirable as these will be acceptable to the international community, sustainable, and would limit complexity and spillovers. While the paper outlines the digitalization debate, we missed staff's recommendation on the specific tax solutions vs. the impossibility/desirability of ring-fencing digital activities for firms. Comments would be appreciated.

We welcome the detailed coverage of alternative architectures and the summary assessment in Table 2, which is very useful. However, we note the staff qualification regarding "impressionistic" evaluations, which are be interpreted with great caution (paragraph 100). We agree that no alternative scheme is without difficulty and that the economic impact and administrability of these alternative schemes require further analysis especially for emerging and developing economies. Fund TA for developing economies has often recommended minimum taxation on inbound investment to guard against domestic avoidance and evasion. However, we understand from footnote 60 that TA recommendations on these minimum taxes in Latin America are often based on gross or net assets while in Sub-Saharan Africa, they are commonly based on turnover. What are the reasons for the different recommendations? Understanding the unique circumstances of developing countries would be strengthened with better coverage in the literature and enhanced homogeneity among countries. In question 5 under issues for discussion section, staff referred to the need for "country specific taxpayer-level information to analyze the impact of international tax arrangements". Could staff clarify this point as paragraph 111 is not entirely clear?

Finally, we would encourage a stronger role for the Platform for Collaboration on Tax, which brings together different perspectives on important issues. Here, we share the view expressed in paragraphs 112 and 113 that a more purposeful engagement of the Platform with the work of the Inclusive Framework will be helpful for low-income countries in placing their concerns firmly on the international tax agenda. We also encourage staff to facilitate greater engagement of low income countries in the tax debate, and to lend its expertise toward an all-inclusive process in determining a path forward that is appropriate for all its membership.

Mr. Sigurgeirsson and Mr. Gade submitted the following statement:

We thank staff for their informative report, which takes stock of the current state of international corporate tax arrangements and considers broad options for future development.

We agree to the importance of fighting aggressive tax planning but are not convinced that a more fundamental reform, aiming at a more general reallocation of taxing rights in the international tax system, is warranted. Careful analysis is needed before considering changes to the international tax system. Much has been achieved in the area of international taxation in recent years, e.g. in the BEPS Project. As regards taxation of the digital economy, we note the current momentum in discussions to reach a global solution and we remain committed to contribute to the work within the Inclusive Framework's Task Force on the Digital Economy which shall deliver a final report in 2020.

The issue of tax challenges arising from digitalization is very complex and needs to be analyzed thoroughly. It is a global issue that requires global consensus. The ongoing work within the OECD/Inclusive Framework is of crucial importance to reach such a global consensus. We agree with the conclusion reached in the 2015 BEPS Action 1 report that it is not possible to ring-fence the digital economy. Changes made to the current international tax principles should be properly targeted at the relevant challenges arising from digitalization.

Given its work in surveillance and capacity development, the IMF is well suited to consider the impact not only on advanced and emerging economies, but also on LICs, of the different approaches to reforming international tax principles. The Fund's overview of the impact of changes to the international corporate income tax system on the national tax system of LICs, including the consistency with the entire national tax system, is a valuable asset in surveillance and technical assistance. Given the extensive and fundamental changes to current principles that may be part of such approaches, a balanced analysis is needed.

It is important to keep the objective of aligning taxation with value creation. This was the basis for the BEPS Project and is also the basis for the ongoing work related to the tax challenges arising from digitalisation by the Inclusive Framework on BEPS, where several proposals have been put forward. We agree with staff that minimum tax schemes can be powerful in addressing profit shifting and dampen tax competition without attempting to ring-fence the digital economy or fundamentally reshape the international tax order. It is important that any approaches considered are principle based and based on the concept of value creation.

Much has already been achieved in the area of automatic exchange of information within the OECD and the Inclusive Framework. This includes for example the automatic exchange of Country-by-Country Reports. The Action 13 minimum standard on CbC will be reviewed in 2020 to evaluate whether modifications to the CbC reporting standard should be made.

Through its work, the IMF gains information and experience that can offer a valuable contribution to the international tax debate. We emphasize the importance of further analytical work by relevant bodies into the implications of current tax systems, including research into multinational enterprises (MNE's) use of offshore corporate shells to avoid taxes. In this regard, we support the work of the Platform for Collaboration on Tax (PCT) which has, for example, developed toolkits to assist developing countries address issues in relation to taxation of MNEs. Overall, we find the work of the PCT valuable as it formalizes the cooperation between the OECD, UN, World Bank and the IMF on tax issues and can assist members in strengthening their tax systems and capacity.

There are international standards and on-going work with the aim to prevent states from harmful tax competition. However, it is within the sovereignty of every country to decide which tax rules are suitable for the specific country as long as it is in line with international commitments.

Mr. Kaizuka and Mr. Komura submitted the following statement:

Looking at the current picture of the international tax system, it is true that traditional norms such as Permanent Establishment (PE) and Arm's Length Principle (ALP) is facing great challenges arising from digitalization and other technical advancement. Adjusting those norms in accordance with the times and changes is a very current agenda. In this vein, we recognize staff's efforts, including the assessments of the alternative options from LICs perspectives, in order to contribute to discussions on this agenda. However, as the staff report notes in paragraph 100, the evaluations should be interpreted with significant caution. Furthermore, the Fund should fully acknowledge that completely denying traditional norms is not a realistic idea. For example, regarding deviations from ALP, there are experiences and achievements in actual tax treatments and mutual agreement procedure (MAP) negotiations which have been accumulated based on ALP as a norm.

More importantly, we emphasize that the Fund is not a standard-setter of the international tax system. Therefore, we consider that the Executive Board should not engage in an assessment and a choice of alterative options suggested in the paper and the Fund should respect the ongoing discussions and possible conclusions by a standard setting body. In this regard, the Fund needs to be cautious enough in communicating with outside world on the implications of the paper after our discussion. The Inclusive Framework (IF) which consists of around 130 countries has been working on the review of the international tax system. G20 leaders have committed to continue working together towards a final report in 2020 aimed at providing a consensus-based long-term solution, with an update in 2019. Japan has contributed and will further contribute to this process under our G20 presidency. Looking at debates in the IF, tax experts and country representatives are intensively discussing several alternative options, focusing on nexus and profit allocation rules which the paper raises. They argue an option based on a distinction between residual and routine profit as well as minimum tax schemes which could enable to deal with profit shifting effectively. Meanwhile, boarder-adjusted profit taxes and DBCFT are not discussed as they are questioned on their consistency with the WTO rules. Furthermore, the IF shares the view that unilateral implementation of them is not desirable due to its negative spillover effects and adverse impacts on tax certainty.

The Fund has a clear competitive edge in the tax area on empirical analysis of tax policies and reforms analyzing their macroeconomic implications and possible spillover effects and TA/CD which many of the participating countries in the IF are seriously in need of. These are the Fund's prominent role in this area. Regarding empirical analysis, we believe that, for example, analysis on the impact of the Tax Cuts and Jobs Act of 2017 which includes such measures as GILTI and BEAT would be better contribution of the Fund to the international taxation debates. In addition, analysis on how BEPS implementations have affected profit shifting and base erosion in LICs would complement the OECD's work on the assessment of the effects of

BEPS actions which falls into the BEPS action 11. More generally, in many cases, while we agree with representativeness of LICs is critical, LICs have more urgent needs to strengthen domestic taxation system in order to strengthen their resource mobilizing capacities prior to engaging in complicated international tax arrangements. The Fund should and could focus on its support in providing its TA/CD for domestic resource mobilization, including development and implementation of MTRS which could ensure ownership of recipient countries and coordinate assistances from different sources.

As to governance of the international tax system, we are of the view that the IF works reasonably well so far. The PCT has a critical role in enhancing coordination of TA/CD. On the PCT, we look forward to the Informal Session on March 20. The PCT needs to strengthen its secretariat function to fully perform the expected role. In this vein, we expect contributions from the Fund as well as other donors than the UK and Japan. Moreover, we look forward to the progress report which the PCT will hand in to G20 Finance Ministers and Central Bank Governors' Meeting in June. Finally, while the staff report mentions "a more purposive engagement of the PCT with the work of the IF," what does staff specifically have in mind?

Mr. Di Tata submitted the following statement:

We thank staff for the comprehensive and interesting paper and for their outreach efforts before this meeting. We have the following reactions to the issues for discussion presented at the end of the paper:

We concur with staff that the G-20/OECD BEPS project has made significant progress in international tax cooperation by achieving multilateral agreement on improved standards in areas such as transfer pricing and treaty abuse, but that the fundamentals of the international tax architecture remain unchanged. We also note that recent unilateral developments could in some cases jeopardize the coordinated approach of the BEPS through uncoordinated adoption of anti-avoidance measures. In addition, we recognize the difficulties faced by many developing countries to implement the new global standards.

Against this background, the staff's discussion of more fundamental options for reform is a welcome step. However, we would like to emphasize that, in most cases, the proposed reforms would require a much stronger and effective degree of international cooperation than what we have seen so far. In this regard, we share the concerns expressed by Mr. Inderbinen, Ms. Levonian, Mr. Ray and Ms. Riach in their buff statement that the formulated alternatives do not give sufficient weight to the practical difficulties of their implementation. Therefore, although we agree that the Fund has important contributions to make in this area, we would emphasize the importance of proceeding with great caution to avoid pushing for reforms that, if adopted unilaterally (as opposed to universally), could end up making the current system even worse. We also share the view expressed by Mr. Inderbiden, Ms. Levonian, Mr. Ray and Ms. Riach that Fund staff should continue to support the adoption of the agreed minimum standards on BEPS and tax transparency.

One issue of increasing importance is the taxation of the digital economy. Digitalization has rendered the existing international rules that allocate taxing rights among countries largely ineffective. It is very difficult, if not impossible, to ring-fence the digital economy. Businesses can be heavily involved in the economy of a jurisdiction without significant physical presence. As noted in the report, many countries have adopted short-term measures to deal with this problem, including some form of the "Digital Services Tax", but there is no coherent solution on the table so far. In this regard, we look forward to the ongoing search for a common approach at the OECD and the final report to the G-20 due in 2020. The G-24 countries have suggested that the concept of Significant Economic Presence may be considered. Under this option, which seeks to address the limitations in the definition of permanent establishment in a jurisdiction, a taxable presence in a country would be created when a non-resident company has a significant economic presence based on factors that show sustained interaction with the economy of that country via technology or other automated rules. Among others, some factors to be considered include, for instance, the revenue generated on a sustained basis from a jurisdiction, the user base and associated data input, and the volume of digital content. Appropriate rules of attribution of business profits based on significant economic presence would be necessary.

We agree that IMF advice should reflect the potentially differing effects on low-income countries of possible approaches to reforming the tax architecture. As noted in the report, the importance of the corporate income tax to low-income countries and their greater vulnerability to profit shifting deserve special attention. However, lack of information, as well as coverage gaps, make it difficult to have a solid position on alternative approaches. In this regard, we agree with staff that more country specific taxpayer-level information is needed to analyze the impact of international tax arrangements. We see the Fund as playing a relevant role in encouraging the collection and analysis of such data. We also concur with staff that simple measures of base protection as part of the core system, combined with minimum taxes, can play a useful role in low-income countries, particularly given that minimum taxes face modest legal impediments.

Regarding the staff assessment of the reform alternatives discussed in the section on Alternative Architectures, we believe that at this stage we should refrain from supporting any proposal until further work is done. Moreover, we would like to emphasize the point made by staff on page 21 that “the evaluation of a scheme may be quite different depending on whether its adoption is multilateral or unilateral.” Therefore, cooperation and consensus at the multilateral level are of critical importance. In this regard, it should be highlighted that Table 2 of the paper presumes general adoption, a rather strong assumption. Under this assumption, we note that the destination-based cash flow tax (DBCFT) scores very well on protection against profit shifting and tax competition but ranks at the bottom of the table in terms of legal obstacles. Could staff elaborate on the main reasons behind this assessment of legal impediments, including WTO-related issues? At the same time, minimum taxation can protect the tax base of low-income countries in a simple manner and can be used as a transition to more fundamental change but ranks medium-low in terms of practical implementation. Could staff elaborate on the main practical implementation difficulties of minimum taxation?

Regarding the governance of the international tax system, we agree with staff that there is a need for more effective and inclusive cooperation. We believe that the creation of the OECD’s Inclusive Framework (IF), which now comprises 125 members, is a positive development and that its “soft” law approach facilitates consensus. However, we share the view that realizing the full potential of the IF requires not only addressing issues covered by BEPS but also those of particular interest to developing countries. The Fund can make valuable contributions by helping to minimize adverse spillover effects and by providing adequate advice and technical support to better address the concerns of these countries. In this regard, we would favor a closer engagement of the Platform for Collaboration on Tax (PCT) with the work of the IF to achieve consensual progress towards strengthening the international tax system.

Mr. Gokarn submitted the following statement:

We thank staff for an excellent paper and for the very useful outreach. This is an extremely complex issue, which requires highly specialized knowledge and understanding to devise workable solutions. Notwithstanding this constraint, we believe that staff have done a commendable job in articulating the pros and cons of each alternative approach. No clearly superior solution has emerged as yet, but the continuous refinement of the analysis of strengths and weaknesses of different approaches is the right way to go. We strongly support the overall work stream that this paper emerged from, including the emphasis on collaboration with other institutions and consultations with tax authorities in member countries.

We found the issues for discussion listed on Pg 46 a useful way to structure our thoughts. The following points address the questions raised by that list.

Based on the material presented in Paragraphs 6-19, we agree that there is a need for substantial reform of the international corporate tax system. However, as the paper emphasizes in various places, the likely effectiveness of any reform is critically dependent on the universality of implementation. For a global consensus on reform to emerge, the costs and benefits of alternative approaches need to be quantified. Evidence presented in the paper suggests that the net benefits of different reform strategies could vary across individual as well as groups of countries, making it very difficult to forge a global consensus. We infer from the paper that minimum taxation approaches are likely to be the easiest to implement, requiring the least degree of co-ordination. Table 2 gives these approaches a reasonably positive rating. However, transiting from this to a more desirable framework may be difficult. Could staff comment on the merits of settling for a minimum taxation arrangement as opposed to striving for a more efficient approach, which will require much more effort to build a consensus?

Our view on implications for taxation of digitalization is contingent on the framework that will eventually emerge. If least resistance option like minimum taxation is the practical way to reform, we believe that countries should have the flexibility to tax digital businesses along the lines described in the paper. However, if a more sophisticated and globally consistent framework emerges, digitalization could possibly be integrated into it and would then not warrant separate treatment. Could staff elaborate on the efficiency and revenue implications of current approaches to taxation of digitalization?

We strongly feel that the IMF should highlight differing impacts of alternative reform strategies on low-income countries. Even in the most elaborate reform scenario, the institution of a World Tax Organization is a highly unlikely outcome. Without it, a two-stage optimization process, which first maximizes the global revenue collection and then distributes it to different countries based on a pre-agreed formula which would give some weight to development indicators is not conceivable. A more realistic reform objective would be to give individual countries space to complement a global harmonization and co-ordination effort with country-specific measures to achieve revenue objectives. One way of doing this suggested in the paper is to make a distinction between mobile and immobile factors, with the former being dealt with in a co-ordinated framework and the latter being addressed by sovereign discretion. However, even with this distinction, the revenue potential may vary considerably across even low-income countries.

The scoring of alternative architectures, even though it is at a preliminary stage, is a very useful contribution of the paper. It highlights the various trade-offs involved between efficiency and implementation challenges across several dimensions. Further, even if particular strategies have more desirable attributes, it is not clear that all participants would find them superior to other options from their individual perspectives. To extend the point made in the previous paragraph, what is best for the whole is not necessarily the best for all the individual parts. Based on the assessments of each approach provided in the paper, of the more complex strategies, it appears that Formula Apportionment is most favorable for emerging market economies. Since our constituency falls into that category, we would support that approach. However, many implementation challenges have also been pointed out, which takes us back to the earlier point about ease of implementation being a key requirement. This brings minimum taxation arrangements very much into the picture.

More information is always desirable, but not always feasible. While the Fund should certainly play a role in laying out an information gathering and disclosure framework for members, the problems in widely implementing this should not be underestimated. If inadequate information is a constraint to assessing a particular reform strategy, this should be seen as a negative for the strategy itself. Members should not be asked to make investments in data gathering primarily for the purpose of evaluating alternatives. There may be merits in the proposed data frameworks, but to meet the requirements of this particular endeavor, countries will have to synchronize their efforts, which may not be feasible.

The point made in the paper about the perceived inequality of the governance framework is valid and certainly needs to be addressed if any kind of global consensus is to emerge. This calls for a governance framework which, at a minimum, is perceived to be inclusive and evenhanded. Creating a central role for the Fund and other relevant institutions will help in achieving this objective, though it will not guarantee it. In this context, the PCT will play an important role by facilitating the articulation of preferences and challenges of individual countries. Effectively managed, it would be a key mechanism for facilitating truly global co-ordination and harmonization.

To sum up, we view this work stream as an important contribution to addressing a significant global problem. Collective and co-ordinated solutions are generally likely to be superior to unilateral ones, but clearly face enormous implantation challenges. Endless discussion and analysis is not going to serve anybody's interests, so we would encourage quick convergence towards a practical solution, even if it involves some compromises on efficiency.

Mr. Mojarrad and Mr. Alavi submitted the following statement:

We thank staff for the comprehensive paper and for the outreach to our office.

The paper addresses complex, but important, issues that have emerged in response to base erosion, profit shifting, digitalization, and harmful tax competition that favor low tax jurisdictions and undermine the revenue mobilization efforts of developing and low-income countries. Changes in international corporate taxation lag these developments, and individual country initiatives in this area may run the risk of increasing uncertainty or igniting a race to the bottom from harmful competition. We appreciate that the paper takes stock of state of progress and discusses possible reforms in the global tax architecture from different perspectives. That said, we believe today's discussion of these complex issues would have been more productive if the process had started with an informal Board meeting to brief/engage, followed by a formal Board meeting, as has been the practice with many other substantive policy issues. Could staff comment on the reasons behind the choice of this process?

We have the following comments on issues for discussion indicated in the report:

We share the staff view that the century-old tax architecture is in need of major reforms. We recognize that good progress has already been made through various initiatives, most prominently the G-20/OECD BEPS project, and agree that more is needed to address base erosion and profit shifting, the corporate taxation of digitalization, and the need to protect the capacity of developing and low-income countries to maximize tax revenue from extractive activities as well as tax inbound foreign investment without forgoing other associated benefits such as growth and employment.

On digitalization, we believe that the growing importance of digital activities and their accelerating penetration raise many legitimate questions about their taxation. To the extent that digital-heavy business models tend to mine information from consumers to generate advertisement revenues in other countries, we see merit in tapping the significant tax revenue potential of these activities, as a few countries have done already. We realize, however, that many practical and political difficulties stand in the way, as discussed in the report, and underscore the importance of a coordinated approach, including possible reformulation of international tax arrangements. The G-24 Working Group on tax policy and international tax cooperation has made specific proposals for addressing tax challenges arising from digitalization that merit serious consideration.

We do not have firm views on the alternative architectures described in the report, and believe that, individual member countries would have to balance competing factors, not all tax-related. That said, based on the criteria discussed in the report and shown in the heat map (Table 2), we would be in favor of those arrangements that provide adequate protection against profit shifting and harmful tax competition, while being relatively easy to implement by developing and low-income countries with capacity constraints such as minimum taxation schemes. We encourage further work on these alternative architectures, including their possible adverse effects on developing countries' efforts to attract FDI and participate in global production value chains.

We support the Fund's role in helping member countries assessing the impact of international tax arrangements as part of its technical assistance work and see merit in collecting the needed country-specific information to that effect within the boundaries of national laws and regulations pertaining to the confidentiality of information.

Like for many other global issues, governance of the international tax system is far from being effective, inclusive, or forward looking. Nonetheless, progress is being made, albeit at slow pace. We underscore the importance for the IMF to remain engaged in international forums to provide analytical and practical inputs in the debate, bringing to the table the views of its internationally diverse membership. In this connection, we appreciate the efforts of Fund staff in supporting the interests of developing countries in various forums and believe that these efforts be closely linked to Fund TA. Continued close cooperation with the World Bank is imperative. We share the view that the Platform for Collaboration on Tax can play an important role in enhancing coordination among organizations involved in international tax dialogue.

Mr. Kaya, Mr. Just and Mr. Bayar submitted the following statement:

We thank staff for the comprehensive paper which provide a snapshot of the current state of international corporate tax arrangements and sets an analytical ground for assessing several alternative approaches. The Fund, with its quasi-universal membership and cutting-edge expertise in macroeconomic and fiscal issues, is uniquely placed to bring a wealth of perspectives to the global conversation on corporate taxation. This is especially critical in the current juncture, where the past efforts to search for a multilateral response to complex tax issues appear to lose steam, concerns regarding tax competition remain mostly unaddressed, and unilateral measures take hold across a higher number of advanced and emerging economies. Nevertheless, we continue to see the Fund playing more of an analytical role that would better inform its policy advice within program, surveillance, and capacity development contexts; while recognizing the OECD’s role in setting the standards for a multilateral framework.

We see corporate taxation as a field where global coordination heralds the most optimal outcomes for all, and in that spirit, we firmly support the G20/OECD initiatives on Base Erosion and Profit Shifting and the exchange of information on tax matters. However, in the short run, we acknowledge that unilateral actions may promise to deliver immediate returns which may incentivize sovereigns to respond swiftly by devising what staff describes as “interim measures.” Nonetheless, if unilateral actions proliferate as the current trend shows, we think staff’s analysis is right to indicate that this not only jeopardizes the incentives for globally coordinated action, but also forces other jurisdictions to act in a certain direction to contain negative spillovers. As such, we would welcome staff’s views if these “interim measures” are really transitory in nature and to what extent these measures would feature in the corporate taxation architecture of the future.

On digitalization, as rightly pointed out by staff, the issue is not only about the low total tax liability for digital activities or firms, but also about how to ensure a fair distribution across countries. Among OECD countries, discussions have already started on how to define a significant digital presence, without which the functional analysis of taxable revenue, as well as how the rights on this revenue are allocated to countries, is not possible. This is an exceedingly difficult political and technical debate which is further complicated by the fast-evolving nature of the business models, even in more conventional industries. While “ring fencing” based on the digital footprint of companies appears neither advisable nor practically feasible, we are open to considering innovative ways to appropriate a fair share of taxes from business activities where user-created value – including through the sharing of data – is an integral part of the business model. In this vein, we also note that relative reliance on tangible or intangible assets has been featured as a defining variable in some recent tax policies (e.g. GILTI, FDII). In view of the more intensive use of intangibles by digital companies, staff’s views on possible economic tensions and the implications for the international tax architecture of such a distinction are welcome.

It is essential that the specific concerns and priorities of low-income developing countries (LIDCs) are duly taken into account, considering their developmental objectives hinge significantly on advances in this field. We appreciate the multilateral efforts to promote inclusivity in the international tax debate, including through established mechanisms within the OECD. However, we are concerned that capacity constraints, as well as the lack of alignment with domestic policy priorities, put LIDCs on a less advantageous footing to engage in the international debate and implement the agreed set of standards. The Fund, therefore, should support LIDCs in particular through targeted policy advice and technical assistance in this area. Such deeper engagement with the membership would also enrich the guidance the Fund staff can provide to the Platform for Collaboration on Tax.

On the provision of taxpayer-level information, improving the available information on taxation data, including tax planning schemes, for both developed and developing countries would also be beneficial to counter aggressive tax competition. Yet, we note that confidentiality concerns – also embodied in the tax codes – do not allow for the transmission of highly granular data by many jurisdictions. Nevertheless, the employment of innovative solutions, such as distributed microdata methodologies could respect the confidentiality rules, and we believe that the OECD’s “microBeRD” Project could offer valuable analogies about how to proceed with the shared analysis of restricted data.

Finally, while appreciating the complexity of the underlying issues, we believe that staff’s analyses on alternative architectures could have benefited from a wider perspective that would also take the re-distributional implications into account. Corporate income tax, in essence, is a crucial instrument to facilitate a fairer distribution of the tax burden on different factors of production. An intellectual debate that leans more on different forms of indirect taxes levied on consumption or would effectively result in heavier taxation of labor would risk aggravating the mounting concerns about inequality.

Mr. Raghani and Mr. Alle submitted the following statement:

We thank staff for their report and welcome the opportunity to discuss past and ongoing initiatives aimed at improving the old international architecture of corporate taxation. This issue is relevant to the whole membership, with a critical importance for developing countries which have been striving to enhance domestic revenue mobilization. We therefore see a strong rationale for the Fund to take this agenda on board and look forward to its value added to the global effort, notably in terms of proposing alternative directions that can better reflect the interests of all countries.

General Considerations on Current Arrangements

At the outset, while we welcome the analytical work that staff is providing on corporate taxation, we are of the view that the Fund should also position itself for a coordination role. Many multilateral initiatives (OECD/BEPS, UN) are proceeding but coordination failures may prevent these efforts from translating into concrete progress. Moreover, the co-existence of multilateral and unilateral initiatives raises concerns about their implementation. Staff already noted that the proliferation of unilateral ones is seen by some as “early departures from the consensual approach of the BEPS project”. Besides such mixed developments, we also see risks of some of those frameworks being imposed on developing countries as eligibility conditions for bilateral financing. Staff comments would be welcome.

Staff analysis in the section “Taking Stock” lets transpire a lack of inclusion in the initiatives which are trying to fix the current taxation frameworks, including the BEPS project; this makes implementation even more problematic. Countries that feel left out in the rounds of negotiation or countries whose interests have not been taken into account may not implement the new arrangements and instead adopt domestically crafted measures. In particular, we are concerned with the very low level of inclusion of developing countries in the ongoing initiatives. Figure 1 indeed shows that the estimated revenue loss from profit shifting in percent of GDP is more important in non-OECD countries than in OECD countries. Could staff share any insight on steps being taken to include more developing countries in the debate? What role could the IMF play in that regard?

Against this background and considering the shortcomings identified by staff in past and ongoing initiatives, we strongly support a substantial reform of the international corporate income tax system that is multilateral, inclusive and well-coordinated.

Digitalization and Taxation

We share the view that the digital economy cannot be ring-fenced, for its pervasiveness and unpredictable future developments. Yet, the rise of new business models and the growing share of digital technologies in firms' ways of doing business poses challenges to the traditional taxation system and calls for new tax solutions. Those challenges include the identification of the income to be taxed, the (re)definition of the notion of physical presence in a jurisdiction on which the right to tax has been based thus far. Given the complexity posed by such issues and the time needed to sort them out, we see merit in the adoption of "Digital Services Tax" as short-term measures by several countries. Those experiences could then feed into the report being prepared by the OECD for long-term solutions to be adopted in 2020.

Alternative Architectures

We welcome the alternative architectures proposed by staff as valuable inputs to the multilateral effort. We also share the view that any proposal of international tax arrangements should aim to address the vulnerability to profit shifting and tax competition. In this regard, we concur with staff that the high vulnerability of low-income countries to profit shifting warrants special attention and appropriate safeguards in the future arrangements. Staff's alternative architectures could also benefit from feedback from country authorities and civil society, especially those who have been left out of the ongoing multilateral discussions. The IMF/World Bank spring and annual meetings could provide good opportunities for engaging these stakeholders.

We tend to sympathize with the Minimum Taxation scheme for it meets most of the objectives pursued in the effort of improving the tax architecture; it protects the tax base of low-countries in a simple manner and is easy to implement for facing modest legal obstacles. Moreover, this scheme is suitable to the context of a move toward territorial taxation. It can also be a good tool for revenue sharing among countries and inter-nation equity, and hence help limit tax competition, promote FDI across countries, especially towards low-income countries. If each of two countries involved in a FDI operation gets its fair share of tax revenue, this will ease trade tensions and complaints about delocalization. We concur with staff that common adoption would help minimize most of the identified risks and be more beneficial to all.

The Minimum Taxation scheme can be supplemented with a Destination-Based Cash Flow Tax (DBCFT) for resource-rich countries.

Low-Income Countries

In addition to the points made above on LICs, we welcome the emphasis put by staff on their specific concerns and we agree that IMF advice should reflect the potentially differing impacts on this segment of its membership of possible approaches to reforming the tax architecture. Not only should the Fund make sure that those approaches do not jeopardize progress made in revenue mobilization from its longtime assistance to countries, it should also ensure that adopted solutions suit LICs' circumstances. In particular, we urge staff to support LICs with TA on implementing Action 6 and Actions 8-10 of BEPS related to tax exemptions and internal cost transfers of international firms. Furthermore, the Fund's capacity development activities must include programs to help LICs address data gaps for a better coverage of international tax matters for these countries.

Governance and Role of IFIs

We share the concerns raised by staff regarding the governance of the international tax system as well as the proposals for a coordinated approach to improve it. At this juncture, we do not feel that current governance arrangements in international taxation are adequate and equitable; there is room for progress on that front. The initiatives are too fragmented and are not making good use of the comparative advantages of existing institutions. The IFIs that represent a large and more diverse membership should take a more prominent role in the ongoing discussions. In this regard, we are puzzled by the fact that the Platform for Collaboration on Tax, which has been set as a collaborative body on tax issues is not properly utilized in the debate. We call on the IMF to take the necessary steps to efficiently contribute to fixing this situation and voice particularly the concerns of its most vulnerable members who are absent from the discussions.

Ms. Pollard and Mr. Vitvitsky submitted the following statement:

We thank staff for the comprehensive paper. Overall, we thought it was a good stock-taking on the current state of play in global corporate taxation. We agree with staff that there has been a breakdown in international coordination of rules on taxing rights across countries. As a result, we support efforts at the OECD, including in the Inclusive Framework that works with non-OECD countries on an equal footing, to reinvigorate coordination on international tax issues and think the paper can be a helpful input to the process. At the same time, we urge caution for Fund staff not to explicitly or implicitly endorse specific tax schemes under discussion. The OECD-BEPS process should remain the standard-setting body for these issues and we are reluctant to support additional governance arrangements. We also encourage greater clarification in the paper on the theoretical nature of several of the schemes discussed.

The U.S. is taking a proactive approach at the OECD in developing broadly-applicable changes to existing tax rules. The OECD-BEPS is developing ideas and standards on taxing rights in an increasingly complex global economy where digitalization is widely used across industries and notions of physical presence of a taxpayer have become less relevant. The paper describes these challenges related to taxing rights well, and its macro framework of analyzing tax arrangements in terms of protection against profit shifting and tax competition, ease of implementation, and suitability to low income countries (LICS) is reasonable.

Alternative Architectures: Discussions over Destination-Based Cash Flow Taxes (DBCFT), Formula Apportionment (FA), and Residual Profit Allocation (RPA) are still theoretical exercises and have not been tested. For example, we felt as though the paper overstated the impact of FA on profit shifting, as there could be new forms of shifting based on the allocation factors. Does staff have evidence that profit shifting is reduced by FA? Along these lines, we encourage staff to clarify that these schemes are still theoretical and are hard to judge the outcomes in practice.

We are concerned that the summary assessment presented in section F on the six tax schemes may be interpreted as implicit endorsements and/or opposition. Notwithstanding the caveats that the assessments need “to be interpreted with great caution,” this section starts to blur the line between analysis and standard-setting. As such, we urge staff to add caveats to section F on the analytical nature of the exercise and clearly state that the presentation is not an endorsement of any option. This is particularly important for Table 2.

Digitalization: We believe that it is impossible and undesirable to ring-fence “digital” activities of specific firms. As the paper discussed, digitalization is becoming pervasive across industries, making it very difficult to pinpoint digital-only firms. We support efforts at the OECD to develop a coordinated approach to addressing digitalization and taxing rights.

Low Income Countries (LICS) and the Role of the Platform for Collaboration on Tax (PCT): We felt that the paper's integration of LICS in the analysis was very helpful. The Fund can indeed provide value added by helping its member countries build capacity and implement best practices on tax policy and administration. For example, the IMF is well placed to help LICs prevent avoidance of resource rent taxes. We agree with staff that non-OECD country issues need to be considered when developing changes to tax regimes and believe that existing work streams can and should include such considerations.

However, we encourage caution in expanding the role of the PCT in international taxation. The paper calls for strengthened coordination between the Inclusive Framework (IF) and the PCT and calls for expanding the IF's scope beyond the BEPS. Can staff articulate its vision for the PCT and for a "more comprehensive multilateral approach"? We are reluctant to support additional governance frameworks until there is greater clarity on what would be evaluated and overseen.

Collecting Tax-Payer Information: While we are supportive of these efforts at the OECD, this is a very difficult process, even in OECD countries. For example, the OECD is preparing aggregated and anonymized country-by-country data for publication but is limited to just the data for own country multinationals since the other data are exchanged through treaty networks. Moreover, the detail that can be shown, such as activity in specific countries, is likely to be limited by non-disclosure standards.

Ensuring confidentiality and anonymity are particularly challenging. We think the Fund should consider the results of the OECD effort before taking a more active role in encouraging the collection and analysis of additional data on multinational enterprises. We are supportive of the IMF providing technical assistance to LICs to improve their domestic tax reporting efforts. Could staff provide more details on the discussion of data gaps in paragraph 111 and how this fits with the OECD efforts as well as improving the collection of domestic tax information by LICs?

Ms. Mannathoko and Mr. Sitima-wina submitted the following statement:

We thank staff for the outreach to our office and for this informative report which is an important contribution to the taxation debate. At the outset, we would like to register our broad support for this work, given the macro criticality of corporate tax revenues to economic development in our region. We appreciate the coverage of challenges and losses developing countries have faced in the current tax regime, as documented by staff in this report and in various working papers; and agree that significant reform of the system is required. We are hopeful, therefore, that any future corporate tax regime will help our countries to better secure corporate tax revenues that are currently forfeited due to inadequate domestic tax collection capacity and expertise. This will contribute to alleviating some of the infrastructure and development financing pressures that countries face. Our comments below focus on the progress made so far, and provide our perspective on reform options, tax competition, digitalization, governance and data needs.

Progress so Far

While we note the considerable progress that has been made in multilateral tax coordination by the G20/OECD and others, the benefits for developing, low capacity countries have nevertheless been limited. Though more advanced countries have made some headway in addressing base-erosion and profit-shifting, less developed countries have seen limited benefit because of the significant tax administration capacity requirements of this approach. Consequently, profit-shifting and base erosion remain critical challenges for developing regions such as ours. We therefore believe more work is warranted and agree that it is important that IMF advice reflect the differing impacts of possible approaches on developing countries; especially in low income and mineral dependent economies. Similarly, effective advice on the implications of treaty agreements is also important.

Reform Options

Among the various tax reform options presented, our preference would be a combination or blend of minimum taxation on inbound investment and residual profit allocation; a possibility that staff discussed. Given the level of dependency on corporate taxes in our constituency, minimum taxation of inbound investment will be especially important to secure the tax base. This option is also more implementable than most, and addresses profit-shifting while dampening tax competition. In addition to minimum taxation, residual profit schemes can help in effectively addressing the main forms of profit shifting. For the use of this latter approach to apportion residual profits, we encourage a system that is simple, fair and transparent - including with respect to transfer pricing.

Tax Competition

Corporate tax rates have halved since the 1980s and so we recognize the importance of avoiding a race to the bottom and safeguarding this principal source of tax revenue in less developed regions. That said, the tax competition debate complicates matters, as defining and assessing tax competition cannot be done in isolation ignoring the full policy mix at play in any given country. Fortunately, the minimum taxation proposal addresses this problem by applying a floor.

Digitalization

Given the challenges around taxing digital activities, we believe that further analysis on the broader impacts of different solutions is still needed before the determination can be made as to whether or not ring-fencing is appropriate. With the complexities in assigning value and the administrative and compliance challenges of different options, further work is needed to guide the development of longer-term solutions.

Governance and Representation of Less Developed Countries

Global tax decisions and setting of global standards should naturally involve all countries that will be affected by the rules and standards. Therefore, there is need for a decision-making framework whose membership and whose analysis includes developing countries. Such an entity would then be able to agree on and enforce common views. We believe the Platform for Collaboration on Tax (PCT) can serve this purpose and we support a greater, more prominent role for PCT along these lines. Given the capacity constraints and limited analysis in developing countries, the PCT could play a valuable role in filling this gap and taking into account factors affecting developing countries. This in turn would enable a more inclusive process. In this regard, we urge the Fund to take a more active role in influencing the debate and bringing into greater play the interests of less developed regions.

Data for Analysis

We believe more can be done to support the compilation of tax data series for tax regime impact analysis in developing regions. The important role that the IMF plays in providing country-specific advice and training through the Fiscal Affairs and Legal Departments would be enhanced by the availability of better tax data series. We therefore encourage measures that will enable pertinent departments to back the development of systems for the anonymous aggregation and collation of electronic tax data into the data series needed to inform this work, wherever authorities feel this is a viable option for them.

Mr. Jin and Ms. Zhao submitted the following statement:

We would like to thank Staff for the comprehensive paper and outreach efforts. As a timely update on international corporate tax system, this paper is very informative and could help enhance the Executive Board's understanding of the issue in light of the recent developments that pose new challenges to established approaches. Given the very complex nature of this issue, we are yet to be in the position to form a formal view on staff's assessment. Rather, we see a need for staff to deliberate further and deeper on the many key aspects, especially with regard to the role of the Fund. That said, we would like to offer some preliminary comments as follows.

Substantial progress has been made in recent years in enhancing multilateral coordination in the tax area to tackle vulnerabilities in the international corporate tax system. Nevertheless, there remains room for improvement. Meanwhile, the adoption of uncoordinated, unilateral actions may risk creating additional distortions, while digitalization poses new challenges. Further work is therefore needed to enhance the existing framework, with efforts focused on harmful and distortionary actions. To this end, we would like to seek staff's comments on how to draw the line between healthy and harmful tax competition. Could staff apply game theory to simulate the results of different tax competition?

Building on its areas of comparative advantage, the Fund has an important role to play in carrying out deeper analysis of international tax issues from a broader macroeconomic perspective. This analytical work should not focus only on tax issues but, rather, adopt a general equilibrium approach that also looks at the associated interactions with, and impact on, other related issues, such as balance-of-payment adjustments and exchange rate reactions, to changes in the tax system. This would allow a more holistic assessment on the overall macroeconomic impact of tax. We believe by specializing in its area of expertise in macroeconomic analysis, the Fund can effectively complement and enlighten the important discussions on reforming the international tax system that are already taking place on platforms such as the Global Forum and OECD Inclusive Framework. In addition, we believe the Fund can provide valuable support and technical assistance to developing and low-income countries to facilitate better understanding of the issues at stake, as well as to ensure their interests are voiced and heard at the global level.

In this context, we see value in more in-depth analysis of the effects of various reforms and alternative architectures of the international tax system being considered, particularly on developing and low-income countries, including the potential distributive effects and economic implications. As we see it, some of the alternative options being considered could bring about unintended side effects. For example, the design of the destination-based cash flow tax seems to favor trade deficit countries. Will there be any incentive to "search for trade deficits" that may worsen global imbalances? Staff's comments are welcome.

We also encourage staff to explore the merits of adopting an "effective tax rate" approach under which "tax" is considered in a more comprehensive manner. That is, taking into account other factors (e.g. subsidies, fees, land/housing costs) that may affect the cost of doing business, rather than simply considering the corporate income tax rate alone. In particular, it is important to note that some of these factors may effectively add to a corporate's burden in a jurisdiction that is otherwise considered a "low tax" environment.

Overall, we emphasize the importance of pursuing reforms to the international tax system in a consensus-based, cooperative manner at a platform that is sufficiently inclusive. Some alternative architectures being considered will only be effective in addressing profit shifting and tax competition with universal adoption, such as minimum taxation of inbound investment and the destination-based cash flow tax. Achieving this is extremely difficult. Even if there is a universal adoption, the complication of monitoring and the existence of implicit taxes and/or subsidies may also give rise to circumvention opportunities. An inclusive, cooperative approach is therefore needed to reach agreement, and adoption of any reforms and/or new systems should be done in a well-paced manner giving due regard to domestic circumstances and capacity constraints. In this regard, we encourage IMF to play an active role in furthering global cooperation.

Finally, we note that the current paper is being presented to the Executive Board for formal consideration. Could staff clarify on the next steps of this paper, including whether and how they intend to incorporate it into the Fund's work going forward? Given some of the issues raised in the paper are still being actively debated in the international community and it may be hard to reach any consensus at this stage, we suggest staff to consider issuing the paper in a less formal format, such as a Staff Discussion Note, to avoid giving the impression that the Board is endorsing a position on a complex issue that is still evolving. Staff's comments are welcome.

Mr. Mozhin, Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for the opportunity to discuss an important topic of corporate taxation in the global economy. The paper provides a valuable input for the growing debate over how to improve or fundamentally change the international corporate tax system in the rapidly digitalizing global economy. We broadly agree with staff's assessment of the key weaknesses in current arrangements and take note of some possible alternative architectures. We share staff's call for enhanced international coordination and agree that unilateral actions may amplify uncertainty and create additional complexity.

At the outset, we welcome the prominent role of the IMF in examining a broader set of tax issues in capacity development and bilateral surveillance in advanced economies, emerging markets, and low-income countries. The IMF's work on assessing possible economic implications of the international tax reforms is timely and should contribute to the Inclusive Framework's process. We would call for the IMF's enhanced engagement on international tax issues going forward. In this context, we would support further efforts to improve the collection of specific taxpayer-level information, which is necessary for deepening the evaluation of any possible changes in the international tax system. Could staff clarify the scope of this initiative?

The paper clearly states that the international corporate tax system is under the unprecedented stress. Its core elements and concepts may have become outdated in the light of the rise of multinational corporations (MNCs), digitalization, trade in services, and intangible-heavy and technological business models. The overall magnitude of profit shifting and associated revenue losses have been substantial for both advanced economies and developing countries (Figure 1 on page 10 and Table 1 on page 11). The low effective taxation of some MNCs is striking, and the use of aggressive tax avoidance schemes remains to be addressed.

Another serious concern is related to intense international tax competition manifested in the rapid decline of corporate tax rates around the world (Figure 2 on page 12). Compounded by the growing role of tax havens and investment hubs, these developments can lead to harmful spillovers and adverse implications. On the other side of the coin, the efforts to address various preferential tax regimes may result in a significant impact on sustainability of public finances in many jurisdictions.

We agree with staff that digitalization is among the key topics in the current discussions on the future of international corporate taxation. Views on how to address challenges from digitalization differ widely. While the work on a common approach continues, many countries have embarked on some forms of digital service taxes. At the same time, according to staff, the reliance on short-term and unilateral measures could lead to distortions and contribute to uncertainty. In this context, we welcome the renewed efforts aimed at finding a long-term solution in this area. We believe that the IMF should continue to participate and actively contribute to this work.

The key question is whether there is a need for fundamental changes in the international tax system or some substantial modifications to the current system would be sufficient to address the key shortcomings and new challenges stemming from digitalization. The G20/OECD BEPS project, as well as the efforts to improve the exchange of tax information are rightly focused on addressing many of the most egregious forms of tax avoidance. While it is too early to gauge the effectiveness of these initiatives, staff expressed rather skeptical views on the BEPS's ability to address the key weaknesses in the established norms in the international tax system. At the same time, it should be recognized that the BEPS is the ongoing project, with possible further improvements going forward. At the same time, we agree with staff that the BEPS project was not specifically designed to address the key forces that drive tax competition.

We thank staff for their efforts to evaluate alternative architectures for the international tax system (Table 2 on page 41). Given the novelty of these approaches and their potential fundamental impact on the global economy, further analysis of all presented options would be required in coordination with the OECD and other IOs. At this stage, the summary evaluation of the schemes should be interpreted with great caution. We agree that any decisions to move forward with one or a set of these variants would require a broad consensus at the global level.

According to Table 2 on page 41, minimum taxation schemes rank relatively high against the set of criteria proposed by staff. Could staff provide greater details on the practical limitations for their implementation? Could staff also elaborate on how these schemes may help address challenges associated with digitalization?

We broadly support staff's call to further strengthen governance of the international tax system. Greater coordination and better use of IOs' advantages and core areas of expertise in tax matters would be critical going forward. At the same time, we would appreciate staff's additional elaborations on their proposal to ensure a deeper engagement of the Platform for

Collaboration on Tax (PCT) with the work of the Inclusive Framework and on specific measures that should be implemented to achieve this objective.

The Chairman made the following statement:

I would like to make some introductory remarks. It is not because I am a former tax lawyer that I make those remarks, although I clearly appreciate the richness, density, and quality of the paper and the proposals in there, but I think it is important that we put this paper and its discussion in context.

The first question that we could ask ourselves is why there is such a contribution? There are clear answers. Tax is the substance from which fiscal revenues is generated. It has spillover impacts depending on how it is structured in any particular country, and it clearly has impact on low-income countries (LICs), which is an area where the Fund has a competitive advantage in representing the concerns and the interests of LICs. It is important. The Fund has a competitive advantage and is called upon to contribute by many institutions, including those LICs and NGOs. In addition to that, the Fund through its surveillance and technical assistance (TA) activities learns a lot about countries, and those lessons that are learned are necessary to better inform policy discussions, not only in standard-setting fora, but also in wider society.

On capacity development, we support over 100 member countries every year on tax policy administration and law reforms. With international issues looming large in those areas, it gives the Fund a practical and unique position and insight into the challenges that are faced by LICs but also the rest of the 100-plus countries to which we provide services on an annual basis.

In addition to that, the input and the contribution that we can make is reinforced by the credibility that we have as a result of the Fund's universal membership.

This is a matter that was debated at length. We had a 2013 paper on the role of the Fund in international tax issues, and those discussions have recognized the distinct role of the Fund while emphasizing the importance of close cooperation with the other institutions with less universal membership but a clear focus and huge expertise in that area, which is the OECD.

Last October, the International Monetary and Financial Committee (IMFC) communiqué expressed support for the Fund's continued role in international tax issues. The communiqué read: "We support the IMF's continued role in international tax issues and domestic resource mobilization, including through the Platform for Collaboration on Tax (PCT) and by applying the experience with medium-term revenues strategies," which is one of the tools that have been elaborated by the Fiscal Affairs Department (FAD) and is highly valued by many members.

There is clearly a case for that contribution, and this is something that has been strongly discussed by the OECD, and this has been part of our process, as much as our thinking and our policy considerations are part of their process as well.

Why is it time for contributions? Many would argue that the international tax system is under considerable stress with established norms struggling to cope with a rapidly changing world. Reforms now under discussion would be arguably the most fundamental changes to the international tax system in a century, with potentially significant macroeconomic implications for all our members. These questions have been debated in the past because it is not brand new. It has been brewing, but it is clearly coming to the fore, particularly with the accentuation of digitalization and debates that are raging domestically in some countries. The Board has already discussed those developments. In 2014, at the start of this process, Directors discussed a paper that was called Spillovers in International Corporate Taxation. Directors might remember the two briefings that were held last year, one in February, another one in March, with one on recent developments in international taxation and the other on digitalization and international taxation. These informal discussions have provided guidance to staff and to the team that has worked on the current paper in order to focus their discussions. Now is the moment when the Fund can provide and deliver on the role that was called for by the IMFC. It is something that is expected by the international community, by the tax community, and everybody in those groups and beyond civil society is also looking at the cutting edge analysis that we provided in 2014, looking beyond the immediate preoccupation of standard-setting bodies. The public consultation for this paper was one of the most successful online consultations the Fund has ever had in terms of both the number and the quality of comments.

This contribution is not a way to pre-empt the debate. It is not to direct it in one direction or the other, but it is laying out all the options, the merits of them, with hopefully a desire to help decision makers reach their conclusions.

The discussion responds to Directors' wish to have more issues taken up in formal meetings. Some Directors are also concerned about the format of the meeting. This formal meeting was laid out in the Work Program approved by the Board in November. It is a subject that has matured through various informal meetings and we believe that we come to a time when there should be that formal consultation with an opportunity to capture Directors' respective authorities' views on the topic.

No decisions are being proposed for adoption at today's session. The paper does not endorse any specific proposal or alternative to the current arrangements, and to that end, the paper sets out a framework for the evaluation of alternative proposals and provides some initial analysis focusing on elements for which we have a unique mandate and recognized expertise. It is very complementary to the standard-setting role of the OECD, so we are not trying to substitute it. We are not trying to tiptoe into someone else's territory. We are trying to bring our expertise to the table, so that decisions are made with better intelligence and better understanding and considerations, particularly for what is happening in LICs.

The paper also seeks guidance from the Board on how the Fund can best continue to support and encourage inclusive and meaningful collective progress in international taxation, including through the PCT, which brings together the OECD, the United Nations (UN), the World Bank, and the Fund. That platform seeks to better deploy the synergies and comparative advantages of the four institutions.

These are sensitive issues. Members' views will differ widely depending on whether the country is a source or home country and what value is generated and what system is predicated in those respective circumstances, but recognizing this and finding a way to move ahead cooperatively, including in tandem with other institutions, is at the heart of the Fund's mandate and what it was created to do and mandated by the IMFC to do.

Ms. Levonian made the following statement:

I thank the staff for their truly significant work and personal attention to this issue. We remain supportive of the outputs of the OECD project on base erosion and profit shifting (BEPS) and support ongoing multilateral dialogue that builds on the OECD's work, and we believe that the Fund's competitive advantage in tax is drawing attention to the issues faced by small states and LICs, identified during its highly valued capacity development work.

My background is in tax, so I have lived and breathed these issues for more than 15 years, and I can say that as tempting as it is to weigh the pros and cons at a very high level, a fair assessment even at the executive level requires diving into the details. Absent such an approach, one simply cannot draw conclusions. I worry that once the paper is published, the conclusions are going to be cherry picked by those who seek to validate their positions without any of the nuances that the Fund no doubt intended. As the Chairman noted, there were some important nuances. Part of me even worries that there is potential reputational risk to the Fund if the paper's assessment is not bolstered by greater evidence and more detail to be made more neutral.

The paper not necessarily draw conclusions, but when one reads it, the tone, there are clear indications of direction. I would be inclined to agree with Mr. Kaizuka and Mr. Komura that the Board should not engage in an assessment of alternative options for tax systems. As such, we would be more comfortable if the assessment section was omitted from the publication, or at a minimum, we would support Ms. Pollard's suggestion to add the necessary caveats to Section F in Table 2. Notwithstanding, like Mr. Jin and Ms. Zhao and others, we would ask whether a Staff Discussion Note (SDN) format is not more appropriate for this paper. Having read the gray statements, I am not sure the Board would have endorsed the paper overall.

I have more detailed comments that support the points that I have just made. First, on the general issue of tax competition, which is the paper's starting point, it comes back to nuance and balance. Imposing limitations on tax competition is a sensitive issue, and raises issues of sovereignty. Like Mr. Agung, we feel that it is important to distinguish between harmful tax competition from the one that is transparent and complies with internationally agreed standards.

Second, it would have been helpful to see more of a balanced assessment of the status quo, including outputs of the BEPS project. For example, the paper states that the call for taxation where value is created has proven an inadequate basis for real progress without citing the numerous ways in which real progress has been made under BEPS, including improvements to transfer pricing guidelines, transparency, and exchange of information.

Thirdly, we found that the assessment of the alternative model, especially the destination-based cash flow tax (DBCFT), was overly optimistic. A more balanced assessment would have given greater treatment to policy and operational challenges, as well as the new opportunities to shift profits and evade taxes under various alternatives.

Finally, we have highlighted a number of potentially problematic statements in the document to staff but find ourselves yet again butting up against the Transparency Policy, so I very much look forward to reviewing that policy.

Mr. Kaizuka made the following statement:

Let me first congratulate the Chairman on the birth of her first grandchild, which is a great contrast to our situation right now on the international taxation. There is a lot of pain in giving birth to the new regime, as Mr. Keen knows.

I thank the staff for the excellent paper, and I have the impression that the paper, based on our previous past discussion, is a better balanced paper, compared with, for example, the Fiscal Monitor from last spring. We talked about digitalization and taxation. I have a many comments to make on that paper, and compared with that, the balance is improved.

We welcome this opportunity to discuss international corporate tax at the Board. This is a critical juncture of the international discussion. Many of the BEPS agreed actions are now in the implementation stage, and the remaining issues—including dealing with the international taxation in the digitalized economy, whether traditional norms and principles are challenged—should be expeditiously tackled to reach a consensus. There are certain contributions the Fund could make, both in analytical work on macroeconomic implications or spillovers, and also the provision of TA and capacity development. However, we should make it clear that the Fund is not the standard-setting body and should leave that work to the relevant bodies, such as the Inclusive Framework (IF) of the OECD.

The draft press release rightly pointed out that particular point, so we welcome the wording of the draft press release. Furthermore, as Ms. Levonian mentioned, I do not like to see the Board engaged in a beauty contest, assessing the alternative options, though suggesting the criteria for consideration of alternatives might be useful.

Turning to the work of the standard-setter, there has been substantial progress in the discussion of the inclusive framework. The most recently issued document for public consultation last week includes some alternative options for allocation of taxing rights, including user participation and marketing intangibles, and significant economic presence. We hope consensus can be formed for the longer-term solution to the challenges. As the President of the G20, Japan will continue to facilitate the discussion for consensus building, and I believe the paper in front of us shared the same spirit. The press release rightly stressed the need to maintain and build on the progress in international cooperation on tax matters, which should be a main message of the paper.

International taxation governance is the key issue to be discussed, and at this particular juncture, we emphasize the role of the PCT. I have something to say, but I recognize we will discuss the PCT in March, so I will defer substantive discussions to that occasion. But I want to call on Board members to consider possible financial contributions to this important initiative.

Mr. Mouminah made the following statement:

We thank the staff for the informative paper and answers to our questions. We also would like to welcome the Chairman’s remarks. It reflects some of the key points I will make in our statement. We have issued a joint gray statement with Mr. Beblawi, but I have a few points to illustrate.

First, the Fund has an important role in international dialogue on corporate taxation, drawing from the experience gained in TA and surveillance, as well as from its analytical work. Therefore, we look forward to continued contribution that take into account the interests of the entire membership, which is not covered on other platforms, especially in low-income and developing countries (LIDCs), which are more vulnerable to profit shifting and would require tailored responses. We would like to hear about the reform of the global governance arrangement that could address the diverse concerns and interests of LIDCs.

Second, we agree with the point raised by Ms. Pollard and Mr. Gokarn and Mr. Tombini regarding the difficulties associated with collecting country-specific taxpayer-level information. In any case, we would encourage a stronger role of the PCT, which brings together different perspectives on important issues and should take the leading role in collecting and analyzing the data, with the Fund’s valuable participation.

Third, while adhering to global standards is important, currently most tax administrations, especially in developing countries, are often overwhelmed by continuous team missions which are more focused on implementing new global standards than on assisting countries in addressing pressing domestic tax issues. Therefore, to make notable progress, we believe that the recommended measures should be sequenced based on the development level of each country.

Fourth, the paper would benefit from analyzing further efficiency effects of digital services taxes, as acknowledged by the staff. Such analysis would help better inform and complement OECD's current work and search for a common approach for the G20, due by 2020.

Finally, for resource-rich countries, it is clear that source-based taxes must remain to capture any location-specific grants. Indeed, Footnote 1 of the paper correctly underlines that primary taxing rights in relation to natural resources would remain with the location country. Overall, we encourage the staff to further assess the impact of alternative tax architectures, taking into account the unique characteristics of resource-rich countries.

Ms. Mannathoko made the following statement:

We have issued a gray statement generally registering our broad support for the Fund's engagement on this issue and noting in particular the significant implications for less developed regions, so we will limit our comments to just a few points.

First, we wish to express our appreciation to the staff for their efforts to provide analysis of the implications of different remedial measures for less developed regions, and we look forward to continued work along these lines, namely the work that seeks to fully articulate the implications for developing regions, especially LICs and mineral-rich countries.

Second, we appreciate the work that has been done on a consensus-based approach to taxation reform, and we would like to highlight the importance of putting in place a truly global coordinated approach. This is necessary in the quest for a smooth transition to a new global tax regime with limited negative spillover effects for all, including less developed regions. Notwithstanding the progress so far, a more comprehensive multilateral approach is still needed where multilateral cooperation is as inclusive as possible to ensure that when decisions on global taxation and standard-setting are made, less developed economies that are not part of G20 and OECD are represented at the table. We look forward to discussing this further in March, but the PCT will need to play an important role in seeking ways to further this representation and to facilitate implementation of future consensus rules. The Fund's involvement is therefore an important aspect of this, providing a valuable contribution through more inclusive analysis, surveillance, and capacity development.

Finally, a structured approach to the development of taxation capacity and supporting compilation of aggregated data series where anonymity is protected, which might be needed for analysis in less developed regions, could be considered. We are wondering if the staff, in terms of overall tax capacity, could comment a bit more on the role that the African Regional Technical Assistance Centers (AFRITACs) have played or might play in this area.

Regarding the decisions going forward, we looked at the press release, and though we feel it needs some cleaning, we had no major objection to the content. Regarding the treatment of the Board paper, we note some of those concerns, but we did not want to take a position.

In closing, we look forward to the next Board discussion on this issue. We hope it will elaborate on the implications of options and provide an updated assessment of the status quo and any spillover from the implemented reforms.

Mr. Castets made the following statement:

I thank the Chairman for the introductory remarks, with which we fully concur. Building on the joint gray statement we published with our German colleagues, I would like to make a few additional comments. The first one is that we strongly support the staff’s work on international corporate taxation, and we welcome this Board paper, which is a timely contribution to the ongoing policy discussion. We would like to warmly thank Mr. Keen and his team, and we also share the remarks made by Mr. Kaizuka. At the time of the Fiscal Monitor, which touched upon this issue, we asked for a more detailed discussion, so we are really pleased that it is taking place today.

While it remains clear that the OECD and the inclusive framework are the standard-setter institutions, we see the Fund’s analytical contribution as very important and fully justified at a moment of profound transformation of the product and service markets, including through digitalization. We have appreciated the candid evaluation of the state of the current taxation system. I would add that if taxation is not macrocritical, we wonder what is.

My second point is that we also welcome the inclusion of criteria related to tax competition in the staff’s analytical framework. This is a very important point, and we feel that we should be fair to the staff’s work and approach, so the discussion is not about full harmonization. It is quite clear in the report that aggressive and harmful tax competition could lead to a suboptimal equilibrium from a macroeconomic point of view, in particular where the magnitude of the multinationals’ tax avoidance practices could allow those firms to escape taxation, while many Fund members are struggling to finance welfare and to decrease public debt levels that this Board regularly assesses as too elevated.

While a large amount of empirical evidence has shown that there has been a race to the bottom in terms of international taxation since the beginning of the 1980s, and we were struck by the number of Directors who also mentioned this race in their gray statements, we believe it is crucial that the staff tackle this issue vigorously. In his gray statement, Mr. Fanizza makes the argument for the need of the Fund’s bilateral surveillance to take into account spillovers of domestic tax policies in order to avoid a vicious cycle of ever-lower rates in response to other countries’ tax decisions. We share this point.

Against such a background, France and Germany made a joint proposal on minimum taxation at the OECD, and it is a fact that the United States has already moved in this direction. We note that the staff’s analysis is broadly convergent with our own authorities’ analysis, and the fact that minimum taxation is a both practical and pragmatic solution to address excessive tax avoidance practices. This proposal is also linked to the need to tackle the challenges for LICs, since tackling tax avoidance and evasion is key for them to attain the Sustainable Development Goals (SDGs) as also underlined by Mr. Raghani and Ms. Mannathoko.

Since they are easily impacted by tax evasion and tax avoidance practices, as regularly recalled by our African colleagues in this room, it is crucial for the Fund to actively help them to build a stronger corporate tax system.

My third and final point is that the staff’s judgment on the principle of taxing profits where value is created is excessively negative in the way it is presented in the report. Firms’ profits are not created in a vacuum and often originate from public investment in human capital, physical infrastructures, and innovation. It is therefore economically vital that corporate taxation should reflect and recognize this public role by keeping some form of taxation at the origin.

Ms. Riach made the following statement:

I closely associate myself with the remarks of Ms. Levonian, with whom I strongly agree.

The international debate in corporate tax is a complex one, and while we continue to strongly support the BEPS project and the ongoing work at the OECD, we recognize that there is further work to do. The alternative architectures considered in the paper are important, and the staff's analysis is a potentially significant contribution to the international debate.

I recognize and endorse the Managing Director's view on the role of the Fund and the potential contribution it can make to this debate. The Fund has a long track record of providing TA on fiscal matters, and the strengthening of that function, as well as increased analysis in the context of Article IV reports, is welcome. Country-specific work can also help to inform broader analytical work of this sort, and we welcome the feedback loop between those two projects. As Mr. Keen said when we spoke bilaterally, the OECD is mostly staffed by lawyers and does not have the capacity for the sort of analytical work in which the Fund specializes. In that context, we like the perspective suggested by Mr. Jin and Ms. Zhao that the Fund's work in this area can usefully focus not only on tax issues, but rather adopt a general equilibrium approach that looks at interlinkages between the tax system and other related issues such as balance of payments and exchange rate restrictions. We welcome the analytical work, but there is a significant difference between an analytical contribution to the debate and a Board-endorsed position paper. As currently formulated, the paper risks being interpreted as the latter, and like many other Directors, we are concerned that this paper as currently formulated risks being perceived externally as endorsing a particular approach.

Equally, we would want to avoid any risk that the paper is seen as an agreed position to inform the Fund's own work on bilateral surveillance and TA. In this regard, we find the inclusion of the assessment section particularly worrisome, and our strong preference would be for Section F to be removed or for the paper to be published as an SDN. Given the large number of concerns raised around these issues by Directors, we would welcome a response on how this is will be addressed.

On the analysis itself, I agree with Ms. Levonian that we would have liked to have seen a more balanced assessment of the status quo and also on the importance of taking a nuanced position on tax competition. On the PCT, I do not want to pre-empt next month's discussion; but given that it has been raised, I would like to record that like Mr. Fanizza, we see the PCT's role primarily as coordinating capacity development initiatives, promoting the implementation of agreed tax principles, and reducing differences across jurisdictions.

Mr. Saraiva made the following statement:

I would like to align myself with the thrust of the Chairman's remarks. I also would like to thank the staff for the comprehensive paper. I enjoyed reading it. As a non-member of the tax community, I found it insightful. We issued a gray statement. I will be very brief here. My brevity will contrast with the complexity of the issue, but I will focus only on the role of the Fund and three related points in this regard.

First, we fully recognize the positive results attained by the G20-OECD in the context of the BEPS project. However, and I believe there is broad agreement here, more still needs to be done to improve international tax coordination. Tax avoidance, tax competition, and taxation of the digital economy are issues that require increasing cooperation among jurisdictions. Moreover, we saw in the paper that profit shifting disproportionately affects developing countries, and some of them have no fiscal space or the institutional tools to properly counteract potentially shrinking corporate tax revenues in an effective manner.

Second, we are concerned that losses in tax revenues due to tax avoidance and tax competition may endanger the fiscal equilibrium of some developing countries and, in particular, LICs. As is well-known in many countries, a small number of multinational corporations account for a sizeable part of the tax revenues. In this context, the Fund is rightly advocating for economic diversification, social inclusion, and domestic resource mobilization, but we must take into account the current reality when we think about the strategy to move in this direction. At the end of the day, discussions on taxation can be seen as inherently related to the Fund's core mission, which is to guarantee the fiscal sustainability of its members and global stability.

In conclusion, we welcome this important paper, which we see as a solid starting point for further work on corporate taxation. In our view, with this analytical contribution, the Fund has a crucial role to play in the ongoing debate on international tax coordination, at least for two reasons. First, proper taxation is an important pillar of fiscal sustainability, and, second, the nearly universal membership of the Fund and its valuable technical expertise and its experience with member countries places the Fund in a privileged position to address specific needs and vulnerabilities of emerging countries and LICs.

Here I want to refer to the answer that was provided by the staff in response to question 24. It shows clearly that even with all the laudable efforts by the OECD, the less developed countries' interests may be better represented by institutions with a universal membership, and therefore we would like to encourage the staff to continue to work in collaboration with the OECD and other multilateral organizations in the context of the PCT. We also encourage the Fund to continue building its technical expertise with a view to supporting member countries—especially its developing part of the membership—design effective and equitable tax systems.

Mr. Merk made the following statement:

We thank the staff for the report, and we welcome the comprehensive stocktaking on the international tax system as well as the rigorous analysis of alternate tax systems in the report.

Drawing on its extensive macroeconomic expertise, we see an important role for the Fund to complement the ongoing international debate, notably in the inclusive framework at the OECD. While the BEPS initiative has delivered important and tangible results, further work within the OECD is needed, and that is ongoing.

As Mr. Castets mentioned, France and Germany have put forward a proposal on an effective minimum taxation to the OECD. The concept is based on coordinated rules and grants jurisdictions the rights to tax profits that are otherwise subject to no or only very low taxation in other jurisdictions. The proposal has numerous advantages.

First, minimum taxation reduces the incentive for countries to engage in a harmful race to the bottom by effectively imposing a lower bound on the tax rate, while dampening tax competition incentives for tax avoidance.

Second, securing a minimum level of taxation could especially benefit LICs by protecting their tax base, thereby enhancing revenue mobilization while maintaining limited compliance and administrative costs.

Third, minimum taxation also addresses the broader challenges arising from the digitalization of the economy as well as an increasing reliance on intangible assets in the production process.

We take note of other proposals submitted to the task force on the digital economy, and we will continue to actively engage in these discussions while encouraging the Fund to provide further insights as the debate unfolds and becomes more specific.

Mr. Beblawi made the following statement:

We issued a joint gray statement with the Saudi office and would like to add the following points for emphasis.

First, we thank the staff for this important and timely paper and for their outreach and the helpful bilateral engagement. We support the ongoing work to analyze the current state of international corporate tax arrangements and to study the different proposals to strengthen the tax system.

Second, the debate around digital taxation, unilateral action by some members to tax digital taxation or profits, the aggressive tax planning by some corporations, the overall size of revenue losses from profit shifting, have highlighted the weakness in the current tax structure and the need for policy action to strengthen it.

Third, like other Directors, we are not in a position to support any proposal at this stage.

Fourth, good progress has been made in multilateral tax coordination. Particularly with the BEPS inclusive framework, we see a stronger role for the Fund to work with the LICs with weak capacity to strengthen their ability to effectively engage on these complex issues.

Fifth, we support the point raised by Mr. Mouminah on the importance of sequencing TA according to the developmental level of each country. We also agree with Mr. Kaizuka, Mr. Meyer, Mr. Kaya, and others on the need to focus the TA to LICs on addressing pressing domestic issues, which we believe is a prerequisite to compliance with the global standards.

Finally, reforming the international tax system requires consensus and greater cooperation, and to this end, we support enhancing the staff's engagement with the PCT and with the OECD and other international organizations to work out the details of a proposed alternative approach, including the practical consequences of their implementation.

Mr. Rashkovan made the following statement:

We thank the staff for their efforts in reaching out and providing us this paper of high analytical quality. To be clear, we support the paper, and the sound technical assessment enriches the discussion on international taxation, which as the paper illustrates, is a very complex one. The paper helps us better understand the challenges faced by the membership regarding our rapidly changing and increasingly interconnected economies, also by providing a high-level overview of the key economic aspects and implications of the schemes under discussion. The paper addresses important challenges, including those posed by profit shifting and digitalization. We agree with the staff and other Directors that the international corporate income system is under stress. This paper can be a valuable addition to help guide the way forward.

We fully agree on the importance of multilateral and inclusive coordination efforts, which bring all stakeholders to the table. We believe that the recent efforts at the OECD level are a good example of successful global consensus-based approach. While not without flaws, the BEPS process, which now regroups 135 jurisdictions in its inclusive framework, has achieved important progress. While it might be too early to conclude that progress has been too slow, continued efforts are necessary and should continue as planned.

Like other Directors, we are of the opinion that the OECD remains the central body to find a sustainable solution in this context. At the same time, as reforming the international corporate income tax system is likely to have macrocritical effects, we see high value added from the Fund's expertise. We believe that the Fund can build on its areas of competitive advantage and carry out analysis of international tax issues from a broader macroeconomic perspective. By analyzing the economic consequences of different models and assessing country-specific impacts of spillovers, the Fund can usefully complement the discussion that takes place, including at the OECD level.

In addition to sound technical expertise, the Fund's track record in supporting multilateral solutions to global problems is certainly an asset which is to be utilized to improve the global taxation system. In that sense, we would encourage the staff to take further into account dynamic considerations such as second-round effects on balance of payments and GDP growth under the different scenarios. We would also welcome more analysis of economic ramifications for smaller members and low-income economies.

Finally, we were wondering whether in the surveillance efforts, the staff is considering horizontally assessing countries' performance regarding the implementation of BEPS standards, which might be useful.

Mr. Fanizza made the following statement:

I thank the staff for an impressive piece of work. We believe that the current governance arrangements in international taxation are working fairly well. The G20-OECD project on BEPS has extended this coverage with the inclusive framework to 125 countries, which is significant, and has already started working to address vulnerabilities and new challenges. In this context, we believe that is the body that sets the standards. The Fund can contribute in terms of inputs and in terms of support. I will not go as far as saying complementing. We can help.

While I had largely the same reaction as Ms. Levonian and Ms. Riach on the purpose of the paper, if we decide to publish it, it would be wise to have a clear caveat on the assessment section that says that this does not imply endorsement from the Board. Why? Because a number of the options that have been discussed have not even been contemplated by the G20-OECD project, so we do not see the point of discussing it, of endorsing that. That is more important.

On the role of the Fund, the role should be supporting the adoption of BEPS standards in the country, in the membership, through bilateral and multilateral surveillance. That is a key point. We need to make sure that our policy advice to the countries is relevant to each country's particular circumstances, but we must also recognize that our policy advice on tax issues could have an impact on other countries. For instance, it has been brought to my attention that for Canada, we have suggested reductions of tax rates to match what has happened in the United States, but then one wonders whether this is a race to the bottom. We would like the staff to take these issues in consideration when they talk to the authorities. We believe that the Fund could help in assessing the macroeconomic impact of different reform proposals.

On the substance of the proposal, we fully support the proposal on the minimum corporation tax from the French and the German chairs. We will support that.

Finally, we believe that it is important that we start to discuss, or actually that the BEPS project starts to discuss, how to adapt to the new business models with limited or no physical presence in the market jurisdiction. These are the two big topics for discussion in the future.

Mr. Villar made the following statement:

We thank the staff for a comprehensive and useful policy paper. We strongly support the document's view, according to which the international corporate tax system requires substantial reform. The questions are how to approach such reform in practical terms and what should be the role for the Fund.

We issued a gray statement, so I will try to be short by simply stressing a few points on four broad subjects: governance and the role of the Fund, the main areas of concern, the utilization, and the strategic approach to the tax architecture.

With regards to governance, we agree with other Directors that the OECD BEPS program with its impressive framework has followed a pragmatic approach which is yielding positive results. However, the Fund's contribution may be important in this process by helping in data collection, in building a conceptual framework, and in computing the impact of any proposal on potential tax revenues of different countries.

In this context, we will highlight the role to be played by the Fund through bilateral and multilateral surveillance and in capacity building, especially in emerging economies and LICs.

On the main areas of concern, the paper rightly stresses that while the main focus of the BEPS has been on tax avoidance and more recently on the utilization of taxation, there are other areas of special concern, most notably tax competition, and the specific challenges of developing countries.

We are particularly concerned with the risk of a race to the bottom on corporate taxation. Its effects can be particularly worrisome on less developed economies that have traditionally relied much more heavily on corporate taxation than on personal income tax. There is scope for the Fund to deepen its analysis in these areas, including in its country surveillance reports.

On the utilization and taxes, the OECD framework has already taken significant steps. The work has been carried out under the Without Prejudice Principle, and many countries are adopting temporary tax measures until a global solution is agreed, which is consistent with that. However, we share the staff's view that these discussions could benefit from a rethinking of the BEPS objective of taxing where value is created. The staff document makes complete arguments in favor of such thinking.

With respect to the alternative tax architectures, the paper provides a comprehensive overview of their economic implications. We welcome the strong emphasis of the paper on the efficiency, the ease of implementation, and the revenue mobilization capacity of each of the alternatives and on their suitability in developing countries. This is a useful exercise that feeds into international debate that could be enriched by extending the analysis to consider other taxation principles, such as equity or predictability. This being said, we will refrain from endorsing any of the proposals other than supporting the ongoing agenda, which includes a welcome pragmatic program of minimum effective taxation rules, also highlighted in the staff paper.

Mr. Kaya made the following statement:

After the groundbreaking deal on BEPS during the G20 presidency, we are disappointed about the increasing unilateral measures in both advanced and emerging economies. We therefore see this analytical contribution by the Fund on the ongoing debate about international taxation as critical. But we agree with Mr. Inderbinen, Mr. Ray and Ms. Riach that the paper's conclusion should not be taken as Board-endorsed policy direction and thus appreciate the careful tone of the press release.

The paper is setting a reliable theoretical ground for an informed discussion, which could perhaps be further enriched by more robust analytical support, as suggested by Mr. Tombini. Nevertheless, as the debate on international corporate taxation is still far from rendering a compromise, also reflecting the fast-evolving and complex business models, it is too early to take a position on the way it is approached.

On digitalization, while ring-fencing based on the digital footprint of companies appears practically invisible, we are open to considering innovative ways to appropriate a fair share of taxes from business activities where value is created, including through share of data as an integral part of the business models. We also recognize that relative reliance on tangible or intangible assets has been featured as a defining variable in some recent tax policy initiatives. Can the staff elaborate on whether balance-sheet based aggregates could be used to better target business models that are virtually not reliant on physical presence?

Like many other Directors, we conclude that the specific concerns and priorities of LIDCs should be duly taken into account. We also share the staff's assessment of the implications of capacity constraints, the lack of alignment with domestic policy priorities, LIDCs' engagement in the international debate, and on the implementation of the agreed set of standards.

We agree with Mr. Gokarn that a more realistic approach will be to give countries space to complement global coordination efforts with country-specific measures to achieve revenue objectives. The Fund therefore should better tailor its support toward LIDCs through its surveillance and capacity development activities. Such deeper engagement with the membership should also manage the guidance Fund staff can provide to the PCT.

Finally, we recognize the complexity of the underlying issues, but a wider perspective, including redistributional implications, should be applied. Corporate income tax is a crucial instrument to facilitate a fairer distribution of the tax burden on different factors of production. Focusing on different forms of indirect taxes levied on consumption would effectively result in heavier taxation of labor and would risk aggravating the mounting concerns about inequality.

Mr. Agung made the following statement:

We trust the paper will provide valuable input to inform the ongoing international discussion. We agree with the key message that there is a need to continue strengthening the international corporate tax system, although the jury is still out on how this should be done. We believe that deeper analytical work is needed to guide the Fund's efforts moving forward.

We issued a gray statement, and we would like to raise a few key points for emphasis. First, on the role of the Fund, as expressed by many Directors, the Fund is uniquely positioned to provide meaningful input to standard-setting bodies such as the OECD inclusive framework, especially with analysis of how this reform would affect developing economies. In this regard, we encourage the staff to continue its active engagement in the various fora, and in particular to continue to support the interests of developing countries.

Second, we stress that any agreement on measures to refine tax systems should be initiated in a gradual, tailored, and proportionate manner. It is important that implementation must take into consideration the practical challenges and initial conditions, which includes the economic environment and capacity of the authorities. The report rightly noted this, but the assessment did not fully explore the implication for developing economies where those considerations matter most. In this regard, further analysis of country experience is needed.

Third, on digitalization, the digital economy has played an increasingly important role in driving growth and innovation for developing countries. While there are challenges in adopting an appropriate tax regime for digital goods and services, a balance should be sought between meeting revenue collection goals and ensuring the digitalization process is not unduly hampered.

Lastly, we would like to ask the staff about the next steps. We wonder if the staff has any specific strategies in mind with regard to the Fund participation in the international tax discussion. More importantly, while we note that this paper is not intended to endorse any specific policy approach, we would like more clarity on how this paper will affect the scope and content of the Fund policy advice under Article IV as well as its capacity-building work.

Mr. Di Tata made the following statement:

We thank staff for the comprehensive and interesting paper and for their outreach efforts before this meeting. We issued a gray statement but would like to emphasize a few issues.

We concur with staff that the BEPS project has made significant progress in international tax cooperation but that the fundamentals of the international tax architecture remain unchanged. We also note that recent unilateral developments could in some cases jeopardize the coordinated approach of the BEPS. Against this background, we welcome the staff’s discussion of more fundamental options for reform of the global architecture. However, we believe that at this stage the Fund should refrain from supporting any specific proposal of reform until further work is done. We would like to emphasize that in most cases, the proposed reforms would require a much stronger degree of international cooperation than what we have seen so far. As noted by staff, “the evaluation of a scheme may be quite different depending on whether its adoption is multilateral or unilateral”. Therefore, we would stress the importance of proceeding with caution to avoid pushing for reforms that, if adopted unilaterally, could end up making the current system even worse. Cooperation and consensus at the multilateral level are of critical importance.

We agree that it is difficult, if not impossible, to ring-fence the digital economy. Many countries have adopted short-term measures to deal with digitalization, but there is no coherent solution so far. In this regard, we look forward to the ongoing search for a common approach at the OECD and the final report to the G20 due in 2020.

Recently, the Inclusive Framework prepared a policy note indicating that it agreed to explore different concepts, including changes to the "permanent establishment" framework, such as the concept of "significant economic presence" or the concept of "significant digital presence". As noted in the report, the importance of the corporate income tax to LICs and the greater vulnerability to profit shifting deserve particular attention. However, lack of information as well as coverage gaps make it difficult to have a solid position on the alternative approaches. We agree with staff that more country-specific taxpayer-level information is needed to analyze the impact of international tax arrangements. The Fund could play a relevant role in this regard.

Having said that, we know that minimum taxation can protect the tax base of LICs in a simpler manner, faces modest legal obstacles, and can be used as a transition to more fundamental change. However, as staff notes, minimum taxation tends to rank medium-low in terms of practical implementation.

To conclude, regarding the governance of the international tax system, we agree with staff that there is a need for more effective and inclusive cooperation, and we believe that the creation of the OECD's Inclusive Framework is a positive development. However, we share the view that realizing the full potential of the Inclusive Framework requires not only addressing issues covered by BEPS, but also those of particular interest to developing countries. The Fund can make valuable contributions by providing adequate advice and technical support to better address the concerns of these countries. Therefore, we favor closer engagement of the Platform for Collaboration on Tax (PCT) with the work of the Inclusive Framework to achieve consensual progress toward strengthening the international tax system.

Regarding the assessment in Section F of the paper, we also believe that the paper should include appropriate caveats, so that it is not seen as a Board-endorsed conclusion.

Mr. Trabinski made the following statement:

We thank the staff for this informative report. We have issued a joint gray statement with Ms. Levonian, Mr. Ray, and Ms. Riach.

We agree that the topic of international corporate taxation is very relevant for the Fund's members and that there is room to improve the current framework. We welcome the clarification in the draft press release that the paper does not intend to seek Board endorsement of any type of alternative tax architecture and that the Fund, rather, seeks to build on the progress made in recent years while avoiding duplication of work. We encourage the staff to exercise caution with respect to their communication and outreach strategy on this subject to avoid creating a perception among external stakeholders that the report is challenging the current approach.

We also support Mr. Kaizuka and Ms. Pollard's point in their gray statements and Ms. Levonian's intervention regarding the assessment section of the report. We either support deleting the assessment section or enclosing additional caveats in the published report. We agree that the Fund has a complementary and supportive role to play in highlighting the economic and cross-border implications of different tax systems and helping lower-income members build capacity on this issue.

Having said this, we would like to highlight several aspects that we believe to be key to the discussion. First, the progress made within the OECD fora, notably the BEPS project, should be duly valued. In our view, the OECD remains best suited to advance multilateral cooperation on corporate taxation issues, especially given the highly technical nature of this topic. The implementation of the agreed BEPS minimum standards is still in progress, and it will take more time to assess the achieved results. We are aware that strengthening the international tax system needs continuous work with ongoing discussions on how to further address important areas such as taxation of the digital economy and how to bring more countries on board, especially through the inclusive framework.

Second, the report should have treated tax competition in a more differentiated way. We believe that it is important to distinguish between harmful distortionary tax competition and fair tax competition that is justified by economic substance and is compliant with internationally agreed standards. In relation to the taxation of the digital economy, we believe that the comprehensive effective multilateral approach is the preferable solution. However, taking into account the rapid global expansion of digital technology, we understand that certain jurisdictions or regional organizations would like to implement interim measures. We believe that the Fund should continue to analyze the economic and cross-border impact of such measures while making proposals to enhance their efficiency and limit potential distortions as much as possible.

Finally, in relation to the proposed minimum income tax, any analysis of such rules should consider a substance exception rule. Such a rule should allow for an exception for genuine economic activities of taxpayers who can demonstrate that robust economic substance and manpower are in place [net per] country jurisdictions.

Mr. Jin made the following statement:

We issued a gray statement, and I would like to limit myself to the following points.

Substantial progress has been made in recent years in enhancing multilateral coordination in the taxation area, but there remains room for improvement. We are aware of the problems facing the existing framework and agree in principle with the need to enhance international cooperation to properly address the profit transfer and tax competition issues. We are open to more in-depth analysis of the effects of alternative approaches on the international tax system, particularly the effects on developing countries and LICs.

While the alternative proposals could play a positive role in addressing profit transfer and tax competition, the problems and the side effects should not be ignored as well. The DBCFT would bring about substantial redistributive effects across countries. If one country unilaterally adopted DBCFT, the tax base would be transferred to that country from countries with traditional corporate tax regimes, which in turn might cause further tax competition. Essentially, this tax regime aims to achieve the target of an income tax with the tool of turnover tax and could fundamentally challenge the existing tax system. Its impact on developing countries and LICs needs further study. The formula apportionment and the residual profit allocation share some common features, including the agreement of all countries on the apportionment formula which can hardly be achieved in the near term given the current level of international tax cooperation.

In addition, the adoption of formula apportionment would greatly challenge the tax administration of developing countries given their capacity constraints. The minimum tax rate regime seems to be conducive to alleviating the problems of tax-base erosion and the double non-taxation, but how to set an appropriate level of minimum taxation is still worth further research.

We believe that the Fund has an important role to play in carrying out deeper analysis of international tax issues from a broader macroeconomic perspective. This analytical work should not focus only on tax issues but rather adopt a general equilibrium type approach that also looks at the associated interactions with other variables or issues such as balance of payments adjustment and exchange rate reactions.

We also encourage the staff to adopt an effective tax rate approach under which tax is defined as all kinds of obligations of the private sector to the government to avoid under- or overestimation of the tax burden. In general, it is very difficult to make an assessment with a high level of confidence, and more research and discussion is needed.

Finally, I have to acknowledge that the corporate taxation issue is highly professional and involves a significant amount of background information. It is more difficult to read and understand this type of document, so I wonder if a more reader-friendly expression or writing style can be explored in the future.

Mr. Gokarn made the following statement:

We have issued a gray statement, but I would like to make a few points for emphasis. The first is that the strength of this paper is usually substantiated, enhanced by the consultation process. That is a point we should not forget in communicating these assessments, that these are not first-cut from the staff; that they are supported by significant inputs from tax authorities and that the line between the specialist and generalist has been dealt with in this exercise.

But in terms of the Fund’s role, many views have been expressed, and we are broadly supportive that this is the role being played. But I want to emphasize the importance of the Fund’s role in highlighting the impacts on LICs and emerging markets. While the OECD is certainly approaching this from an inclusive perspective, the credibility and the weight that the IMF provides to this element of the membership is important, and it would add value to an assessment of the merits of any approach. We encourage the Fund not only to continue playing a role in this debate, but also to emphasize the impacts on low-income and emerging markets.

In terms of way forward, we are looking at a tradeoff between practicality and desirability, and that is nicely highlighted in Table 2 on page 41 of the paper. I do not see the staff as taking a firm position on one or the other. We can all assign different weights to the different parameters there and come up with our own optimal solution, but when we are looking at practicality, the concern is that the longer we wait on this, the more unilateral actions will be taken; and we do not necessarily have a good basis for deciding whether these are consistent with some globally optimal framework, however we define it.

I would suggest that we approach this in two stages. The first is to come to some agreement, not necessarily at the Board level, but broadly amongst the participating institutions, on a practical approach. For example, the proposal on the minimum taxes is one way to look at it—this is something that is relatively easy to implement, and it has been rated high on the implementability scale. It may not be the best we can do, but it is something we can live with as far as the objectives of guarding against profit shifting and tax competition are concerned. Then we can use the PCT to evolve a set of principles that can be used to assess unilateral actions. Are actions taken by countries consistent with the convergence toward some sort of global framework or not? That is a value that the Fund can add to member countries as this framework evolves.

Mr. Ray made the following statement:

We issued a joint gray statement, and we support the statements that have already been made by Ms. Levonian and Ms. Riach and Mr. Trabinski. Like Mr. Kaizuka, I do not believe this is the time for us to debate possible solutions to a problem that has not fully been identified. But on the role of the Fund, as others have highlighted, we agree that the Fund has a critical role to play in this field, particularly in providing macroeconomic analysis and particularly as it affects LIDCs. The fund has a rich data source to draw on in its surveillance and capacity development experience, so there is a feedback loop from surveillance and capacity development to analysis, so we strongly support that.

Second, on the paper, we agree that this is a potentially valuable contribution to a macrocritical issue that is under active consideration in another place. However, we would be concerned if there was any suggestion that this was a Board-endorsed view on the particular options that are under discussion, and like others, we saw the draft press release as a good attempt to flesh out a bit more nuance, but we do wonder whether it should not come into this body of the paper in some form—either some redrafting of Section F along the lines suggested by Ms. Pollard, or perhaps we do not need Section F at all. But assuming that it will stay there, we would prefer a stronger caveat along the lines of the press release that it is in the body of the paper so that when people pick up the paper, they see quite clearly that the Board does not endorse any particular option.

Like Mr. Agung, we believe that the paper tends to understate some of the practical implementation issues that might arise with the various options. Economists tend to do that. I wanted to make some remarks from the point of view a resource export chair with several important resource exporters in it, which highlights some of the problems that might arise. The paper assumes the resource exporters' problem away. It says there is a problem. It is in Footnote 1. It is in a few places in the paper, but it is all assumed away by saying that, for example, if a destination-based profits tax is introduced, or a cash flow tax introduced, location-specific rent taxes could be raised to compensate resource exporters for any shortfall and that they are efficient, which they are. Then it states "but subject to implementation challenges."

Our experience in Australia, Mongolia, and Papua New Guinea, is that those implementation challenges, including generating sufficient political support, can be considerable. Indeed, in Australia's case, they have been terminal for two of our last four prime ministers. Economists' nice, pure options can be difficult to implement in practice, and taking that into account in future work would be useful.

Mr. Sigurgeirsson made the following statement:

I have issued a gray statement, which I hope was clear on the issues, so I can be very brief. This is a technical and political topic, and the paper has done a reasonable job on both fronts. As many have mentioned today, the main forum for this discussion remains in the OECD inclusive framework, which has been working well. However, the Fund has a supporting role, and there are important issues outstanding on this front, and we believe that this paper adds value in identifying them, but the architectural aspects mentioned should be seen for what they are—as analysis. But despite that, we note that a number of Directors have expressed concern that some of the findings may be too categorical, and we sympathize with those views and believe it would be useful for the staff to have a second look or perhaps to consider the forum used for publication to avoid such perceptions.

This institution is well placed to contribute to this work on a broad range of issues in the international tax debate. The Fund has offered support on taxation to its members from the very beginning, as mentioned by the Chairman in her opening remarks, and this includes countries in my constituency where it has proved invaluable.

Mr. Alle made the following statement:

We issued a gray statement and I would like to emphasize a few points. First, like many Directors, we stress the importance of multilateral and inclusive coordination on the ongoing initiative to improve the architecture of international corporate taxation. The smooth implementation of a new tax system hinges on collaboration between those initiatives and hence on a coordinated solution. We have now concrete cases of countries in our constituency trying to implement sometimes competing requirements from the G20 BEPS and other tax transparency and tax avoidance initiatives.

Going forward, as stressed by Mr. Mouminah and others, we see an important role for the Fund and other international financial institutions (IFIs) to play in the discussion, even though the leadership role is left to the OECD. The Fund, with its universal membership, has a competitive advantage in representing a diverse membership, including the LICs, and it cannot be left aside in the ongoing undertakings. IFIs in general represent a large and diverse membership and are therefore better placed to champion balanced approaches for a more equitable solution.

Second, in these efforts to make the discussion more inclusive, we join many other Directors in calling for particular attention to LICs, for which corporate taxation is a critical issue with regard to the imperative of increasing domestic revenue mobilization. We see a clear nexus between the need for international corporations to pay their fair share of taxes in LICs where they are established and the quality of fiscal consolidation in these countries. For the importance of these issues, not only should LICs be included more in the ongoing discussion, they should also be supported with Fund TA in terms of understanding these complex issues and also in terms of implementing already-adopted solutions. This includes Action 6 and Action 8, 9, 10 of BEPS related to tax exemption and international cost transfer of international firms.

Third, we encourage the staff to continue its outreach on international corporate taxation. The architecture proposed in the report could benefit from feedback from country authorities and civil society, and the IMF-World Bank

Spring and Annual Meetings could provide good opportunities for engaging these stakeholders.

Finally, the alternative architecture proposed by the staff or other similar proposals opens new avenues in terms of thinking. We look forward to the next discussion, and we are prepared to support solutions that promote cooperation among nations for the common good and help avoid unfair tax competition. Like Mr. Agung and others, we would like to hear from the staff about the next steps after this Board meeting. Will our staff analysis will be integrated in the multilateral efforts underway, including the OECD framework?

Mr. Daïri made the following statement:

I thank the Chairman for her opening remarks and agree that this discussion is timely in view of the macrocriticality and the current international debate on the issue. I also agree with the Chairman that in view of its universal membership, its expertise, and its close engagement with member countries, the Fund has played and should continue to play a critical role in analyzing the role of corporate taxation in the global economy and strengthening members' capacity in this area.

In this regard, I appreciate the staff's effort to highlight the issues of particular relevance to developing countries, particularly LICs, which may help achieve a better balance in the apportion issue at the global level.

I take note of the reservation expressed by Ms. Levonian and other Directors on the section assessing the options. However, I note that the staff has been cautious in drawing conclusions on the various options in the section itself, and instead of not publishing the paper, I would prefer a redrafting of the assessment sections, possibly including the title, to make it more preliminary and more tentative and as also suggested by Mr. Ray, and indicating that the presentation was not endorsing any of the options. This would be more in line with the cautious language used in the press release. I would also suggest deleting the question in bullet point 4 on whether Directors agreed with staff assessment. I am not in favor of including caveats to indicate that the Board does not endorse the assessment, which may undermine the integrity of the staff's work and the role of the Fund.

Mr. Mozhin made the following statement:

First, on the turf issue, I would just reiterate that we support this work, as we did in 2014 or 2013. I would quote Mr. Castets, who said that if tax policy is not a core Fund issue, then what is the core, or what are the core issues for the Fund? Of course, the Fund with its universal membership, with its expertise in tax policy issues, with its massive experience in engagement with the whole membership, both in surveillance matters but also in TA matters, should continue to be engaged and perhaps enhance its engagement.

Globalization probably cannot continue, to say nothing about advancing further, in the absence of at least some form of tax policy coordination. It is difficult to see how globalization can continue without this. At the same time I realize that these are sensitive issues. These are divisive issues. As they say, we all stand depending on where we sit, and I believe there are three categories of jurisdictions regarding the tax policy issues. There are high-tax jurisdictions, there are low-tax jurisdictions, and there are no-tax jurisdictions. The decisive role will be played by low-tax jurisdictions because they are in between high tax and no tax. I see the undertaking of the BEPS initiative a few years ago as really the moment when the losses experienced by those low-tax jurisdictions from competition with no-tax jurisdictions became larger than their gains from tax competition with high-tax jurisdictions. That is my view of the recent history of international tax policy coordination.

I would see the final objective of this whole work to be something like an institutional view of the Fund. I agree we are far from that. I agree that this is a divisive issue. In the end, tax policy issues, as well as the social policy issues, are the bread and butter of domestic political processes in each country, and that is what makes them so sensitive and divisive.

Finally, on publication, the draft press release includes the following language: "The paper does not endorse any specific proposals for international tax reform." It recognizes that views differ widely.

That is very factual, and that is what is already in the draft press release. I can understand the concerns expressed in the Board that we would want to make it even more clear that there is no endorsement these approaches, and I am not opposed to that, but we also need to be mindful that we have a Transparency Policy. We have constraints dictated by that policy, and that is something we need to observe.

Mr. Lerrick made the following statement:

I have to admit that I was surprised by the excitement, interest, and even passion that this report elicited from my colleagues, because two weeks ago, when I was with the G7 Deputy Finance Ministers, in the session on this subject, I confessed that I had read four of the OECD studies on transfer pricing and taxation of the digital economy, and my colleague from the United Kingdom, Mr. Bowman, accused me of suffering from insomnia and remarked that this was the only cure. But I believe it is important.

This is a report. It is a very good report, but it is only a report. This is not gospel. This is what one major international organization has analyzed as a problem and important issue, and there is no question that it is an important issue and that we are in the midst of a revolutionary change in the taxation system, a bigger change than has occurred in more than 100 years. It goes to the core of government-mandated authority, and that is why it is so important and it draws such passion; but there is no question it has an impact on domestic economies. There is no question that it has an impact on the international economy, and therefore there is no question that this is an issue the Fund should focus on. It goes to the core of the Fund's mandate. It focuses on macroeconomic stability, the ability to tax citizens, debt sustainability, the transfer and distribution of resources, and there is no question that is what the Fund has an expertise in analyzing. But the Fund's role should be that of helping policymakers understand what the ramifications of these policies are going to be. It is not the Fund's role to determine what the correct policies are. That is the important point here.

The standard-setting responsibility has been accorded by the G20 to the OECD, and they are doing a very good job. It is highly technical work. As one of my colleagues said, it is many lawyers and accountants writing, which makes it very heavy-duty reading, but the Fund's role is helping the people who are responsible for the stability of economies understand what the impact will be.

Finally, I want to echo Mr. Beblawi's comment earlier today and say that that I also am in awe of the energy, endurance, and stamina of the Managing Director throughout the process.

The staff representative from the Fiscal Affairs Department (Mr. Keen), in response to questions and comments from Executive Directors, made the following statement:[3]

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[3] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

Perhaps I can start my response by picking up several themes and unanswered questions from the gray statements and some of the points that came up in the discussion.

The first set of questions that were raised concern the question of how the paper will feed into the Fund's work on capacity development and surveillance. To a large extent, the link runs the other way around, from our capacity development and surveillance work into this paper. The assessment of developing country issues comes from our TA on revenue administration and tax policy around the world, and it also draws on the work we have been doing on the surveillance side. We have had Article IV coverage of international tax issues for about 20 countries over the last few years, from the United States, Kenya, Egypt, Belgium, so we have learned much that way. I do not believe we see huge changes from the paper in how we go about our work, which will continue to be driven by country-specific circumstances and concerns.

We have certainly learned things preparing the paper. It has been an opportunity to bring together the experience of our colleagues on tax administration issues, international tax administration in LICs, and that may lead to how-to notes, things like that.

We have a specific recommendation we wanted to draw Directors' attention to, which is now we do quite often find ourselves advising in our TA these protections essentially related to minimum taxes on inward investment, fairly crude limits on the ability of companies to shift profits out. We thought that was something that comes up quite a lot and was quite important to bring to the Board's attention. If and when the international standards do change, if countries asked us to help how to do it, then we would stand ready to do it.

Secondly, perhaps there were a set of issues on the broad and maybe too grand heading of governance—links with OECD, inclusive framework platform and so on. I want to emphasize that we are more than comfortable with the role of the OECD in standard-setting. We have been very comfortable with that for decades, and in terms of the BEPS process and so on, we are actually filled with great admiration for what has been achieved by the OECD and under the BEPS project. We view much of what we are doing as helping to take that work forward and to help protect the cooperative approach that has been developed in the inclusive framework. Whether it is support or complementary, I do not know, but we see ourselves as being helpful in that wide process.

In terms of how we work with the OECD, it is worth mentioning that there was some mention of this consultation paper that the OECD issued on February 13, which means because we are observers, we knew what was coming. We do not refer to it in the paper part because we were not sure what would be public. But respecting the division of labor, the Fund has some excellent lawyers but not as many as OECD. They do not have as many economists as we do, and so the consultation document is an illustration of how we complement each other very well so that the consultation document is much more detailed than we are on specific proposals, and that is clearly part of what needs to be done to think about these things. We also need to think about the economic impact of these things, and there is really very little in that consultation document. We are not proposing reaching an evaluation of particular schemes, but I do believe that at a high level, one can see common features. There are commonalities that can be brought out in general terms. The paper is a little more general than the consultation document and although we do talk about the formula apportionment which was proposed by the G24, for example, and was discussed at the inclusive framework, it is not picked up in the consultation document. It is all consistent with our comparative advantage. For example, the documents talk about schemes of residual profit allocation. People at the inclusive framework ask, what is this? How big is it? Where is it at the moment? Is it always positive? I believe we come up with some answers that we hope can inform that debate, so I think that is how we see it.

We work very well at a technical level with OECD, and our counterparts at the OECD believe this is helpful for their work.

With regard to the PCT, which we attach a great deal of importance to, we believe that is critical for exploiting the synergies and leveraging the comparative advantages between the Fund, the OECD, the UN, and the World Bank, of different expertise, mandates, membership, which is all set out in the paper. A large part of that work relates to capacity building, and we are happy to see Directors' support of that, and we look forward to more discussion on March 20, and we are moving forward on that front.

The platform is already contributing on the international tax issues through the toolkits that we are developing, and this feedback role, this feedback effect, was always envisaged, from the capacity building through into the standard-setting, through the platform, through the Fund, and that has already happened. I believe it has been productive. We would like to see more of that. Looking forward, our thoughts are fairly modest. We would like the platform to do more of this, to essentially move up a gear in terms of the support that we provide, the feedback loop into the inclusive framework, potentially into the standard-setting, all of this with a particular focus on the developing countries, which I take so much for granted. I probably do not say it as often as I should. In that way, we believe the platform can help ensure that the inclusive framework has full credibility in terms of the support that only the Fund, the UN, and the World Bank can provide in terms of expertise, membership. At the same time, it can also help dampen what are sometimes the excessive expectations of what the platform can do.

We have had some talks about further things we might be able to do, for example, whether the platform should have a report every two years or so that highlights particular issues that we see coming up in developing countries to make sure those come up in the inclusive framework; to ensure the inclusive framework is not bypassing the issues that are important for LICs.

There were a few questions on digitalization. Do we believe these measures will be temporary? The saying is there is nothing so permanent as a temporary tax, so I am not quite sure what our view is on that. Efficiency efforts, the effects of digital services taxes, we have something in there. We certainly think that is an area that requires more work. To leave time for my colleagues, let me just pick up on the theme of the more work to do, with which we very much agree.

On the resource rent tax and so on, I fully agree. We do just shunt them aside. We have done a significant amount of work on this. We have a handbook on revenue administration for extractive industries, a few books focused on extractives. We are not underestimating the difficulties. We are parking them perhaps for later consideration. We agree on the point that there is much more work to be done on how these issues impact capital flows, exchange rates, and so on. There is almost nothing on that, and that became very clear in the recent debates in the United States.

The final question was can we make this all more reader friendly. I believe the answer is no, but we will try.

The staff representative from the Fiscal Affairs Department (Mr. De Mooij), in response to questions and comments from Executive Directors, made the following statement:

I would like to address the questions that were raised related to minimum tax and the data. On minimum tax, questions related to practical implementation of minimum tax, whether to use effective or statutory tax rates, the extent to which it addresses the digitalization issues, and how it compares to the more fundamental approaches. The paper basically starts by discussing the classes of minimum tax. There is not a single proposal, but it is the broad concept of minimum tax, and the design issues are really important, including the level of the minimum tax. The paper also makes a clear distinction between minimum tax on outbound and inbound investments, and that is an important distinction as well. On outbound investments, it is the minimum tax on multinationals that have their headquarters in a country and that earn income from abroad; and if that income is not taxed at a sufficient rate, a minimum tax is imposed. This is basically from a residence-based perspective. This can have implications for source countries because the incentives for having very low tax rates become much less, so there is less of an incentive for tax competition with very low because it is always offset by the tax in the residence country. It can also have important implications for source countries.

On the practicalities, the minimum tax should be based in principle on the effective tax, on the tax that is actually paid abroad. Statutory tax rates often do not say much about the tax that is effectively paid. In terms of implementation, this might be quite doable because governments already have the information from the multinationals on their foreign-earned income and on the taxes paid abroad, so the calculation should be relatively simple, although in audits one has to verify this with counterparts in the other countries.

On inbound investment, that is basically the minimum taxation of subsidiaries in the country of companies that reside abroad. The minimum tax here is a minimum tax on an alternative base that does not allow the deduction of certain payments that are vulnerable to profit shifting, like interest, royalties, and service fees. The question here is whether to make this minimum tax conditional on the tax that is levied in the countries that receive or the company in the country that receives the income? There is a tradeoff. On the one hand, that would be attractive to avoid double taxation, so avoiding distortions associated with that in the international capital flows. On the other hand, this is really complicated because that is not typical information that one have—how much tax is paid in the country receiving the payments and especially when the ultimate receiver is somewhere down the chain of various companies. This tradeoff raises the question, how does one design this, and probably for LICs, the latter is maybe too complicated.

The minimum tax may help address some of the issues related to digitalization. As was already mentioned, digital companies typically have many tangible assets that can be put in low tax jurisdictions in order to minimize tax liabilities. The minimum tax does address this issue. It does not address many other issues related to digitalization, for instance, the issue of allocation of taxing rights in the country where the users or the consumers reside.

On the transition issue, minimum tax can be a step toward a more comprehensive reform. It does not need to be. It can also be part of the rules of the game in which the taxes can be set. The attraction of minimum tax is that it is relatively close to current practices, so one does not need to have a huge overhaul of the tax treaty networks, and it requires relatively modest coordination. Countries can also impose this in principle by themselves.

There were questions related to data gaps, in particular in LICs and microdata, the role of the Fund in collecting data, and also some question on the revenue statistics. On data gaps, various sources of data are being used to get a grip on our understanding of international tax. There is macro data, micro data, and that can be commercial data or taxpayer data or even data on multinational corporations. On macro data, for advanced countries these are typically available and also for emerging market economies, but for LICs, data on gross operating surplus or foreign direct investment are often not available. We see that in the analysis we have presented. For many of the analyses, these countries are not well represented. The same applies for micro data from commercial databases. Advanced economies, emerging market economies, are well represented but not LICs. That is holding back the analysis of these issues for LICs.

There are micro survey data for some countries. For instance, the United States has the Bureau of Economic Analysis data with information on multinational operations globally. Individual countries have used micro taxpayer data, anonymized subject to confidentiality requirements, but these are being used for country-specific studies.

On addressing those data limitations, we do not foresee collecting new data as part of our efforts. There is room for improving data, especially for LICs and their coverage in the ordinary data sets that are available for other countries. There is a lot to gain also in terms of our insights. Fund staff would be eager to work with countries in the context of TA, with taxpayer data, to get a grip on the behavior of taxpayers; and this is something that could perhaps be exploited more in the future. In that sense, it is also interesting to share experiences using those data, and the suggestion of using AFRITACs, for instance, for that purpose is a valuable one.

Finally, on revenue statistics, since 2015, the Fund has had an online database on revenue statistics called WoRLD. This captures 190 countries' aggregate data. It has the various components of data, and that is now a trusted source being used by the UN for monitoring the SDGs. It is also intensively used by our TA and analytical work, and the work on it is ongoing because currently we are exploiting the common surveillance database, which is the database with all the information collected from surveillance by desks, to extract from that the revenue data and to fill the gaps in the current data sets. The Fund is well placed to do this because this comes at no cost to the countries. These data re already available. The renewed database is basically for these 190 countries based on the GFS classification data.

We are aware that the OECD is also making efforts to develop a global revenue database. It now has 90 countries covered, and we have set up a working group to compare the results from the two efforts and to compare the data.

The staff representative from the Legal Department (Mr. Waerzeggers), in response to questions and comments from Executive Directors, made the following statement:

I want to address one particular question that was raised in relation to the legal impediments to adopting a DBCFT. I will leave the economic analysis to my colleagues.

The legal impediments play out on two levels. The first level is the WTO level; the second is the existing network of tax treaties. First on the WTO, it is not our role to opine on WTO issues. That is not the role of Fund staff. What I can do is highlight the issues. The crux of the matter is the border adjustability of the DBCFT and its legal nature as a tax on profits as opposed to a VAT, for instance. Border adjustability effectively just means we include imports in the tax base, but we exclude exports, and we also include local or domestic sales.

On the export side, much like a VAT would do, exporters under the DBCFT would be entitled to refunds in case they have operating losses that stem from the fact that they would get a deduction not just for all the inputs, but also for the cost of domestic employment in relation to those sales, and the combination of those two things potentially gives rise to the DBCFT being classified on the export side as an export subsidy, which would not be allowed under the WTO agreement for subsidies in countervailing measures, again, if the DBCFT is to be classified as a tax on profits or a direct tax, as that agreement notes.

On the import side, a similar issue of unequal treatment arises, and even though the DBCFT would tax both domestic and import sales much like a VAT would do, it would include the full value of the import in the tax base but would still allow a deduction for wages in relation to domestic sales. This potentially raises an issue of national treatment, which requires that imports of both goods and services are not treated less favorably than domestic sales, and so that is a potential WTO issue on the import side.

Even though from a purely economic perspective one can say the DBCFT is like a broad-based VAT with a wage subsidy, legally if one combines those two in a single tax, and if that tax is to be viewed as a direct tax or a tax on profits, tax on income, it potentially raises these WTO issues.

If one assumes multilateral adoption, then there would be a platform to also resolve any WTO issue presumably in a multilateral way, but nonetheless those issues exist.

On the tax treaties side, the issue relates to the destination-based focus of the DBCFT, which basically cuts through the current way in which tax treaties are designed, which is based on residence and source, and destination cuts through that paradigm. So existing tax treaties in other words would not allocate taxing rights to the country of destination if there is no physical presence of the non-resident seller in that jurisdiction, and so in a treaty context, if there is a tax treaty between the two relevant countries, then the DBCFT would probably cut across and would raise that treaty issue, if the DBCFT is a tax that is covered by the treaty in the first place, so there is still a legal qualification question there as well.

The Chairman made the following concluding statement:

The staff has epitomized the reason I like the issue of taxation. It brings the economists, the best of them; it brings the lawyers, the best of them, and they have to make something that has to be understood by all, which it never is. It is this wonderful confluence of conceptual and super-practical matters that brings the excitement to such a high level.

There is one issue which some Directors have raised which has not been addressed, and that is the issue of what do we do with Section 7, which is this assessment section. This particular heat map, which seems to be of great concern to some, and I understand some Directors do not want to see this as being endorsed by the Board or the view of the Board. I am also attentive to

Mr. Daïri's point that including a disclaimer that states that we do not want to place any merit on that section would not be a good indication of how much cohesion there can be between the staff and the Board.

What I suggest is that we take into account the Transparency Policy, and item No. 3 of the policy can possibly be applied when there is sufficient ambiguity, and Section 7 would fit that description. I will ask the staff to look into it and make a suggestion for how we address this point and come back with a suggestion so that it is not published as-is, but with appropriate qualification so that it also meets the concerns without downgrading the quality of the analytical work, which is not to only support but eventually to complement.

I was a bit upset when Mr. Fanizza said that this work could support the OECD's work but not complement it. From the good discussions that I had with the OECD Secretary-General and the work that is done, there is a strong complementarity of what we do for the reasons that Mr. Keen explained, and I personally have high regard for that cooperation between the two institutions and how we can bring all views to the table and not just those of a few.

Mr. Daïri reiterated his recommendation to delete from paragraph 114 the section asking for Directors whether they agree with the assessment.

The Chairman responded that the staff would carefully consider which section required revision.

The following summing up was issued:

Executive Directors welcomed the opportunity to take stock of recent developments in international aspects of corporate taxation, and offered preliminary observations on alternative proposals currently being debated. They acknowledged the importance of these issues to all Fund members in their efforts to raise revenues in an efficient and equitable manner, and the potential for significant cross-border spillovers.

Directors welcomed the significant progress made in addressing corporate tax avoidance and enhancing multilateral cooperation, notably by the G-20/OECD project on Base Erosion and Profit Shifting, and the Inclusive Framework that has broadened the scope of cooperation to many non-OECD countries. At the same time, they noted that there remain shortcomings in current international tax arrangements, and that many countries face pressures to introduce unilateral action. Directors agreed that much remains to be done to find sustainable global solutions, building on the progress achieved so far to ensure fairness, inclusiveness, and broad consensus, although their views differed on the extent of needed reforms and the roles of relevant bodies.

As an important element of the current debate, Directors welcomed the discussion on tax challenges associated with digitalization. They recognized that this is a difficult issue, technically and politically, and that views on whether special treatment is needed, and if so in what form, continue to differ widely. For the long term, a number of Directors considered that it would not be desirable or feasible to design ring-fenced solutions. Directors looked forward to the final report from the OECD to the G-20 in 2020, which could serve as a basis for a cooperative approach going forward.

Directors noted other challenges that have yet to be fully addressed. They welcomed the emphasis in the paper on profit shifting, which is a particular concern for developing countries. They also pointed to the damage from continued harmful tax competition, including the risk of a race to the bottom, while recognizing the importance of respecting national sovereignty in tax matters. Some Directors were of the view that the benefits of fair tax competition should also be acknowledged.

Directors noted that views on the relative merits of alternative reform proposals vary to a great extent. They emphasized that much depends not only on the detail of specific proposals and their implementation but also on the relative importance attached to the various assessment criteria. Noting the tentative nature of the staff assessment, Directors stressed that it should be interpreted and communicated with caution. While Directors considered it too early to endorse any of the particular alternatives, they found the discussion a useful analytical complement to existing debates. Specifically, many Directors saw the benefit of minimum taxation in dealing with harmful tax avoidance and profit shifting practices. Directors emphasized that, to better inform the ongoing debate, considerable further analysis of the reform proposals is needed with respect to legal issues, practical consequences, including distributional effects, and implications for various groups of countries with similar or unique characteristics.

Directors underscored the need for an inclusive process for discussing international taxation, especially as fundamental issues in the allocation of taxing rights come under discussion. Many Directors felt that the current governance arrangements, with the OECD as a central body and standard-setter and supported by the Inclusive Framework, are broadly appropriate. At the same time, many Directors saw room for improvements, including to enhance the representation of developing and low-income countries in the decision-making process.

Directors emphasized the important role of the Fund in the area of international corporate taxation, focusing on its universal membership, macroeconomic perspective, and analytical expertise. They stressed in particular the value of Fund advice and extensive capacity building, helping member countries to implement best practices on tax policy and administration. While recognizing that the Fund is not a standard-setting body in international taxation, they noted that the Fund is well placed to undertake economic analyses of the impact of possible changes, both within and across countries, as well as to ensure that their implications for developing countries are adequately considered. In this context, most Directors advocated a more active role for the Fund in providing analytical contribution, influencing the debate, and fostering broader cooperation. A number of Directors stressed that efforts to bridge data gaps would need to take account of confidentiality issues and limited capacity in many developing countries.

Directors underscored the importance of continued close collaboration with the OECD and other international organizations active in this area, to ensure that the Fund's work remains complementary to, and avoids duplication of, that of others. They noted that the Platform for Collaboration on Tax provides a useful framework for bringing together the IMF, OECD, UN, and World Bank, and could continue to play an active role in supporting international tax coordination.

APPROVAL: April 16, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Taking Stock

1. If unilateral actions proliferate as the current trend shows, we think staff's analysis is right to indicate that this not only jeopardizes the incentives for globally coordinated action, but also forces other jurisdictions to act in a certain direction to contain negative spillovers. As such, we would welcome staff's views if these "interim measures" are really transitory in nature and to what extent these measures would feature in the corporate taxation architecture of the future.

- Staff will respond to this question during the Board meeting.

2. Staff already noted that the proliferation of unilateral ones is seen by some as "early departures from the consensual approach of the BEPS project". Besides such mixed developments, we also see risks of some of those frameworks being imposed on developing countries as eligibility conditions for bilateral financing. Staff comments would be welcome.

- Staff recognizes and supports the advances made through the G20-led initiatives to combat tax avoidance and improve tax transparency, notably the BEPS Package aimed at combatting base erosion and profit shifting, and the Common Reporting Standard (CRS) to support Automatic Exchange of Information (AEOI), supported also by the Fund's technical assistance program to its member countries. However, the Fund does not itself engage in blacklisting in this or other areas. In keeping also with its duty of neutrality to its entire membership together with the need to appropriately sequence policy and development objectives, staff supports multilateral solutions developed in a truly inclusive fashion that serve the interests of advanced as well as developing countries. The paper seeks to contribute to achieving such outcomes in this manner and staff would also see risks of otherwise imposing existing third-party frameworks on developing countries as eligibility conditions for bilateral financing. Furthermore, LICs often have more pressing needs with respect to domestic resource mobilization, with such unilaterally enforced frameworks often diverting efforts and attention away from achieving those more pressing issues.

3. Figure 1 indeed shows that the estimated revenue loss from profit shifting in percent of GDP is more important in non-OECD countries than in OECD countries. Could staff share any insight on steps being taken to include more developing countries in the debate? What role could the IMF play in that regard?

- Staff will respond to this question during the Board meeting.

4. ***We would like to seek staff's comments on how to draw the line between healthy and harmful tax competition. Could staff apply game theory to simulate the results of different tax competition?***

- Staff will respond to this question during the Board meeting.

The Digital Debate

5. ***Digitalization has an impact on all sectors of the economy. Because even traditional companies and business models will change, options for reform that are not limited to certain 'ring-fenced' activities or sectors need to be explored. In this context, we welcome the policy note published by the OECD, dated January 23, 2019, on tax challenges of the digitalization of the economy. Could staff briefly comment on this note?***

6. ***While the paper outlines the digitalization debate, we missed staff's recommendation on the specific tax solutions vs. the impossibility/desirability of ring-fencing digital activities for firms. Comments would be appreciated.***

7. ***Could staff elaborate on the efficiency and revenue implications of current approaches to taxation of digitalization?***

8. ***In view of the more intensive use of intangibles by digital companies, staff's views on possible economic tensions and the implications for the international tax architecture of such a distinction are welcome.***

- Staff will respond to all questions under this heading during the Board meeting.

Alternative Architectures

A. Evaluating Alternative International Tax Systems

9. ***Noting that moving away from a CIT would be a controversial step, we wonder whether staff considered alternatives to a CIT (e.g. recent experiences regarding distributed profit taxation in Estonia)?***

- The paper was written based on the presumption that business-level taxation is maintained (see footnote 6). Among business-level taxes the paper has also considered alternatives to traditional CITs, notably the DBCFT and to a more limited extent the DBACE. The distributed profit tax is similarly a variant of a cash-flow tax (with an 'S-base' in the terminology of Meade (1978)). It shares some of the domestic efficiency features of other cash-flow taxes but comes with its own avoidance risks and does not address profit shifting or tax competition.

B. Minimum Tax Schemes

10. The proposal for a minimum tax is based on effective rates instead of statutory rates. Although this is theoretically desirable, it is also a burden for the tax authorities. We wonder how staff judges the feasibility of systems based on effective rates?

- Staff will respond to this question during the Board meeting.

11. Fund TA for developing economies has often recommended minimum taxation on inbound investment to guard against domestic avoidance and evasion. However, we understand from footnote 60 that TA recommendations on these minimum taxes in Latin America are often based on gross or net assets while in Sub-Saharan Africa, they are commonly based on turnover. What are the reasons for the different recommendations?

- Footnote 60 was not meant as a description of Fund TA in this area, but rather as a description of regional/national actual practices. Staff is working on a publication that will consider the design of minimum tax schemes of this kind.

12. According to Table 2 on page 41, minimum taxation schemes rank relatively high against the set of criteria proposed by staff. Could staff provide greater details on the practical limitations for their implementation? Could staff also elaborate on how these schemes may help address challenges associated with digitalization?

- Staff will respond to this question during the Board meeting.

C. Border-Adjusted Profit Taxes

13. As we see it, some of the alternative options being considered could bring about unintended side effects. For example, the design of the destination-based cash flow tax seems to favor trade deficit countries. Will there be any incentive to "search for trade deficits" that may worsen global imbalances? Staff's comments are welcome.

- Observing a single year, a trade deficit is associated with higher DBCFT revenue. However, it also weakens the country's international investment position (IIP) and intertemporally it will require surpluses in other years, with corresponding revenue losses. A country with a very strong IIP at the time of a DBCFT introduction would stand to gain, because it could finance future trade deficits by running down its accumulated foreign assets toward the equilibrium level (and vice versa).

D. Formula Apportionment

14. Discussions over Destination-Based Cash Flow Taxes (DBCFT), Formula Apportionment (FA), and Residual Profit Allocation (RPA) are still theoretical exercises and have not been tested. For example, we felt as though the paper overstated the impact of FA on profit shifting, as there could be new forms of shifting based on the allocation factors. Does staff have evidence that profit shifting is reduced by FA?

- The paper emphasizes that Formula Apportionment (FA) would reduce the scope for profit shifting but also introduce other difficulties (Par. 78), including shifting based on the allocation factors (Par. 79). There exists evidence suggesting that profit shifting is indeed smaller under FA. As the paper notes, in several countries subnational business taxes commonly apply FA. In the article, "Income Shifting, Investment, and Tax Competition: Theory and Evidence from Provincial Taxation in Canada" (Journal of Public Economics 88 (2004), pp. 1149-1168), Jack Mintz and Michael Smart explore this for the case of Canada, where firms can be taxed under either a regime where they must use a statutory allocation formula or a separate accounting regime where they can shift profits. Their results suggest that the elasticity of taxable income—an indicator of the sensitivity of the tax base to the tax rate—for firms that can shift income is more than two times larger than it is for firms that use the allocation formula.

E. Assessment

15. We note that the destination-based cash flow tax (DBCFT) scores very well on protection against profit shifting and tax competition but ranks at the bottom of the table in terms of legal obstacles. Could staff elaborate on the main reasons behind this assessment of legal impediments, including WTO-related issues?

- Staff will respond to this question during the Board meeting.

16. Minimum taxation can protect the tax base of low-income countries in a simple manner and can be used as a transition to more fundamental change but ranks medium-low in terms of practical implementation. Could staff elaborate on the main practical implementation difficulties of minimum taxation?

- Staff will respond to this question during the Board meeting.

17. ***Could staff comment on the merits of settling for a minimum taxation arrangement as opposed to striving for a more efficient approach, which will require much more effort to build a consensus?***

- Staff will respond to this question during the Board meeting.

Governance of the International Tax System and the Role of the International Financial Institutions

18. ***We expect staff to actively participate in the Platform for Collaboration on Tax, not only through analytical work but also in term of technical assistance delivery and jointly developed guidance. Coordination in the field, with domestic authorities as well as development partners, is a crucial factor to successfully implement such reforms in LICs. Staff comments are welcome.***

- Staff will respond to this question during the Board meeting.

19. ***We would welcome staff's comments on the scope for coordination with the OECD on these data collection initiatives.***

- Staff will respond to this question during the Board meeting.

20. ***Could staff provide more details on the discussion of data gaps in paragraph 111 and how this fits with the OECD efforts as well as improving the collection of domestic tax information by LICs?***

- Staff will respond to this question during the Board meeting.

21. ***We would call for the IMF's enhanced engagement on international tax issues going forward. In this context, we would support further efforts to improve the collection of specific taxpayer-level information, which is necessary for deepening the evaluation of any possible changes in the international tax system. Could staff clarify the scope of this initiative?***

- Staff will respond to this question during the Board meeting.

22. ***Understanding the unique circumstances of developing countries would be strengthened with better coverage in the literature and enhanced homogeneity among countries. In question 5 under issues for discussion section, staff referred to the need for "country specific taxpayer-level information to analyze the impact of international tax arrangements". Could staff clarify this point as paragraph 111 is not entirely clear?***

- Staff will respond to this question during the Board meeting.

23. We would appreciate further elaboration on staff's proposals for additional data collection by the Fund (paragraph 111) and an expanded role for the Platform for Collaboration on Tax (paragraph 112). How would IMF data collection efforts interact with existing efforts to create a global revenue statistics database within the OECD? What would a "fuller role" of the PCT look like? What are the resource implications of each of these proposals for the Fund?

- Staff will respond to this question during the Board meeting.

24. In Appendix 1, we note that most civil society organizations (CSOs) favor a regime under the auspices of the UN for an inclusive global governance for setting international tax standards and advancing international collaboration. The UN is one of the principle venues for the development of international tax norms, and we would welcome staff elaboration on the organization's specific role in international corporate tax reform, apart from the work carried out under the Platform for Collaboration on Tax.

- Over the years the UN has played an important role in particular through the Committee of Experts on International Cooperation in Tax Matters ("the Committee), a subsidiary body of ECOSOC. The Committee comprises 25 members nominated by governments and acting in their personal capacity. The members are drawn from the fields of tax policy and tax administration and selected to reflect an adequate equitable geographical distribution, representing different tax systems. They are appointed by the UN Secretary-General for a 4-year term. The Fund has observer status and Fund staff regularly attends and contributes to Committee meetings.

- The main output of the Committee is the UN Model Tax Convention, a model bilateral tax treaty which, while broadly modelled on the OECD Model Tax Convention, preserves more so-called "source country" (i.e., country of investment) taxation rights under a tax treaty as compared to those of the "residence country" of the investor. A key distinguishing feature, for instance, of the current UN Model compared to the OECD Model is that the former also preserves source country taxing rights for "fees for technical services" even where the provider of such services lacks a physical presence ('permanent establishment') in the source country. For these reasons the UN Model is an important tax treaty negotiation tool for developing countries. Finally, the UN Committee also produces helpful guidance documents—such as the Handbook for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries, and the Practical Manual on Transfer Pricing for Developing Countries—which the UN Financing for Development Office also uses in its capacity development to member countries.

25. The PCT has the potential to become a key structure for collaboration, creating the adequate conditions to encourage the reporting of data and information by a broad set of countries. Nevertheless, the costs of such an initiative and the limited capacity of many countries to provide data and respond to surveys should be taken into account. Considering the number of staff involved and the structure of the PCT, what is the estimated impact of the initiative on the IMF budget?

- Staff will respond to this question during the Board meeting.

26. While the staff report mentions "a more purposive engagement of the PCT with the work of the Inclusive Framework (IF)," what does staff specifically have in mind?

- Staff will respond to this question during the Board meeting.

27. Can staff articulate its vision for the PCT and for a "more comprehensive multilateral approach"?

- Staff will respond to this question during the Board meeting.

28. We would appreciate staff's additional elaborations on their proposal to ensure a deeper engagement of the Platform for Collaboration on Tax (PCT) with the work of the Inclusive Framework and on specific measures that should be implemented to achieve this objective.

- Staff will respond to this question during the Board meeting.

29. In our view, one important contribution the Fund could provide is the regular surveillance of independent fiscal jurisdictions, which remain at the margins of the Article IV surveillance framework for being nominally submitted to another sovereign state. Could staff comment on the possibility of extending mandatory surveillance to these territories of IMF member states?

- Surveillance under Article IV is an obligation both for the Fund and its member countries. In particular, each Fund member must consult with the Fund on its exchange rate and other economic and financial policies when requested by the Fund. Under the Fund's Articles, each consultation must be conducted in such a manner as to permit the Fund to oversee compliance of the member with its obligations under Article IV, Section 1. The Integrated Surveillance Decision (ISD) provides that in its bilateral surveillance the Fund will focus on those policies of members that can significantly influence present or prospective balance of payment and domestic stability. In multilateral surveillance the Fund will focus on issues that may affect the effective operation of the international monetary system, including spillovers from individual members’ policies that may significantly influence the effective operation of the international monetary system. Accordingly, where relevant, policy discussions with regard to constituent parts or territories of a member can be covered in the Article IV consultation with the relevant member. Also, the Fund may hold Article IV consultation discussions with respect to constituent parts or territories of a member country at the request, or with consent of the Fund member. As the obligation to consult with the Fund lies with the member country, if the Fund can exercise effective surveillance over the member country without holding discussions with respect to constituent parts or territories of the member, such discussions cannot be made mandatory. In cases where the Fund holds consultation discussions with constituent parts or territories of a member, these discussions form part of the Article IV consultations with the Fund member. Procedural issues

30. We have some reservations regarding the implications of the Board’s formal consideration and endorsement of this paper – would this mean that the judgments within form the Fund’s official view? Could staff elaborate on how the analysis will feed into the Fund’s work in surveillance and capacity development? We also invite staff to share their thoughts whether publishing this report in an alternative format (e.g. Staff Discussion Note) would be more appropriate.

31. Could staff clarify on the next steps of this paper, including whether and how they intend to incorporate it into the Fund’s work going forward? Given some of the issues raised in the paper are still being actively debated in the international community and it may be hard to reach any consensus at this stage, we suggest staff to consider issuing the paper in a less formal format, such as a Staff Discussion Note, to avoid giving the impression that the Board is endorsing a position on a complex issue that is still evolving. Staff’s comments are welcome.

32. We believe today’s discussion of these complex issues would have been more productive if the process had started with an informal Board meeting to brief/engage, followed by a formal Board meeting, as has been the practice with many other substantive policy issues. Could staff comment on the reasons behind the choice of this process?

- All questions under this heading will be addressed during the Board meeting.