Ensuring a sound tax base in developing countries:
Are the current international initiatives sufficient?

Ruud A. de Mooij
Fiscal Affairs Department
International Monetary Fund
(Views are mine …)

Conference “Pay your taxes where you add the value”
Dutch Ministry of Foreign Affairs, July 2, 2015
Ensuring a sound tax base …

- Some major achievements in DRM – though not everywhere
- Key challenges left – beyond ‘mere’ DRM (quality matters)
  - High-wealth individuals
  - Hard-to-tax sectors
  - VAT implementation
  - Extractive Industries
  - Multinationals
- Which DRM efforts have the highest payoff in LICs?
  - Country-specific revenue strategies needed

Tax-to-GDP ratios 1990 - 2013

Source: FAD World Revenue Database
... current international initiatives ...

- Technical assistance – capacity
- Regional initiatives
  - SADC, EAC, WAEMU, COSEFIN
- G20/OECD initiatives: BEPS & AEOI
  - BEPS spillovers seem relatively larger for LICs
  - IO’s now going beyond 15 BEPS actions (tax incentives; offshore gains)
- Recognition of special circumstances of LICs

### Revenue Cost of BEPS

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<thead>
<tr>
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<th>LICs &amp; MICs</th>
<th>OECD</th>
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<th>OECD</th>
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</thead>
<tbody>
<tr>
<td>In billions, USD (LHS)</td>
<td>105</td>
<td>0.8</td>
<td>207</td>
<td>0.3</td>
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<td>In percent of GDP (RHS)</td>
<td>207</td>
<td>0.3</td>
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Addressing avoidance & evasion important ...
- Large sums at stake - needs for capacity building

- but interact with other tax spillovers...
- What about ‘real’ spillovers in tax bases?
- What about tax competition more generally?
- How do tax incentives fit into this?

- that raise fundamental questions on current int’nl tax architecture ...
- Source vs residence (vs destination) – treaties
- Formula apportionment (“… where you add the value”)
- Wider ‘tax harmonization’: regional? – a new WTO?
... sufficient ... (?)

- ... with immediate practical relevance for developing countries
  - Domestic tax policy
    - Strengthening ‘source’ – e.g. offshore capital gains
    - Imposing minimum tax – cap deductions
  - Advanced country tax design
    - Assessing spillovers on developing countries
    - Treaties – NL initiative on 23 LICs
  - Bilateral & multilateral efforts
    - Tax treaties – net gain for LICs?
    - Regional initiatives – e.g. on tax incentives
Statement 1

- Advanced countries could implement a ‘LIC-proof’ test for changes in domestic tax law

- When changing domestic tax legislation for multinational corporations in a major way (or when signing/revising a tax treaty), advanced countries could require a ‘spillover test’, assessing the implications of the change for developing countries’ welfare
Advanced countries could implement a ‘LIC-proof’ test for changes in domestic tax law

A. Agree

B. Disagree
Advanced countries could implement a ‘LIC-proof’ test for changes in domestic tax law

A. Agree

B. Disagree

35

8
Statement 2

- Developing countries could develop (and own) a comprehensive “DRM Strategy”, part of which deals with int’nl tax challenges.
- The ‘revenue strategy’ would be based on proper diagnosis and prioritization to guide efforts in tax design and revenue administration to where they yield the highest returns – accounting for both quantity and quality of DRM.
Developing countries could develop (and own) a comprehensive “DRM Strategy”, part of which deals with int’nl tax challenges

A. Agree

B. Disagree

The question will open when you start your session and slideshow.

# votes: 49  Closed
Developing countries could develop (and own) a comprehensive “DRM Strategy”, part of which deals with int’nl tax challenges.

A. Agree — 41
B. Disagree — 8