Global Minimum Tax and Developing Countries: What Next?

Marcello Estevão's Opening Remarks:

Thank you so much Vitor.

Now it's also a great pleasure for me to welcome you to this joint IMF/World Bank Conference on International Taxation.

I also would like to welcome all the participants and send a special thanks to the speakers as well as the IMF and World Bank colleagues who have organized this event.

I also want to thank the co-leader of the agenda of today's conference. It's an important collaboration and a very important topic for developing countries. Now with all this said, I sincerely hope the next conference will be in person, I said the same thing last time still not happening. Let's hope for October to see all of you in person.

Like you all, I'm looking forward to today's discussion on the proposal global minimum effective tax.

We, at the World Bank have been supportive of the efforts to achieve a multilateral solution to improve the taxation of multinationals. The high-level political agreement on a multilateral solution reached at the OECD includes the framework last October, is a step in the right direction.

It will have to address the challenges posed by the digitalization of the economy through pillar one, it will help prevent profit shifting, it to help mitigate tax competition through the 15% minimum global effective corporate rate or pillar two.

Implementing a global minimum effective corporate income tax rate could help some countries to increase revenues without losing their competitive advantage to attract FDI.

Some countries, including those that are not members of the inclusive framework, could have high economic and financial incentives to implement pillar two, since the proposed top-up rule eliminates the advantage of being low tax rescission.

Zero in low corporate income tax jurisdictions have an incentive to implement a minimum effective tax rate. Because they will be able to retain some revenues that otherwise higher rate jurisdictions would claim and remain competitive to attract FDI at the same time.

In return, additional resources - of course, when I say that I always have to remark: if adequately spent in improving serves an infrastructure – then it can make a country more attractive to multinationals.

Pillar two is also offering countries a unique opportunity to rethink their tax incentives and not only those addressed to multinationals.
The implementation of a lower band for corporate income tax could further help countries, including those reaching natural resources to move our way through huge tax incentives to investors.

Numerous empirical studies find a tax incentive inefficient in attracting FDI, in particular on profits or location dependent. This is the case, obviously, for example, of profits for exploration of natural resources.

However, we continue to plead for inclusivity, simplicity and ease of implementation as the technical details of the two pillars are being finalized, and we have also been raising concerns of the extremely ambitious implementation timeline.

Many low- and middle-income countries are not members of the inclusive framework. Moreover, many countries, including the framework members do not have the administrative capacity to manage some of the more complex parameters under consideration, including carve outs, thresholds for applying new rules, formula to estimate tax base allocation among jurisdictions, capacity to submit effective tax rates, and this to enumerate only a few aspects.

In response to the above challenges, we, at the World Bank stand ready to support all countries that decide to implement the two-pillar solution.

Let me provide some areas where we can be of assistance. First, supporting decisions on the scope of the application of the pillars. Second, identifying affected business. Third, estimating revenue impacts. Four, analyzing the current incentives, the tax holidays in particular. Fifth, including Globe compliant incentives to encourage investments. And six, identifying other measures that can be adopted unilaterally to further protect the tax base or increase simplification. It's a big agenda, but both us and the IMF are here to help countries navigate through this agenda.

And today's meeting offers a firsthand opportunity to carefully, listen to the challenges that countries and businesses face in the implementation of this proposed minimum effective corporate income tax. I am looking forward to the fruitful discussion and to learn a lot from all of you.

Thank you so much for participating.