

Call to discuss challenges of global tax changes in Asia

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There is a lack of understanding and consensus on what impact the global minimum tax due to take effect next year will have on Asian economies, said Singapore's Institute of Policy Studies (IPS) yesterday.

The challenges of international tax changes in Asia have not been fully explored, said a paper by IPS, a research centre of the Lee Kuan Yew School of Public Policy at the National University of Singapore.

Hence, the IPS believes there is a risk that most Asian economies will find it very difficult to manage their finances, economic development and employment generation if the tax changes are implemented without due consideration for their needs and capacity to implement the reforms.

Late last year, the Organisation for Economic Co-operation and Development (OECD) and the Group of 20 (G-20) countries agreed to an overhaul of the international tax system, which will include a 15 per cent global minimum corporate tax on multinationals with annual revenue above €750 million (S\$1.15 billion).

The tax reform also requires 25 per cent of profits from companies with €20 billion or more global annual turnover to be reallocated to jurisdictions where their customers are located. So far, 141 tax jurisdictions have agreed to implement the reform, which is designed to discourage multinationals from shifting profits to low-tax jurisdictions.

While the broad consensus is a laudable milestone for the OECD, there are many competing norms and broader economic concepts that should, in a healthy policy design, be taken into account, said IPS. "This is more so when implementing international tax changes in Asia due to the region's diversity, unique circumstances and needs," Mr Christopher Gee, senior research fellow and head of governance and economy at IPS, said at a briefing on the paper.

Asia has 48 countries and at least 51 tax jurisdictions if Hong Kong, Macau and Taiwan are included. Four of these are members of the OECD and six in the G-20.

The paper, calling for a broader discussion on concerns Asian economies may have in implementing the new tax rules in their present form, has been forwarded to the OECD, the International Monetary Fund, the World Bank and Singapore's Ministry of Finance.

Mr Gee said tax policy plays a key role as a fiscal tool to boost economic growth and development, and employment in both developing and developed countries.

However, developing economies need not only more tax revenues to finance their budgets but also the flexibility to provide tax incentives to multinationals to attract investment that can generate employment and other economic benefits, he said.

Policymakers may need to weigh the different considerations and design the tax policy to achieve a good balance across these competing norms, the IPS paper noted.

Mr Paul Lau, a partner at PwC Singapore, said there is an abundance of evidence that the flexibility to offer tax incentives has driven investment and employment growth in several Asian countries.

The global minimum tax rate and other provisions in the reforms are also aimed at putting an end to decades of tax competition between governments to attract foreign investment.

However, the IPS said that notions of tax havens and harmful tax practices are at best nuanced, having evolved over time.

Mr Darren Koh, vice-dean of the School of Law at the Singapore University of Social Sciences, said: "The criteria for judging the merits of such tax policies need to be adjusted for Asian circumstances.

"Instead of focusing only on avoidance and the negative list of what constitutes harmful tax measures or regimes, one could take a positive list approach to judge a regime or measure in its impact."

Mr Woo Jun Jie, a senior research fellow in the governance and economy department at IPS, added that the IPS paper has assessed the positive impact global investment hubs such as Singapore have by facilitating investment flows that have boosted economic development across the region.

"A failure to fully reflect the substance of these intangible factors and qualities in the implementation of global tax could yield unintended consequences that are detrimental to the economic growth and development of the region, as well as lower the overall corporate income tax receipts of the jurisdictions in the region," he said.

Mr Justin Tan, a senior lecturer in the Law Faculty at NUS, where he teaches cross-border taxation, said careful thought needs to be given to the impact on tax incentives in areas such as environment and climate change.

Tax is often used to encourage certain behaviours and the climate tax policy acts like a carrot and stick, said Mr Tan. He added that the OECD needs to ensure in particular that the global tax reforms do not remove the incentives needed to encourage research and development of emerging innovative technologies for the green economy.

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