Key Messages

Fiscal policies need to be strengthened, both on tax revenue collection and expenditure sides, and aligned with national sustainable development strategies.

Progressive and redistributive tax policies and fairer tax administration and enforcement, complemented by more inclusive expenditure programmes, can help to reduce both social and economic inequality.

Environmental taxation can play a key role in supporting transition towards a greener economy by promoting more sustainable production and consumption patterns.

Pollution disproportionately affects the poorest and most vulnerable. Coherent environmental taxes, targeted to the specific socio-economic situation of each country, can also help to address poverty and inequality.

II. Opening of the meeting

3. H.E. Ms. I. Rhonda King, President of ECOSOC, opened the meeting by recognizing the role of taxation as a tool to strengthen the mobilization of domestic resources and as a fiscal policy instrument to support progress towards the SDGs. She noted the impact on the SDG agenda of not only how much taxes were raised but also how they were raised and spent.

4. In his statement, Chief Economist and Assistant Secretary-General for Economic Development Mr. Elliot Harris highlighted the importance of rethinking tax rules in sustainable development terms and ensuring participation of all countries and non-state actors in the discussions on revising the international tax architecture. He stressed that any reforms of corporate tax rules applicable to cross-border transactions, including digital transactions, should consider the potential revenue implications for all countries and their impact on broader sustainable development objectives. He underlined the importance of looking at the effects of both taxes and expenditures in implementing SDG-oriented fiscal measures and ensuring their consistency with national sustainable development strategies. He also elaborated on the role of fiscal policies in supporting climate change mitigation and adaptation and in combating inequality.

III. Taxation and the digitalization of the economy

5. The session on taxation and the digitalization of the economy featured presentations by Mr. [illegible] sed [illegible] n [illegible] implem Mr. [illegible] len

take account of the facts that both supply and demand contribute to profits and that user participation often contributes to the profitability of new business models. This could mean that the significant economic presence of a foreign enterprise in a developing country should be sufficient to allow taxation by that country, even circumstances of start-ups, which typically realize tax losses. The solution must consider these losses, which may be complex. While a fair treatment may increase complexity and reduce certainty, a balanced approach would be needed.

12. Mr. Brian Jenn recalled how debate had shifted from the BEPS issues towards the taxation of digital businesses: from low-taxation to where the corporate tax should be paid, with some countries arguing that the "user jurisdiction" should be entitled to a share of that tax. The conclusion was then reached that the digital economy could not be ring-fenced, which explained why the current debate at the OECD was broad-based and focused on the fundamental question of how to allocate taxing rights. The evolution in the debate reflected a widespread concern that the existing rules for allocating profits were no longer appropriate. This concern showed in the adoption by some countries of unilateral measures that tended to focus on some companies with highly visible brands. It also showed in the audit practices of some tax administrations, which were increasingly proposing diverging interpretations of the arm's-length principle in a way that increased uncertainty for business, created additional compliance costs and increased risks for both taxpayers and tax administrations. This had a negative impact on cross-border trade.

13. Mr. Jenn observed that, at the March 2019 public discussion held by the OECD, there was general acknowledgment that changes were needed and agreement to explore a two-pillar approach. On pillar one, even with no formal consensus, there was general recognition of the need to explore approaches that would give more taxing rights to the market jurisdiction. That work would focus on a number of proposals for possible changes to the existing nexus and profit allocation rules. This may result, for instance, in a proposal to grant the market country some taxing rights: a sensitive issue involving a change to fundamental principles on which the existing rules are based. Yet, Mr. Jenn saw a willingness to cooperate to build a consensus on any such changes because of the threat posed to global trade and wealth by unilateral measures.

14. Responding to the moderator, Mr. Jenn suggested that failure to reach a consensus would likely result in a spike of unilateral measures, which would in turn require countries to go back to the negotiation table to find a solution that would solve the problems. Mr. Protto agreed; although he was optimistic that a solution could be found, he warned that uncoordinated actions could have a major negative impact on cross-border trade and investment. In response to questions from the floor, both underscored that a partial solution would not be acceptable to the many countries which would want to have a clear idea of the overall changes before committing to anything.

15. A representative from civil society underscored the importance of inclusiveness in the process of working toward a global consensus. She noted, on the one hand, the origin of the Inclusive Framework to implement the BEPS rules, and, on the other hand the request of the Group of 77 of developing countries to discuss such issues at the United Nations, where all countries could participate in the discussions. In response, Mr. Jenn noted that the work on digital economy through the Inclusive Framework included 129 countries, all participating on an equal footing. Mr. Protto recalled the work on taxation and digital economy taking place at the United Nations. Even with the Committee composed of 25 members serving in their individual expert capacities, they reflected a wide regional diversity and all member States could participate in the Committee discussions as observers. While there was a need for coordination of the work, it was also important to make sure that no one was excluded. Mr. Aw also referred to the Platform for Collaboration on Tax through which the IMF, the OECD, the United Nations and the World Bank Group could provide input on how developing countries would be affected by and able to apply the proposals under discussion.

16. A member of the UN Tax Committee stressed the importance of distinguishing between the BEPS work and work on taxation and the digitalization of the economy. The BEPS work benefited all tax administrations, as shown by the inclusion in the United Nations Model Double