



Comment on UNCTAD report

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Two-pillar approach and UNCTAD report

- Major, welcome, breakthrough in international tax policy
- Similarly significant as automatic exchange of information in the area of individual income taxation
- UNCTAD has done a major service by providing a comprehensive, detailed, and balanced analysis
- Revenue estimates on the basis of CbCR data especially noteworthy

Some key findings

- Revenue gains for developing countries could be substantial
- Which government gets the money clearly important, but the indirect effects via reduced profits shifting crucial
- Small overall negative impact on investment, but improved allocation across countries => non-havens set to gain
- But requires action from developing countries
 - Implementing all the new policies

Actual Pillar 2 scope

- Increasing the rate further could be considered
 - Hebous and Keen (2021): until maybe 17-25% Pareto improving for low-tax countries, too
 - Is there discussion of further increases?
- How about firms under the 750m threshold?
- Why allow for lowering tax liability by tax credits (p. 147)?

Possible pitfalls in implementation

- Carve out to bring the tax base closer to a rent tax
- Crucial how large this carve out will be
- Are there risks (as in arms-length pricing) that drawing the line in practice is difficult?
 - Relabeling expenses as allowed expenses?
- Concern about unintended side effects (incidence on workers?)

Small comments on the analysis

- The report states elsewhere how widespread various tax incentives are
 - Koivisto et al. (2021): Ugandan MNCs face 20 %-point lower ETRs
- Againsts this background, the ETR for developing countries are relatively high
 - More comments on the coverage of CbCR
- How robust the non-linearity result in inv response to tax rate differentials?
 - Fixed costs would be against this pattern

Monitoring and evaluation

- What is the success so far in implementation?
 - Are countries adopting QDMTT as they should?
- Very little existing evidence on how measures adopted in developing countries to combat profit shifting work
- Report rightly stresses the need for increased technical assistance
- One should follow up how the measures start to bite
 - In order to take corrective action if progress slow
- Can be done if researchers and practitioners collaborate early on