IMF Staff submission to the Ad Hoc Committee in relation to the Bureau's Proposal for Zero Draft Terms of Reference for a United Nations Framework Convention on International Tax Cooperation.

The Fund has long supported inclusive and effective international tax cooperation. However, achieving the Sustainable Development Goals (SDGs) will require significant additional resources, especially for low-income developing countries (LICs). Domestic tax reforms offer the most significant source of much needed additional resources. A new IMF note to the G-20 on options for revenue mobilization including from further international tax cooperation explores these issues in more detail.[1] The Fund stands ready to support the international community and its members in these efforts.

Achieving the SDGs will require significant additional resources. Achieving key health, education, and infrastructure targets would cost 3.8 percent of global GDP. Financing needs are concentrated among low-income developing countries (LICs).

Fund staff have long supported inclusive and effective international tax cooperation and continue to stand ready to support efforts to this end. Fund staff have reflected on the existing governance arrangements for international tax reform in IMF 2019,[2] and analyzed existing international tax cooperation initiatives, including through the UN in IMF 2023.[3] These papers provide support for the complementary role of the UN in international tax cooperation, and—more concretely—highlighted some of the tax treaty mechanisms developed by the UN to date to protect and enforce source country taxing rights, which are particularly relevant and important for LICs. While remaining cautious on the benefits and costs of tax treaties for developing countries, we also recall the comments we previously provided on (the then proposed) Article 12B of the UN Model Tax Convention.[4] Fund staff continues to believe that future international tax cooperation efforts should be shaped with a focus on the specific circumstances and revenue needs of LICs and support the sequencing and prioritization of key areas. In this regard, Fund staff welcome the identification of specific priority areas in the Zero Draft such as the taxation of income derived from cross-border services, which can significantly erode the domestic tax base of LICs. The taxation of cross-border services is also an area where both Fund staff and UN staff have undertaken collaborative capacity development activities (see UN Regional Workshop with IMF participation on the

---

[1] IMF. 2024. "Alternative Options for Revenue Mobilization." Note for the Group of Twenty. International Monetary Fund, Washington, DC.

[2] https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650.

[3] https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/02/06/International-Corporate-Tax-Reform-529240#:~:text=Summary%3A,with%20now%20138%20jurisdictions%20joining.

[4] IMF Staff, 2021, Comments on Proposed UN Article 12B of the UN Model Tax Convention (Automated Digital Services, available here: https://financing.desa.un.org/document/imf-staff-comments-proposed-un-article-12b-un-model-tax-convention-automated-digital.

Treatment of Services, Addis Ababa, December 2023).[5] Fund staff also actively participates in an observer capacity in the international tax standard setting bodies at the UN and OECD.

Further international tax cooperation can play a role in raising revenue but will be insufficient to fund the SDGs. Ongoing international tax reforms, such as the global minimum corporate tax and information sharing, make a positive yet modest revenue contribution, but are important as they allow for more effective taxation of large multinationals and wealthy individuals. Significant revenue potential (at least temporary) lies also in carbon taxation, which is a potent way to meet global climate objectives. It includes levies geared toward international transportation—a sector that is currently exempt from such taxes. Internationally coordinated tax reform options generally produce only a small portion of the revenue for LICs where most of the financing needs for the SDGs are. Revenue sharing arrangements could be considered, for instance, under a global carbon tax, but more revenue would still be needed to fund the SDGs in these countries.

There is significant scope for revenue mobilization through domestic tax reforms. Developing countries generally have significant tax gaps, that is they raise less than what is possible, based on best-performing peers under similar circumstances.[6] While reform options are country specific, common options are to broaden tax bases (by reforming tax expenditures), closing loopholes, and improving tax compliance through dedicated administrative reform efforts and a well-designed digital transformation of tax and customs administrations. These domestic reforms are usually challenging but worth pursuing and should be managed carefully by a strong political leadership. Experiences from several countries shows that increased revenue mobilization is achievable. The medium-term revenue strategy provides a framework to formulate and implement such reforms.

The Fund stands ready to support and contribute to CD and coordination efforts. In addition to providing capacity development to its members, the Fund will continue to contribute to the global tax debate, leveraging its near universal membership and analytical expertise. In this respect, it has generally supported multilateral solutions over unilateral ones (especially where cross-country spillovers of policy decisions are large), favored broad-based principled approaches over ringfenced ones, preferred solutions that reduce tax competition, profit shifting and other spillovers, and called for arrangements adapted to the specific circumstances of developing countries. We would also support the development of principles for effective partner coordination of capacity development efforts.

Contributors: Ruud De Mooij, Katherine Baer, Mario Mansour, Alexander Klemm, Andrew Okello, Shafik Hebous, Christophe Waerzeggers and Cory Hillier

[5] A fuller account of the Fund's engagement on international tax issues—including in the context of the Fund's surveillance and capacity development activities—can be found in Box 1 at pages 6 – 7 of IMF 2023.

[6] See Benitez, Juan Carlos, Mansour, Mario, and others (2023). *Building Tax Capacity in Developing Countries*. Staff Discussion Note SDN/2023/006. International Monetary Fund, Washington, DC; available here: https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/09/15/Building-Tax-Capacity-in-Developing-Countries-535449.