



1st Finance and Central Bank Deputies (FCBD) Meeting

SESSION VII: CHARTING A BOLDER PATH: INTERNATIONAL TAXATION, INEQUALITIES, AND DEVELOPMENT

KEY OBJECTIVES:

- discuss and agree on the priorities and work program for international taxation in 2024;
- consider challenges and members' preferences; and
- define a G20 international taxation agenda above and beyond BEPS negotiations.

Brasília, December 2023

I. GLOBAL ECONOMY OUTLOOK AND RISKS

Inclusive taxation and tax justice are key concerns of our time. Whereas several countries face significant challenges to improve domestic revenue mobilization, tax evasion and base erosion continue to undermine their efforts. Addressing income and wealth inequality, one of the priorities of the Brazilian G20 Presidency, requires a bold international taxation agenda, above and beyond ongoing Base Erosion and Profit Shifting (BEPS) negotiations. To tackle international taxation challenges and use tax policies as a tool to effectively reduce inequalities, it is necessary to put forward an inclusive agenda, counting on the participation of all countries on an equal footing to search for solutions. The technical support of all relevant international organizations, with the participation of leading international researchers and greater involvement of civil society, will be key in this endeavor.

Globalization has increased wealth but also inequality. It has also made it more difficult for the international tax system to avoid double taxation and, at the same time, prevent the erosion of the tax base and profit shifting. It is important to identify how developing countries, using intelligent and efficient tax tools, can attract investments that reduce poverty without this becoming a race to the bottom through the abusive use of preferential tax regimes. Under the Brazilian Presidency, the G20 will debate and develop studies to identify opportunities to reduce inequality through progressive taxation.

Taxation of the digital economy remains an important topic. It has been a key item on the agenda of Finance Ministers' meetings in recent years. However, various stakeholders have insisted that the proposed solutions may have little impact on developing countries, especially those with large markets. Furthermore, the Pillar 1 negotiations still need to be concluded and the implementation of Pillar 2 is not yet complete. The leadership of the G20 will be important to ensure that this progress is monitored and that the concerns of all stakeholders are considered. The solutions implemented should effectively benefit all countries— developed and developing alike.

The challenges associated with the BEPS project and the two-pillar solution are complex and require strengthening capacities for their implementation, especially from developing countries' perspective. The G20 must continue to pay close attention to this need, building on the work of previous Presidencies.

Tax transparency and information exchange must remain high priorities in G20 discussions. This debate should continue to evolve with the development of new tools and increasing effectiveness, thereby contributing to the equity of tax systems without compromising the confidentiality of information.

II. PRIORITIES FOR INTERNATIONAL TAXATION IN 2024

Priority 1: Devising Tax Strategies as Instruments for the Reduction of Inequality

Fighting hunger and reducing inequality are the overarching priorities of the Brazilian G20 Presidency. These priorities create the opportunity for the G20 to commission studies featuring diverse perspectives, with a view to improving national tax systems and considering the potential of international income and wealth taxation. Progressivity in income taxation can be linked to income distribution programs, and specific instruments in consumption taxation have been increasing the access of lower-income households to fundamental goods and services. Although most countries observe the ability-to-pay principle or similar principles, tax systems are often unable to fully meet them. In many cases, large taxpayers, who are expected to make the most significant contributions, often exploit vulnerabilities in tax systems.

Under the Brazilian Presidency, the G20 International Taxation agenda will include discussions around strategies to boost the redistribution of income and wealth through taxation, with the goals of improving domestic revenue mobilization and reducing inequality within and among countries. This agenda will also be connected to resource mobilization initiatives in other workstreams, in particular, the Task Force for the Establishment of a Global Alliance Against Hunger and Poverty.

Priority 2: Continuing the Legacy Work on the Two-Pillar International Tax Package

In recent years, the international agenda on tax issues has focused on addressing the challenges brought by the digitalization of the economy, through the BEPS Inclusive Framework, from which the Two-Pillar International Tax Package originated. This agenda, which took off with the OECD BEPS Report of 2013 and the establishment of the Inclusive Framework in 2016, garnered high expectations from the start. The conclusion of negotiations, which will require implementation through international agreements and specific domestic legislation, must be closely monitored by the G20, including the assessment of the economic and fiscal consequences for all countries involved in the exercise, particularly developing countries.

The leadership of the G20 will be crucial so that, after the conclusion of the negotiations, countries will be able to ratify the Amount A multilateral agreement in a timely manner, implement the Pillar 2 domestic rules in their domestic legislation, and promptly sign the convention for the Subject to Tax Rule (STTR) when requested by developing countries. It is important to highlight the concern of developing countries with the tax base erosion resulting from the use of preferential tax regimes. Therefore, the Brazilian Presidency proposes that the G20 lead the verification of the effectiveness of the implementation of Pillar 2, through which it seeks to establish minimum taxation at a global level to tackle the use of preferential tax regimes.

Furthermore, the proposed rules are complex and will require capacity building and technical support for countries' tax administration authorities. Thus, the G20, under the Brazilian Presidency, will also focus on strengthening developing countries' implementation and management capabilities, so that they can effectively benefit from the two-pillar solution.

Priority 3: Enhancing Tax Transparency

The international tax transparency agenda, which has already been yielding significant results in recent years, must continue to develop new products, focusing on the exchange of information on beneficial owners and real estate properties, and prioritizing the implementation and monitoring of the exchange of crypto asset information through the Crypto Asset Reporting Framework (CARF). In 2024, the Brazilian G20 Presidency is committed to furthering this agenda, building on the legacy of previous Presidencies.

- **Beneficial owner:** The exchange of beneficial owner information is critical in combating money laundering and tax evasion. The G20 will focus on possible ways to facilitate access to relevant information regarding beneficial owners, whether through the exchange of information on request, automatically or through the development of a system that allows the various tax administrations to access information regarding beneficial owners.
- **Real estate:** The Brazilian Presidency will continue the work developed during India's Presidency to improve transparency in real estate properties, through the development of a short-term solution that includes the automated exchange of information and the development of a multilateral agreement between competent authorities, in addition to a long-term solution that involves structural solutions.
- **CARF:** The G20 will seek to complete the implementation of the new automatic exchange on crypto assets, considering the growing relevance of transactions with this type of asset, working on the commitment of relevant jurisdictions, and monitoring this implementation, on a timeline to be defined considering broad support among members, starting in 2027.

Priority 4: Studying the Intelligent and Effective Use of Tax Benefits

Some developing countries have been using tax benefits to attract investments and reduce regional inequalities. However, there is room for improvement in their design, including taking into consideration transparency, the definition of goals, and the measurement and monitoring of results for enhanced effectiveness. It is also important to consider the interaction of these incentives and GloBE rules, so that these incentives do not turn into income transfers from developing countries to developed countries.

The Brazilian G20 Presidency proposes a deep dive into the use of tax benefits. For example, the G20 can commission independent studies on the matter, share experiences, and start work towards best practices. The Brazilian G20 Presidency is particularly interested in creating a platform where countries can share information about recent tax reform experiences.

III. PLANED DELIVERABLES

- A Report on International Taxation and Inequality—to be commissioned from a leading international expert on the matter.
 - A Note on alternatives for revenue mobilization to fund the new Global Alliance Against Hunger—to be commissioned from the IMF.
 - A Declaration on International Taxation and Inequality—to be proposed by the G20 Presidency in consultation with members, civil society organizations, and experts. The declaration will be non-binding and open to the accession of Finance Ministers from the G20 and beyond.
 - A Report on the three key items mentioned under the Tax Transparency agenda (Beneficial Ownership, Real Estate, and CARF).
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IV. QUESTIONS FOR DISCUSSION

1. Do Deputies agree that using tax systems as instruments for the reduction of inequality should be the top priority in 2024? In your view, what are the main domestic and international tools within tax systems to achieve this goal?
 2. What are the views of Deputies on the development/implementation of the two-pillar solution? Do you believe that your country will benefit from it? What are your main concerns? How can the G20 contribute to ensuring that developing countries effectively benefit from the two-pillar solution?
 3. What difficulties do delegates see in exchanging information on beneficial owners, generally and specifically in the case of real estate? What guidance should the G20 provide for the exchange of information on beneficial owners?
 4. What are the difficulties in measuring the effectiveness of tax incentives? What are the challenges in designing tax incentives that are efficient and, at the same time, do not fuel a race to the bottom or make countries indefinitely dependent on such incentives? How to review inefficient tax incentives in the face of domestic political pressures?
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