Supporting Latin America & the Caribbean on International Tax Reform (D2382)

Description:
Multinational enterprises (MNEs) continue to rely on tax planning strategies (Base Erosion and Profit Shifting) to minimize their tax contribution, **reporting low-taxed profit even in jurisdictions with high corporate tax rates, underlining need for global tax reform**.
139 jurisdictions have agreed an international tax reform under the aegis of the OECD/G20 Inclusive Framework on BEPS. The reform, known as the Two-Pillar solution to address the tax challenges arising from the digitalization of the economy, is highly complex and, in order to implement it, requires specialized knowledge and analysis, often not available in IDB borrowing countries.
Not implementing the reform bears an opportunity cost: the amount of tax which would have been otherwise collected. Although detailed estimates require a thorough analysis, **general studies** indicate that the loss would amount to US$ 5 billion per year for the whole region.
The **general objective** of the TC is to provide countries with specialized resources to perform an analysis of the best way forward, given the palette of options provided by the G20-OECD Inclusive Framework on BEPS.
The **specific objectives** are.
1. Provide an estimate of the amount of tax that would be foregone in the absence of an international taxation reform
2. Support borrowing members' governments and parliaments in the drafting of primary and implementing legislation
3. Support countries to perform a in depth review of the tax incentives policy, given that the Global Minimum Tax has a direct incidence over some incentives, and countries may need to change their policies on tax incentives.

Submitted by:
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Status:
Submitted

Category:
Client Support

Tags:
international tax investment climate

Linked Ideas:

Whiteboard:

Team Leader Name
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Alternate Team Leader Name
Alejandro Rasteletti

Has the proposal been discussed and authorized by the responsible sector or country department/division, as applicable?
Yes

Team Leader Responsible Department
IFD

Are there specific countries that will directly benefit from your proposal?
Yes

Mark the specific countries that will be directly benefited from your proposal?
Costa Rica

Dominican Republic

Ecuador

Guatemala

Panama

Paraguay

Peru

Where applicable, describe how the proposal aligns with the respective country strategy (for each country selected)
All IDB countries are affected, because the reform will implement a global minimum tax for multinationals; however, those indicated above have informally approached the IDB to discuss support to analyze pros and cons of the reform and advanced knowledge to design the laws, regulations, and tax administration mechanisms.

Because the global tax reform is relatively new and marked by uncertainty (Pillar 2 was unclear until a few months ago, Pillar 1 is still unclear today), country strategies do not generally recognize the Two Pillar reform. Notwithstanding that, implementation of Pillar 2 will begin on January 1, 2024 in the whole European Union and other selected countries, and the expectation is that, by January 1, 2025, 90% of the world's MNEs will be within scope of the Global Minimum Tax.

Does the proposal align to one or more sector frameworks?
Yes, the proposal aligns with at least one sector framework

Identify and describe how the proposal aligns to the sector framework(s)
Aligning the Corporate Tax to international standards will facilitate FDI and make tax incentives less distortive (Fiscal Sector Framework Document, GN-2831-13, para. 3.13)
Co-ordination with other IOs is key to advance in the design and implementation of tax reform (ibid., para. 4.4)

Select the regional challenges and cross-cutting issues to which the proposal aligns to
Institutional Capacity and Rule of Law

Justify the alignment to each selection above
The proposed TC will enhance revenue collection through better policies and administration.
The indicator will be "Countries with Strengthened Tax and Expenditure Policy and Management"

What is the estimated funding that you need in order to implement this proposal?
570000

Select the expected outputs of this proposal
Project Execution Deliverables (Talleres de Arranque, Supervision Reports, PIU Strengthening, etc.)

Policy Dialogues

Pilot Interventions

Others

Are outputs strictly Knowledge Products?
Describe the motivation and main question(s) this TC intends to answer.
Describe the methodological approach to be used and the type of data (when applicable) which will be used
Please specify the type(s) of Knowledge Product (s) this TC encompasses:
Please provide a brief description of the output(s) selected above (The number of units planned, and the estimated cost). If you selected others, please specify.
Component 1. Policy Dialogue and capacity building. USD 300,000

Toolkits for implementing international tax reform: Handbook on Pillar 2 (Spanish version) in partnership with the OECD, Handbook on Application and Interpretation of Tax Treaties, Workshops on tax treaty negotiation in partnership with UNDP. .... USD 100,000

Train the trainers program .... USD 150.000

Policy Dialogue events ....USD 50,000

Component 2. Direct assistance to countries

Consultants...........................USD 270,000

Outcomes: If the outputs are delivered successfully, what is the change expected (in capacity, knowledge, behavior, etc.)
The outcome is an increase in revenue collection of 3 to 5 billion regionally, and an improvement in the investment climate.

(1) **Attachments**

Help-desk.jpg

1 Comment

Comment by Daniel Fonseca Silva 01/17/2024

The TC should be prioritized and the amount is confirmed, on the basis of the most relevant work to support countries that have expressed demand, as well as countries that will benefit from the sector work from this TC to help enhance the tax administration and support the enabling environment for a uniform treatment that will enable FDI and eliminate distortions.