

## Japan's Inputs to the Secretary-General Tax Report 2023

First of all, we would like to express our appreciation to the Secretariat for giving us the opportunity to provide written input to the “*Secretary-General Tax Report 2023*” (Tax Report).

We would like to make some comments on the Tax Report, which we hope will be helpful for your further work. Also, we expect that there will be another consultation with the UN Member States regarding the draft Tax Report before it is finalized and released.

Based on the concerns that we expressed in the Statement <sup>1</sup> regarding the General Assembly Resolution “*Promotion of inclusive and effective tax cooperation at the United Nations*” (UN Tax Resolution), we would like you to be mindful and avoid the potential risks of proposing a new intergovernmental discussion at the UN to develop an international tax cooperation framework or instrument in the Report, as well as to reflect the concerns raised in this comment. We would also like to propose potential contents to be covered in the Report.

### **1. Potential risks of the Secretary-General Tax Report 2023**

#### ***Duplicative Tax Policy Discussions:***

- ✓ Intensive international negotiations are already underway on the implementation of the two-pillar solution, agreed upon by nearly 140 jurisdictions at the G20/OECD Inclusive Framework on BEPS (IF) in October 2021<sup>2</sup>. Commencement of another intergovernmental discussion at the UN could impede the implementation process of the two-pillar solution, by creating overlaps and confusion with the ongoing discussions at the IF.
- ✓ Since the two-pillar solution addresses the issues arising from the digitalization and globalization of the economy, which are common concerns among all jurisdictions, we all benefit from a more stable and fairer international tax system. Moreover, as shown in the preliminary Economic Impact Assessment of the OECD<sup>3</sup>, implementation of the two-pillar solution would be of great benefit for both developing and developed countries. Particularly, the benefits derived from Pillar 1 are relatively greater for developing countries.
- ✓ Under these circumstances, it would be a great loss for all sides if the process were delayed, including the opportunity cost of potential tax revenues.
- ✓ Also, it is unrealistic for developing countries to devote further resources to discussions at the UN when it is already challenging for them to catch up with the discussions at the IF.

#### ***Inclusiveness of the Existing Forum:***

- ✓ Unlike the UN, whose members are only sovereign states, the IF is structurally more inclusive, comprising 142 jurisdictions including non-state jurisdictions, reflecting the economic and administrative independence of those jurisdictions<sup>4</sup>. Also, IF's doors are open

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<sup>1</sup> See [https://www.un.emb-japan.go.jp/itpr\\_en/kodama112322.html](https://www.un.emb-japan.go.jp/itpr_en/kodama112322.html).

<sup>2</sup> See <https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm>.

<sup>3</sup> See [Webinar: Economic impact assessment of the Two-Pillar Solution - OECD](#).

<sup>4</sup> See <https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf>

to any additional jurisdiction that is not currently participating in the framework.

- ✓ Furthermore, on governance structure, half of the IF's Steering Group seats are secured for developing jurisdictions, and Jamaica and France share the role of co-Chairs<sup>5</sup>. In this sense, the representation of developing countries is fully ensured.
- ✓ Moreover, unlike most UN decision-making processes (i.e., a simple majority rule), decisions at the IF are based on consensus among all members, which is more inclusive.
- ✓ Similarly, the Global Forum on Transparency and Exchange of Information for Tax Purposes (GF) is also quite inclusive, in terms of its governance and membership, with currently 166 jurisdictions participating<sup>6</sup>.

***Lack of Inclusiveness in the Decision-Making Process of the UN Tax Resolution:***

- ✓ In the discussion at the Second Committee on the UN Tax Resolution, the United States proposed an amendment to delete “*including the possibility of developing an international tax cooperation framework or instrument that is developed and agreed upon through a United Nations intergovernmental process*”<sup>7</sup>, and 55 countries have voted “Yes” on the US’s proposal<sup>8</sup>, showing their concerns about the idea to develop an international tax cooperation framework or instrument through an intergovernmental process.
- ✓ Therefore, if the concerns expressed by over 50 countries are not to be addressed, an intergovernmental discussion on tax cooperation at the UN would not be an inclusive forum, taking into account the lack of inclusiveness in the process of the resolution formation.
- ✓ Moreover, if the majority decision-making process is to be introduced in the UN intergovernmental tax discussion, and the voices of the minority are suppressed as a result, we cannot hope that it will constitute an inclusive forum for tax discussion.

**2. Proposed contents which could be covered in the Secretary-General Tax Report 2023**

- ✓ Based on the concerns mentioned above, we would like to propose the following as the “potential next steps”<sup>9</sup> to be covered in the Secretary-General Tax Report 2023:
  - Reflecting the fact that Domestic Resource Mobilization (DRM) is essential to finance the efforts of developing countries to boost their economic development and that there is still room for improvement in their capacity for DRM, indicate how developing countries can improve DRM, which includes implementation of international tax reform, that is to say, implementation of the BEPS and the two-pillar solution agreed upon at the IF.
  - Do NOT recommend commencing a new intergovernmental discussion at the UN, including the establishment of an *ad hoc* intergovernmental committee to develop an international tax cooperation framework or instrument. The UN Expert Committee should maintain its current status as a non-intergovernmental forum. The IF is the most inclusive and appropriate forum to discuss international tax issues, and jurisdictions should continue to be engaged in the discussions at the IF on the implementation of the BEPS and the two-pillar solution.

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<sup>5</sup> See <https://www.oecd.org/tax/beps/steering-group-of-the-inclusive-framework-on-beps.pdf>.

<sup>6</sup> See <https://www.oecd.org/tax/transparency/>

<sup>7</sup> See [A/C.2/77/CRP.2](#).

<sup>8</sup> See [Recorded vote on A/C.2/77/CRP.2](#).

<sup>9</sup> See [A/RES/77/244](#).

- Clearly and accurately describe the process of the adoption of the UN Tax Resolution, in which there were considerable reservations from many Member States over the idea of beginning a new intergovernmental discussion at the UN on international tax cooperation and setting up an *ad hoc* committee to start the discussion on potential Multilateral Convention on Taxation.
- Efforts to strengthen technical assistance and other capacity-building activities should be enhanced, so that low-capacity Member States can follow the international discussions at the IF and implement the two-pillar solution and other international tax standards, which contribute to Domestic Resource Mobilization. The UN can play an important role in this area, in collaboration with other international organizations and bilateral development partners, including through the Platform for Collaboration on Tax (PCT)<sup>10</sup>.

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<sup>10</sup> See <https://www.tax-platform.org/>.