Republic of the Philippines

DEPARTMENT OF FINANCE

Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

HON. ENRIQUE A. MANALO
Secretary
Department of Foreign Affairs

ATTN: **KIRA CHRISTIANNE D. AZUCENA**
Assistant Secretary
United Nations and Other International Organizations

Subject: **DOF's Inputs to the Report in Response to Resolution 77/244 entitled "Promotion of inclusive and effective international tax cooperation at the United Nations"**

Dear **Secretary Manalo:**

This is in reference to the request of the Department of Foreign Affairs (DFA) for written inputs to the report to be prepared in response to General Assembly resolution 77/244 entitled "Promotion of inclusive and effective international tax cooperation at the United Nations."

We respectfully transmit the inputs of this Department attached herewith as Annex A.

We hope that the information contained herein will be of assistance to the Philippine delegation. For any further inquiries/clarifications, your office may email Chief Economic Counselor Zeno Ronald R. Abenoja at zabenoja@dof.gov.ph and Undersecretary Maria Cielo D. Magno at cmagno@dof.gov.ph.

Thank you.

Very truly yours,

BENJAMIN E. DIOKNO
Secretary of Finance

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ANNEX A

Inputs to the UN SG report on the "Promotion of inclusive and effective tax cooperation at the United Nations"

1. We welcome the efforts to call for reforms on international tax policies, however, we wish to **highlight the observation of the suitability to emerging market and developing economies (EMDEs) given high administrative costs in implementing these policies.**

2. In an International Monetary Fund (IMF) Policy Paper on International Corporate Tax Reform, the paper emphasized the need for low-income countries (LIC) to continue using tailored anti-tax avoidance rules. Empirical studies show that LICs are relatively more vulnerable to profit shifting.[1] The following are tailored approaches against base erosion relevant to LICs such as the alternative minimum taxes, safe harbors, limitations to deductibility, offshore indirect transfers of assets, and double tax treaties.

3. In the section of Coordination under Substantive Issues, there are elements in Pillar 1 of the Organisation for Economic Cooperation and Development (OECD) / G20 Inclusive Framework on BEPS that need to be further discussed by countries from the Global South. Pillar 1 applies to "market jurisdictions" which provides the scope of companies limited to those with more than 20 billion euros for the year. In addition, only anything more than the 10 percent margin of these "in scope" will be taxed. This may lead to many large companies avoiding being taxed altogether under Pillar 1.

4. In addition, the minimum corporate income tax of 15 percent which only applies to jurisdictions that host parent companies, head offices, regional offices, branches, subsidiaries- or where a company has physical presence or permanent establishment may still be considered low and inapplicable to market jurisdictions.

5. In this regard, the **discussions at the UN for the reform of the international tax architecture must include all issues on the taxation of international transactions including taxation of the digital economy**. There can be no comprehensive, fair, and coherent international UN tax

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[1] Crivelli, Ernesto, Ruud de Mooij, and Michael Keen, 2016, "Base Erosion, Profit Shifting and Developing Countries, FinanzArchiv / Public Finance Analysis 72(3): 268-301.

convention without a definitive chapter on the taxation of the digital economy. The OECD BEPS has emphasized the need to reform international taxation rules and ensure that multinational enterprises, including digital platforms, pay a fair share of tax wherever they operate. However, there are pending concerns on Pillar 1 and Pillar 2 solutions that countries in the Global South must continue to engage. Specifically, this is on the unevenness of the proposed international tax architecture that prejudices developing countries, and one which seeks to prevent them from imposing taxes on digital platforms.

6. In the immediate work areas, **we suggest the inclusion of a minimum share of governments in the extraction of mineral resources, transfer pricing in the extractive sector, and taxation of services including digital structures or blockchain**.