2024 ECOSOC Special Meeting on International Cooperation in Tax Matters

Keynote address by Mr. Benjamin E. Diokno

As delivered on 18 March 2024, New York

Ladies and gentlemen: good morning. I would like to thank the United Nations Economic and Social Council for devoting its time and attention to this matter of growing international importance.

The latest World Economic Outlook Update by the International Monetary Fund reports that moderating inflation and steady growth are opening up a path toward brighter prospects for the global economy.

Projected global growth is at 3.1 percent in 2024 and 3.2 percent in 2025—slightly higher than the IMF's projections in October 2023. This follows a difficult global economic environment in previous years, worsened by geopolitical tensions, trade restrictions, and the resulting supply chain shocks.

In response, the IMF has called on countries to renew their focus on fiscal consolidation to build resilience against future shocks, raise revenue for new spending priorities, and curb the rise of public debt.

Policymakers now face the challenge of balancing the need for fiscal consolidation, domestic resource mobilization, and investment attraction through effective tax policy.

The global policy trajectory suggests a shift from income taxes to consumption taxes as the preferred revenue source

Table 1: Summary of the tax changes from reforms

	CIT		PIT		VAT	
Period	**Base**	**Rate**	**Base**	**Rate**	**Base**	**Rate**
1990-1999	-45	-50	-73	-30	4	15
2000-2009	-42	-55	-85	-38	-3	3
2010-2018	-30	-25	-13	5	4	18
Total	-117	-130	-171	-63	5	36

Source: IMF

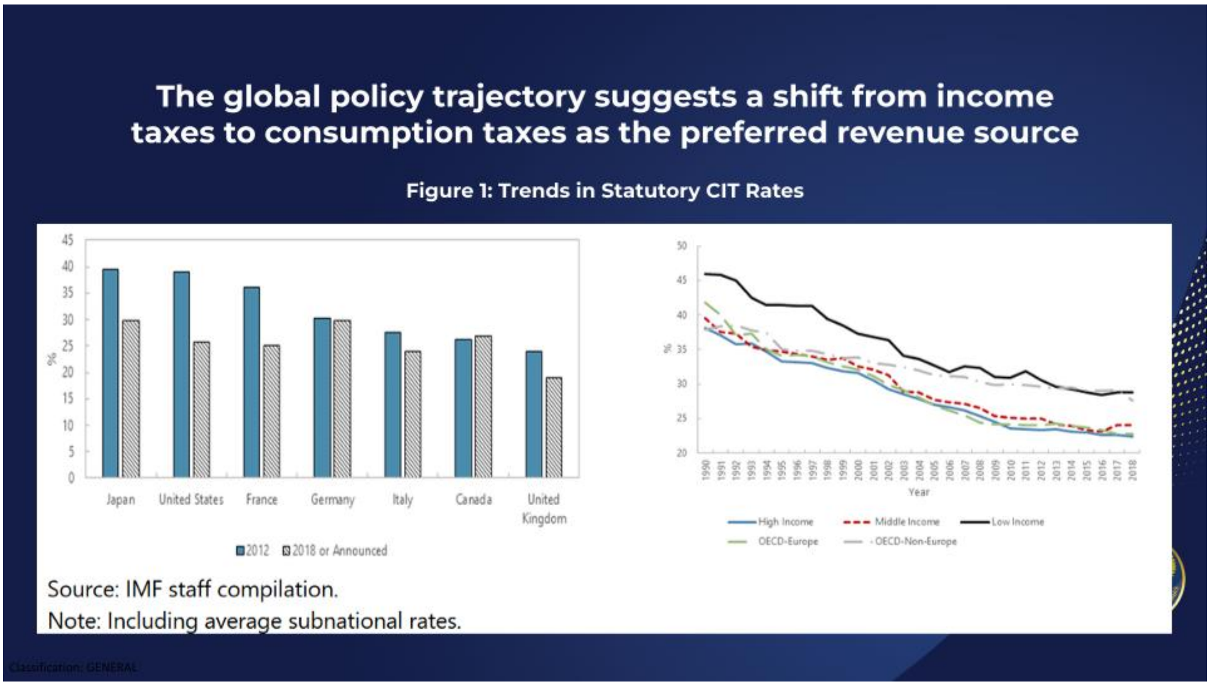
One key area of taxation that must be taken up in global discussions is the growing role of consumption taxes in building effective tax systems.

The global policy trajectory suggests a shift from income taxes to consumption taxes, such as the value-added tax (VAT), as the preferred revenue source of advanced and emerging economies.

Globally, countries have been reducing corporate income tax rates and offering enticing tax incentives to attract more foreign direct investment flows.

This has led to a global “race to the bottom” in corporate tax rates.

Based on the IMF’s Tax Change Indicator, recent trends in tax policy reform indicate that there is a sustained increase in the broadening of the VAT base and an increase in the VAT rate from 1990 to 2018.



An opposite trend is observed covering income-based taxes such as corporate income tax (CIT) and personal income tax (PIT), suggesting a shift in the revenue mix of governments from income to consumption taxes.

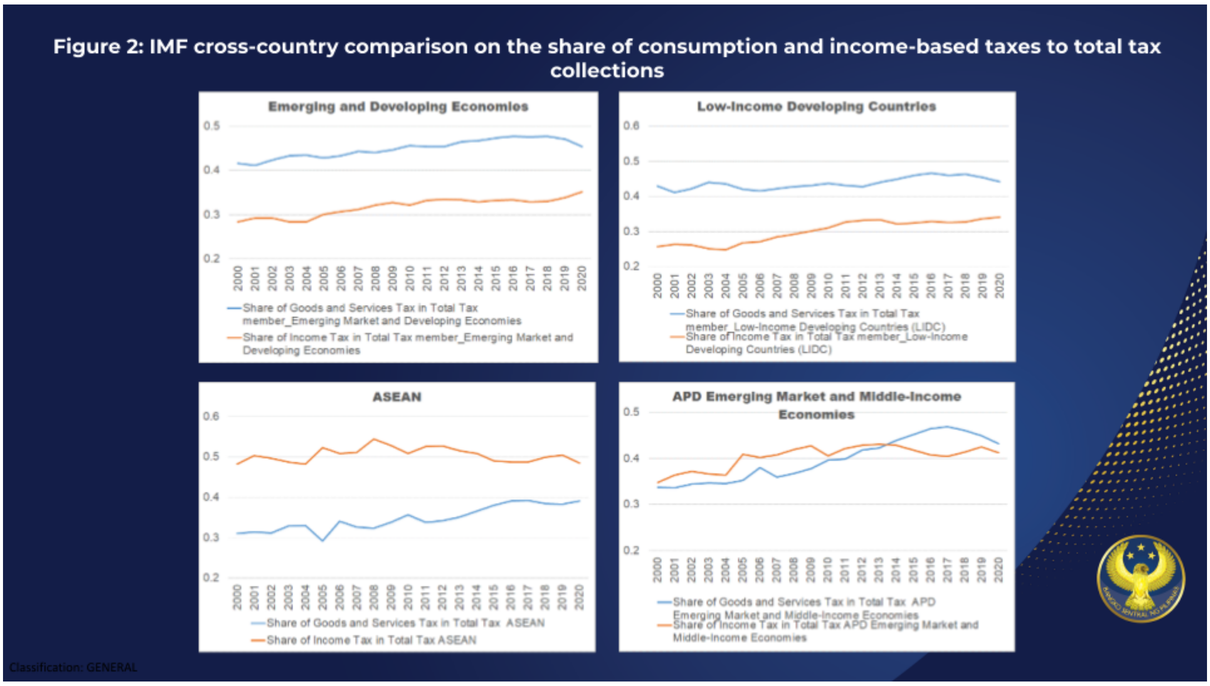
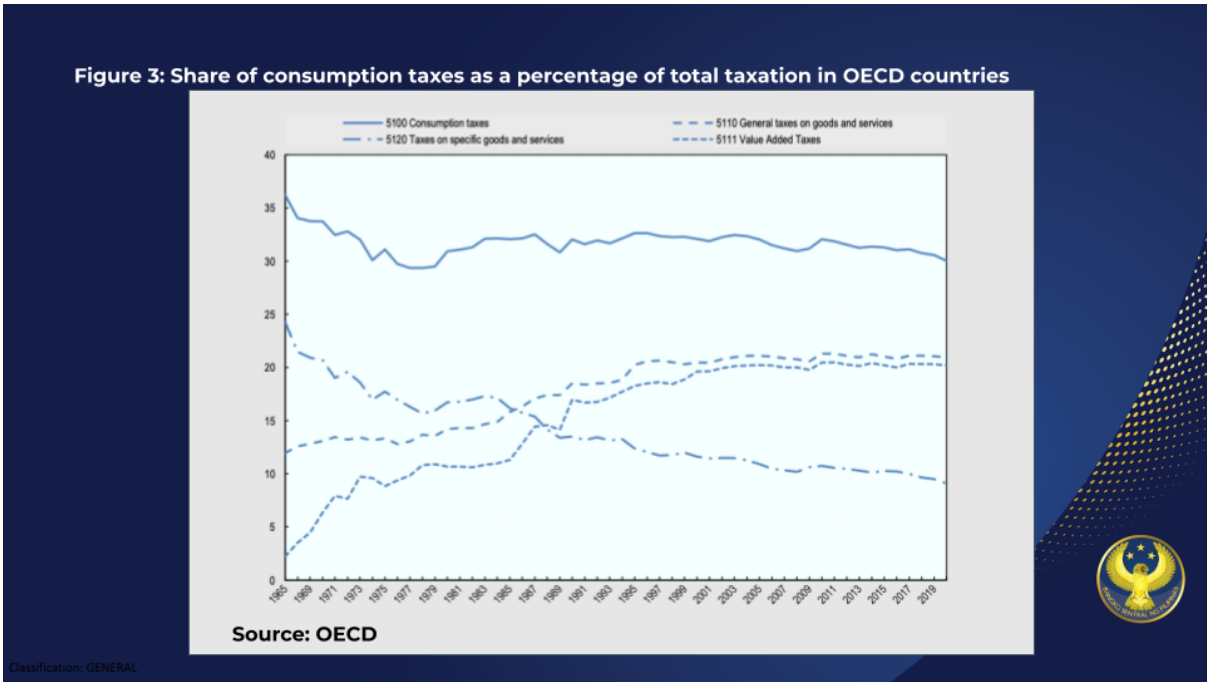


Figure 2: IMF cross-country comparison on the share of consumption and income-based taxes to total tax collections

Furthermore, based on the analysis of the Office of the IMF Resident Representative to the Philippines, while the shift to consumption taxes is not prominent in some economies, the share of consumption taxes in Asia and the ASEAN increased more relative to income taxes over the past two decades.



Between 1965 and 2020, the overall share of taxes on consumption in total taxation fell from 36.2 percent to 30.0 percent in OECD countries. But as percentage of GDP, consumption taxes rose from 8.7 percent in 1965 to 9.9 percent in 2020.

Meanwhile, the share of general consumption taxes to total tax revenue in OECD countries almost doubled between 1965 and 2020, from 11.9 percent to 20.8 percent on average.

In contrast, the share of specific taxes on consumption, such as on tobacco, alcoholic drinks, fuels, and some environment-related taxes, more than halved during that period as consumption of these products may have decreased.

The shift from income to consumption taxes is supported by several reasons:

First, consumption taxes are found to be less vulnerable to the effects of globalization. In a study, the OECD highlighted the need to shift the tax mix away from income taxes toward taxes that have less negative impacts on economic growth, including taxes on consumption. Such a shift in the tax mix can ensure that the tax system becomes more resilient and less vulnerable to the effects of globalization.

As globalization allows income and capital to be more mobile, the tax base of income-based or capital-based taxes becomes more susceptible to erosion, driven by tax structuring.

Second, consumption taxes are more progressive. This indicates that as income increases, households tend to spend a smaller proportion of their income on goods and services from the informal sector, which are not captured in the VAT net or not VAT-able.

In a study based on 32 developing economies published by the Harvard Kennedy School, consumption taxes were found to be more progressive and may lower inequality by around 2 to 3 percent. This is more evident in developing economies as poorer households are able to consume foods through the informal sector, while richer households buy more goods with VAT.

Effectively, this means that higher-income groups spend more on goods and services with VAT.

Third argument: consumption taxes are more neutral than income taxes. Since consumption taxes are based on spending rather than income or wealth, consumption taxes do not directly impact savings or investment decisions. Neither do they influence current or future consumption.

And lastly, consumption taxes are efficient and relatively easy to administer. Consumption taxes are economically efficient in raising tax revenue and its share to GDP tends to be relatively stable over time, even during economic downturns.

Moreover, some consumption-based taxes are easier to administer than an income tax, which typically requires tracking income or expenses that are not easily observable.

This is an important area of discussion that must be tackled in international fora on tax cooperation. The United Nations platform will play a crucial role in harmonizing efforts on this front moving forward.

In December 2023, the United Nations General Assembly passed a historic resolution commencing the development of a UN framework convention on international tax cooperation. This elevates tax discussions to the UN platform, marking an important stride towards effective, inclusive, and lasting solutions to global tax challenges.

Further, the UN platform can build on existing cooperation initiatives and promote more equitable participation of developing economies in tax decision-making and standards-setting.

In order for the UN to make progress via the member state-led, open-ended, ad hoc intergovernmental committee, it must uphold the following principles:

First, the UN must ensure the meaningful participation of emerging markets and developing economies in global tax discussions, especially in areas not adequately addressed by existing multilateral initiatives such as the OECD/G20 Inclusive Framework on BEPS;

Second, capacity building must be accessible to promote peer learning and encourage effective contributions by all stakeholders;

Third, solutions must be cost-effective and easy to implement, with attention to the unique policy contexts and needs of member states, particularly developing economies;

And lastly, the UN must leverage collaboration with existing bodies on international tax cooperation, such as the OECD/G20 Inclusive Framework on BEPS, to achieve its objectives without duplicating efforts.

For its part, the Philippines has continued to demonstrate its commitment to upholding tax fairness and promoting international tax cooperation through various platforms.

Since 2016, the Philippine government has been working on aligning the country’s domestic legal framework with the BEPS minimum standards, with support from development partners, including the OECD and the Asian Development Bank.

During my tenure as Secretary of Finance, the Philippines formalized its participation in the OECD/G20 Inclusive Framework on BEPS. We also signified our intention to join the Outcome Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy.

At the regional level, the Philippines joined the Asia Initiative in early 2023. The Asia Initiative was launched by the Global Forum on Transparency and Exchange of Information for Tax Purposes with the aim of enhancing the implementation of international tax transparency standards.

Several tax measures are being pursued by the national government to boost revenue generation, finance development, reduce friction costs for investments, and align the country with global best practices.

These include the imposition of VAT on foreign and local digital service providers, reforms to passive income and financial intermediaries taxation, and improvements to the real property valuation and assessment system.

In closing, it is evident that significant efforts have already been made towards improving tax cooperation at the local, regional, and global levels.

With the United Nations' broader membership, we now have an excellent opportunity to develop a more comprehensive and genuinely inclusive framework for global tax governance. Our discussions today will be an important force to drive this movement forward. Thank you.

###