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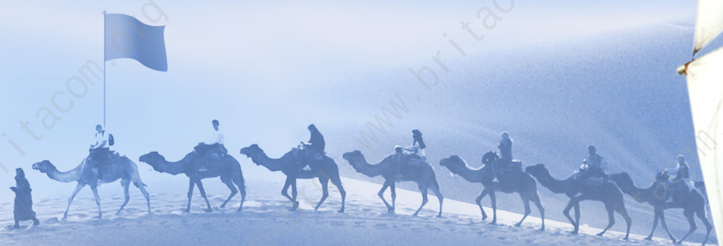

Recent Reforms on
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BRITACOM
BELT AND ROAD INITIATIVE TAX ADMINISTRATION COOPERATION MECHANISM

Tax Policies Supporting Growth and Sustainable and Equitable Development in Post-COVID Economic Recovery Period

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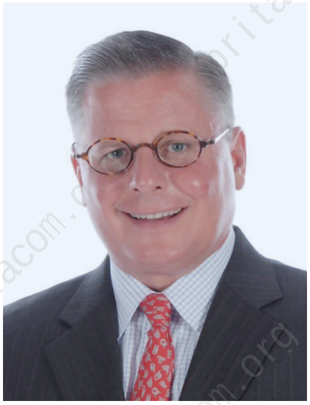

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Abstract: As the pandemic begins to ease in some places, the support made available to individuals and businesses should be gradually phased out and replaced by spending to encourage economic growth and employment. While businesses and individuals are recovering from the problems caused by the pandemic, revenue from corporate and individual income taxes may be reduced. Additional tax revenues can however be gained from improved taxation of the digital economy and the opportunities to identify undisclosed income sources arising from agreements for the exchange of tax information.

Jurisdictions must modernise tax administration to improve taxpayer compliance and reduce the size of the informal and shadow economies. Modernisation and digitalisation of tax administration can significantly improve tax collection. Using the dialogue process under BRITACOM, the

BRI jurisdictions can benefit from the experience of other developing jurisdictions and receive technical support to improve tax administration and collection.

Tax incentives could be used to encourage businesses to invest in the digital and green energy sectors. These incentives should be specifically framed and targeted to achieve the maximum effect and monitored to ensure that they continue to achieve the required goals.

Keywords: Tax policy; Tax incentives; Tax administration; Environmental taxes; Developing jurisdictions; BRI

1. Introduction

1.1 Fiscal Challenges from the Pandemic

The economic crisis resulting from the COVID-19 pandemic has been a setback to progress towards basic development goals. Many jurisdictions were not on target to achieve the Sustainable Development Goals (SDGs)[1] by 2030 even before the pandemic. Current research shows that the economies of low income developing jurisdictions are falling further behind following the recession caused by the pandemic, while upper income jurisdictions are on the path to economic recovery.

The IMF estimates that an amount of around US$200 billion is needed to step up the spending response to the pandemic. This is calculated to be US$180 billion as the direct response, while a further US$20 billion is needed to rebuild or maintain external buffers. The IMF paper also estimates that an additional US$250 billion in investment spending would accelerate convergence with advanced economies. Further, the paper estimates that if risks identified in an adverse scenario actually materialize, this requires a further US$100 billion in spending.[2]

Low and lower middle income jurisdictions therefore have to tap a number of sources to find the massive amounts of funding needed. Development assistance will be forthcoming from advanced economies, and from China[3] and some other jurisdictions that have achieved remarkable economic growth in recent years. However, the bulk of such funds must be generated through domestic revenue mobilization (DRM) and from private investment.

1.2 Balance between Revenue Needs, Fiscal Prudence and Reviving the Economy

Developing jurisdictions have important policy choices to make in relation to resuming long-term growth and generating more tax revenue. While increased DRM is essential, measures must also be taken to support greater mobilization of private investment capital both from within and outside developing jurisdictions. More progress can be made in many jurisdictions if broad domestic reforms are introduced. Further, most low income developing jurisdictions will also need support from the international community. The reform agenda required from developing jurisdictions must give priority to encouraging economic growth; strengthening domestic resource mobilization; promoting more efficient public spending; and improving the climate for private investment.[4]

Many lower income developing jurisdic-

1 The 2030 Agenda for Sustainable Development was adopted by all UN member countries in 2015. The 17 Sustainable Development Goals are a call to promote prosperity, build economic growth and address a range of social needs, while tackling climate change and environmental protection.

2 IMF (2021). *Macroeconomic Developments and Prospects in Low-Income Countries—2021*, https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/30/Macroeconomic-Developments-and-Prospects-In-Low-Income-Countries-2021-50312.

3 World Bank (2021). *China Overview*, https://www.worldbank.org/en/country/china/overview#1.

4 IMF (2021). *A Post-Pandemic Assessment of the Sustainable Development Goals*, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076.

tions and emerging market economies have a low tax-to-GDP ratio. By making appropriate policy changes and collecting more tax revenue, these jurisdictions can increase government resources over time. Increases in domestic tax revenue can only be introduced when a jurisdiction's economy is entering a solid period of post-pandemic economic recovery.

2. Tax Policy during the Crisis

2.1 Support Packages

Fiscal packages introduced during the crisis have included loan guarantees, job retention schemes, direct transfers, expanded access to benefits and tax measures. Many of the tax measures have aimed to reduce unemployment; help companies over a temporary inability to pay suppliers or creditors; and prevent business closure or bankruptcy.

Jurisdictions have also introduced tax measures to support households, combined with direct transfers and expanded access to social benefits which have often played a greater role. Many of the tax measures introduced in the first period of the crisis have been extended and better targeted.[5]

2.2 Recovery-oriented Measures

As lockdowns have eased, governments have begun to introduce recovery-oriented tax measures, including corporate tax incentives for investment and reduced VAT rates targeted at sectors that were worse affected. Many of the jurisdictions in the Asia-Pacific region for example have begun to introduce more stimulus-oriented tax measures.

As jurisdictions begin the period of economic recovery, they could improve the targeting of emergency relief and implement recovery-oriented tax measures. The extent of the recovery is varying greatly among jurisdictions, sectors and households, owing to differences in the pace of vaccinations and to the relative economic position before the crisis began. Low income households, women and young people have borne higher economic costs, so policies will need to support these groups and create incentives for their employment and re-training. The most vulnerable individuals and weakest industrial sectors must continue to be supported as further revenue-raising measures are introduced. Some industrial sectors hardest hit by the pandemic, e.g., tourism, will need further support and should not be disadvantaged by the revenue-raising measures.

To improve public finances, an increasing number of jurisdictions have introduced or announced new tax increases. Some of these represent a continuation of earlier trends, such as increases in fuel excise duties and carbon taxes; and jurisdictions have also introduced tax increases on high income earners, including increases in the highest individual income tax rates. Jurisdictions could consider making individual tax rates more progressive, so that those who can afford to pay the taxes are the ones bearing their fair share of the burden.

3. Tax Policy Recommendations for the Recovery

3.1 Overview

Some tax measures to stimulate economic recovery should be temporary and targeted at the areas where equity requirements and fiscal multipliers are highest. Jurisdictions may need to set clear end-dates for these measures. The stimulus measures should be targeted at areas where they are most likely to generate additional consumption and investment.

Priority should also be given to measures supporting labour market recovery and business re-capitalisation. Temporary and targeted reductions in employer social security contributions could be useful for this purpose. Tax measures to support business re-capitalisation could include temporary schemes such as an exemption for

5 OECD(2021). *Tax Policy Reforms 2021,* https://www.oecd-ilibrary.org/taxation/tax-policy-reforms-2021_427d2616-en.

profits retained in a capital reserve aimed at rebuilding equity. These schemes could be capped and targeted at small and medium enterprises (SMEs) with provisions to prevent abuse.

Tax stimulus measures introduced to help the recovery should be aligned with longer-term environmental and social objectives, such as targeted support for green technologies and greater carbon pricing efforts. After the crisis there will be an opportunity for jurisdictions to undertake a more comprehensive re-assessment of their tax and spending policies and their fiscal framework. This should take account of ongoing structural trends, including climate change, rising inequalities, digitalisation and demographic factors.

While revenue raising measures are essential, it will also be important to ensure that the conditions are right to encourage further mobilization of private capital. This does not mean that more tax incentives are necessary; rather, better administration, reductions in compliance costs and more certainty are likely to improve the conditions for both domestic and foreign private investment.

3.2 Taxation of Digital Services

3.2.1 The broad challenges

Unilateral approaches to taxing foreign digital services include VAT/GST changes to tax digital users as customers; imposition of income tax on foreign digital companies as suppliers; or imposing withholding tax on payments. Another possibility is a tax on digital access or toll tax imposed on the digital companies as customers.

Income within the scope of the unilateral digital service taxes (DSTs) varies greatly from one jurisdiction to another. The scope of a unilateral DST often covers digital services such as sale of data derived from the users; revenue from advertising; activities of intermediaries; and sale of digital content.

An important issue is whether the tax falls within the scope of a tax treaty. This can be a problem because some DSTs are presumptive taxes based on a percentage of turnover. Additional work on the treaty aspect is thus a matter that should be considered going forward.

3.2.2 Issues for developing jurisdictions

One issue for developing jurisdictions introducing a digital service tax is the identification and registration of taxpayers. Simplified registration regimes are therefore being introduced to lower compliance costs. The tax administration needs to identify the level of online traffic and the number of users, which requires the commitment of more resources. The domestic law must define the scope of the tax including the items to be covered, and there must be a way of defining the amount of digital service revenues subject to the tax.

Multinational enterprises (MNEs) are already challenging amounts due, using the relevant double tax treaties. Developing jurisdictions must overcome the challenge of treaty disputes.

3.2.3 OECD/G20 initiative

Jurisdictions are moving towards a consensus-based global solution to taxation of the digital economy under the guidance of the OECD/G20 initiative. The Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy, colloquially known as BEPS 2.0, was signed on 8 July 2021.[6] The measures set out in the Statement were endorsed by the G20 leaders at their summit on 30 October 2021.

Pillar One is intended to achieve a fairer distribution of profits and taxing rights among jurisdictions in relation to the largest MNEs. Some taxing rights over MNEs will be re-allocated from their home jurisdictions to the market jurisdictions where they have business operations and earn profits, even if they do not have a physical presence there.

6 OECD (2021). *Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalisation of the Economy*, https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-july-2021.pdf.

Pillar One would apply to MNEs whose global turnover is more than EUR20 billion and with profitability above 10% (measured as profit before tax divided by revenue). Under the agreement, 25% of the profit above the 10% threshold is to be allocated to the market jurisdictions. The turnover threshold is later to be reduced to EUR10 billion, provided there is successful implementation of the provisions. A review is to take place seven years after the agreement comes into force.

The "nexus" rule will permit the allocation of an amount (Amount A) to a market jurisdiction if an MNE obtains at least EUR1 million in revenue from the market jurisdiction. For jurisdictions whose GDP is lower than EUR40 billion the nexus is to be set at EUR250,000. Dispute prevention and resolution mechanisms are to be put in place to avoid double taxation for Amount A. Extractives and regulated financial services are excluded from the Pillar One provisions.

Pillar Two provides for a global minimum corporate tax at a rate of 15%. The minimum tax is to be applicable to MNEs with revenue above EUR750 million. An Income Inclusion Rule (IIR) will operate to impose a top-up tax on the parent entity in relation to the low taxed income of a constituent entity of the MNEs. An Undertaxed Payment Rule (UTPR) will deny a tax deduction or require an equivalent adjustment where the low tax income of a constituent entity is not subject to tax under the IIR. A treaty-based Subject to Tax Rule (STTR) would permit source jurisdictions to impose some source taxation on certain related party payments that are subject to tax below a minimum rate. The interaction between the new rules and the US global intangible low taxed income (GILTI) legislation is still to be worked out in detail.

A multilateral convention to give effect to the agreed reforms is to be signed by jurisdictions during 2022, with effective implementation in 2023. The convention will allow implementation of the new taxing right under Pillar One and will include provisions for the suspension and removal of existing unilateral Digital Service Taxes and similar unilateral measures. Model rules to bring Pillar Two into domestic legislation will be developed during 2022, to be effective in 2023.

A global solution would avoid the problems arising from unilateral measures and would therefore avoid the risks of tax uncertainty, double taxation and possible retaliatory measures. The interests of developing jurisdictions have been raised through participation in the Inclusive Framework on base erosion and profit shifting (BEPS). The international consensus solution needs to be implemented in a way that is easy to administer and consistent with current internationally accepted rules and principles including neutrality and efficiency.

Under an agreement with the US, some European jurisdictions including the UK, France and Italy will withdraw their unilateral digital service taxes when the OECD proposals on Pillar One take effect. In the interim period before the OECD proposals take effect, a tax credit will be available to taxpayers if the amount of digital service tax in a period exceeds the amount that would have been payable under the Pillar One proposals if they were in force. The US has agreed to drop its proposed trade actions in relation to the unilateral digital service taxes until the end of the interim period.

3.2.4 UN Model Treaty — proposed Article 12B

A new Article 12B, relating to income from automated digital services, has been approved for inclusion in the UN Model Tax Convention. Under Article 12B the source state is given the right to tax income from automated digital services where it arises. The maximum rate applicable is to be determined by negotiation between the contracting states. Under paragraph 3 the beneficial owner of the income could choose to be taxed on qualified net profits from automated digital services at the domestic rate of tax in the source state. The definition of qualified profits for this purpose is 30% of the amount resulting from applying the taxpayer's profitability ratio to the gross annual revenue from automated digital services in the source state. The definition of automated digital services includes services provided through the internet or electronic networks where there is minimal human involvement by the service provider.

Withholding tax is important for developing jurisdictions because it is cheap to administer; and is less subjective to abuse than profit-based taxation.

3.3 Measures to Combat Base Erosion and Profit Shifting

In relation to international tax issues, developing jurisdictions should reduce opportunities for base erosion and profit shifting. Corporate tax avoidance can only be effectively combated through international cooperation. Tax avoidance strategies of MNEs give rise to a significant loss of revenue for developing jurisdictions when the MNEs engage in base erosion and profit shifting through the use of low tax jurisdictions, transfer mis-pricing and other strategies.

The aggregated MNE country-by-country reporting recommended in the OECD's report on Action 13 of the BEPS Action Plan has revealed more information to suggest that corporate tax planning strategies are leading a mis-alignment between the location of reported profits and the jurisdictions where the economic activities are carried out.

Statistics indicate that high and middle income jurisdictions account for a higher share of employees (32% and 37% of total employees) and tangible assets (35% and 23% of total tangible assets) than of profits (28% and 18% respectively)[7]. In jurisdictions where the corporate income tax rate is zero, the revenue earned per employee is generally higher. In the case of investment hubs the reporting by MNEs showed a high share of their profits in these jurisdictions (25%) compared with only 4% of employees and 11% of tangible assets. The main activity of the multinationals in the investment hubs is given as holding shares or other equity instruments, which could be a risk factor indicating tax planning arrangements. On the other hand, some investment hubs do play an important role in mobilizing private investment capital; the goal in policy reforms should be to preserve these benefits while seeking to reduce the potential for investment hubs to be used to avoid or evade taxes.

Developing jurisdictions can therefore benefit by committing to the minimum standards on countering harmful tax practices; countering tax treaty abuse; the three-tier transfer pricing documentation (local file, master file and country-by-country reporting) and improving dispute resolution mechanisms. Many developing jurisdictions have signed the multilateral instrument (MLI) to implement tax treaty related BEPS measures in their own bilateral tax treaties, speeding up the process of modernising their tax treaties to combat profit shifting.

3.4 Excise Taxes

Excise taxes can raise tax revenue while encouraging behaviour that is in line with sustainability, health and other public policy goals. The tax revenue collected from excise taxes has been rising during the past decade, especially in the least developed countries (LDCs). Fuel duty can encourage the reduction of carbon emissions and raise considerable government revenue. Other excise duties that can raise substantial revenue are financial transaction taxes, such as stamp duty and an electronic money transfer levy. Some jurisdictions have imposed excise duties on telecommunications services.

Significant revenue can be raised from excise taxes on tobacco and alcohol, and in recent years taxes on sugary beverages have been introduced to promote public health and also raise further revenue. Currently 74 jurisdictions have introduced a tax on sugar-sweetened beverages. However, there is a need to carefully consider policy goals, market realities and the administrative capacity of jurisdictions in placing further

7 IMF (2021). *A Post-Pandemic Assessment of the Sustainable Development Goals*, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076.

reliance on excise revenues.

3.5 Environmental Taxation

3.5.1 General

It is now broadly accepted that jurisdictions need to build greener economies to achieve a more sustainable and inclusive recovery. Climate change is already leading to rising poverty, the spread of disease and food insecurity in low income jurisdictions. The IMF has estimated that a policy mix introducing carbon taxes and incentives for green investment could increase global GDP by around 0.7% in the next 15 years, creating around 12 million additional jobs by 2027.[8] Increases in green investment resulting from a favourable investment climate could lead to more earnings for businesses and higher tax collections.

Taxation plays an important role in environmental protection. On one hand, taxation can be used as an incentive for environment-friendly behaviours. For example, corrective taxes such as the carbon tax can internalize the negative externality associated with greenhouse gas emission and help bring emissions to a socially optimal level. Such taxes can be adapted to internalize the full cost of environmental pollution effects, and to incentivize adoption of environment-friendly products like electric vehicles. Further, these taxes raise revenues that can be used to finance environmental projects and subsidize environment-friendly technology such as solar power.

On the other hand, reform and/or removal of tax expenditures such as income tax incentives and accelerated depreciation, as well as direct subsidies on fossil fuels industries, can help achieve environmental policy goals. Income tax arrangements such as credits for purchases of electric vehicles, accelerated depreciation for plant and machinery that help reduce greenhouse gases, targeted tax expenditures for environmentally sensitized infrastructure, etc. can also support environmental policy goals.

Low and medium income jurisdictions should consider reform of tax systems to ensure that activities with negative environmental impacts are discouraged, and positive behaviours are encouraged. It should also be borne in mind that these reforms can have different impacts on different jurisdictions, sectors, and groups of people, and such differences incur political and economic challenges that national governments and international organizations must address. It is especially important to ensure that environmental tax reforms do not create new inequality.

3.5.2 Carbon pricing and taxes

It is now generally considered that carbon pricing is the most cost-effective method of reducing carbon emissions. Carbon pricing creates incentives for households and businesses to shift towards greener options because the alternatives become more expensive when priced to take emissions into account. This makes green investments more attractive and levels the playing field between renewable energy and fossil fuels.

Although Asia currently produces almost half of the world's carbon emissions, IMF research indicates that a progressive carbon price that rises steadily from a low base could help Asian jurisdictions reach their goals under the Paris Climate Agreement[9] in the next 10 years. Carbon pricing is however a complex issue and there are a number of competing approaches possible. This issue should therefore be studied in parallel with more immediate approaches such as use of excises and road tolls that will yield short-term revenue.

Carbon taxation should be considered as a way to combat global warming and at the same time raise more tax revenue. Jurisdictions need to show stakeholders that the tax reforms are in their own interest. Carbon taxes can raise substantial government revenues, which could be used to increase public investment in health,

8 IMF (2021). *A Post-Pandemic Assessment of the Sustainable Development Goals*, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076.

9 UN. *The Paris Agreement*, https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

education, and skills re-training, in addition to supporting households.

3.5.3 Example: China

China's national carbon emissions trading system for the power sector began operation in 2021 with the gradual transitioning of existing regional emissions trading system (ETS) pilots into the national scheme. The scheme sets limits on emissions relative to a firm's energy output instead of imposing a cap on total emissions. The system is supported by reporting and verification of emissions data from emission-intensive sectors; the development of a national registry; the national enterprise greenhouse gas reporting system; and establishment of the legislative and regulatory framework.

The IMF has suggested that the coverage of the system could be increased by moving to a cap on total emissions; gradually adopting more challenging targets; tightening compliance; extending the system to other sectors; and raising revenue from the allocations, for which there is currently no charge.[10]

3.5.4 Other tools to lower emissions

Other tools that could be used by jurisdictions to help meet climate goals include "feebate" schemes that aim to reward efficient practices and discourage high-carbon activities. These could be combined with stronger regulation of emissions and energy efficiency.

Regulatory instruments can be used to encourage the diffusion of particular technologies, for example, the use of recycled products can be facilitated by relabelling by-products of steel production from "waste" to "product". A circular economy can be encouraged by the use of minimum content requirements.

3.5.5 Stronger international cooperation on environmental measures

Reaching agreement on differentiated carbon price floors is one important area for international cooperation. The international community also needs to make available the climate finance and technology transfers needed by developing economies to increase their efforts to reach climate goals. International cooperation is also needed to increase transparency by improving the quality of climate disclosure. Jurisdictions also need to harmonize global green finance standards and share best practices.

3.6 Tax Administration

3.6.1 General

Jurisdictions need to modernise tax revenue administration to improve taxpayer compliance and collect tax revenues from sectors that are currently hard to tax, so the size of the informal and shadow economies can be reduced. A detailed analysis of the potential for revenue growth and improvement of the tax-to-GDP ratio was undertaken in a previous issues paper from the International Tax and Investment Center.[11]

That paper argued that tax administrations in developing jurisdictions have focused the bulk of their resources on measures aimed at large taxpayers in the formal sector. Research has shown that while reformed revenue agencies appear to be quite impressive and influential organisations, they have not led to significant increases in revenue collection.[12] The paper argued that returns from these investments had started to diminish, and tax administrations should consider if resources could be better employed in other areas. It would appear that some of those considerations are still valid, and more effort should be applied to bring the informal sector into the tax net, especially through the use of emerging mobile technologies and a growing fintech sector.

10 IMF (2021). *A Post-Pandemic Assessment of the Sustainable Development Goals*, https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2021/04/27/A-Post-Pandemic-Assessment-of-the-Sustainable-Development-Goals-460076.

11 David Hartnett and Hafiz Choudhury (2014). *Tax Administration Priorities in Emerging and Frontier Markets*, https://www.iticnet.org/s/TaxAdministrationPrioritiesInEmergingAndFrontierMarkets.pdf.

12 Moore, M., *Revenue Reform and State Building in Anglophone Africa*, ICTD Working Paper 10, London, May 2013.

3.6.2 Digitalisation of tax administration procedures

The move to remote working during the pandemic has created challenges for the normal operations of tax administrations. In this period the tax administrations have had difficulties in dealing with documents such as letters and forms; field audits; communication with taxpayers; and systems maintenance. Also, the tax administrations had to take on additional tasks in providing financial and other support to individuals and businesses in the pandemic.[13]

It has become clear that the digitalisation of tax administrations can significantly help in dealing with the crisis. Tax administrations have been moving many of their processes online in recent years, replacing in-person communication with virtual or digital communication, and the pandemic has reinforced this trend. The changes in terms of adjusting to a remote working environment and developing new digital services have been challenging and carried certain risks in relation to the security of data.

The urgent need to support individuals and businesses in the pandemic has required tax administrations to adapt their existing IT project development practices, with many adopting flexible project development methodologies. The experience gained during the crisis has influenced the future strategies of tax administrations and their methods of engagement with taxpayers. A number of tax administrations are preparing to make additional changes to increase the resilience of their IT systems to prepare for future crises.

Tax laws and regulations need to take into account the capacity available to the tax administration. Otherwise effective tax laws may be difficult to implement if they require resources that are beyond the reach of tax administration. For this reason jurisdictions need to consider simplified systems such as presumptive taxes that can bring more taxpayers into the system while remaining relatively cheap to administer.

3.6.3 Example: Pakistan

Pakistan is implementing reforms to tax policy and revenue that it is estimated could increase the tax to GDP ratio by more than 3 percentage points over a four-year period.[14] Legislation had already been introduced before the crisis to strengthen transfer pricing rules, require country-by-country reporting by multinationals and allow for greater exchange of information with other jurisdictions.

The tax reforms would include broadening the tax net to include more individuals and businesses. Pakistan has historically had the problem that a relatively small proportion of the population is actually within the tax net, a situation that has been tackled over the years using presumptive taxes for small businesses and other measures. In the 2021 budget the Finance Minister has proposed changes to tax audit procedures to ensure fair treatment of taxpayers and a sales tax system for small businesses is to be introduced.

4. Building a Stronger Economy

4.1 Achieving the Sustainable Development Goals while Building back Better from the Pandemic

Since March 2020, governments throughout the world have spent around US$16 trillion to support businesses and individuals through the pandemic.[15] Deficits are at their highest level since 1945, but the liquidity provided by the central banks prevented the recession in 2020 from getting worse. Investment now needs to be channelled to new ideas and businesses, and governments should monitor the labour market and provide support for job seeking and

13 OECD (2021). *Tax Administration: Digital Resilience in the COVID-19 Environment.*

14 World Bank. *Pakistan Raises Revenue,* https://www.worldbank.org/en/news/factsheet/2019/11/18/pakistan-raises-revenue-prr.

15 UN. *Financing for the Development in the Era of COVID-19 and Beyond Initiative (FFDI),* https://www.un.org/en/coronavirus/financing-development.

re-training to help workers return to jobs in more dynamic sectors of the economy.

The competition authorities need to tighten their enforcement of merger control, ensuring that the criteria used to determine deals to review should cover all the relevant cases including those where a small enterprise could grow to compete with dominant firms. The competition authorities should also actively enforce prohibitions on the abuse of their position by dominant firms in the market. A market investigation could reveal harmful business practices even if there is no reported breach of the law.

There should be more effort to ensure competition in input markets, such as the labour markets. Rules to prevent "no poaching" pacts between firms could improve competition. The authorities should note that "non-compete" clauses in some retail job contracts present difficulties for employees to make a move to better-paid jobs.

Competition authorities also need to keep pace with the digital economy, where the use of big data and artificial intelligence are allowing the dominant firms to increase their advantages in the market. The facilitation of data portability and compatibility of systems could allow new firms to better compete with the more established firms.

Investment may be required to increase sector-specific expertise at a time of fast technological change. An example is the Digital Markets Unit in the UK that is to supervise the behaviour of dominant digital platforms.

The monetary and fiscal stimulus still being provided in the pandemic can become a springboard to a more sustainable economy rather than just a support helping firms to survive the crisis. Comprehensive growth-enhancing reforms affecting product, labour, and financial markets could increase annual growth of per capita GDP by more than 1 percentage point in emerging market and developing economies over the next ten years.[16] The developing jurisdictions could then greatly increase the speed of their convergence with living standards of advanced economies by comparison with the pre-pandemic period. Reforms could be carried out with the help of recovery spending to achieve greater prosperity.

Higher growth assisted by appropriate reforms could help advanced economies to reduce the amount of debt taken on when providing support in the pandemic. Economic growth would create fiscal space for greater investment and would reduce the need to improve government finances by raising taxes. Reforms to target the supply-side can achieve growth without increasing the inflationary risks from increased demand arising from policies in some jurisdictions such as the United States.

Reforms can strengthen the economic position of emerging market jurisdictions and increase investor confidence. The low income jurisdictions that find themselves without enough policy space for the required spending could use the returns from growth-oriented reforms to avoid fiscal austerity, protect social and health spending and increase their capacity to invest in their human capital.

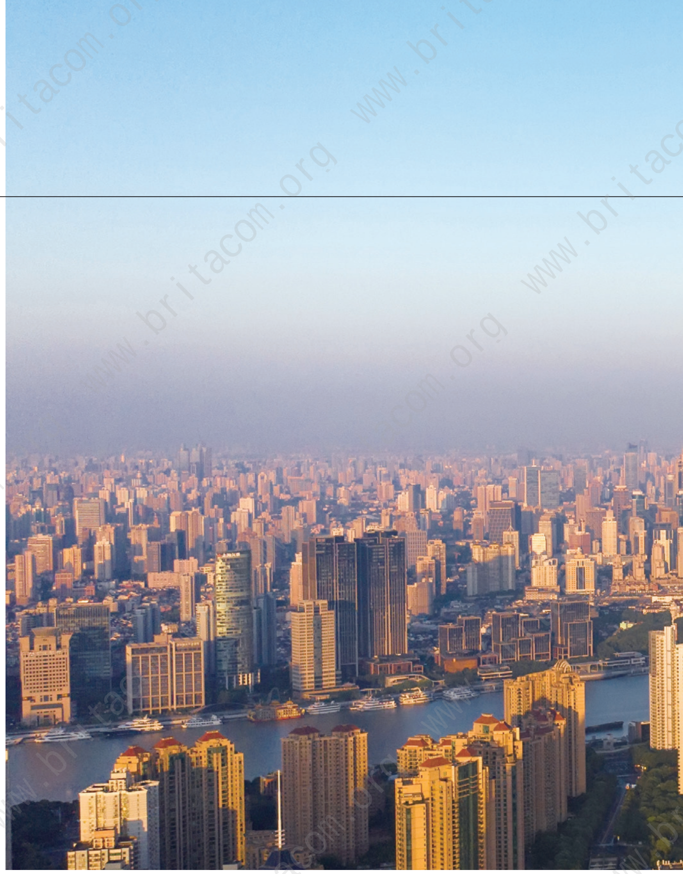
4.2 The SDGs and South-South Economic Cooperation — the Role of BRI

The BRI offers opportunities to participating jurisdictions to learn from each other in developing its economy and transitioning to a major economic player. The BRI provides a further opportunity for developing jurisdictions to make use of foreign investment to build up their infrastructure, including digital infrastructure, and their productive capacity. The improvements can help developing jurisdictions to further integrate themselves into regional and global supply chains.

The BRI can lead to shared development among developing jurisdictions, for example,

16 World Bank (2021). *Global Economy to Expand by 4% in 2021; Vaccine Deployment and Investment Key to Sustaining the Recovery*, https://www.worldbank.org/en/news/press-release/2021/01/05/global-economy-to-expand-by-4-percent-in-2021-vaccine-deployment-and-investment-key-to-sustaining-the-recovery.

through the creation of corridors through which trade can flow and in which infrastructure can be upgraded to assist the flow of goods. In this way a jurisdiction's infrastructure development can be compatible with that of neighbouring jurisdictions and assist them by speeding up the flow of goods through a trade corridor or along a sea route. Physical and digital development and upgrades can assist a jurisdiction and indirectly benefit its neighbours by improving the stability of regional supply chains.



4.3 The Role of Tax Rules in Fostering Capital Formation and More Efficient Allocation of Capital

In general terms an efficient allocation of capital is made possible by a neutral tax system that does not encourage behaviour that could cause capital to flow to sub-optimal purposes. The right climate for savings and investment is created by political and economic stability, strong institutions of government, consistent policies and good governance.

The first step in capital formation is to ensure that the levels of creation and mobilisation of savings and levels of investment are sufficiently high. These can support the necessary projects to improve infrastructure, ensure that the necessary plant and equipment are available and thereby raise productivity. A jurisdiction requires strong savings and investment institutions that can promote confidence in their reliability and therefore encourage savings.

Tax incentives can encourage saving but they must be sufficiently effective in achieving their objective to justify the tax expenditure on the relief, given the urgent revenue needs of jurisdictions following the pandemic. Appropriate tax incentives can be framed specifically to apply only to the type of savings behaviour where the incentives are designed to encourage.

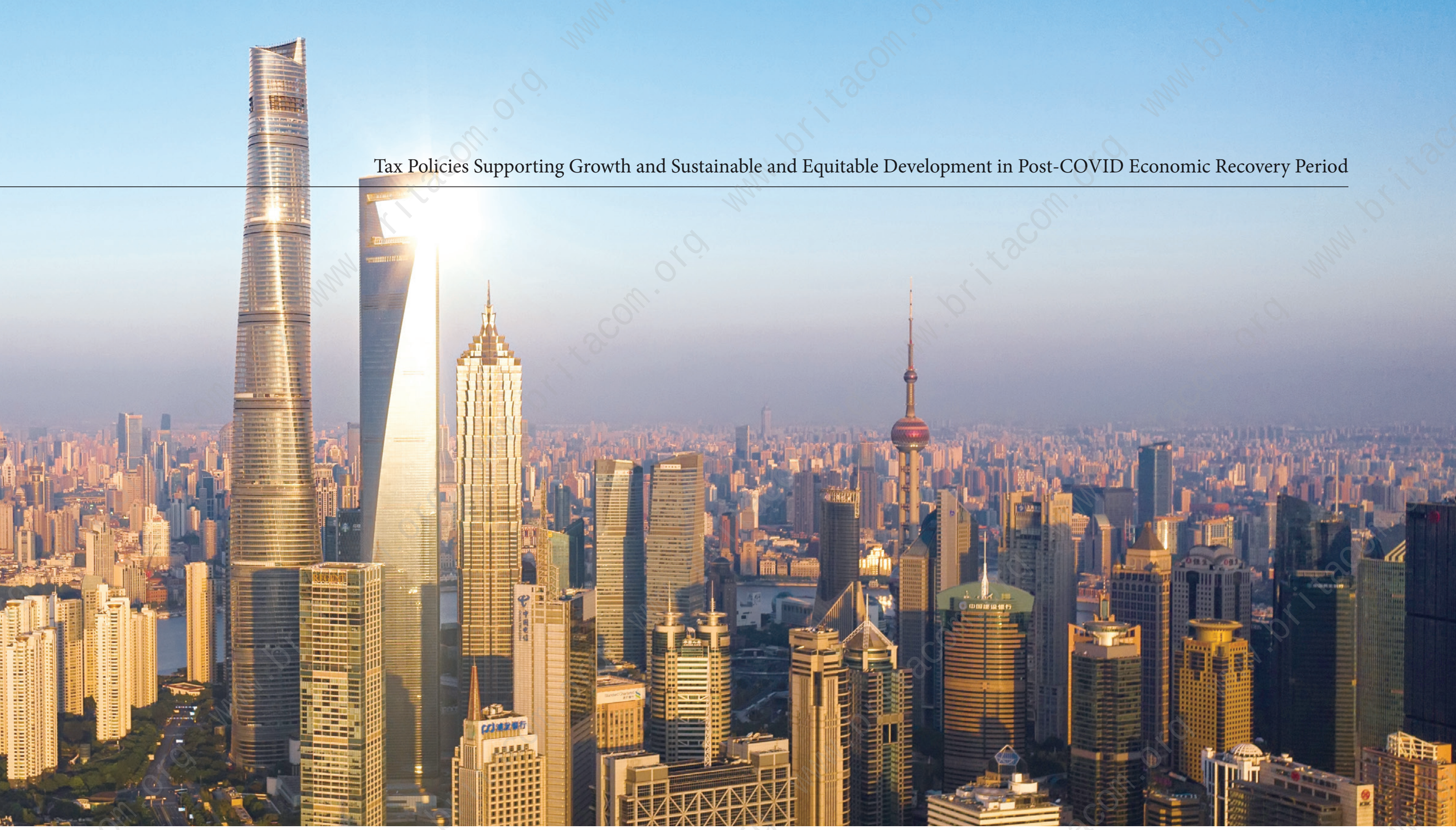
To avoid the abuse of tax incentives, they should be constantly monitored by collection of statistics on relief given and assessments of the effect that the tax incentive has had on taxpayer behaviour and decisions. Where there is evidence that a tax incentive is being abused or not sufficiently well targeted to achieve its objective, the government must introduce appropriate modifications to make the incentive more specific and targeted. Tax incentives for investment should target projects that would benefit infrastructure, build up digital capacity and lead to the use of more efficient plant and equipment.

4.4 Creating a Favourable Investment Climate

Jurisdictions need to encourage investment and business activity by introducing measures to stimulate job creation, investment and innovation. Incentives can be designed to create incentives for aligning business practices with sustainable development. In the short term, support is required from governments to ensure that businesses remain solvent and to keep people employed. As the economic recovery gets under way, governments can invest in sustainability.

Global foreign direct investment (FDI) fell by 42% in 2020 compared with the previous year with ongoing investment projects delayed and a collapse in foreign affiliate earnings.[17]

17 UN (2020). *Global Foreign Direct Investment Fell by 42% in 2020, Outlook Remains Weak*, https://unctad.org/fr/node/31924.



Merger activity fell to a low point with many mergers and acquisitions suspended or cancelled. Investment in developing and transitional economies (excluding China) decreased by 22% in 2020, and international private investment flowing to developing and transitional economies were weakened in sectors of the economy which are important for reaching the SDGs.

Future trends in investment depend on a number of factors such as public spending levels, interest rates and progress of the pandemic (including the speed of vaccine roll-out) and this is especially true for developing jurisdictions. Changes already occurring in international supply chains owing to technological changes have accelerated during the pandemic. As a result of the introduction of new technologies, the business operations of multinationals are less dependent on investment in physical assets. There is more pressure from public opinion and government policy for more national or regional autonomy in productive capacity and multinationals are more anxious than before the pandemic to ensure the security of their supply chains and ensure they are resilient in future crises.

A separate, but related area is the role of investment agreements and trade agreements, both bilateral and multilateral. This subject and the relationship of double tax agreements to trade and investment agreements is a large subject on its own. The authors intend to explore this area in the context of BRI jurisdictions in a forthcoming paper; this will build on a prior paper by Jeffrey Owens and Hafiz Choudhury on the topic.[18]

4.5 Promoting a Greener Economy

4.5.1 General

In addition to the use of carbon taxes, carbon emissions systems and other measures to discourage polluters, jurisdictions will need to look at investment in green technologies which are among the industries of the future. Investments in initiatives in relation to green

18 Jeffrey Owens and Hafiz Choudhury (2014). *Trade Agreements and Taxation: Removing the Final Barrier to Trade*, https://static1.squarespace.com/static/5a789b2a1f318da5a590af4a/t/61041d6313c2f47d7935854e/1627659619855/ITIC_Issues_Paper__Trade_Agreements_and_Taxation___Removing_the_Final_Barrier_to_Trade_by_Mr__Hafiz_Choudhury_and_Dr__Jeffrey_Owens.pdf.

energy, green transport and green manufacturing could all be encouraged by well targeted tax incentives.

Governments can use grants as well as tax incentives, and can also attract investment by offering the appropriate infrastructure for companies and ensuring fast access to any licenses or other registrations required by companies establishing themselves in the jurisdiction. Other initiatives such as the creation of knowledge hubs and fostering cooperation between industry and the academic world are also available to governments.

4.5.2 Examples from recent legislation: Kazakhstan, Pakistan

The need to encourage greener development may be a spur to consideration of policy measures in a number of jurisdictions, such as Kazakhstan's commitment to achieving zero carbon emissions by 2060. The Ministry of Ecology, Geology and Natural Resources of Kazakhstan is currently working on the development of a draft Concept for low-carbon development that is likely to have implications for investment policy and incentives.

Under legislation passed in December 2020, Pakistan has set up a Special Technology Zone Authority with legislation offering income tax, customs duties and sales tax incentives to companies operating in the zones and tax incentives for zone developers.

5. Conclusion and Recommendations

Support provided to individuals and businesses during the pandemic should be continued as long as necessary. However, the emphasis needs to be gradually shifted to spending to encourage employment and growth. It is important to phase out measures and introduce new ones at the right time, so that there is a smooth transition out of the pandemic and into an era of economic growth and employment creation. Tax policy, and by extension, international tax measures, are an important component of the policy mix.

Governments should therefore consider the balance of tax policy and administrative measures necessary for their specific circumstances. Given the dislocations caused by the pandemic, corporate and individual income taxes may not generate significant revenue in 2021. The temptation to rely on indirect tax measures such as VAT, excise and to a lesser extent, customs duties, must be tempered by a consideration of the effects of such policy. On the other hand, measures such as improved taxation of the digital economy and opportunities to identify hitherto undisclosed income sources from the new global agreements, such as Automatic Exchange of Information (AEOI), should be applied to the fullest extent.

It will also be appropriate to consider the current application of tax incentives, and only consider targeted tax incentives for businesses in the industries of the future including digital and green energy sectors. The incentives should be specifically framed and targeted so as to achieve the maximum effect, and the impact of the incentives should be constantly monitored so that the measures can be reviewed and if necessary amended to gain a greater benefit for the cost incurred. At the same time, inefficient incentives and other tax expenditures should be measured and removed.

For individuals, the support given in the pandemic should give way to measures to enhance employment and permit transition of workers to the growth industries, by support for job searches, provision of re-training and incentives to encourage businesses to train workers on the job. Building back better after the pandemic should involve measures to create a more favourable investment climate and encourage investment in growth industries, including green energy, clean transport and sustainable manufacturing.

The overall recommendations are thus to consider and implement a balanced approach that will improve domestic revenue mobilization and also encourage further mobilization of private capital both from domestic and foreign investors. The dialogue processes under the BRITACOM can help jurisdictions within the BRI gain important insights from peer experiences and technical support in implementing the right policies.