UN ambassadors and the executive directors of the Bretton Woods Institutions discussed the topic “Taxation in the digitalized economy” as part of the interactive dialogue during the 2018 ECOSOC Forum on Financing for Development follow-up (23-26 April 2018). Specifically, the discussion focused on the need for changes to the international tax norms in response to the digitalization of the economy and on the potential for using digital technologies to enhance domestic resource mobilization in developing countries.

As regards the potential use of digital technologies to enhance domestic resource mobilization, the discussion identified a number of areas where digital technologies could improve tax compliance and collection and support the formalization of the informal economy, which was a priority for developing countries. Examples that were provided included reducing the costs of making and receiving payments, improving the administration of new taxes such as property taxes, improving exchanges of information, facilitating the registration of small, medium and micro-enterprises as well as the filing of tax returns by these enterprises, and allowing the identification of corporate taxpayers through single identification numbers, which in turn would allow improved coordination between various databases such as those used for corporate taxation and customs.

As regards the need for changes to the international tax norms, it was noted that digitalization allows foreign enterprises to provide goods and services in countries in which they do not have a physical presence. As a result, the role and definition of the international tax concept of permanent establishment, which is the legal term that incorporates the principle of physical presence and is typically a requirement for the profits of a foreign enterprise to be taxable in a country, is being questioned. Similarly, the arm’s length principle that is reflected in the current tax rules on transfer pricing and which requires that transfers between the various entities that are part of a multinational enterprise be priced as if these entities were independent from each other, is being challenged.

A number of interventions stressed the need for unified and coordinated long-term solutions. Unilateral actions would make it difficult for business and tax administrations, especially in developing countries, which would have to operate in a difficult tax environment with various sets of rules. The discussion turned to how best to ensure that changes to the international tax rules are made in a coordinated way, taking into account the views of developing countries.

Another important element that was identified during the discussion as a key priority was the need for capacity-building in developing countries. It was highlighted that the tax administrations of developing countries should not be left behind because of their financial and technological constraints. Supporting capacity building of tax administrations in developing countries will be crucial to address the taxation challenges in the digitalized economy and to harness the power of new technologies. In this context, the role of the Platform for Collaboration on Tax (IMF, OECD, UN, WBG) in strengthening the coordination of capacity building activities was emphasized. Reference was also made to Tax Inspectors Without Borders, a joint OECD-UN initiative which provides expert assistance to developing countries in the tax audit area, and to the commitment made by the members of the Addis Tax Initiative to double the amount of assistance in the tax area.