

2023 Tax Wrapped

As another dynamic year in tax policy draws to a close, Tax Monday is pleased to present our first ever "**2023 Tax Wrapped**".

This annual special edition newsletter analyzes all the key tax developments and trends of 2023 to unearth the most critical insights, predictions, and implications for the future.



by **Sandro Andric**



1. Acceleration of Digital Taxation Reforms

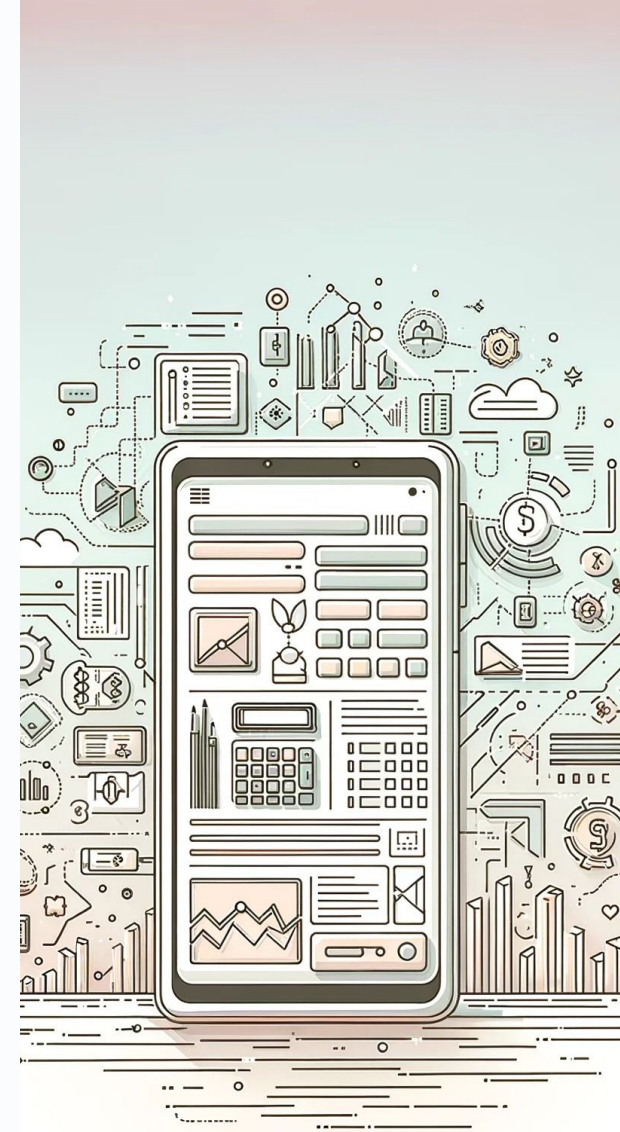
2023 saw increased policy attention and reform implementation focused on effectively taxing the digital economy, as countries act unilaterally and multilaterally to close loopholes.

Examples include Mexico updating its VAT registration list to cover nearly 200 digital service providers, EU introducing guidelines to fight VAT fraud in booming e-commerce, and countries like Canada proposing a digital services tax.

However, inadequate international consensus persists on key issues like taxing rights over Big Tech profits.

2024 Outlook

More unilateral digital taxes globally while OECD negotiations slowly inch forward, and continuing rise in VAT compliance burdens for foreign suppliers of digital services.





2. Expanding Tax Treaty Networks to Counter Avoidance

1 Preventing Avoidance

International tax avoidance and evasion through ever-expanding tax information exchange networks was a priority, with numerous countries negotiating and signing updated tax treaties to incorporate modern transparency standards.

2 Developing Countries

However, developing countries still face systematic disadvantages in international tax policymaking.

3 2024 Outlook

Tax transparency requirements will proliferate across industries, advanced data analytics for risk assessments will mature, while developing countries will push for greater voice at standard-setting bodies like OECD.



3. Minimum Tax Implementation Gaining Steam

Global Momentum

Momentum gathered around implementing the historic global minimum tax framework finalized by the OECD Inclusive Framework.

EU Unanimity

Multiple countries enacted Pillar 2 legislation in 2023, with EU unanimity demonstrated by all 27 member states adopting Directive requirements into domestic law.

2024 Outlook

Despite global headwinds, steady minimum tax adoption will continue given capital raising needs, while the number of countries with qualified domestic minimum top-up taxes will also grow.



4. Green Tax Policy Action Accelerating

1 Climate Change

The intersection of tax policy with global climate change and sustainability agendas saw increased activity, as governments utilize fiscal incentives and carbon taxation to influence corporate and consumer environmental behaviors.

2 G7 Agreement

G7 agreement on climate-related reporting standards also puts sustainability disclosures firmly within the tax policy ambit going forward.

3 2024 Outlook

Green taxation will become integral for net-zero consistency across government departments, carbon border adjustments and reporting requirements will spread, while tax pressures on emissions-intensive sectors will ratchet up.

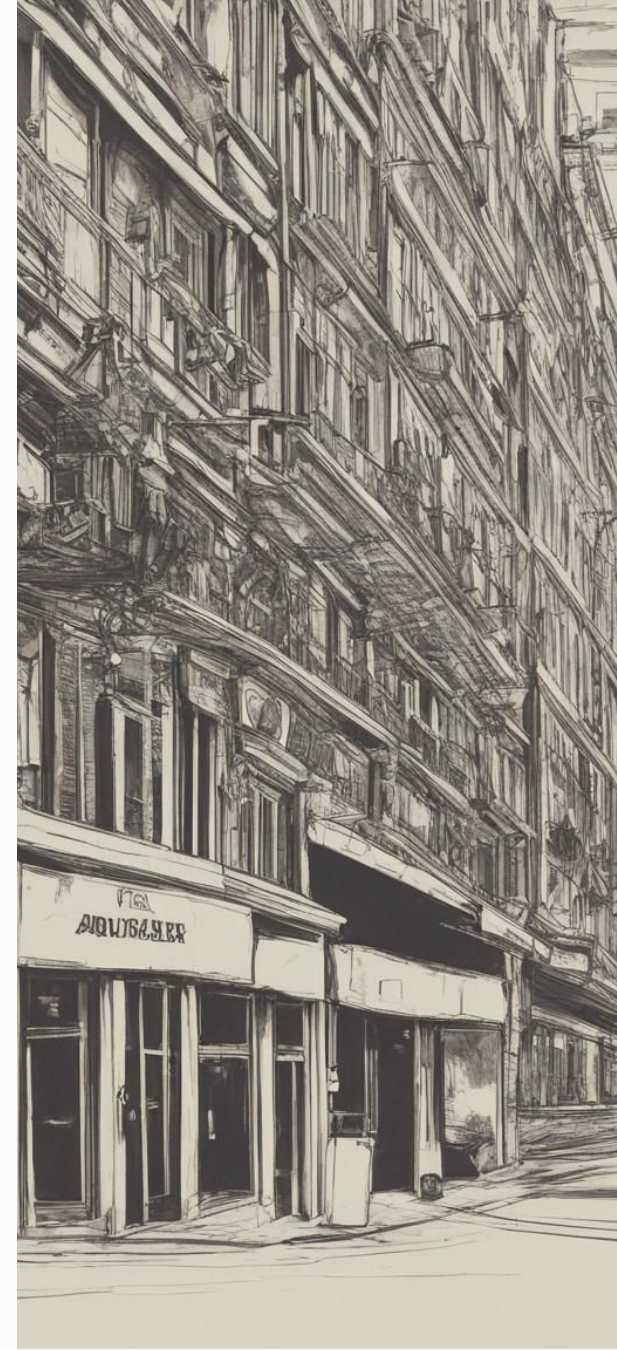
5. Rise of Targeted Anti-Avoidance Measures

1 Specific Measures

With multinationals continuing aggressive tax planning despite transparency improvements, specific anti-avoidance measures emerged as a priority control mechanism for authorities in 2023.

2 2024 Outlook

Expect sharper scrutiny especially for treatment of IP assets, software payments and extractive sector commodity transactions to continue thinning out grey areas. Specific anti-avoidance measures will continue to evolve as authorities adapt to combat tax planning strategies.





6. Tax Geopolitics in Flux

Geopolitical Shifts

A swirling undercurrent enlarging international tax fault lines was geopolitics, as intra-Africa taxation of mobile capital flows saw rapid unilateral shifts challenging stability notions.

Pragmatic Responses

Nigeria moving to waive penalties for timely settlement of outstanding taxes also demonstrated pragmatic domestic policy responses to ease taxpayer burdens amid global volatility.

2024 Outlook

Revenue retention, capital control and data sovereignty concerns will increasingly drive regional tax policy bifurcations.

7. Tax Administrations Adopting Technology and Modernization

Automating Compliance:

Automating routine compliance activities through artificial intelligence and advanced analytics gathered further priority in 2023 as tax authorities globally sought to improve taxpayer services, boost collections and reduce costs through new technologies.

2024 Outlook:

Tax administrations will continue large-scale digital transformation journeys to radically simplify processes while increasing enforcement capabilities, requiring cultural change management.





2023 Tax Wins

- 1) Implementation of global minimum tax and other OECD standards domestically to align with international norms and prevent tax avoidance (e.g., Denmark, Belgium, and Hungary passing Pillar 2 legislation, Vietnam passing top-up tax).
- 2) Tax administrations leveraging technology to enhance efficiency, compliance and transparency (e.g. UK proposed changes to Making Tax Digital, Taiwan incentives for e-account books).
- 3) Providing tax incentives targeted to priority industries and activities, like R&D, clean vehicles, food production (e.g. U.S. guidance on clean vehicle credit, Malaysia incentives).



2023 Tax Fails

- 1) Increased tax gap between due payments and actual collection with the US annual tax gap of \$500+ billion
- 2) Tax competition amplified via incentives arms race across sectors
- 3) Evidence of large-scale international tax fraud and profit-shifting schemes that continue escaping taxes. For example, the massive EUR 2.2 billion VAT fraud scheme in the EU involving over 30 countries



2023 Wildcards

1) Tax laws weaponized amidst geopolitical disputes e.g. EU's Russia tax treaty suspension over Ukraine

2) Saudi Arabia providing a generous 30-year tax holiday for multinational headquarters

3) African countries like Mali and Niger moving to unilaterally terminate their tax treaties with former colonial power France, portending shifts in post-colonial economic relations



And the crystal ball says..

Growing role for tax policy to address sustainability

Incentives/disincentives in tax codes for meeting environmental and equality goals

Regional coordinated crackdowns on Big Tech fiscal practices

Increased reliance by authorities on technology and advanced analytics

for tax risk assessments and audits

Accelerated mandates for e-invoicing and e-reporting

to enhance VAT compliance and close the global tax gap

Rise in OECD technical assistance for developing countries

in strengthening their tax regimes